Report No. 18632-VN

Vietnam
Rising to the Challenge
An Economic Report

November 25, 1998

Poverty Reduction and Economic Management Sector Unit
East Asia and Pacific Region

Document of the World Bank

Currency Equivalents

Currency Unit = Dong
US$1.00 = 13,908 Dong (October 1998)

Government Fiscal Year
January 1 to December 31

Abbreviations

AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
BOT	Build-Operate-Transfer
EVN	Electricity Authority of Vietnam
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistical Office
GWh	Gigawatt hours
HCMC	Ho Chi Minh City
IDA	International Development Association
JSB	Joint Stock Bank
JV	Joint Venture
Kgoe	Kilograms of oil equivalent
LRMC	Long-Run Marginal Cost
MW	Megawatts
MFN	Most-Favored Nation
NGO	Non-Governmental Organization
NPL	Non-Performing Loan
ODA	Overseas Development Aid
PPI	Private Provision in Infrastructure
PTT	Posts and Telecommunications
SBV	State Bank of Vietnam
SOCB	State-Owned Commercial Bank
SME	Small and Medium Sized Enterprise
SOE	State-Owned Enterprise
TVE	Township and Village Enterprise
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
VAT	Value-Added Tax
VND	Vietnamese Dong

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ACKNOWLEDGEMENTS

The World Bank team is grateful to the officials of the State Bank of Vietnam, Ministry of Finance, Ministry of Planning & Investment, Ministry of Trade and the Ministry of Agriculture and Rural Development, for their support and cooperation, without which this report would not have been possible.

The draft report was discussed with the Government's "Committee on Economic Cooperation with International Institutions" on November 20 and 24, 1998. The team would like to thank Mr. Cao Si Kiem, Vice-Chairman of the Committee, in particular for organizing and leading these discussions and for providing valuable comments on the report.

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VIETNAM: RISING TO THE CHALLENGE

An Economic Update

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EXECUTIVE SUMMARY

One ship drives east and another drives west,
With the self-same winds that blow,
Tis the set of the sails
And not the gales
That tell the way to go

1. Eighteen months ago, Vietnam's economy was coasting downwind, spurred by 25 percent annual growth in its exports, and plentiful foreign savings looking for investment opportunities in Vietnam. The situation today could hardly be more different.

2. The external shock to Vietnam from the East Asian financial crisis – through sharp declines in foreign direct investment and stagnation of export earnings – has been equivalent to around $3 billion, or 12 percent of GDP. This "kick in the stomach" to the momentum of growth is particularly difficult to adjust to since Vietnam's internal growth momentum was already faltering, due to slow progress in the *doi moi* reform process in the 1995-97 period. In addition, Vietnam has suffered natural afflictions over the past year through a major typhoon and a major drought, which has caused declines in incomes in some rural areas.

3. This report concludes that the economic situation is quite serious for Vietnam – threatening to undermine and reverse the remarkable progress in poverty reduction that was achieved over the past decade. Vietnam can still avoid a worsening situation, but this will require stepped up reform of both policies and programs, and change in the pattern of support from the international community. The report suggests that such reforms need to be guided by three "imperatives":

- First, recognize that investment resources will be less plentiful, at least temporarily, and focus on making each dong, dollar or yen work harder.
- Second, set policies so as to increase resources available to the economy – from both internal and external sources, and especially from the private sector.
- Third, in view of the lower growth trajectory for the economy, target resources and policies more effectively in favor of the poor, both to protect them from the slowdown and to harness their full productive potential.

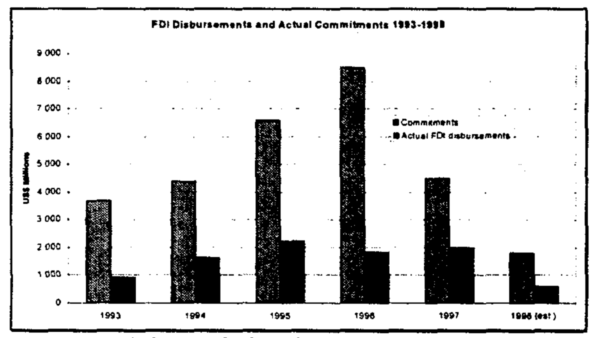
4. The report begins by taking stock of the current state of Vietnam's economy (chapter 1). It then assesses the current policy response, noting good progress in some areas, and urging accelerated action in others (Chapter 2). It then applies the same policy analysis in two areas of vital importance to Vietnam – the rural sector (chapter 3) and

infrastructure (chapter 4). Finally, it explores prospects for the future, identifies financial requirements, and makes recommendations on both the quantity and quality of foreign assistance.

THE CURRENT ECONOMIC SITUATION – A THREAT TO POVERTY REDUCTION (CHAPTER 1)

5. ***Reduced Foreign Exchange Availability.*** The market into which Vietnam exports had been growing throughout the 1990s at an annual rate of 10 percent (on a trade weighted basis), fell by 7 percent this year. The base of savings in East Asia, from which two thirds of Vietnam's foreign direct investment comes, fell even more. Incomes and output have fallen substantially in the region in 1998, with the GDP of Japan expected to fall by 2 percent and that of the five crisis countries by over 7 percent. Vietnam managed to maintain exports at broadly the same level in 1998 as in 1997, with increased exports to Europe and the US roughly offsetting large losses in Asia. These earnings, however, were about $1.2 billion less than had been expected as recently as a year ago. Foreign direct investment disbursements fell by 70 percent in 1998 (figure 1). Given the lag between commitments and disbursement and the fact that 70 percent of undisbursed FDI is from East Asia, this decline will be hard to reverse, except for investment in infrastructure, where the supply of new funds is potentially very high.

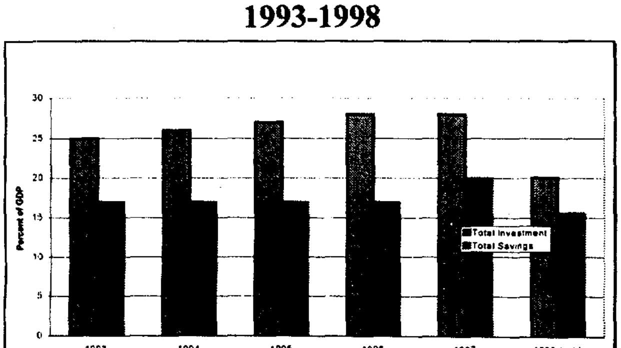
Figure 1: FDI Commitments and Actual Disbursement 1993-1998



Source: Ministry of Planning and Investment

6. Vietnam has adjusted to this substantial shortfall in expected foreign exchange over the past year in three ways: through import containment (real import levels barely grew in 1998), through special measures which require that foreign exchange be deposited in the State Bank, and through actions to improve competitiveness (removing restrictions on exports and a modest 17 percent depreciation of the dong). Restoring efficient growth will require that the first two approaches be reversed.

Figure 2: Total Investment and Savings 1993-1998



7. ***The Costs to Vietnam: Growth, Profitability and Public Spending.*** As a result of the resource shortfall, investment levels as a share of GDP fell from 27 percent to 20 percent – the lowest level in a decade (figure 2). Growth in real GDP this year is still quite uncertain, but is likely to be around 4 percent --- still one of the higher rates in the region, but less than half

the rate at which Vietnam has been growing throughout the 1990s. Growth in agriculture (2.5 percent), industry (7-8 percent) and services (1.5-3 percent) have apparently all fallen to about half or less than half of their earlier levels. Declining demand growth has hurt profitability and threatened the banking system. More than half of Vietnam's 6,000 state enterprises were unprofitable even in 1997, and additional pressures have appeared in 1998. Banks, in turn, have found it more difficult to recover loans. In a number of banks, overdues have reached dangerous levels, and the capacity of the system to intermediate funds is threatened. The government is embarking upon an important banking reform program, and is striving to protect depositors.

8. Weaker corporate performance and trade tax receipts have reduced resources for public spending. As a share of GDP, budget revenues have fallen in 1998. Vietnam has chosen to follow a prudent fiscal stance, by restraining both recurrent and capital expenditure.

9. ***The Costs to Vietnam: Employment, Vulnerability and Access to Services.*** Preliminary data from the 1998 Living Standards Survey (the first in five years) indicate continued impressive progress in reducing poverty. The percentage of the population living in poverty has fallen from more than 70 percent in the mid 1980s, to around 50 percent in 1993, and to 30-35 percent today (to be refined as the new data is completed in early 1999). Few countries have grown so rapidly and shared their growth so broadly. But this progress is now under threat.

10. Unemployment has risen in 1998 for the second year in a row. Particularly troubling is the emerging pattern of employment absorption. In 1997 (the most recent detailed data), both industry and agriculture actually lost jobs, and the low productivity service sector was forced to take up the role of "employer of last resort". There is also some evidence that as the economy is slowing, the system of informal social safety nets that have traditionally been provided within and between households may be eroding as more lucrative formal employment becomes less secure. Finally, with reduced availability of budget resources, public spending on education and health may stagnate or fall this year. The Government recognizes the importance of protecting – and even increasing – the allocation of such spending on the poor. But without action this may not be possible.

RISING TO THE CHALLENGE – UNLEASHING THE POTENTIAL OF ALL VIETNAMESE (CHAPTER 2)

11. There is little doubt that, absent strong measures to address the current slowdown, poverty will begin rising substantially in the coming two years. Since policy adjustments take time to have effect – and that, in the first instance, may have social and economic costs – it is essential that action be taken now rather than be delayed until further momentum is lost, making action more difficult.

12. Success in mobilizing resources, using resources more efficiently, and addressing the needs of the poor, will require a series of measures, implemented promptly. The Government of Vietnam is making good progress in a number of important areas (see box 1), and now needs to significantly step up the pace.

BOX 1: OVERVIEW OF RECENT REFORM ACTIONS: SEPTEMBER 1997- NOVEMBER 1998

Banking Reform - Approved the Law on the State Bank of Vietnam (Nov 1997) confirming its dominant role in implementing monetary policy and in regulating credit institutions, as well as established a high-level Financial & Monetary Committee to supplement SBV's advise to the Government on monetary policy; - Approved Law on Credit Institutions (Nov 1997) to be supplemented by decrees on prudential regulations which establishes the legal regime for all credit institutions, both banks and non-banks; - Established a Bank Restructuring Committee and initiated restructuring of Joint-Stock Banks in HCM City. - Issued Directive on "Special Control Regime for Banks in Trouble" to guide SBV intervention in troubled banks (July 1998). - Initiated intervention in several JSBs (Sept. 1998)
State Enterprise Policy - Government issued Decree on equitization to simplify the process of equitization and allow limited foreign shareholding (July 1998); - Issued Prime Minister's Directive No.20 to adopt alternative ways of reforming SOEs, e.g. divestiture outright sale, competitive bidding, etc. (April 1998); - Prime Minister's Decision approved a list of SOEs to be equitized (Sept. 1998); - Government initiated classification of all SOEs (Sept 1998); - Approved Decision to create a National Enterprise Reform Committee (June 1998); - Announced targets for equitization of 400 and 1,000 SOEs by 1999 and 2000, respectively (Feb 1998).
The Climate for Investment - Amended Law on Promotion of Domestic Investment (May 1998) allowing domestic and international organizations, and individuals, to buy shares or to contribute capital to domestic enterprises, including equitized SOEs; it also provides additional incentives for domestic investment (similar to those provided to foreign investors); - Approved new Decree on foreign investment (Feb 98) providing additional incentives to foreign investors and issued implementing regulations for each sector; - Government has begun private/public dialogue, to better understand constraints faced by private foreign investors (Feb 1998 onwards). A "hotline" has been established to take complaints.
Trade Policy - Approved legislation (May 1998) to lower the maximum import tariff to 50% (with the exception of six groups) and number of tariff-rates to 15, but implementing regulations have yet to be issued; - Allowed domestic firms (Decision 55, Mar 1998) to export goods directly, requiring no export license, (with the following exceptions: rice, explosives, books, precious stones, antiques etc.) as long as export goods are within the scope of firms' line of business (Mar 1998); - Removed licensing of imports of consumer goods but implementing regulations have yet to be issued (May 1998); - Removed conditions of minimum capital ($200,000) and qualified personnel for registered firms to become importers, as long as imports are within scope of firms' line of business (July 1998); - Liberalized allocation of rice export quotas to private sector, by allocating a part of the quotas to non-state firms for the first time (Jan 1998); - Allowed private firms to import fertilizer (Jan 1998).
Fiscal Policy - Approved new Decree to publish state, provincial and commune budgets every year starting in end-1998 (Nov 1998); - Approved two tax laws to replace by 1999 (a) the multi-rated profit tax with a single-rate enterprise income tax and (b) the turnover tax with a three-rated value-added tax (Nov 1997); - Amended Budget law to improve assignment and allocation of tax revenue to lowest local level, the communes; - Restructured commercial external debt through a Brady-type debt and debt-service reduction agreement with London Club commercial creditors (Dec 1997); - Issued Decree to implement External Debt Management Strategy allocating responsibilities for maintaining debt and for implementing debt strategy (Sept. 1998).

13. ***Reforming State Enterprises.*** The starting point for ensuring a bigger return on the nation's scarce resources must be with state enterprises, which continue to absorb most of the resources of the economy while generating little employment and poverty reduction. This year, state enterprises are expected to absorb over half of formal credit and, indirectly, a large share of the government budget. By so doing, the SOE sector is crowding out Vietnamese initiative, especially private small and medium enterprises (SME) in the industrial sector, and seriously hampering the prospects for off-farm employment. It costs, on average, $18,000 to generate a job in an SOE, but only $800 in an SME (see Chapter 2). Significant progress is underway in the government's equitization and divestiture program, with simpler procedures and early signs of a more accelerated process. But a more comprehensive approach to the entire sector is still being put into place. Box 2 summarizes the actions under consideration by the government. An important component of the government's strategy is to give high priority to the social dimensions of the SOE reform process. Important diagnostic work is currently being undertaken with the assistance of the World Bank. This exercise is showing that it will be financially and administratively feasible to address such social costs. A number of donors, including Sweden and the World Bank, have offered to finance the costs of a well designed social safety net.

Box 2: Reforming State Enterprises: An Agenda for Action

The Government is currently designing a program to reform the SOE sector. The actions that are being considered include the following:

- Adopt a comprehensive SOE reform program with timetables for SOEs to be restructured, equitized, divested, merged and liquidated.

- Improve governance of SOEs that are to be 100% owned by the Government in combination with the following:
  - conduct diagnostic audits of SOEs by independent auditors
  - monitor changes in SOE's bank credit, external debt and budgetary support on a regular basis
  - evaluate and rationalize General Corporations 90 and 91
  - establish a framework for corporatization, and corporatize large SOEs on a pilot basis
  - develop restructuring plans (e.g., rationalization of debt and labor, hiving off non-core operations)

- Implement equitization, liquidation and divestiture, of SOEs not to be 100% State-owned, including the following:

  - achieve announced targets for equitization of SOEs: 400 SOEs by 1999 and 1,000 by 2000
  - remove cap on individual shareholdings and holdings of entities in equitized enterprises
  - initiate outright sale of small- and medium-sized SOEs using competitive-bidding processes - announce targets for divestiture and liquidation.

14. ***Creating an Efficient Banking System.*** Without a sound and efficient banking system, a nation can neither mobilize savings nor channel those savings to their most productive uses. The government has strongly recognized that Vietnam's banking system is in urgent need of reform, and is actively preparing a restructuring plan, beginning with troubled joint stock banks in Ho Chi Minh City. Reforming a banking system is technically and politically difficult, and requires careful sequencing, protection of depositors, isolation of bad loan portfolios, and avoidance of recapitalization until

managerial and structural reforms are in place. Fortunately, there is a growing body of experience -- as many East Asian countries are undergoing similar processes -- and Vietnam is now drawing effectively on some of these lessons. Box 3 illustrates the Government's agenda for banking reform.

Box 3: Creating an Efficient Banking System: An Agenda for Action

The Government is currently finalizing a plan for banking sector reform. Among the important actions that need to be taken are to:

- Develop and adopt a comprehensive banking sector strategy.
- Strengthen the Regulatory & Supervisory Framework:
  - Issue new regulations on loan classification, loan-loss provisioning and capital adequacy ratios
  - Develop the legal framework for bank restructuring
  - Move towards a risk-based approach to bank-supervision
  - Relax restrictions on dong deposit mobilization for foreign banks
  - Upgrade accounting standards and systems for banks and borrowers to international standards
- Restructure Banks:
  - Assess the loan portfolios of all banks, joint stock banks (JSBs) and state-owned commercial banks (SOCBs)
  - Close, merge and rehabilitate JSBs after completing assessment
  - Restructure operations and management of SOCBs and consider pilot equitizations and twinning arrangements with foreign banks for SOCBs to improve their management
  - Initiate training programs in credit risk management
  - Initiate loan workouts in SOCBs and coordinate these with restructuring of borrower SOEs
  - Re-capitalize SOCBs after operational and management restructuring

15. ***Unleashing the Full Productive Capacity of Vietnam's Poor.*** People are Vietnam's most precious asset but this resource is threatened by the economic slowdown and the cut-back in public resources which has occurred as result. The report suggests that, in view of the slowdown, additional steps to safeguard and invest in the poor need to be taken:

- *Maintain purchasing power of vulnerable households.* More than a quarter of the 650,000 child deaths last year were due to malnutrition and vitamin deficiency. This is due to lack of buying power rather than food shortages. The government's proposed program for the poorest 1,700 communes could be an effective umbrella for channeling quick disbursing funds for employment generating rural infrastructure. But its success will depend on its ability to avoid a top-down structure.
- *Increase social services for the poor.* Even with fewer resources, Vietnam can afford to spend much more on health and education for the poor. Poor families currently have to spend 80 dong for every 100 dong spent by the government on their child's primary education. Educating a child in secondary school costs half a poor family's income. Without a change in these patterns, poor children will drop out of school and poverty will

increase. Better targeting is well within the capacity of Vietnam, and is under active consideration by the government.

- *Reorient the social safety net.* Vietnam has a large program of social transfers, amounting to 10 percent of the government budget, but currently 80 percent is spent on social security for government workers. Government expenditures for those not formally protected are well designed, but very small and thus not as effective as they need to be in the current context.

16. ***Promoting Small and Medium Private Enterprises.*** SMEs offer the best opportunity to generate employment with modest investment. The climate for small entrepreneurs in Vietnam today remains very discouraging -- but it need not remain so. In the current climate, Vietnam simply cannot afford *not* to harness the resourcefulness of its potential entrepreneurs. Changing the climate for private enterprise will require legal and regulatory changes relating to credit, land, business registration, and taxation, and a level playing field with SOEs (see box 4). It will also require an attitudinal change on the part of provincial and district officials, who currently see themselves as controllers rather than facilitators of private activities. Where given the opportunity – such as in bidding on small construction contracts for ODA-financed rural roads projects – there is plentiful evidence that private capacity can emerge rapidly.

Box 4: Reforming the Trade and Investment Regime: An Agenda for Action

- Eliminate administrative controls on exports and imports, allowing businesses to export or import non-banned products, irrespective of their original business registration
- Replace non-tariff restrictions with tariffs, improve transparency and reduce the degree of discretion of the customs administration
- Quickly complete negotiations on MFN status with the United States
- Actively establish a level playing field ("national treatment") between foreign investors and domestic enterprises, especially SOEs
- Enhance the transparency of tax rules
- Simplify the registration process for SMEs
- Allow SMEs' land-use rights to be transferable and to be usable as collateral for bank loans and as equity in joint-ventures

17. ***Capturing Opportunities Offered by Integration into the World Economy.*** In the current context, extra efforts to promote exports and FDI inflows are clearly needed. Europe and the United States account for only 22 percent and 5 percent of Vietnam's exports, and offer the best prospects for growth. The report suggests a number of specific measures that could be taken (auctioning of EU export quotas, for example, would help prevent them being unused), but also notes that for both exporting and dealing with

foreign investors, attitudes need to change at mid-levels of the bureaucracy, where government policy is often not implemented without delays or side payments. Important progress has been made in the past year on trade policy (box 1), and the government has plans to further open the trade regime, which could both increase foreign exchange earnings and improve efficiency. Box 4 also describes priorities for reform of Vietnam's trade and investment regime.

REINVIGORATING RURAL DEVELOPMENT (CHAPTER 3)

18. With 90 percent of Vietnam's poor living in rural areas, and annual rural population growth of 2 percent, the human consequences of a further slowdown in rural growth are particularly serious. Millions of Vietnam's rural dwellers are living barely above the poverty level, so a significant slackening of economic growth could push many back into poverty. The Government's renewed emphasis on rural development is therefore highly appropriate. Assisting the government in designing and implementing an effective rural strategy will be a central test of the effectiveness of the Consultative Group.

19. ***Promoting Off-Farm Employment.*** A rural strategy will succeed or fail largely on its ability to generate additional off-farm productive employment. All countries that have succeeded in sustaining income growth in rural areas, without a major exodus to the cities, have done so with the help of robust rural industrialization. To date, despite very good progress in many aspects of agricultural development, Vietnam's failure to generate productive off-farm employment through small and medium enterprises is emerging as the principal threat to poverty reduction and social cohesion.

20. Most of the 24,000 corporate enterprises in rural areas are small household level manufacturing or processing units, and they need a supportive environment if they are to grow. Less than 15 percent of them have access to bank loans, although 70 percent of them would like to borrow. Most of them face a difficult regulatory regime (including continuous obligations to make informal payments), a systematic bias in favor of SOEs, and high costs due to infrastructure weaknesses. With concerted, decisive action by the Government and strong support from the international community, this situation could be turned around, with potentially huge rewards from Vietnam.

21. ***Promoting Efficient, Diversified Agriculture.*** The next stage of Vietnam's agricultural development should be informed by the secret of past success. Each time farmers have been given more control over resources and decision-making, there has been a substantial supply response. Rice production must and will remain the staple crop, but diversification offers the best opportunity for raising incomes. Despite official Government policy allowing farmers the right to plant their crop of choice, in reality, rice targets still often drive production at the local level. This is holding back rural development. Other recommendations being discussed within the Government include:

- making the rice export quota non-binding. This would give farmers a better price;
- allowing private involvement in the seed market, and importation of hybrid maize seeds;

- completing land titling, simplifying transfers, enabling farmers to consolidate land holdings, and facilitating the mortgage of use rights as collateral. The revision to the Land Law should help here;
- restructuring and extending the rural finance network, so that the 50 percent of all households who currently have no access to the formal credit system will;
- reallocating funds within the public agricultural budget so that less goes to SOEs (currently 45 percent) and more to support services for farmers.

RAISING PRODUCTIVITY THROUGH INFRASTRUCTURE (CHAPTER 4)

22. The current slowdown has important implications for Vietnam's investment program in infrastructure. An impressive infrastructure agenda, mainly in rehabilitation, has led to large economic and social gains over the past decade. But unmet needs remain huge. Electricity consumption remains among the lowest in the World. The transport system remains overstretched, adding to costs and preventing many rural areas from sharing in the benefits of Vietnam's growth. And water and sanitation will require very large investments to meet rapidly growing needs. Rates of return to well-planned infrastructure investments remain very high – a continued strong investment program is therefore warranted. However, the current resource shortfall calls for a new pattern of financing, a greater efficiency of resource use, and more careful prioritization of investments with greater emphasis on social benefits.

23. ***A New Pattern of Finance.*** Recent analysis suggests that an investment program in infrastructure (energy, transport, water and sanitation) of about $3 billion per year is appropriate for the next three years. Although slightly less than earlier planned, this is still equivalent to about 12 percent of GDP. Financing will come from four main sources: (i) the government's own budget, (ii) ODA and official finance, (iii) foreign direct investment, and (iv) self-financing from SOE's involved in infrastructure (EVN, Vietnam Railways, etc.). The first two sources have traditionally dominated the financial picture. But the proposed program will require substantial increases in the final two categories, combined with an acceleration of ODA-financed investments. A reasonable pattern of finance at this stage of Vietnam's development would be for each of these four sources of finance to account for roughly a quarter of investment needs – i.e., 3 percent of GDP each.

24. ***Promoting Private Participation and Improving Public Provision.*** To encourage more private provision in infrastructure (PPI), a clearer, more transparent and more competitive framework will be needed. A revised BOT decree has helped clarify a number of issues, and a number of key PPI contracts are now under negotiation. These offer the opportunity to provide a clear signal to the international investment community that Vietnam offers an attractive but competitive environment in which to do business. Efficiency improvements must also be effected in the public sector. Public providers, which will provide the bulk of infrastructure services in the near term, must be run on commercial principles, with effective cost accounting and greater independence.

25. To raise the share of self-financing for infrastructure investment, and attract private sector participation, a more rational pricing and taxation system will be required.

Some progress is already evident. In power generation, for example, EVN will soon be required to finance 30 percent of all investment from its own income, which in turn will necessitate a commitment to move towards full cost pricing for power. Other "natural monopoly" SOEs need to be required to adhere to similar financial ratios. Water supply offers an excellent opportunity. Already, some water SOEs (such as Hai Phong) are moving rapidly towards financial viability. Many others need to follow. One approach, followed in other countries, is to make the allocation of public or ODA funds contingent upon a rapid transition to financial viability.

VIETNAM'S PROSPECTS AND THE ROLE OF THE INTERNATIONAL COMMUNITY (CHAPTER 5)

26. Prospects for East Asian recovery are highly uncertain, and it is prudent to base policy on the assumption of a slow restoration of growth over the next 3-4 years. Based on these conservative assumptions of the growth of external markets and sources of FDI, but accelerated domestic reform effort, the Report presents projections for GDP growth, current account deficit and financing needs. Absent a more attractive domestic environment for foreign investment, FDI flows would shrink further next year and then likely stagnate. On these assumptions, Vietnam would have a financing gap of around $1 billion per year for the next 2-3 years. This would need to be filled by (i) efforts to halt and then reverse the decline in FDI disbursements, (ii) accelerated disbursements from the existing pipeline of ODA, and (iii) special provision of quick-disbursing funds for balance of payments and budget support. It is likely that, given the needs for imports to sustain growth during this period, around $500 million per year of special financing would be required for the next three years.

27. In the presence of a credible acceleration of Vietnam's Doi Moi renewal program, continued and increased donor support is both justified and necessary. First, the reforms themselves – especially SOE reform, trade liberalization and banking reform -- will involve social and financial costs to Vietnam. Second, the effectiveness of the reform measures in terms of generating an adequate supply response will require that foreign exchange be available for needed imports during the next three years. Combined, these argue for the provision of quick disbursing funds of around $500 million per year, predicated on a strong program of reform action. The World Bank, the IMF, and the Asian Development Bank are currently in discussions with the Government on the form of a policy and financing package. Other donors would need to consider providing such quick disbursing assistance, too.

28. With regard to project financing, the need is not so much for increased *levels* of annual assistance, but for a different *composition* of assistance. In the current slowdown, a way must be found to channel resources more effectively to the local level for employment-generating small and medium scale infrastructure programs. Similarly, after banking reform takes place, an increasing share of support needs to go to help promote the domestic private sector, especially through the provision of credit to small and medium enterprises. Similarly, it will also be essential to think innovatively about how to support the Government's new emphasis on rural development. For a growing share of large scale infrastructure investment – especially in power generation and water supply – FDI can play a leading role, thus freeing up some ODA resources for poverty-focused

and human resource programs, "public goods" programs and in creating an enabling environment for the domestic private sector. Finally, it will be essential that donors find ways of improving the practice of partnership – with other donors, with the government and with civil society.

A FINAL WORD

29. Though the challenges Vietnam faces are daunting, the current difficulties also offer an opportunity for action. The challenge is for Vietnam to "set its sails" in a manner that its economy and society is strengthened rather than weakened as it navigates through the current difficult waters. Vietnam's international supporters – official, NGO, and private – need to respond promptly as evidence continues to emerge over the coming few months that an accelerated renewal program is for real.

1. THE CURRENT ECONOMIC SITUATION – A THREAT TO POVERTY REDUCTION

1. Vietnam is living in troubled times. The regional economic crisis, and its repercussions in markets throughout the world, is having a profound impact on Vietnam's economy. The country also faces increased competitiveness from its neighbors, an erosion of foreign investment as the environment is seen by investors as increasingly hostile, and a serious drought. These factors exacerbate other external and internal weaknesses, compounding the problems Vietnam faces today.

2. The costs for Vietnam are a harsh reduction in economic growth (from 6-7 percent per capita GDP growth in the 1990-97 period to an expected 2 percent per capita growth in 1998, and the real possibility of still lower growth in 1999), a stagnation of exports -- which were previously growing at 25 percent per annum -- and a slowing of foreign investment. The severe drought combined with a fierce typhoon has sharply depressed agricultural growth, and compressed government revenues which has forced a scaling back of public spending.

3. The most serious consequence of this configuration of difficulties is in the social arena. The reduction of poverty over the past 12 years has been impressive by any standard, and its engine has been the reform-induced rapid economic growth of that period which expanded employment, basic services and investment. This virtuous circle is now being threatened by the economic slowdown. Jobs are being shed in across all sectors and planned social expenditures are being cut steeply. Though the impact of economic factors is relatively greater for the urban population, greatest concern must be reserved for the rural population, who account for 80 percent of the total population, and who are on average considerably poorer. Rural dwellers did not enjoy the same benefits of economic growth throughout the 1990s as did those in urban areas. Urban incomes were on average 5 times rural incomes in 1990, rising to 8 times in 1997. For the rural poor of the Central Highlands and the Central Coastal regions, the 1997-8 drought has severely impacted agricultural yields, as a result of which nearly a million people may now face hunger. Meanwhile, coastal dwellers in parts of the Mekong Delta are still seeking to restore livelihoods after Typhoon Linda in November 1997. Hence, while some vulnerable groups may be *relatively* protected from the regional economic crisis, they have been affected by other factors.

4. This sequence of difficulties is described in greater detail below. The following sections set the stage for the discussion of possible responses which are presented in subsequent chapters.

THE IMPACT OF THE REGIONAL CRISIS

5. The depth of the regional crisis is comparable to the debt crisis in Latin America and the transition crisis in Europe and Central Asia.[1] The five crisis countries of East Asia are growing

at minus 7 percent this year instead of the plus 7 percent averaged over the last seven years. Since June 1997, their stock markets have lost around 60 percent of value and their currencies, between thirty and seventy percent. Japan, representing 60 percent of the income of the region, will contract by 2 percent this year. China will experience significant growth, albeit much lower than the past. This, however, cannot offset Japan's decline.

6. The regional crisis is spreading to other regions and undermining trade and capital flows globally. In Russia and Brazil, growth is down and currency and stock markets are under severe pressure. Other Latin American countries are in difficulty, too. World trade volume growth is decelerating.[2] Oil and non-oil commodity prices are down by 33 percent and 18 percent, respectively, relative to a year ago. Private capital flows to developing countries have fallen off sharply in recent months. Only foreign direct investment remains close to 1997 levels.[3]

7. Since Vietnam's trade and other economic links are overwhelmingly with its East Asian neighbors, lower growth of regional GDP and import volume makes Vietnam highly vulnerable. Japan faces a two year contraction in GDP and imports (table 1.1). East Asia (excluding China) will take three years to reach two-thirds of its import growth rate of earlier years. China's imports will probably grow at a fraction of their growth in previous years. Only US and European GDP and imports are projected to grow robustly, near earlier rates.

Table 1.1: Projected Import Volume Growth of Trading Partners (%)

	Percent of Total	Import Volume Growth				
	1996	**1991-97**	**1998**	**1999**	**2000**	**2001**
USA	2.4	7.7	11.0	8.7	5.2	5.5
Europe	15.1	3.7	7.1	6.4	5.2	5.6
Japan	12.2	6.3	-7.5	-0.8	4.0	6.0
Southeast and East Asia (excl. China and Japan)	67.0	12.7	-11.3	4.3	8.2	9.0
China	3.2	15.1	3.0	6.0	6.0	6.0
Weighted import volume growth of Vietnam's trading partners	**100**	**10.5**	**-7.1**	**4.2**	**7.1**	**7.0**

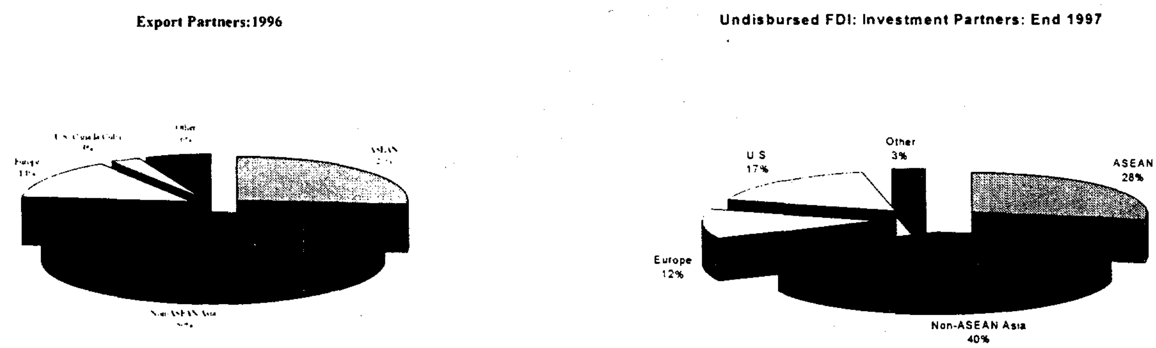
Source: Development Prospects Group, World Bank, Washington, DC, October 1998

8. The optimistic scenario is for a gradual regional recovery over the next three years. There is, however, a possibility of a worse scenario, of a further deterioration within the region, further depreciation of the yen and less robust performance in Europe and North America.

VIETNAM'S VULNERABILITY

9. Vietnam's dependence on Asia for exports and investment is huge and that makes the impact of the regional recession unavoidable. East Asia (including Japan) accounted for about 70 percent of Vietnam's exports and foreign investment (see figure 1.1).

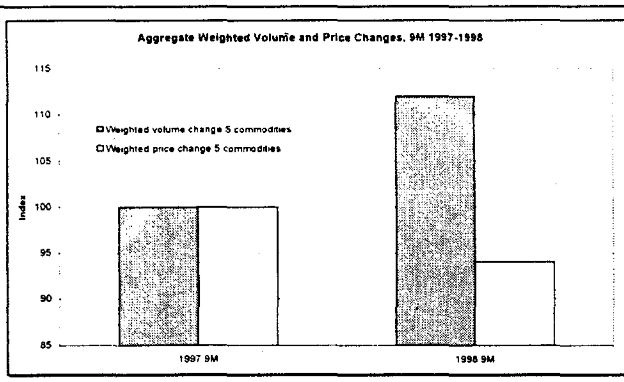
Figure 1.1: Dependence on the Region[4]



Source: General Department of Statistics and Ministry of Planning and Investment.

10. ***Stagnating Exports***. Not surprisingly, Vietnam's export growth will fall to around 3 percent this year. Low growth of both export volume and price explain the decline. In the first nine months of 1998, total exports grew by 7.5 percent, slower than the 12 percent recorded in the first half of the year. Growth in value of the top five export commodities has been around 4.5 percent, largely because of 12 percent volume growth; export prices, however, fell by 6 percent, on average (figure 1.2).

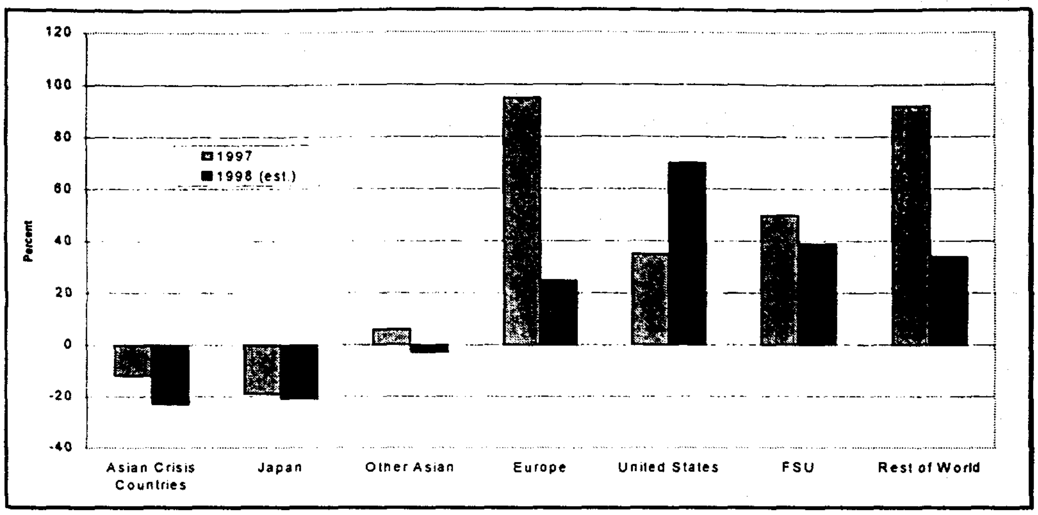
Figure 1.2: Commodity Exports: Volume Is Rising, Prices Are Falling.



Source: General Customs of Customs. *Note:* Five commodities are crude oil, rice, rubber, coffee and coal.

Due to the effects of the regional crisis, exports to Asia (i.e., East Asia and Japan) fell by 5 and 20 percent in 1997 and 1998, respectively. Only exports to China, Philippines, Indonesia grew this year, with export growth to Indonesia driven mainly by rice. Vietnamese exporters are striving to diversify to non-Asian markets. Exports to Europe grew last year by more than ninety percent, albeit from a low base; this year exports are growing in excess of twenty-five percent. Exports to the US are growing at a rapid rate, too, i.e., twenty-five percent per year in both years. This geographic diversification has helped to maintain some growth in export earnings.

Figure 1.3: Export Earnings Growth by Destination

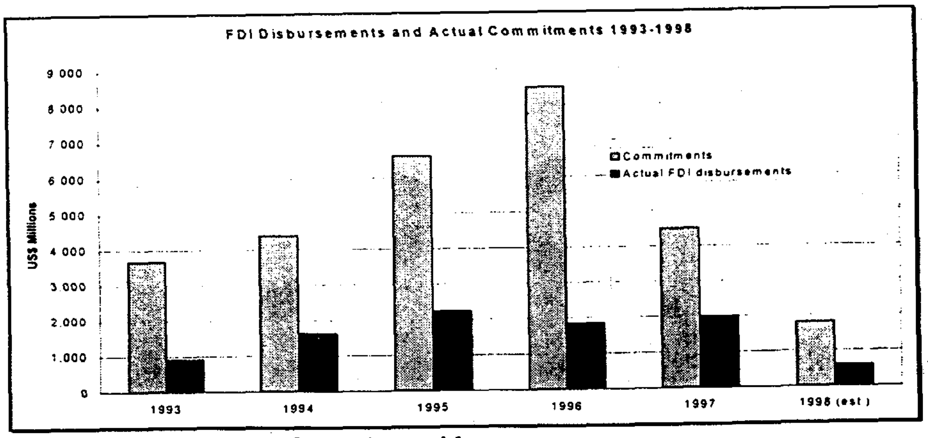


Source: Ministry of Trade.

11. Non-traditional exports like garments, footwear and seafood, two-fifths of total exports, are most affected by the crisis. East Asia and Japan's import contraction affects these items disproportionately since these countries constitute more than half of Vietnam's market for these goods. Also, these are price-sensitive exports which are now relatively less competitive in the region, given the large devaluations in crisis countries. At the same time, these exports are also potentially the most competitive and their rapid expansion must be part of any major export drive.

12. ***Falling Foreign Investment***. Foreign investment inflows have fallen by around 60 percent in 1998 and are likely to fall further in 1999. New commitments are falling even more sharply -- new licenses for foreign investment fell from $8.5 billion in 1996, to $4.0 billion in 1997 and $1.8 billion this year. Undisbursed licensed investment stands at about $26 billion, of which about half is for real estate and tourism sectors, where demand and prices have collapsed. About two-thirds is from East Asia and Japan, where many firms are strapped for cash. None of this augurs well for higher foreign investment flows in the near-term.

Figure 1.4 : FDI Commitments and Actual Disbursement 1993-1998

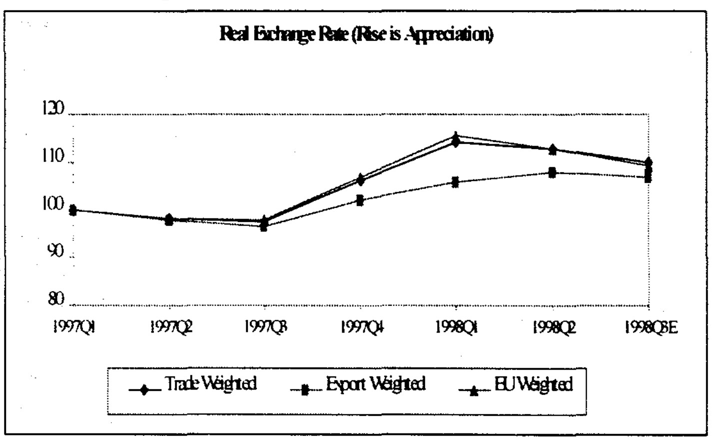


Source: Ministry of Planning and Investment.

13. The impact of the crisis is changing the nature of foreign investment flows. More than half of foreign investment this year came from outside Asia. This reflects the sharp decline in Asian investment. Large investors like Thailand, Malaysia and Hong Kong (China) invested little this year. Only Japan, Taiwan (China), Singapore, and Korea continue to invest, even if at lower levels than before. Also, the sectoral composition of investment was different this year.

14. ***Weakening Competitiveness.*** The effects of the regional crisis have also made Vietnam less competitive, for two reasons. First, there have been substantial currency devaluations in the crisis countries. Indonesia's exchange rate depreciated by nearly 80 percent (see table 1.2), while those of the Philippines, Thailand, Malaysia and South Korea depreciated by around 35-40 percent.[5] The dong, on the other hand, has been devalued by much less and not enough to restore competitiveness to pre-crisis levels. Three exchange rate adjustments in July 1997, February 1998 and August 1998 devalued the dong by around 17 percent, but this was insufficient to offset the gains in competitors' positions. In real terms, the dong's exchange rate appreciated relative to June 1997. Figure 1.5 below shows such appreciation. Today, the real exchange rate of the dong remains appreciated by around 10 percent. However, on a bilateral basis, vis-à-vis any individual "crisis" country, Vietnam's exports will be even less competitive.

Figure 1.5: Real Exchange Rate Movement



Source: World Bank Staff. *Note:* 1997Q1 = 100.

Table 1.2: Changes in Currency Prices

	Currency
	% change on Sept. from June '97
Indonesia	-78
Korea	-36
Malaysia	-33
Philippines	-40
Thailand	-39
Vietnam	-17

Source: Bloomberg
Note: All data are as of September 18, 1998
Currency: US$/local; (-) is devaluation

15. Vietnam's labor cost advantage has been reduced as a result of the real appreciation of the dong. Before the crisis, Vietnam's labor cost was less than a fifth of others, except Indonesia (see table 1.3 below). Since then, the cost of unskilled and minimally-skilled labor in Indonesia has fallen in dollar terms and may now be on par with or lower than that of Vietnam, given the relatively large devaluation of the rupiah and ongoing deflation in Indonesia. Nevertheless, Vietnam's labor cost advantage vis-à-vis most other countries remains, even if it has been somewhat diminished.

16. Second, reforms currently being implemented in "crisis" countries will make them more attractive to investors and exporters than they were before. These countries are liberalizing their legal framework for property ownership and foreign investment, eliminating tax disincentives to

restructuring and new domestic investment, as well as lowering trade barriers. The financial sectors of such countries are being made leaner and more efficient through rapid restructuring of banks and firms. China, though not in crisis, is also implementing a second-round of reforms; state-owned enterprises are being liquidated and/or restructured in large numbers while banks are being restructured and strengthened.

17. Before the crisis, businesses viewed Vietnam's regulatory and external trade impediments as among the worst in the region. Vietnam was placed close to the bottom in competitiveness among 58 countries surveyed in 1997.[6] The most daunting constraints cited by firms in Vietnam related to legal, regulatory trade and tax regimes. Government regulation of firms' activities and their discretionary application featured most prominently. India and Central America were viewed more poorly, but the rest of East Asia was seen on average to be several notches better. The firms did say, however, that Vietnam had certain clear advantages in the following areas: high demand for firms' products, low wage costs, easy availability of labor, less intrusive labor regulations, and excellent security.

Table 1.3: Pre-Crisis Wage Levels (1996)
(Average wage unless indicated otherwise)

Country	Minimum Wage for Unskilled Labor ($/day)	Unskilled Labor ($/day)	Skilled Labor ($/day)	Technicians ($/month)	Engineers ($/month)	Middle Management ($/month)
Indonesia	0.70-2.85	2.00-3.00	6.10	250	380	560
Malaysia	None	7.97	13.28	578	1,395	1,992
Philippines	4.19-5.65	4.00-6.70	7.00-9.17	350-550	650-962	1,076-1,307
Taiwan (China)	28.50	37.50	51.5	1,378	1,568	2,225
Thailand	5.07-6.25	5.12-6.13	6.61-7.28	282-560	584-749	700-1,221
Vietnam	0.78	1.29-1.37	2.15-2.38	100-185	195	220

Note: All data are as of mid-1996. Average wages are for workers in light manufacturing industries.
Source: World Bank, Philippines: Managing Global Integration, Volume I, November 1997, p. 9.

18. ***Pressure on the External Balance.*** The above factors have led to pressures on Vietnam's external balance position. So far, however, the Government has managed to avoid a balance of payments crisis by taking actions to compress imports, and to preserve or mobilize additional foreign exchange, albeit sometimes through very short-term measures. Hence in 1997, the slowdown of export growth and reduced private transfers were more than balanced by import contraction and high inflows of FDI and ODA. In 1998, trade and current account balances are forecast to come under pressure due to lower export growth and FDI flows. As a result, current account deficit is expected to decline from 7.6 percent of GDP in 1997 to 4.6 percent this year (chapter 5).

19. A closer look at Vietnam's external balance performance since the onset of the crisis reveals important reasons for concern. The approach used by the Government to contain the external balance position and avoid a balance of payments crisis has so far relied heavily on import restrictions. While this has provided a short-term solution, it is neither sustainable nor consistent with a return to longer-term growth given the import content of production and the dependence on capital and intermediate goods imports. Unless Vietnam is able to restore rapid

export growth, and/or significantly increase domestic savings performance as an alternative to foreign savings, it will have to continue to settle for a much lower growth path consistent with its now much lower import capability, or resort to other sources of external financing -- largely shorter term, non-concessional debt[7] -- that will certainly compromise the economy's ability to service its debt, and eventually create a balance of payments crisis. While Vietnam's external reserves have increased to an estimated 7-9 weeks of imports, this is still insufficient to provide a comfortable degree of cushioning against a prolonged external shock and ward off a balance of payments crisis.

THE COSTS TO VIETNAM

20. Vietnam's exposure to the regional economic crisis has disrupted growth, affected banks and SOEs, threatened fiscal and external balances, and made the country more susceptible to underlying policy weaknesses in the economy. These problems have been compounded by climatic disasters.

21. ***Slowdown in GDP Growth***. Growth of real GDP this year is likely to be around half the rate of previous years. This estimate is lower than the Government's estimate mainly due to differences in industrial and service sector growth rates.[8] These differences are due to different judgements about the magnitude of impact of the fall in foreign investment and export growth. In addition, there are differences in assumptions about the last three months of 1998, for which data is not available. Given the uncertainties in any downturn, Table 1.4 provides a range rather than point-estimates of GDP growth.

22. The first 9 months of 1998 confirm that all three "drivers" of the economy have suffered: exports, representing two-fifths of GDP and growing in the past at 25 percent on average, are now not growing at all; investment, representing more than a quarter of GDP, is actually falling and agricultural growth is down to 2.5 percent, due mainly to drought, compared to growth of 4.5 percent last year.

23. Overall domestic demand growth is down, as evident from falling retail sales and rising vacancies in office and residential space, and service sector growth has been reduced as trade-related services, tourism and real estate have slumped. Demand for construction work and construction materials have fallen because of the large decline in foreign investment. Smuggled imports from neighbors, made cheap by devaluation and excess capacity in those countries, are displacing sales of domestically-produced goods.

Table 1.4: GDP Growth Rates (percent)

Item	1991-96	1997	1998 (est.)
Total GDP	8.4	8.8	3.5-4.5
Agriculture, Forestry, and Fishery	4.4	4.5	2.5
Industry	12.8	13.2	7.0-8.0
Services	9.0	8.6	1.5-3.0

Source: Bank Staff Estimates for 1998 are based on 9 months data. All other years are from GSO, Government of Vietnam

24. The large fall in growth of domestic and export demand must be reflected in lower growth in industrial and service sector GDP. The Government's estimates of industrial growth are higher than ours, because it uses production rather than sales as a basis for estimating industrial growth. Our view is that given the fall in growth of manufactured exports and in demand for construction, as well as greater competition from smuggled imports, growth of industrial sales must be substantially lower than last year's 13 percent, i.e., around 7 to 8 percent. Unfortunately, the absence of systematic data on inventories prevents a full reconciliation of our estimate with that of the Government.

25. On service sector GDP, our estimate for 1998 is again lower than the Government's. There are differences in assessment of the key components of service sector growth, given the absence of hard data on those components. For example, retail and wholesale trade is likely to have done poorly because of stagnant exports and falling imports, both important drivers of trade. Though rice output is higher last year, industrial cash crop output is lower. The overall impact, in our judgement, is more severe than that predicted by the Government. Real estate and tourism have both fallen, but there is not enough information to ascertain the exact magnitude of that fall. The same is true of other services.

26. ***Poorly Performing State Enterprises***. Three-fifths of state enterprises were unprofitable before the growth slowdown (table 1.5). The rest were having difficulty, evident from their declining profits and tax contributions. What is most worrying are the debt levels of SOEs; total debt exceeds the capital of the enterprises. With overall demand down, state enterprises are finding it even more difficult this year to produce, sell, make a profit and service debt.

Table 1.5: State Owned Enterprises' Key Indicators as of December 31, 1997

		Total number of SOEs		State Capital	Total Debt	Employment	
		Number	percent of			Total Employment	Average Income of Employees ('000/month)
I	**Total**	**5,467**	**100**	**73,272**	**101,361**	**1,614,867**	**588**
1	Profitable SOEs	2,174	40	52,394	60,784	929,017	745
2	Unprofitable SOEs	3,293	60	20,878	40,577	685,850	405
II	**Central Total**	**1,651**	**100**	**47,270**	**65,844**	**899,374**	**680**
1	Profitable SOEs	757	46	38,019	44,399	583,455	903
2	Unprofitable SOEs	894	54	9,251	21,445	315,919	466

Source: Ministry of Finance, Government of Vietnam (based on recent classification exercises)

Notes:

1. The figures are rounded and in VND billion
2. The table does not include data from Tien Giang and Cao Bang provinces
3. Central SOEs do not include data from Tuyen Quang, Kon Tum, Dong Thap, Ca Mau, Bac Lieu, Soc Trang, Binh Phuoc, Bac Can, and Hoa Binh provinces.
4. Debt includes commercial bank debt, external FDI-related debt and inter-enterprise debt.

27. ***Worsening Condition of Banks.*** The banking system is in difficulty because its customers are not doing well. Vietnamese enterprises – given that households account for a small proportion of banking business -- are banks' main customers, and they are performing poorly. Exporters of major commodities are generating less revenue because of the decline in world prices and exporters of manufactures are as well, because both volumes are slowing and prices are down. Import-competing enterprises are squeezed by falling domestic demand and smuggled imports, while service providers are affected by falling external and domestic demand.

28. The financial situation of banks was fragile before the slowdown, and the internal governance mechanisms of most banks have been too weak to respond appropriately to the crisis. Deposit mobilization is falling off and credit allocation remains inefficient. At the end of 1997, over-due loans and foreign currency loans were high and off balance sheet exposures large. The situation has worsened since. Currently, for all banks (state-owned-commercial and joint-stock) overdue loans are around 13 percent of total loans, though for two state-owned-commercial banks, the level exceeds 20 percent and for several joint-stock banks, it is higher still. This level of over-dues may even understate the actual extent of the problem because of the weaknesses in the loan classification system, and existing frozen loans.[9]

29. ***Public Services and Fiscal Balance Under Pressure.*** Revenue as a share of GDP, fell in 1997, and will barely grow this year. Weaker SOE performance and lower import-tax receipts explain most of the stagnation in revenue. The Government has responded to this situation by cutting planned current expenditures across-the-board. Capital expenditures are also being cut by postponing 27 projects. Total expenditure will grow only marginally this year as a percentage of GDP. This year's overall fiscal deficit (incl. grants) will be higher, rising to 1% of GDP.

Table 1.6: Fiscal Situation

Percent of GDP	1996	1997	1998 a/
	Rev.	Prel.	Est.
Total Revenue and Grants	24.1	20.4	20.2
Tax Revenue	11.0	10.0	9.0
Transfers from State Enterprises a/	10.0	7.7	7.8
Other Non-Tax Revenue	2.6	2.1	2.9
Grants	0.6	0.5	0.6
Current Expenditure (exc. interest)	17.2	14.3	14.5
Capital Expenditure (exc. on-lending)	6.0	6.0	5.8
Interest (Paid)	1.0	0.8	0.6
Contingency	0.0	0.0	0.3
Total Expenditures	24.3	21.1	21.2
Overall Balance (Cash Basis)	-0.2	-0.7	-1.0

Source: Ministry of Finance.

Note: All figures rounded. a/ Transfers include all taxes, operating surplus, depreciation allowances, and capital user fees.

30. The effects on expenditure allocations are unclear, however. Will the postponed projects be those with the lowest returns? If so, public expenditure efficiency will be raised. Will current expenditure cuts fall on critical areas such as health, education and/or road maintenance

expenditure, where increased expenditures are called for? Will the poorer provinces spend less per capita than before? In those cases, the poor will be hurt. The social dimensions of the fiscal squeeze are discussed in the next section.

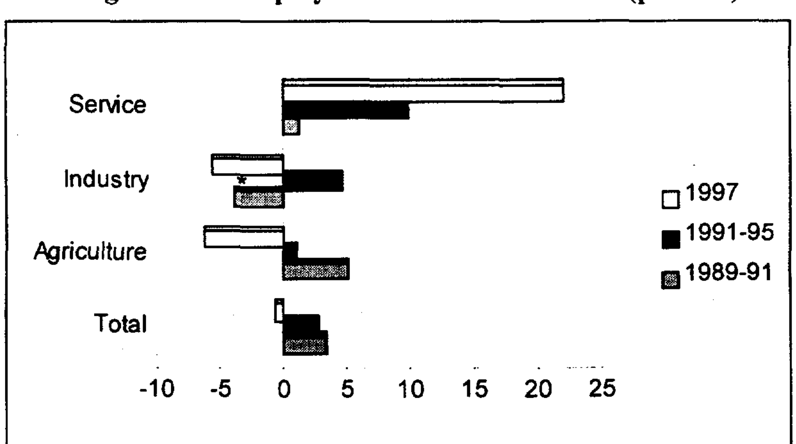
The Human Cost: Poverty and Social Impact

31. Rapid economic growth in recent years has led to remarkable success in reducing poverty. Since *doi moi* began, the share of the population living in poverty fell from about 70 percent to 30-35 percent today, implying an annual, average rate of poverty reduction of 5-6 percent, similar to real per capita GDP growth rate in this period. In other words, the elasticity of poverty reduction with respect to growth has been impressive, demonstrating the relatively balanced nature of growth. If the momentum of poverty reduction is to be maintained, given that per capita GDP growth could slow to 2 percent, the pattern of growth must be more pro-poor and more poverty-targeted measures must be expanded.

32. Four factors conspire to create difficulties. First, the economic slowdown translates directly into lost income and employment for many. Second, drought and Typhoon Linda reduced agricultural incomes and yields in late-1997 and early-1998. Third, it is likely that transfers from the relatively better off to the relatively worse off will fall, particularly as urban wage earners are less able or willing to send remittances to family members. And fourth, government spending cuts may fall disproportionately on the social services of most relevance to the poor and to those in poorer provinces. The combined social effects of these factors are not yet clear, but are likely to be serious, particularly as unemployment grows. A new strategy for addressing poverty is therefore needed.

33. ***Increasing Unemployment.*** Unemployment, especially urban unemployment, is rising in 1998 for the second consecutive year. Increased rural-to-urban migration is exacerbating the situation. Despite a lack of reliable data, joblessness is higher than the recorded 6 percent. In Hanoi, the rate is probably more than 8 percent. Slowdown in employment growth began in 1996. Until 1996, employment growth kept pace with labor force growth. In 1997, however, employment growth was negative (i.e., -0.6 percent) for the first time since *doi moi* reforms were initiated. Agriculture and industry shed labor with employment falling by 6.2 percent and 5.6 percent, respectively (see figure 1.6).

Figure 1.6: Employment Growth in Sector (percent)



Source: General Department of Statistics
* The 1989-91 decline reflects the close-down of 2000 or so State enterprises.

34. Falling employment in industry probably reflects the high capital-intensity of production that has been encouraged by import protection. The question in terms of generating employment is whether policies to encourage production of labor-intensive products will be adopted.

35. Employment is highly vulnerable. Though service-sector productivity remains low, more than half the labor shed by agriculture and industry was absorbed by the rural service sector and another third, by the urban service sector. Large declines in service sector growth rate will jeopardize the capacity of that sector to absorb labor, creating more unemployment. The slowdown in services reflects, among other things, lower activity in banking given increasing difficulties in that sector, and a slowdown in trade and real estate activities. The slowdown in hotel and tourism activity is related to Vietnam's decreasing attractiveness as a tourist destination relative to other countries in the region.

36. ***Reduced Incomes of the Rural Poor.*** In Vietnam, about 90 percent of the poor live in rural areas, and so what happens to rural incomes and employment as a result of the slowdown will largely dominate the impact on poverty. Since reforms began, two factors have contributed to poverty reduction in rural Vietnam: increases in small-farm agricultural productivity, particularly linked to land reform - and diversification of income sources, both on and off the farm. Given the very small endowment of agricultural land per capita – there are 900 people per square kilometer -- there is high underemployment and low productivity and incomes in agriculture. Future potential for productivity growth in agriculture is limited. With population expanding at about 2 percent annually, surplus rural labor has to be increasingly absorbed in off-farm activities.

37. Most households are engaged in varying sorts of off-farm activities to supplement their farm incomes -- either wage employment or self-employment. They include fisheries, food manufacturing, food trade, and other retail trade. In Vietnam as a whole, *only 30 percent of the rural poor depend on farming alone for their incomes*. This dependency varies by region and ranges from a high of 47 percent in the Northern Uplands (a very poor region) to a low of 18 percent in the Mekong Delta (one of the less poor regions). On average, men and women in rural areas still spend only 30-32 hours per week on income earning activities. Thus, there is ample scope for improving the lives of poor people by providing them with *additional* income earning opportunities. The current slowdown in economic growth will affect not only the agricultural incomes of the poor, but also opportunities to supplement their farm incomes from off-farm activities in the manufacturing and services sectors.

38. While wage employees are only a small fraction of the poor, the majority of them are landless laborers who tend to be among the poorest of the poor. During the last five years, real wages have been growing rapidly and it is likely that wage laborers became better off as a result. As the rural economy slows down, however, this group is likely to be particularly adversely affected, both by a slowdown in employment opportunities, and possibly by a slowdown in wage growth as well, caused by a slackening labor market and more people chasing fewer jobs.

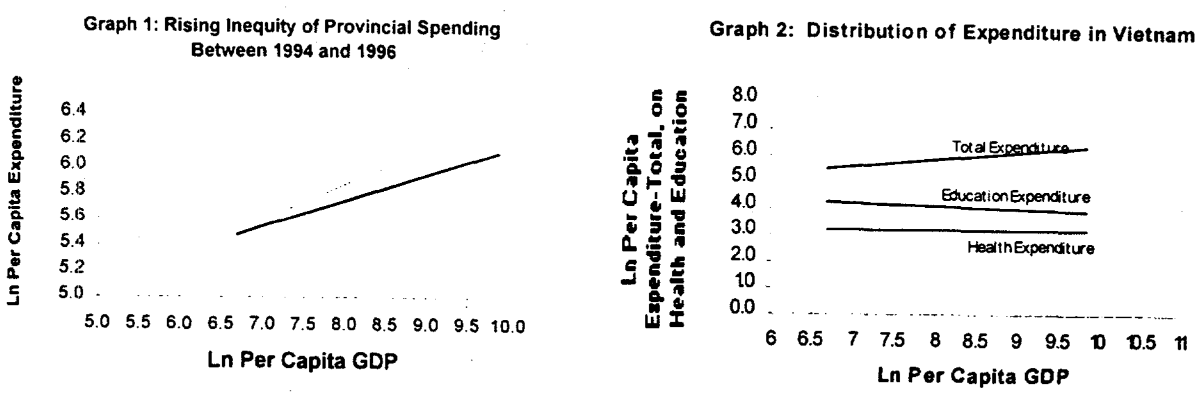
39. ***Erosion of Informal Safety Nets.*** During the period of rapid economic growth, private income transfers between households have played an important role in Vietnam in providing safety nets for vulnerable groups.[10] This might now be threatened. As income growth and employment shrink economy-wide, the amount of such transfers is likely to shrink. This may be especially pronounced in urban areas as workers fear loss of their jobs as FDI and exports fall. Formal sector workers of shrinking industries and their dependents are likely to be quite vulnerable under the current economic slowdown.

40. The impact may be serious for the 42 percent of households that are net recipients of such transfers, a substantial portion of whom are the elderly and female-headed households. Gross transfer receipts make up a quarter of their household income. In rural Vietnam, 41 percent of transfers come from children (to parents), and the rest from other relatives. Private transfers are also targeted to the very young, suggesting that they are used to finance human capital investments.

41. ***Reduced Social Spending***. There are indications that public education and health spending is falling this year. Public expenditures on education have declined in real terms in 1998 while those on health have fallen in both nominal and real terms. Unless expenditure cuts are carefully planned to minimize negative impacts and ensure medium-term sustainability, such cuts in spending could make a bad situation worse. Careful expenditure prioritization is all the more important when the poor are hurting, and health and education expenditures are under threat.

42. Falling fiscal revenue this year and the next is likely to worsen the distribution of expenditures in poorer provinces (especially poorer communes), despite recent amendments in the law on intergovernmental finance. Between 1994 and 1996, there was rising inequity in the distribution of per capita public spending across provinces. Figure 1.7 shows that per capita spending has become more unequal across provinces in 1996 relative to 1994. Fortunately, the distribution of social spending remains relatively egalitarian. Education spending, for example, is fairly progressive. The inequality in per capita total expenditure across provinces stems from other categories of spending, mainly investment expenditures.

Figure 1.7: Per Capita Spending Across Provinces



Source: Ministry of Finance

43. Three features of the current system put per capita spending levels in the poorer provinces at risk under a revenue-squeeze. First, as revenues fall, line ministries have the discretion to push spending responsibilities down to provinces, districts and communes (see below). Second, richer provinces can keep more of their revenues by under-estimating revenue projections, thereby having more resources and more flexibility to allocate efficiently for delivering services. Third, the Budget Law specifies that cash transfers to provinces (which are poorer provinces) ***may*** be adjusted to account for changes in prices; it is not mandatory. In fact, this year, the adjustment is only 6 percent though inflation is closer to 10 percent, implying a ***fall*** in real transfers.

44. Though there is little information available on the intrasectoral split of expenditures, it is possible that spending in education and health that benefit primarily poorer groups could bear the brunt of contraction in revenue and transfers, and thus have important implications for poverty reduction efforts. The decline in available public resources in provinces, districts and communes will call for higher levels of local voluntary contributions. This may be needed to ensure that, at a minimum, access and quality of social services are maintained. But increased local and private contributions are likely to be regressive. Health and education line ministries frequently mandate standards that provinces must achieve, program by program, but cannot ensure that sufficient resources are transferred to meet these mandates. Provinces may be required to co-finance the programs. The richer ones can perhaps mobilize the local revenue required, but the poorer ones may not be able to do so, in which case they will lose the matching contribution from the center. Their alternative is to delegate spending responsibility to the districts and communes. Districts and communes, in turn, can either reduce services or raise "voluntary contributions" from service users, who often find it extremely difficult to pay. Some NGOs, such as Oxfam, will endeavor to meet this contribution on behalf of poor communes, in order to safeguard basic services.

45. It is likely, then, that non-income indicators of living standards and poverty reduction will worsen over the medium-term in the absence of specific government policies to preserve funding for poorer provinces and social sectors, as well as to improve the efficiency and intrasectoral allocation of expenditures. Reallocation of spending is necessary to ensure that those categories of expenditure with greater returns in terms of reducing poverty are funded adequately.

CONCLUSION

46. The external shock to Vietnam from the regional crisis – through large declines in foreign investment inflows and in export growth – has been equivalent to US$3 billion or 12 percent of GDP. This threatens both the external and fiscal balance, too. Coupled with lower agricultural growth, aggregate GDP growth this year is estimated to fall to around half of previous years' rates (on the basis of 9 months data), though Government estimates call for only a drop of a third. The large fall in GDP growth threatens the impressive reduction in poverty Vietnam has experienced.

[1] In terms of the effects on the worst affected countries in the region, see *East Asia: The Road to Recovery* World Bank, Washington DC, September 1998

[2] Trade volume growth has fallen from 11 percent in the fourth quarter of 1997 to 4 percent in second quarter of 1998 (see World Bank, DECPG "Prospects and Risks in External Environment of Developing Countries", September 1998).

[3] Gross private capital flows to developing countries fell to near zero in August 1998, compared to $3 billion in the same month in 1995 and to $2.5 billion in 1996 and 1997. The falloff in flows that began in Asia has now spread to Latin America and Europe (especially Russia). Private capital markets are worried by the rising difficulties of bailing out countries in troubles and by the unilateral Malaysian and Russian decisions on exchange controls and debt moratorium that may reflect a trend (see World Bank, DECPG op. cit.)

[4] These are Ministry of Trade and Ministry of Planning and Investment data.

[5] Together with large declines in stock prices, the domestic asset prices in these countries have become very attractive and exports very competitive.

[6] The Global Competitiveness Survey (GCS), 1997, carried out by the World Economic Forum (Davos) was based on responses from 58 countries and 3000 firms, (including 51 firms operating in Vietnam). Their overall analysis put Vietnam near the bottom of the list in terms of competitiveness of the economy.

[7] It is not clear, given the current climate in the region, that Vietnam could even access this form of financing at levels needed to maintain its growth momentum

[8] Government estimates overall GDP growth in 1998 to be 6 percent, a third less than the average for 1996 and 1997. Industrial and service-sector growth rates are estimated at 12 percent and 6 percent in 1998 compared to 13 percent and 8 percent in 1997.

[9] In addition to overdue loans, state banks also carry a large portfolio of so-called frozen loans, (bad loans that emerged from the monobank system prior to 1990) estimated at about VND 2,4000 billion at end-1997 (3 percent of state banks' total assets). Under current procedures, the Ministry of Finance, the State Bank, and local governments have to certify that such loans cannot be collected, and the Ministry of Finance then covers the loss in the form of capital injections.

[10] Data from the 1992/93 VNLSS indicate that private transfers were substantial and sometimes functioned like means-tested public transfers (Cox, Fetzer and Jimmenez, 1998). More than half (51 percent) of households received private transfers, and almost three-quarters (72 percent) gave them. About 38 percent did both, and about 15 percent did neither. 42 percent of households were net recipients and 43 percent were net givers.

2. RISING TO THE CHALLENGE – UNLEASHING THE POTENTIAL OF ALL VIETNAMESE

1. Against the backdrop of problems described in Chapter 1, decisive and bold leadership is needed to weather current difficulties, and to ensure a swift return to a rapid and sustainable growth path. To capture every opportunity and to use every resource available (including all its people), Vietnam must respond to three imperatives:

- ***Maximize the efficiency of resource use.*** Vietnam must do more with less. All existing resources and assets have to be used more efficiently. Every dong, dollar and yen of new investment must generate more output and more employment. Banks must allocate credit to activities that use more labor than capital. Efficient enterprises, especially small and medium enterprises in rural industry, must get more of that credit.[i] And that requires the drive and dynamism of all Vietnamese people.
- ***Mobilize resources wherever possible.*** Efforts to mobilize more savings, domestic and foreign, must be pursued in parallel. Banks must be restructured and strengthened so as to attract more of the domestic savings held outside the banking system. Attracting more foreign investment will be more difficult than past years.[ii] But in the near term, expediting Government decisions on projects relatively advanced in negotiations, can unlock foreign investments quite quickly and improve perceptions of the Vietnamese investment environment rapidly. In the medium term, more transparent policies and more competitive infrastructure services can attract a bigger share of the limited non-Asian investment that is available. Foreign savings can also be raised by implementing aid-funded projects better and faster.
- ***Unleash the productive potential of the poor and unemployed.*** Vietnam's most abundant asset is the labor of its people, particularly the poor. To avoid losing momentum in the poverty reduction effort, more focus is now needed on inclusive development. Protecting the productive capacity of the poor will be critical to future growth. The slowdown will affect the income of the rural poor. Also reforms – lowering import protection or liquidating and equitizing state-owned enterprises (SOEs) – will have transitional unemployment effects on the urban poor and non-poor. But the country must harness their potential at this difficult time. To accomplish that, measures providing financial compensation to labor will be needed. All efforts must be made to maintain the incomes of the poor and unemployed and sustain levels of social services.

2. Fortunately, Vietnam has five policy levers that it could use to respond to the three imperatives. Employed collectively, these levers could unleash the potential of all Vietnamese and foreign partners in the country's future growth. These priorities are to:

- reform state-owned enterprises;
- build up a modern and efficient banking system;
- promote small and medium enterprises;
- unleash the full productive capacity of the poor; and
- improve competitiveness in the global marketplace.

3. Only by harnessing the drive and dynamism of all its people, can Vietnam meet the challenges of enhancing efficiency, and attracting more domestic and foreign savings for investment. So far, farmers, state-owned enterprises, and private foreign firms have driven growth. Private small and medium enterprises (SMEs) have played a negligible role, especially in industry. But private SMEs have been the most efficient users of resources in other countries of the region and key to employment creation. They need to be encouraged in Vietnam.

4. A vigorous private SME sector will need more freedom to operate and better services from a vigorous and modern banking sector, neither of which Vietnam has at present. A precondition for promoting such entrepreneurship, therefore, is to introduce reforms to reorient the country's banks **towards** the needs of private SMEs and to restructure, equitize and liquidate SOEs, to improve their efficiency. An important starting point for promoting private enterprises – affecting small farmers and larger firms alike – is SOE reform. This is the "upstream" problem. Removing existing restrictions on private corporate activity, ending preferential treatment of SOEs, and endorsing private sector successes publicly, will also be important steps. This will enable private SMEs to respond to opportunities created by reforms in banking, state enterprises, and trade.

5. Rural growth would be encouraged by these policies, too. A more open trade regime and less import protection for heavy industry will mean more investment in labor-intensive sectors and exports (garments, footwear, travel goods, processed agricultural products, tourism), stimulating rural industry and agriculture. Eliminating privileges of state-owned enterprises – including the tight link between banks and SOEs – will lower discrimination against rural areas, given that the overwhelming number of state-owned enterprises are in urban areas, benefiting only a small part of the urban population. Reforming the banking system and banks will allow the allocation of more credit to rural areas, especially rural industry.

6. This year, Vietnam's reform has picked up momentum. But it is not adequate to arrest the economic slowdown underway. Notable progress has occurred in some areas as Box 2.1 describes. What is lacking is a sufficient degree of consistency and synergy among these reforms. For example, registered private firms can export or import more easily, but registration of private businesses, a prerequisite for trading, is as difficult as before. Equitizations are being accelerated but their efficiency-impact will be limited if the trade regime remains protectionist. Also, given the slowdown, measures need to be more carefully directed towards the needs of the poor.

Box 2.1: Overview of Recent Reform Actions: September 1997-November 1998

Banking Reform

- Approved the Law on the State Bank of Vietnam (Nov 1997) confirming its dominant role in implementing monetary policy and in regulating credit institutions, as well as established a high-level Financial & Monetary Committee to supplement SBV's advise to the Government on monetary policy;
- Approved Law on Credit Institutions (Nov 1997) to be supplemented by decrees on prudential regulations which establishes the legal regime for all credit institutions, both banks and non-banks;
- Established a Bank Restructuring Committee and initiated restructuring of Joint-Stock Banks in HCM City.
- Issued Directive on "Special Control Regime for Banks in Trouble" to guide SBV intervention in troubled banks (July 1998).
- Initiated intervention in several JSBs (Sept. 1998)

State Enterprise Policy

- Government issued Decree on equitization to simplify the process of equitization and allow limited foreign shareholding (July 1998);
- Issued Prime Minister's Directive No.20 to adopt alternative ways of reforming SOEs, e.g. divestiture outright sale, competitive bidding, etc. (April 1998);
- Prime Minister's Decision approved a list of SOEs to be equitized (Sept. 1998);
- Government initiated classification of all SOEs (Sept 1998);
- Approved Decision to create a National Enterprise Reform Committee (June 1998);
- Announced targets for equitization of 400 and 1,000 SOEs by 1999 and 2000, respectively (Feb 1998).

The Climate for Investment

- Amended Law on Promotion of Domestic Investment (May 1998) allowing domestic and international organizations, and individuals, to buy shares or to contribute capital to domestic enterprises, including equitized SOEs; it also provides additional incentives for domestic investment (similar to those provided to foreign investors);
- Approved new Decree on foreign investment (Feb 98) providing additional incentives to foreign investors and issued implementing regulations for each sector;
- Government has begun private/public dialogue, to better understand constraints faced by private foreign investors (Feb 1998 onwards). A "hotline" has been established to take complaints.

Trade Policy

- Approved legislation (May 1998) to lower the maximum import tariff to 50% (with the exception of six groups) and number of tariff-rates to 15, but implementing regulations have yet to be issued;
- Allowed domestic firms (Decision 55, Mar 1998) to export goods directly, requiring no export license, (with the following exceptions: rice, explosives, books, precious stones, antiques etc.) as long as export goods are within the scope of firms' line of business (Mar 1998);
- Removed licensing of imports of consumer goods but implementing regulations have yet to be issued (May 1998);
- Removed conditions of minimum capital ($200,000) and qualified personnel for registered firms to become importers, as long as imports are within scope of firms' line of business (July 1998);

- Liberalized allocation of rice export quotas to private sector, by allocating a part of the quotas to non-state firms for the first time (Jan 1998);
- Allowed private firms to import fertilizer (Jan 1998).

Fiscal Policy

- Approved new Decree to publish state, provincial and commune budgets every year starting in end-1998 (Nov 1998);
- Approved two tax laws to replace by 1999 (a) the multi-rated profit tax with a single-rate enterprise income tax and (b) the turnover tax with a three-rated value-added tax (Nov 1997);
- Amended Budget law to improve assignment and allocation of tax revenue to lowest local level, the communes;
- Restructured commercial external debt through a Brady-type debt and debt-service reduction agreement with London Club commercial creditors (Dec 1997);
- Issued Decree to implement External Debt Management Strategy allocating responsibilities for maintaining debt and for implementing debt strategy (Sept. 1998).

Reforming State Enterprises

7. An open trade regime, a "hard budget" constraint, lending decisions made on a commercial basis, and good corporate governance are the best instruments for ensuring efficient and competitive SOEs. Without them, scarce resources like investment, credit, and foreign exchange are wasted. At present, however, none of these are applicable to Vietnamese state enterprises. The import regime is geared to protecting SOEs and the banks are geared to bailing them out. That must change. Tailor-made import protection and preferential treatment by state-owned commercial banks and joint-stock banks have to go. SOE reforms and restructuring coupled with a safety-net for labor can ease the transition from protection to liberalization and competition.

8. The Government's announced strategy is limited and not sufficient to achieve the intended results. Its recent decisions and decrees describe three responses to the situation:

- liquidate the unprofitable and non-viable SOEs;
- equitize profitable SOEs that are not classified as wholly state-owned;
- change the relationship between board of directors and management for enterprises to remain under majority state control.

9. While these are moves in the right direction, they are not sufficiently comprehensive. For example, many SOEs that are currently unprofitable may become "potentially viable" with some restructuring. Conversely, when import protection is reduced, some currently profitable SOEs may become non-viable; pre-emptive restructuring could help them to shed their unprofitable parts, reschedule their debt, or alter their product-mix so as to become viable. The taxonomy in table 2.1 shows what might be a more comprehensive set of reform options for SOEs with different characteristics.

Table 2.1: Options for SOE Reform

	Currently 'Profitable' SOEs		Currently 'Unprofitable' SOEs	
	Viable	**Potentially Non-viable**	**Viable**	**Potentially Non-viable**
Large Enterprises to remain Wholly State-Owned	Financial Performance Contracts	Restructure, Merge, or Liquidate	Restructure or Merge	Liquidate
Large Enterprises with Majority Ownership	Equitize or Divest	Equitize or Liquidate	Equitize or Divest	Liquidate
All Others	Equitize or Divest fully	Equitize, Divest, or Liquidate	Equitize or Divest fully	Liquidate

10. ***Wholly State-Owned Enterprises***. It is still unclear how the large enterprises that are classified to remain under full or majority government control will be made more efficient. Running a large modern corporation inevitably involves the separation of the firm's ownership from its management. Providing systems for, and exercising sound corporate governance, is a challenge that all large modern corporations the world over must meet. Different types of corporate governance systems have been used to make management accountable but there is now a clear consensus that the most successful corporate governance systems are centered on the prudent use of commercially-based incentives.

11. In Vietnam, the lack of clear ownership identification of SOEs undermines corporate governance as it leaves open the issue of who exactly should be monitoring the managers. To a certain extent, the identification of a board of directors to oversee the corporation partially addresses this issue but the difficulty in identifying owners, and specifying who will be responsible for SOE liabilities, is typically the constraint on governance. The mixing of SOE's commercial and social functions, and the fact that the state is the ultimate owner and regulator of SOEs, gives rise to unclear governance objectives and conflicts of interest. At the same time, effective corporate governance is difficult to exercise when the institutions responsible for the management of state assets rarely receive timely, accurate, and useful information about the financial performance of the firms they control.

12. Relatively few outside monitors, especially banks, exercise strong discipline on Vietnam's wholly state-owned enterprises. This contributes to weak corporate governance. The state-owned commercial banks are mainly agents of the state, making the owner and creditor, one and the same. SOE mergers (or threat of takeovers), can be effective disciplining devices against poor management. But in Vietnam, to date, most mergers and takeovers of SOEs are engineered by the Government and often do not represent commercially-driven actions.

13. The bottom line is that without a fundamental reorientation in governance incentives toward modern commercial principles, those wholly state-owned SOEs, will either continue to be ruled (explicitly or implicitly) by the old procedures with the resulting inefficiency, and a corporate governance vacuum. The consequence, again, is that managers end up with de-facto control over the enterprises. In principle, insider-dominated firms may deliver efficient performance, as in the case of small firms with an owner-manager structure. But this is true only if certain conditions exist, i.e., that the firm does not receive any fiscal and financial subsidies, it faces robust import and inter-firm competition, and it fulfills its debt-service obligations.

14. ***Equitization.*** Notable progress has been achieved in equitization. In the first eleven months of 1998, over twenty-seven SOEs were equitized, which is more than the seventeen equitizations that were carried out over the previous three years. But that is much less than the target of 150 announced earlier this year. Ambitious targets for the next two years have also been announced: 400 equitizations by 1999 and 1,000 by 2000. To accelerate equitization, new decrees and decisions were approved simplifying the process of equitization[iii] and expanding the modalities of equitization. Box 2.2 highlights some of these positive changes. The classification process has been completed in Hanoi and Ho Chi Minh City. Similar classifications are now underway in the rest of the country.

BOX 2.2 : KEY IMPROVEMENTS IN EQUITIZATION PROCESS

For all SOEs:

- line ministries, people's committees, and general corporations have been given authority to select and implement equitization;
- the valuation process though centralized, now requires fewer steps;
- proceeds from sale of locally-owned SOEs can be retained by local authorities' budgets; and
- foreign entities are permitted to buy limited shares in equitized SOEs.

For Small SOEs (assets < VND 1 billion), more options are now permitted:

- sale without conversion to joint-stock company possible;
- outright sale, divestiture, or dissolution of the entire SOE;
- use of competitive tendering to sell an SOE or shares of SOE; and
- line ministries and local authorities will have the authority to decide on which options to use to sell.

15. This acceleration of equitization is prompted in part by the initial results of equitizations to date. Immediate post-privatization performance of seventeen equitized SOEs has been good. On average, sales revenue doubled and employment rose forty percent.[iv] None laid off workers. This positive record is partly because only profitable, small SOEs, with few redundant workers and little debt, were equitized.

Table 2.2: Equitization Outcome (average for 17 SOEs)

Equity Capital (VND Billion)	90.0
Employee Shares (%)	46.0
Private Shares (%)	20.0
Pre-Equitization Revenue	32.3
Post-Equitiziation Revenue	66.5
Pre-Equitization Labor	232
Post-Equitization Labor	322

Source: MPDF, Equitization of State Enterprises in Vietnam, March 1998.

16. However, the pace of equitization may be slowed by four problems. First, the preparation process for equitization, though much simplified, still remains centralized. Too many parties are responsible for finalizing the valuation and the potential for unrealistically high valuations is likely. There is still a need for the development of a 'business-plan', which many firms lack the expertise to prepare. Second, the level of debt for most SOEs is high and no systematic method of dealing with this has been formalized in decrees. Third, funds for compensation and training of retrenched labor, which are estimated around 20-30 percent, are not adequate. Designs of safety-net programs are being discussed with the World Bank and other donors. Fourth, the Government has limited the scope for private sector participation in equitizations, by restricting an individual company's shareholding to only 20 percent of total ownership for minority-Government-owned enterprises. While the intention is to ensure more broad-based ownership, it discourages companies which could have brought additional capital into the enterprise if they got majority control. Strategic foreign partners in the case of some enterprises can bring in capital, technical and managerial expertise, and access to foreign markets. They can raise profitability and employment and thus make their shares attractive for others to buy.

Reforming the Banking System

17. Without restructuring banks, better deposit mobilization, and more efficient allocation of credit is unlikely. The banking system is financially fragile (see Chapter 1), the regulatory framework weak, and bank management poor. A faltering economy puts banks at risk and undermines effective operations.

18. ***Weakening Performance of Banks***. Banks' financial health was fragile before the growth slowdown; over-due loans and foreign currency loans were high at end-1997 and off balance sheet exposures large. The situation has worsened since. Currently, for all banks (state-owned-commercial and joint-stock), over-dues are around fourteen percent of all loans, though for two state-owned-commercial banks, the level exceeds twenty percent and for several joint-stock banks, it is higher still. This level of over-dues is worrying, particularly because weaknesses in the loan classification system may understate the actual extent of the problem.

19. Foreign currency loans comprise around a third of all loans and an even bigger share of loans by joint-stock banks. Nearly seventy percent of foreign currency loans are to state enterprises. Banks are highly leveraged – the ratio of foreign currency loans to foreign currency

deposits is 125 percent, compared to 114 percent for the dong loan-to-deposit ratio.[v] Banks also have high indirect exposure to exchange rate risk, with foreign currency loans to domestic borrowers who do not have dollar receivables coming under pressure with the recent large depreciation of the dong.[vi]

20. ***Poor Deposit Mobilization***. Overall, banks' mobilization of deposits has been poor relative to other countries. As a share of GDP, deposits rose from twelve percent in 1994 to 18 percent in 1998. Only a part of the rise in deposits came out of savings held outside the formal system in real assets; most of this came from cash holdings. Only around a quarter of total savings are kept in the formal financial system.[vii] Much of the remainder is stored in real assets and informal sector investments. Many of these investments provide low rates of return. This tendency to eschew banks is in part due to poor confidence in the banking system, and in part, because of poor services and low real returns on deposits.

21. Despite vigorous interest rate competition, deposit growth is lower this year: only 13 percent versus 19 percent last year. The recent abolition of restrictions on spreads between deposit and lending rates has made interest rate competition possible. Some dong time deposits yield between 0.9 and 1.1 percent a month, though the average deposit interest rates are around 0.7 percent. But because of the ceiling on lending rates of 1.2-1.25 percent a month, interest-rate competition may weaken banks' financial health.

22. To remedy the weaknesses in the Vietnamese banking system, reforms will include three types of actions:

- intervention in weak and troubled banks to maintain confidence in the banking system while containing fiscal costs;
- development of a prudential regulatory framework and good standards of bank supervision to ensure prudent banking in the future, and;
- creating a level playing field for all banks to provide better banking services.

23. ***Rehabilitating JSBs***. The Government has rightly started with joint-stock banks. They have significant private shareholding, low capital base and higher risk of spillover. Their rehabilitation is most urgent. Weaknesses in state-owned commercial banks (SOCBs) are being examined, too. But given their size and state-ownership, re-capitalization cannot proceed until a clear picture emerges of the scale of the capital deficiency of those banks, the major problem borrowers within state enterprises are identified, and the appropriate structure and management of SOCBs are established.

24. In addressing troubled JSBs, avoiding depositor panic at all costs is key. The risk of contagion in Vietnam's banking system, however small, does exist. Recent banking and currency crashes in the Asian "crisis" countries, as well as in Russia, have heightened sensitivity to this issue. Vietnam's own experience in 1989-90, when a number of credit cooperatives went under in Ho Chi Minh City, is still fresh in people's memory. A repeat experience of a similar kind would be a setback to emerging confidence in private financial institutions. Judicious use of public funds to protect small depositors is thus warranted though the number of small household depositors is likely to be small. But this should only be done in the context of a liquidation or with new ownership and new management.

25. Restructuring troubled JSBs which suffer from inadequate capital must follow two principles. First, to maintain the right incentives, losses must be allocated first to shareholders. Large depositors, with implicit responsibility for monitoring banks, come next, followed by creditors. This will reduce the current fiscal cost of liquidating or restructuring banks. But more importantly, this will encourage bank shareholders and large depositors to be more prudent in the future. Second, after ascertaining the extent of capital inadequacy, current shareholders may be given time to raise additional capital. If they are unable to raise that capital, the Government must take control and decide to close down banks that are insolvent and rehabilitate those that are marginally capitalized and potentially viable.

26. ***Rehabilitating SOCBs.*** Rehabilitating state-owned commercial banks is more problematic than restructuring JSBs, for three reasons. First, there must be some assurance that SOCBs, after restructuring, will lend only on the basis of commercial criteria and manage their business more efficiently. Such an assurance will remain difficult so long as the Government is the sole owner of these banks and incentives for better management remain weak. Second, restructuring SOCBs must go hand in hand with restructuring state enterprises. A large proportion of non-performing loans are owed to SOEs and as long as SOEs remain in trouble, SOCBs' recapitalization will be temporary. Third, all liabilities of these banks have to be fully honored. Whatever unrecoverable capital deficiency arises will have to be covered by the national budget. There is no other option until privatization to raise capital is considered.

27. As a first step, a clear strategy for the future role of the four largest SOCBs needs to be elaborated. Key decisions on the number, size, and ownership structure of these banks have to be made. Next, operational reforms should be initiated to improve management and control. It will not be easy to change the lending practices of state-owned commercial banks. Notwithstanding legislation insulating SOCBs from directed credit, both banks' management and the State Bank of Vietnam see the role of SOCBs as going beyond that of profit-seeking financial institutions lending on commercial criteria.[viii] Lending is influenced indirectly, by non-economic criteria, especially for state enterprises.[ix] This is because of confusion about the roles of these banks. A new set of goals for SOCBs, where efficient mobilization of deposits and allocation of credit is encouraged, needs to be explicitly articulated. Clarifying the role of SOCBs, distinguishing them from policy banks, and implementing these changes in practice, will be a major challenge.

Box 2.3 : Poland's Rehabilitation Approach to Banking Reform

Poland's commercial banking reforms accelerated after 1990. In 1991, the government advised its banks not to make new loans to enterprises that were in arrears on past loans; that restriction became law with the passage of the Enterprise and Bank Restructuring Program in February 1993. The Ministry of Finance required regular audits of all banks according to international standards, thus encouraging transparency and exposing the magnitude of the bad loan problem. The restructuring program further required banks to set up debt workout units and take actions to resolve loans that had been classified as non-performing at the end of 1991. The program also provided for a new bank-led workout process.

Indirect incentives were also used. In 1992, bank employees were given the opportunity to purchase up to 20 percent of their bank's shares at half-price upon privatization. This strengthened incentives to adopt prudent policies with respect to both the workout of existing loans and new lending. Seven banks entered into intensive technical assistance programs with foreign banks to accelerate their institutional development. Experience in Poland and other countries shows that such technical assistance can be a valuable complement to a bank's desire for institutional change though it is no substitute for a clear, commercially viable strategy on the part of owners and managers.

Bank recapitalization was implemented in September 1993 simultaneous with enterprise restructuring. The aim was to determine the amount of recapitalization needed on the basis of loans that were non-performing at the end of 1991. This was intended to avoid penalizing banks that had already taken action to deal with their problems, and to maintain incentives for managers to try to keep other loans in their portfolios performing. The program was accompanied by a plan for privatization of the nine treasury-owned commercial banks.

28. Equitization of SOCBs could be one way of doing this. But a limited equitization, with employees and managers as the only non-state shareholders, may not be very effective and could even weaken governance. Instead ensuring strategic ownership by a strong foreign bank, would be most effective; it would help to improve management, bring in new capital and expertise, and expand banking services. This could be tried in one of the SOCBs now and if successful, used in other banks later.

29. ***Premature Recapitalization of SOCBs***. Recent Government announcements which require raising the legal minimum capital for SOCBs, but include no measures for the restructuring of SOCBs or SOEs, are worrying. New regulations require a doubling of capital for the Agricultural Bank and tripling for the other SOCBs. It is imperative that these higher minimum capital requirements are not implemented until a comprehensive rehabilitation plan for relevant SOCBs is developed and implemented. That plan would include structural measures (i.e., transferring noncommercial concessional lending to "policy banks", writing off some "policy" loans and frozen loans from the previous monobank regime, and announcing equitization and/or twining arrangements with foreign banks); and operational measures (i.e., reorganizing management, improving internal controls, and training). Recapitalizing SOCBs without restructuring banks' objectives and operations, or their SOE borrowers, is unlikely to work. Eastern Europe and Central Asia are littered with such examples.

30. Recapitalizing banks without restructuring SOEs will risk another round of recapitalization in the near future.[x] Trade liberalization may weaken currently profitable SOEs and recapitalized banks may be asked to keep them afloat. Any approach to restructuring SOEs must begin with assembling information on the large problem borrowers of each SOCB.[xi] This information should be classified into borrowers that are potentially viable and thus candidates for workout, and those that are not. The latter would be liquidated. The workout on the potentially viable SOEs must be conducted on strictly commercial lines, to ensure least-cost solution for the

budget. In practice, this would mean that part of the enterprise's debt would be canceled and part converted into equity (to ensure a reasonable debt-equity ratio).[xii] If non-viable SOEs are to be kept afloat for social reasons, their debts will have to assumed by the government, and supported by a transparent, explicit, and realistic annual budgetary allocation, not by bank financing. But this can be done sparingly.

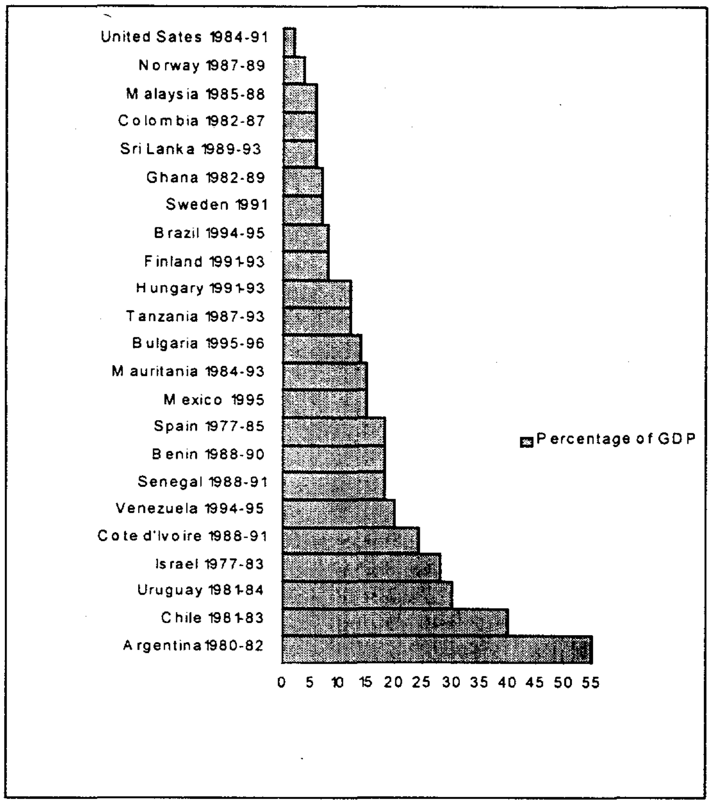
31. The high fiscal cost of recapitalization is less important for Vietnam. SOCBs account for three-quarters of banking assets, and a large portion of these are non-performing. But the modest size of the whole Vietnamese financial system limits the extent of likely losses. Total credit (as measured in the monetary survey) is less than US$6 billion, or a little over 20 percent of GDP. The great bulk of this is for short-term self-liquidating purposes. Even if a fourth of this credit is bad and unrecoverable, the costs will be a fraction of those experienced in other countries (see figure 2.1). Although off-balance sheet exposures can present some unpleasant surprises (as with recent defaults on international letters of credit), the above figure will still be an upper bound on the fiscal cost of restructuring and recapitalizing banks. Nevertheless, loan-workouts at SOCBs will be needed to ascertain the extent of non-recoverability of overdue loans.

32. Regardless of bank restructuring techniques utilized, assets will need to be transferred or sold. In most countries, experience suggests that sale or transfer of assets is most efficiently accomplished through centralized asset management agencies. The most important difficulties faced by Vietnam in this restructuring process are limited banking and restructuring expertise, lack of or limited private markets, and the challenge of coordination with necessary SOE restructuring. Using a centralized approach should be the most effective method of overcoming these difficulties. It may be even more effective to divide the asset resolution structure into two separate functions such as SOE-related loan assets, and non-SOE related assets, such as agricultural loans. The fiscal implications of the asset resolution agency would need to be carefully reviewed and made consistent with requirements to preserve macroeconomic stability.

33. ***Improving the Regulatory Framework.*** The regulatory framework governing bank operations is weak. Proper regulation and supervision is hampered by the lack of clearly defined standards of safe and sound banking practices, inadequate accounting systems, and inadequately-trained inspectors. Unless better regulations are issued, accounting systems are improved, and on-site inspection of banks is strengthened, there will be insufficient incentives for banks to behave prudently. Restructured and recapitalized banks will not remain healthy for long.

34. The State Bank is drafting new regulations to implement the Law on Credit Institutions passed last year. Vietnam's current prudential regulations for loan classification, loan-loss provisioning and capital adequacy rules are more lax than those of most countries in the region (see table 2.3). There is an urgent need to revise these regulations. Loan classification and loan-loss provisions must reflect stricter time-based classification as well as promote better subjective assessment of the loans themselves. The current capital adequacy requirement of 5 percent is too low and this level is not even assessed on a risk-weighted basis. New rules on loan classification, loan-loss provisioning, capital-adequacy and so on, are still being drafted.

Figure 2.1 : High Direct Costs of Banking Crises



Source: Caprio and Klingebiel 1996; World Bank 1997d.

35. ***Policy Environment of Banks.*** Competition among banks is necessary to improve banking services and to mobilize more deposits. Changes in policies with respect to bank entry-exit, interest-rate ceilings and leveling the playing field for all banks, including foreign banks, are relevant for enhanced competition and better service. The current legal framework in Vietnam provides for a licensing process for entry of new banks, but it is weak. Contrary to international best practice, there is no stringent "fit and proper test" for qualifications and expertise of new bank management in licensing procedures. Exit policies are weak, too though they are under development. Inadequate adjustment of ceilings on interest rates and restrictions on dong deposit mobilization for foreign banks weaken banks' incentives to mobilize deposits and allocate credit to the most efficient users. Limits on deposit interest rates make saving less worthwhile, and banking less profitable in more remote or risky areas. Ceilings on lending rates mean that banks have to allocate credit on some basis other than market interest rates. Credit may not flow to those activities where it will be most productive or obtain the highest return. With recent inflation, current real lending rates have fallen significantly. Upward adjustment of those rates and greater flexibility are clearly warranted. The recent abolition of spread restrictions has promoted vigorous interest-rate competition for deposits. But current ceilings on lending rates make such competition risky. Similarly, restrictions on foreign banks' mobilization of dong deposits prevent expansion of both deposits and banking services.

TABLE 2.3: COMPARATIVE INDICATORS OF PRUDENTIAL STANDARDS

	Non-Performing Loans Definitions (num. mths overdue)	Gen. Provision (% of loans)	Loss Provision (% of NPL)	Collateral Valuation -- securities [sec] -- all other [oth]	Minimum Capital	Capital Asset Ratio (%)
Vietnam	6	2.0	---	---	Joint Stock Banks: Dong 70 billion Financial Corporations: Dong 50 billion Joint-Venture Banks $10 million State-Owned Commercial Banks Dong 1100-2200 bill.	5
Malaysia	3	1.5	20% 3-12 mths 50% 12-24 mths 100% over 2 yrs	Sec: mkt value Oth: book value	Commercial Banks: RM 1 billion Financial Corporations: RM 600 million Merchant Banks: RM 500 million	8 now; 10 by year 1999
Indonesia	3 by year 2001	1.0	15% 3-6 mths 50% 6-9 mths 100% over 9 mths	Sec: mkt value Oth: book value	Rp. 250 billion by 1998	9 now; 12 by year 2001
Japan	6	0.3	---	Sec: mkt value Oth: book value	---	8
Korea, Rep	3	0.5	20% w/collateral 75% w/o collateral 100% for loss	Sec: 7% average value Oth: 70% book value	National Banks: Won 100 billion Regional Banks: Won 25 billion	8
Thailand	3 by year 2000	1.0	20% 3-6 mths 50% 6-12 mths 100% over 1 yr	Sec: mkt value Oth: 95-100% mkt value Otherwise 50% book value	---	8

Source: SBV and World Bank documents.

Promoting SMEs and the Private Sector

36. The most cost-effective prospect for generating off-farm employment is through promoting SMEs (i.e., registered private companies with 50-300 employees). Each job

generated in a SME is estimated to require a capital investment of about $800 (VND 11 million, in book value). In contrast, one job created in an SOE requires approximately $18,000 (VND 240 million). Empirical evidence from other countries also indicate that SMEs are more efficient users of capital under most conditions.

37. Agricultural growth, made possible by allowing farmers greater freedom of decision, was the main engine for Vietnam's first great wave of growth. Unshackling SMEs from existing restrictions could unleash a second round of growth by boosting labor-intensive manufactures and processed agricultural exports, thereby protecting rural areas from the current slowdown. So far, however, private SMEs (i.e., registered corporate firms) have played a minor role in industrial production, contributing only two percent of industrial output, and have grown very slowly (see table 2.4). Household enterprises play a much larger role.

Table 2.4 : Distribution of Industrial Output by Ownership (%), 1997 Figures

	Total Industry	Garments	Textiles
State Enterprises	51.4	36.0	60.0
Foreign Invested Enterprises[1/]	24.4	15.0	16.0
Non-State	24.2	49.0	24.0
Of which:			
Private Companies[2/]	2.4	18.0	14.0

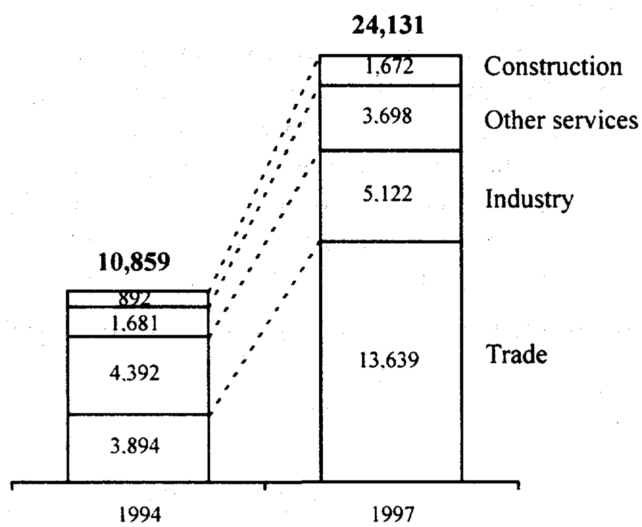
Note: [1/] Includes 100% foreign-owned companies and joint ventures with SOEs.

[2/] Private registered enterprises and others not in partnership with SOEs.

38. Nine-tenths of the 5,000 private firms in industry are in four sub-sectors: food and beverages (56 percent); garment and shoes (9 percent); metals and metal products (17 percent) and wood and paper products (11 percent). Typically, sectors in which SMEs are well represented are those in which size and scale are not significant cost-advantages. Such activities offer the greatest potential for future expansion of private SMEs.

39. ***Private SMEs Growth.*** Though overall industrial growth has outstripped service sector growth, growth in the number of private SMEs has been far higher in services than industry. This reflects the bias in industrial growth in favor of capital-intensity and large size. Trading SMEs have tripled in number (see figure 2.2) while those in construction and other services have doubled. The faster growth of service SMEs is largely because this sector is less dominated by state enterprises and thus experiences fewer restrictions on private participation.

Figure 2.2 : Private Registered Small and Medium Firms



Source: General Office of Statistics

40. Recent Government polices have gone some distance in reducing restrictions on private SMEs though much more still remains to be done. Three such policies are worth mentioning. First, firms are now allowed to export directly. This will help small firms most of all as they were least able to bear the additional transactions costs of previous restrictions. Second, requirements to import through state enterprises, or to satisfy stipulated conditions of capital and qualified personnel needed for being registered as an importer, have been removed. Third, foreign investors are now allowed to own thirty percent of shares in existing domestic enterprises, permitting private firms to seek foreign partners.

41. However, SMEs still suffer from many external and internal constraints. They are only allowed to export or import goods that are associated with the activity for which they got their business license. This opens the way for considerable discretion on the part of officials, and thus delay and perhaps corruption. The transactions cost of SMEs' operations is still too high for several reasons. The documentation requirements and the number of approvals for "registering a private business" are many times more cumbersome and complex than registering a cooperative. The requirement that there be no SOE engaged in the same activity, or that existing SOEs agree to the entry, restricts private firm entry, particularly in the industrial sector. Access to land-rights and use of land is more restricted for private firms than for state enterprises. Land leases require many approvals and land-use rights cannot be used as collateral in banks nor provided as equity in a joint venture. SMEs also face high "formal" and "informal" tax rates. Of course, there are internal constraints, too. SMEs generally have limited business experience, limited capital, limited access to market information, and weak management skills

42. ***Reform Priorities.*** Thus, the following changes in policies could reduce costs and encourage private SMEs further:

- Simplify the process of business registration.
- Lower tax rates and apply the same tax schedules to all types of enterprises.

- Revise existing land regulations to permit:
  - free transfer and mortgaging of land-use rights;
  - determination of market value-based rental rates;
  - private SMEs to contribute land-use rights to facilitate transfers security interests and transparent taxation of land-use rights;
  - amendment of bankruptcy regulations to provide for more automatic procedures for declaring bankruptcy where undisputed debts remain unpaid.

Box 2.4: Business Skills Training Is Good for Business – for Both Trainers and Trainees

Efforts to teach market-related skills and business know-how in transition countries have had a somewhat mixed record. But two programs show how to overcome the pitfalls and create valuable follow-on effects. In early 1992, the World Bank's Economic Development Institute launched a training program to support enterprise restructuring and privatization in transition economies based on learning by doing and helping local talent and stakeholders to help themselves. The 180 trainees recruited since the program began – including enterprise and bank managers, consultants, government officials, and parliamentarians – have worked with over forty local partner institutions and trained over 4,000 other participants. Evaluations by independent consultants concluded that the program has been highly cost-effective and has had a great impact on enterprise reform and private sector development. Dozens of enterprises have successfully restructured and privatized as a direct result.

The career of Mrs. Smirnova, a deputy director of textile conglomerate Mayk in Nizhniy Novgorod, Russia, illustrates the potential benefits. Fresh out of the program, she had Mayk introduce international accounting standards before they were required by law. She then initiated the firm's breakup into thirteen independent companies. Her business plan for Mayk won an international award, and around 70 percent of Mayk's production is now exported to the British market. A conference on business planning for Russian textile enterprises, which Mrs. Smirnova organized, led to the creation of various business associations, and working together with other graduates, she has advised companies throughout Russia, in Kazakstan and in Uzbekistan. All this has created momentum for similar restructuring activities by many other companies.

The East/West Enterprise Exchange Program at York University in Toronto puts great emphasis on building personal business links in the program it has been running since 1989. It has brought over 450 business delegates from CEE and the NIS to Canada. Selection of delegates is based on the criteria of sponsoring Canadian firms, -- which fund programs in partnership with government – and other donors, and the delegates themselves, who pay fees to participate. Delegates first take classes in business practices, accounting, marketing, and a range of associated topics. They then work with their sponsors to develop business plans to serve as the basis for future deals. An independent evaluation of the program concluded that it was having a significant impact on delegates' knowledge and attitude and contributing positively to their careers. It was also contributing to business cooperation: preliminary estimates put the volume of technology transfers, trade deals, and joint ventures resulting from the program at many times the program's cost.

Unleashing the full productive capacity of Vietnam's poor

43. People are Vietnam's most precious asset. Until there are universally high levels of education, health, nutrition, and employment, until the poor have free access to the markets they need, and until discrimination against women and minorities is ended and vulnerable groups are protected, Vietnam will not be making the best investment of this asset. This challenge is even sharper at a time of economic slowdown.

44. Prior to the slowdown, economic growth and doi moi reforms provided considerable opportunities to the poor indirectly. Jobs were created in industry and services, and the benefits of growth reached beyond the cities and rich provinces. Now that the momentum of growth has

been lost, the chill is particularly severe in poorer areas. Whereas before the country was a success story in terms of poverty reduction even without particularly sizeable or successful poverty-targeted programs, the government now needs to be very much more determined, precise and diligent if it is to continue on track in its social goals.

45. The starting point in the current climate is to ensure that the poor are protected from the worst impacts of the slowdown, especially those that might have long-run impacts. For example, increasing child malnutrition, a well-documented consequence of economic contractions, is not only an immediate tragedy, but can also wreak life-time damage on the physical and mental development of children. Vietnam already has a very high child malnutrition rate, with over forty-five percent of children suffering from stunting. UNICEF estimates that of the 625,000 children who died last year, more than a quarter did so because of malnutrition and vitamin deficiency. Government and UNICEF statistics reveal that rural growth translated only sluggishly into improved nutrition throughout the 90's. These limited gains must not only be protected, but accelerated. Fortunately, some pilot programs demonstrate that this is possible. For example, in Thanh Hoa Save the Children (US) has used the experience of the poor themselves to identify locally available foods and improved parenting practices that can make a dramatic difference.

46. Similarly, if parents respond to lowered incomes by pulling their children out of school, this could have a lasting effect on the future of the family and perpetuate the vicious circle of poverty.[xiii] The social impact of the crisis is often uneven across different social groups. Just as the poor and disadvantaged bear a disproportionate burden of the adjustment, so too do girls and women suffer much more than boys and men. Also, policymakers sometimes actively cut spending on social programs in an effort to reduce the overall deficit.[xiv]

47. For the last decade, Vietnam has relied mainly on rapid growth to provide for social security for its citizens. Growing income and employment opportunities, and private transfers from the relatively well-off to the relatively needy, led to reduced poverty and improved wellbeing. In the context of the current slowdown, new measures need to be developed to deal with the crisis and its impact on the poor, in four areas:

- ensuring purchasing power and food security;
- sustaining social services for the poor;
- reorienting the social safety net;
- increasing monitoring and public information of the poor

48. ***Ensuring purchasing power and food security.*** Access to food depends on maintaining reasonable food prices and ensuring adequate purchasing power in vulnerable households. Lack of purchasing power, has been the root cause of most famines. In the crisis countries of East Asia, lack of purchasing power is leading to school dropouts and deterioration of health. In Vietnam, there is a large part of the rural population that is underemployed and vulnerable. This year's rice production exceeded last year's bumper crop. Regional price variations, especially in the drought-affected central region, are a threat and ensuring that distribution networks remain effective can help to maintain low prices for essential staple foods.

49. Public works can also help to maintain purchasing power in a slowdown. They need to be well-targeted, balancing the needs of urban and rural dwellers, and those of women and men. The Government's proposed targeted poverty program for the poorest 1,700 communes could be

an umbrella for channeling quick-disbursing money for labor-intensive public works to build rural infrastructure. This could be a win-win program – enhancing poor communities' access to markets to improve long-term prosperity, and boosting immediately the purchasing power of the poorest households.[xv]

50. ***Maintaining social services for the poor.***[xvi] A decline in incomes of the poor would undermine their ability to purchase basic social services. Poor families in Vietnam bear a high and disproportionate burden of sending their children to primary school – they spend 80 dong for every 100 dong spent by the state on primary education (see Chapter 3). As part of Vietnam's ambitious program of structural reform, user fees were introduced for publicly provided education and health services and private sector provision was liberalized in both sectors in 1989. This "socialization," or household financing of basic social services, is already placing a heavy burden on the poor for financing essential primary health and education expenditures. Government transfers to the provinces cover part of the costs of the services, but the provinces have to meet the other portion. Wealthier ones can do so out of their revenues but in poorer areas, users are frequently compelled to made "voluntary contributions". Those who cannot afford to do so may stop using the services, often at their children's expense.

51. The good news is that there is ample room to improve the provision of basic social services to the poor even within the existing budget envelope, by improving the targeting of public expenditures. For example, within the education budget, public expenditures are thinly spread across all levels of schooling. More could be spent on pro-poor education programs by reallocating resources away from areas that are not well-targeted. Only one third of the education budget is spent on the well-targeted primary education program. And half is spent on higher level programs that are not well-targeted. The situation is even worse in the health sector: about 5 percent of the health budget is allocated to the commune health center level which benefits the poor disproportionately; indeed in most provinces, there is no budget subsidy for commune health centers. Most public spending on health goes to hospitals which are less likely to be used by the poor. Better targeting of public expenditures would make it possible for Vietnam to provide more basic social services to the poor even during its economic slowdown and a time of declining fiscal revenues.

52. ***Reorienting the Social Safety Net.*** Social safety net expenditures need to be better targeted towards the poor in rural areas where they can play an important role in mitigating the impact of various crises on the poor. Vietnam has a large program of social transfers financed by budgetary expenditures on pensions and social relief amounting to about ten percent of the budget—nearly as much as the amount spent on education and health combined. Overall, these expenditures are not well-targeted (World Bank, 1995). A large proportion of the budget is spent on social security – pensions and disability payments – for government workers. These benefits accrue largely to the relatively better off – the poorest 20 percent of the population benefits from only 7 percent of all expenditures on pensions and disability payments. Government expenditures on social relief for those who are not protected by the formal social security program appear to be well designed but are very low – accounting for less than ten percent of budget spending on social transfers – and reach only a small proportion of the poor.

53. In addition to the rural poor, there is also one group of urban, formal sector workers that might be vulnerable and need special assistance from the Government in the current environment. These are workers that might get laid off as the equitization program picks up speed. While the exact magnitude of over-staffing in SOEs is unknown, it is estimated that

SOEs may be overstaffed by a factor of 20-30 percent. During a period of rapid economic growth, these workers might not have needed special assistance from the Government since they would have readily found employment opportunities in the expanding private sector. This is what happened when the state-owned enterprise sector was earlier shrunk from 12,000 enterprises to the current 6,000 – data indicate that the large majority of the workers who lost their jobs during that downsizing found new employment within one year. This is unlikely, however, at the current time of shrinking FDI and export-oriented industries, and of rising open urban unemployment. The workers being laid off from SOEs will need some kind of safety net, whose elements might consist of a retrenchment compensation package to cover severance pay, training, and other features (see box 2.5).

54. ***Increasing monitoring, diagnosis, and public information.*** The slowdown in Vietnam is not likely to affect all segments of the population in the same manner or with the same intensity. In order to produce a well-designed and targeted response, policymakers need information on who, where, when and how the poor have been affected by the crisis. This information is currently lacking in Vietnam – there are no systematic data available on the social impacts of the crisis, either of a quantitative or qualitative nature. In designing its strategy for strengthening social statistics in Vietnam, the GSO needs to include a system that is able to monitor short-term changes in the current economic and social situation. This could be done by collecting and disseminating data on some variables such as employment, wages, and prices, with greater frequency than is done now. This would allow policymakers in Vietnam to adapt their responses more quickly to the rapidly changing circumstances. In addition, a system could also be set up to improve the sharing and communication of data being collected by other development agencies, such as donors and NGOs, that could help monitor the situation better.

Box 2.5: Support for Workers Laid Off by Reforms

Large layoffs are expensive in the short run. In most cases, large state enterprises or even whole industries have to be restructured, downsized or closed. Examples include the downsizing of the Chilean public sector, the gradual retrenchment of workers in Spain's state owned steel company, and Mexico's trimming of public enterprise employment before privatization. An example in the making is the restructuring of Russia's coal sector, where it is estimated that a viable industry would employ only 50 percent of the almost 800,000 mineworkers. There are often constraints on firing or on wage levels for remaining staff -- this is generally the case in Central and Eastern Europe. In low-and middle-income countries, unions are rarely involved --exceptions are Ghana's public bus service and the preparation of schemes in the transport sector in Mauritius and Yugoslavia, where union involvement was crucial for success.

There is no definitive evidence on whether the optimal severance payment should be a lump-sum payment, which laid-off workers can use to start their own businesses, or take the form of long-term periodic payments, thus providing sustenance over a long period. The former is better for enterprising individuals, and the latter for those who are risk-averse. Allowing workers to self-select into one of these schemes may be the best general approach. The following basic principles could guide retrenchment schemes.

- The less developed the economy, the simpler and more transparent the mechanisms should be.
- A special severance scheme that adds to existing nation-wide severance schemes is better than an extension of unemployment benefits, because it is administratively simpler.
- To avoid introducing biases against labor demand, such special schemes ought not to be financed through payroll taxes.
- To be fair and efficient, employees to be laid off should be offered a choice of several exit options.
- To reduce the danger that the best workers will leave, wage structures should be reformed in coordination with layoffs to tighten the link between performance and pay.

- Finally, rules requiring advance notice of layoffs may help workers adjust– but because advance notice can slow voluntary exit and encourage workers to wait for retrenchment packages, it may be appropriate to accompany the notice with lower remuneration for workers who remain.

One-company towns pose particular problems because of the lack of alternative opportunities. In the Russian coal sector, for example, a number of mines are located in isolated areas and often sustain the bulk of employment there. Ideally, governments should encourage change – migration, creation of new jobs and new firms – but this rarely solves the problem in the short run. When the prospects for change are limited, or when adjustment is bound to be slow, temporary policies aimed at sustaining existing enterprises may make sense under certain conditions. The biggest problem in designing schemes to support enterprises in isolated areas is avoiding perverse incentives for more workers or companies to move there. Any industrial support scheme for restructuring must be for a limited period to ensure that enterprises use the support to restructure their activities, not to perpetuate inefficiency.

Adaptable labor markets are essential for a successful transition. Reforms to promote labor mobility, as well as transfer programs and policies to equip workers for change, are all necessary to increase adaptability.

Capturing opportunities offered by integration into the world economy

55. The opening of Vietnam's economy was an integral part of doi moi reforms and a key element of its growth; the regional crisis threatens that trend. Since reforms began, the GDP share of exports and imports more than doubled and by 1997 Vietnam had become one of the world's largest recipients of foreign direct investment (FDI) per capita. Rising trade, FDI and domestic savings have been central to Vietnam's rapid growth. This year, however, export growth has fallen to negligible levels and imports have contracted. FDI is down by nearly a billion and half dollars.

56. Expanding access to all markets, especially non-Asian ones, enhancing export competitiveness and improving profitability of FDI will be critical to Vietnam's growth in these difficult times. All three require further liberalization of trade and greater incentives for FDI. Such liberalization will help unlock Vietnam's comparative advantages. It will provide clearer domestic signals to allocate more resources to labor-intensive exports and rural industry, move investment out of capital-intensive import-substitutes, and attract a bigger share of available FDI for the region. In addition, many countries have opened up the divestiture of state-owned assets to foreign investors, providing additional ways to increase FDI. Such a move would facilitate the movement of capital, managerial and technical expertise, and access to foreign markets for many of the present loss-making SOEs.

57. Accelerating integration with the world economy is now more critical than ever given the regional recession. A more open trade regime can reverse the sharp decline in export growth for three reasons. First, Vietnam needs most-favored-nation (MFN) access to the large United States market, and for that Vietnam and the United States must sign a comprehensive trade agreement. Second, current high import protection of capital-intensive goods and non-transparent importing procedures discourage exports of light manufactures and processed agriculture, the relatively more efficient sub-sectors of the country. The resulting diversion of investment into capital-intensive sectors undermines the country's capacity for faster export growth and employment creation. Third, all firms, especially small and medium-sized firms, need easier access to imports, to ensure that scarce imports go to their most efficient uses.

58. While the Government has taken several steps to liberalize trade this year thereby reducing the cost of exporting and importing, it has not gone far enough. Box 2.1 cites the

specific actions taken. The challenge now is to implement them in a way that makes these actions meaningful. Three problems stand in the way of such implementation. First, some of the measures still permit a lot of discretion in their implementation. For example, firms are free to import and export only those goods that are associated with the business activities for which they are registered. Where this association is obvious, firms will benefit from this change. But in many other cases, it will not be obvious and delays will occur. Second, implementing regulations have not been issued though laws and decrees were approved several months ago. Third, even where neither is a problem, cumbersome and complex customs' processes are making implementation of liberal rules difficult.

59. ***Export Expansion Outside Asia.*** The potential for expanding exports to Europe and the United States is large. US and Europe take only five percent and twenty-two percent respectively of Vietnam's exports (see table 2.5) though they are market to a larger percent of world exports. Europe's market is not fully tapped[xvii] by Vietnamese exporters; their actual share of European imports is significantly lower than comparable countries. European quotas have been raised several times but they are not fully used. Vietnam's administration of garment export quotas to Europe is neither transparent nor efficient. It favors state enterprises at the national and provincial level. Small and medium-sized private firms, often more efficient, are unable to access these quotas. And the quotas are not legally tradable. The Government is considering auctioning a small share of these quotas to the highest bidders. To have a large impact on exports to Europe, a much greater share must be auctioned to generate revenue and to make fuller use of quotas.

Table 2.5: Selected Vietnamese Exports to Europe, U.S. and Japan, 1996

	EUROPE	JAPAN	USA	MFN Tariff	Non-MFN Tariff
	(US$000)	(US$000)	(US$000)	(%)	(%)
Total Exports	1,574,2	1,913,7	335,637	4.9	35.3
Of which :					
Food products n.e.c.	40,870	393,598	39,574	5.5	21.6
Textiles	14,150	71,631	164	10.2	55.5
Wearing apparel/ Garments	456,089	488,580	25,567	13.4	69.3
Leather products	309,865	72,367	11,746	5.6	33
Wood products	23,382	42,532	760	2.1	31.4
Chemical, rubber, plastic, products	336,241	43,126	31,863	4.3	28.4

Source: UN Comtrade System 1996.

60. Vietnam exports little or no manufactures to the United States. Table 2.5 shows that exports of textiles, garments, leather, wood and plastic products to the US are way below levels of those to Europe and Japan. Exports to the US are low because non-MFN tariffs on those exports are five to fifteen times higher than the MFN tariffs applicable to their competitors' exports. Surprisingly, however, Vietnam's exports to the U.S. market continue to increase rapidly (see Chapter 1).

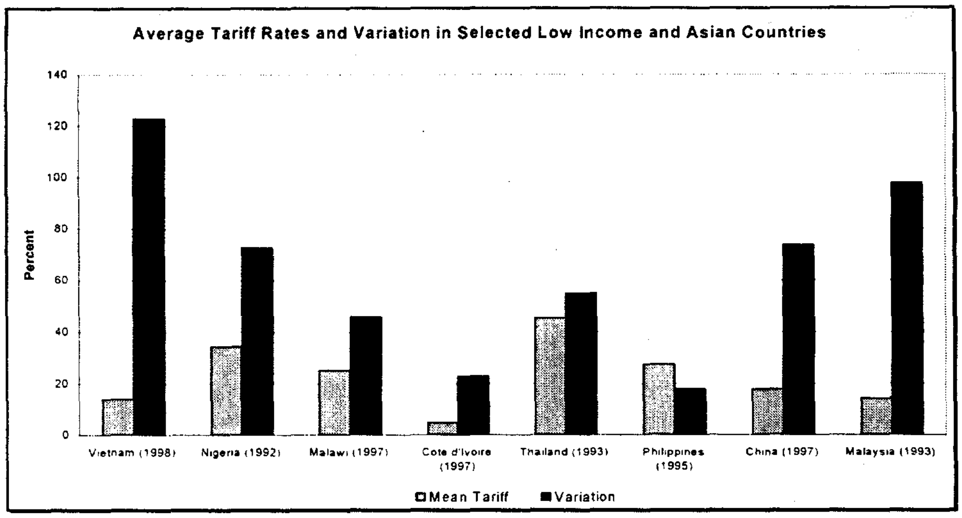
61. MFN-access to the US is contingent on trade agreement between the two countries. This will require further liberalization of trade and investment in Vietnam. In fact, the US Government expects Vietnam to meet WTO[xviii] standards to get MFN status. Many of the measures sought by the US are consistent with those under ASEAN and AFTA trade agreements. Others are more demanding. All of these measures have short-term costs, especially in terms of unemployment.

62. But, estimates of the impact of most-favored-nation access suggest that Vietnam could raise its exports to United States by nearly eight hundred million dollars. This is not surprising given that such access will make Vietnamese exports significantly more competitive vis-à-vis those from other countries selling in the US market. A significant increase in clothing exports to the US is consistent with Cambodia's recent experience. The United States granted MFN status to Cambodia on September 25, 1996. Cambodia's exports of textiles and apparel jumped from $2.3 million in 1996 to $98.7 million in 1997. January-March figures in 1998 alone registered $59 million in Cambodian textile and apparel exports to the U.S. Vietnam's production capacity is much greater than Cambodia's. Half of the estimated increase in exports will consist of clothing and the rest will be light manufactures and processed agricultural goods. These products are all within the ambit of Vietnam's comparative advantage.

63. ***Protection and Non-Transparency.*** The non-transparency of Vietnam's import regime implies higher transactions cost of importing – and thus exporting – than in other countries. So long as Vietnam had extreme labor cost advantages (as it did after the large devaluation in the region), higher transactions costs mattered less; but now, with less labor-cost advantage, these transactions costs will be a bigger impediment than before. Import restrictions are applied on a discretionary and ad hoc basis increasing business uncertainties. For instance, temporary import bans were levied last year on selected goods as their inventories increased. More recently, the authorities are increasingly using foreign exchange controls as an instrument of import restriction. High and uncertain import protection keeps state enterprises afloat but discourages exports of processed agriculture and light manufactures, both of which are critical for sustaining rural growth in particular, and higher export growth in general.

64. High protection of capital-intensive industries makes larger profits possible for producers of those goods. Foreign invested enterprises and state enterprises invest more in these sub-sectors. More scarce foreign exchange is allocated to them as priority sectors. But they generate little employment for each dollar invested, and divert funds from potential export-sectors. As long as investment rates, including foreign investment rates, were high, and as long as export growth rates were high, the cost of such inefficiency could be tolerated. Now, with sharp declines in available savings for investment, the cost is much greater.

Figure 2.3 : Average Tariff Rates & Variation – Vietnam and Selected Countries



Source: World Development Indicators 1998.

65. Non-tariff measures provide most of the high protection. Import quotas, import licensing, and import bans cover a significant share of imports and are the binding import restrictions. They apply to sensitive goods such as petroleum, fertilizer, cement, sugar, glass and steel. Based on balancing projected demand and supply of these goods, the Government attempts to ensure that demand for output of large state enterprises is adequate. Imports of passenger cars, motorbikes, and used machinery and equipment are restricted, and imports of cigarettes, used consumer goods and auto parts are banned.

66. The current import tariff structure in Vietnam is characterized by high and dispersed effective rates of protection and uneven incentives. The average weighted tariff is low at sixteen percent but dispersion is high. There are currently twenty-four bands between zero and sixty percent. Recent legislation has lowered the maximum tariff rate to fifty percent and reduced the number of bands to fifteen, but this measure has yet to be implemented. The already high dispersion of tariffs is exacerbated by special surcharges of five to ten percent (depending on import price fluctuations) on selected imports such as petroleum, iron, steel, and fertilizer. Customs valuation for some commodities is also based on administratively determined minimum prices, generally higher than invoice prices, which increases protection further. Certain excises are levied only on imports, complicating the economy's protection structure. Effective protection is highly dispersed as a result. If non-tariff restrictions were factored into estimates of effective protection for cement, steel, and glass, the rates would be much higher.

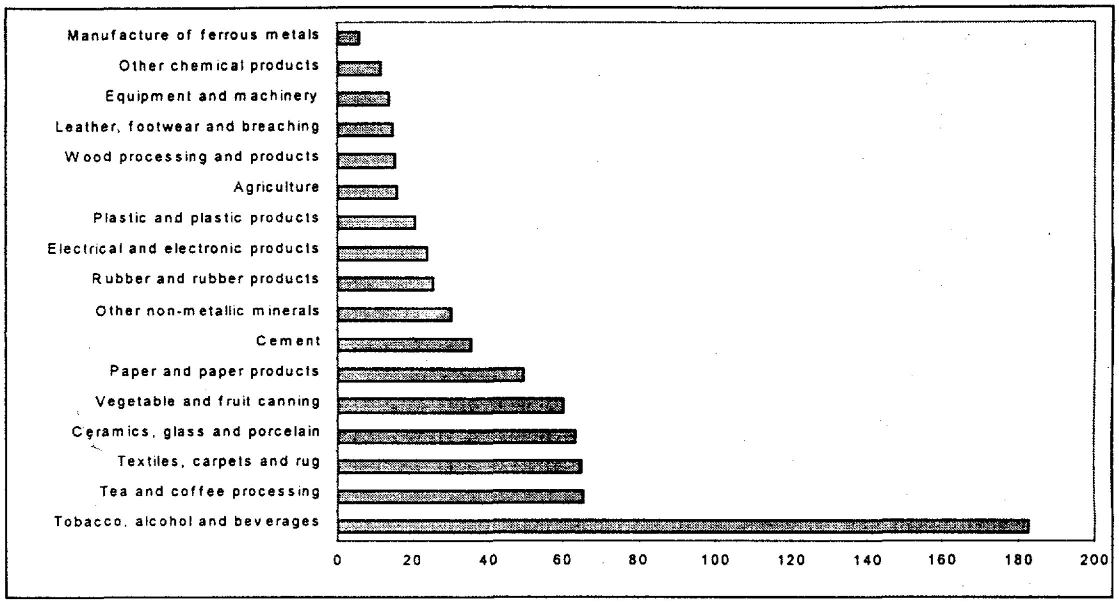


Figure 2.4 : Effective Protection Rate

Source: General Department of Customs, and CIE (1998).

67. Available information suggests that barriers to trade in services exist in many important sectors. Availability of services at competitive prices, which often are an input in many exports, can determine overall competitiveness. For example, branches of foreign banks and banks with foreign participation are limited in taking deposits in the domestic currency. Foreign investment in certain key infrastructure sectors, such as power, rails, ports and telecommunications may be one way of harnessing more investible resources and enhancing export competitiveness.

68. ***Reform Priorities in Trade.*** There is an urgent need to announce a three-year program of trade reform, with emphasis on removing non-tariff barriers and replacing them with tariffs. Current trade policies provide high protection to capital-intensive products like cars, consumer durables, steel, cement as well as other consumer goods and encourage over-investment in these areas. Announcement that such protection will be reduced over the next two-to-three years will discourage further flows of investment to those sectors and encourage existing producers in those sectors to begin adjusting to the announced change. More importantly, the announced liberalization will lead to increasing flows of investment – both foreign and domestic – into labor-intensive exports, processed agricultural exports and rural industry, areas where Vietnam is most competitive.

69. There should be three priorities for the announced trade reform. First, non-tariff measures should be phased out over the next two years and replaced with tariffs which do not exceed the current maximum rate. If combined with a significant devaluation, the immediate fall in the domestic price of imports and thus in import-protection, can be dampened. There can then be a transitional period for reducing those tariffs which replaced quotas and other non-tariff barriers. Second, tariff-levels and the number of tariff-rates should be reduced; a three-year plan

for reducing the maximum tariff, that is consistent with the tariffication process, must be part of the program. Third, all export taxes and restrictions, except those imposed for environmental reasons, should be phased-out at a quicker pace, given the need to boost exports.

70. Though trade liberalization will go a long way to make Vietnam more attractive to FDI, it is not sufficient. Liberalization of trade must be supplemented by reform of the regulatory and institutional framework in order to reduce costs and raise the profitability of FDI. Three types of actions would be particularly valuable. First, the restrictiveness of current foreign exchange rules should be relaxed. The recent requirement that all enterprises surrender eighty percent of their foreign currency balances to domestic banks accounts is undermining perceptions of and incentives for investment in Vietnam. This comes on top of the foreign exchange balancing requirement for foreign-invested firms. Potential investors now assume a higher foreign currency convertibility risk than need be, reducing incentives for investment. Also, investors and exporters already operating in Vietnam, will seek to evade the surrender regulation in future by bringing less of their foreign exchange receipts into the country. This raises the transactions cost of exporting and reduces the foreign currency balances held by enterprises in the country and has the perverse effect of lowering inflow of foreign exchange. The Government has indicated that these foreign exchange restrictions will be temporary; the date for removal should be announced soon.

71. Second, the transparency of tax rules could be enhanced in several ways. Customs procedures should be clarified to streamline trade and expedite clearance of goods. The high marginal tax on employment of local labor erodes Vietnam's low-cost advantage in wages and should be lowered. Finally, the current dollar denomination of all local costs cuts into Vietnam's competitiveness vis-à-vis other countries in the region. Vietnam needs to end the dollar indexation of wage, water, power and other costs for foreign enterprises in order to better exploit its cost advantage in dong.

Improving Transparency and Participation and Combating Corruption

72. Vietnam does not yet offer an easy climate for entrepreneurs. Both domestic and foreign businesses find that the complex and detailed nature of permit requirements, the opaque nature of decision-making, and the prevalence of corruption are barriers to doing business. The recent Global Competitiveness Survey found that unclear procedures, lack of public information, bureaucratic discretion on the part of middle-level officials, and long delays were the factors which caused Vietnam to be viewed by the private sector as near last in competitiveness out of fifty-eight countries. Similarly, Transparency International, an organization which monitors transparency and corruption, ranks Vietnam forty-third in its list of fifty-two countries, only slightly higher than Indonesia. The Government and party recognize these issues and have announced that improving the efficiency of public administration, establishing accountability among public officials, and addressing corruption are important steps in developing a vibrant economy in Vietnam.

73. The harmful effects of corruption are especially severe on the poor. They suffer most from delinquency and inefficiency in the provision of public services; they are deprived of a fair share of the country's wealth because of private accumulation by a few individuals; and they are least able to pay the extra costs associated with bribery and fraud. But corruption is a two way street, involving those in the private sector who are prepared to give bribes as well as those in the

public service who are prepared to take them. The experience of other countries suggests that tackling the problem effectively requires an orchestrated campaign on various fronts:

- reforms to ensure greater competition, particularly in the use of public funds
- disclosure policies that make information available to the public and encourage scrutiny of government action and programs
- a vigorous civil society which can help ensure the accountability of officials
- civil service reform, improving remuneration and recruitment, and ethical policies
- strengthened financial management, especially at the local government level, to identify fraud, and
- capacity building in agencies responsible for prevention, detection, investigation and prosecution of corruption (such as the Audit Commission).

74. Vietnam will find that the dividends of following such a campaign in terms of enhanced investor confidence, will be very high.

Conclusion

75. There is little doubt that, absent strong measures to address the current slowdown, poverty will begin rising in the coming two years. Since policy adjustments take time to have effect – and that, in the first instance, may have social and economic costs – it is essential that action be taken now rather than be delayed until further momentum is lost, making action more difficult. Success in mobilizing resources, using resources more efficiently, and addressing the needs of the poor, will require a series of measures, implemented promptly. The Government of Vietnam is making good progress in a number of important areas but now needs to significantly step up the pace of reforms.

76. The starting point for ensuring a bigger return on the nation's scarce resources must be with state enterprises, which continue to absorb most of the resources of the economy while generating little employment and poverty reduction. By so doing, the SOE sector is crowding out Vietnamese initiative, especially private small and medium enterprises (SME) in the industrial sector, both rural and urban. Implementation of a more comprehensive program of SOE reform, unshackling the SMEs, as well as liberalizing trade and foreign investment rules will be key to improving the return on scarce resources. Better allocation of credit will be important too, but that will require restructuring of fragile banks and strengthening of regulatory framework, both of which are currently underway.

77. These reforms must be accompanied by measures to protect the poor from the adverse effects of the downturn. Measures to maintain purchasing power of the poor is one option. The government's proposed program for the poorest 1,700 communes could be an effective umbrella for channeling quick disbursing funds for employment generating rural infrastructure. Similarly better targeting of social services to the poor and reorienting the social safety-nets to cover the unemployed could also protect the poor and vulnerable from the worst effects of the downturn.

[i] Generating one job in a SME costs $800; in an SOE it costs $18,000.

[ii] The Institute of International Finance estimates that net private international investment available to Asia-Pacific countries will drop sharply: it will be only $19.4 billion and $23.4 billion in 1998 and 1999, respectively, down from $59.7 and $161 billion in 1997 and 1996, respectively.

[iii] Prime Minister's Directive 20/CT-TTG of April 21, 1998 and Decree 44/CP of July 1998 simplified the process of equitization considerably.

[iv] Of the 14 equitized enterprises surveyed.

[v] In terms of total foreign assets and liabilities, Vietnamese SOCBs traditionally maintain a (net) long position and JSBs traditionally maintain a (net) short foreign currency position.

[vi] Existing off-balance-sheet exposures (like letters of credit and guarantees offered to bank customers) as well as maturity mismatch in assets and liabilities add to the risks facing banks. In 1997, many letters of credit did not get paid by banks to exporters in foreign countries, because Vietnamese importers did not pay the bank and the local banks, in turn, did not have the funds to repay the foreign bank that paid off the exporter on documentary evidence of shipment of goods to Vietnam. An additional problem is the guarantees offered by Vietnamese banks to their domestic customers, though no data on the amount of guarantees are available.

[vii] The 1992/93 household survey found that the bulk of household savings occurs in the top expenditure quintiles and that nearly half the households had little or no savings. More than three-quarters of such savings were held in gold, buildings and houses, construction materials, paddy stock, etc.

[viii] An official definition of the role of SOCBs states that their business activities "fulfil the requirements of the economy and the socio-economic targets of the Communist Party and the State". As a further example, the 1998 goals of the Agribank (cited in their Annual Report) does not even include a mention of return on capital employed.

[ix] For example, in 1997, when state enterprises were performing poorly and failing to service loans or get loans, the State Bank of Vietnam eased their problems through various instructions. Instruction No. 9 asked banks to extend maturity of loans at risk, Circular No.3 permitted rescheduling of non-performing loans to SOEs, and Instruction No. 417 eliminated collateral requirements for loans to SOEs.

[x] Thirty-six percent of all loans from SOEs are currently categorized as "overdue". Utilizing a stricter loan classification system based on international standards to determine what is "overdue" may present an even bleaker picture.

[xi] Another approach goes about the problem in a very different way. Each bank would be allowed to submit unrecoverable loans to a special debt recovery council, requesting compensation. But even for state-owned banks, this is not a good idea. Quasi-automatic payments to banks when the borrower is unable to pay the debt due to *force majeure* weakens incentives for bank prudence in loan appraisal and should be avoided. It will almost certainly lead to repeated and costly piecemeal re-capitalization, as occurred in Hungary during the early 1990s, and to a weakening of management incentives.

[xii] As a financially viable entity, the enterprise would not need to remain tied to its old bank, but could be an attractive customer for any of the other banks in the system.

[xiii] The crisis countries are already seeing this happen -- reports from Indonesia and Thailand indicate that millions of children are not returning for the 1998 school year, as their parents are unable to afford the school fee, other educational costs, or even spare their children's time. If this lasts very much longer, an entire generation of Southeast Asians will find that its educational development was compromised by the crisis.

[xiv] In Thailand, for instance, the fiscal year 1998 expenditure cuts have left the overall health budget largely unaffected. But health spending for the poor has been reduced greatly: the main programs for the poor and near-poor, the health card schemes which benefit 35 million people, have been cut by more than fifty percent in nominal terms. Countries do not need to cut spending for the poor during crises (Stiglitz, 1998). Chile responded to its 1982 crisis with large-scale increases in targeted social spending. As a result, despite a GDP contraction almost as large as Indonesia's 1998 contraction, Chile enjoyed a dramatic acceleration in the decline of infant mortality.

[xv] Indonesia has successfully used programs of this kind in the past to provide demand-driven, community-based infrastructure to poor communities while at the same time providing jobs and incomes to the poor. It is expanding such programs to deal with its current social crisis.

[xvi] One response has been the Indonesian Government's "back-to-school" campaign which involves a five-year national program to provide scholarships for poor children along with a mass media and social mobilization effort to keep them attending school.

[xvii] In Japan where there is no quota on garments, Vietnam has outperformed others in the region, capturing nearly 3 percent of Japan's clothing imports -- close to the current shares of Thailand and Indonesia -- starting from an insignificant share in 1992.

[xviii] The first stage of the process required Vietnam to describe its trade regime and for World Trade Organization (WTO) members to respond with questions for clarification. In Vietnam's case, WTO members asked over 1,500 clarifying questions, more than any other previous applicant, indicating that Vietnam's trade regime was extraordinarily complicated and difficult to describe on paper.

3. REINVIGORATING RURAL DEVELOPMENT

1. With GNP per capita of about $300, Vietnam is one of the world's poorest countries. Without sustained rural growth, poverty will not be reduced, nor will rising income inequality be reversed. Three-quarters of all Vietnamese, and 90 percent of the poor, live in rural areas. Agriculture, which provides a quarter of GDP, will continue to be an important component of economic growth for some time to come. A development strategy that does not squarely address the challenges facing the rural economy cannot succeed in developing the country. For poverty reduction, as goes the countryside, so goes the country.

2. Between 1988 and 1997, agriculture grew by four to five percent annually, the result of market-oriented policy reforms, including the assignment of land-use rights to households and market liberalization. But growth has slowed and income inequality has risen. Reinvigorating rural growth faces two major challenges: the unfinished rural policy agenda and the Asian economic crisis, which must be tackled together. With investible resources severely constrained, the government must do more with less to meet its development goals. Consequently, the country must overcome its current policy inertia and accelerate rural reforms, end wasteful use of public resources, and unlock the largely untapped potential of the private sector in the rural economy. The bias in favor of capital-intensive, state-led, urban industrial development that has absorbed so much investment and created so few jobs, must be replaced by a new emphasis on labor-intensive, private sector-led, rural industry and services.

3. Much can be done with a minimum of new investment. Vietnam must take the following actions to reinvigorate rural growth:

- Reallocate money used to prop up loss-making state-owned enterprises to increase expenditure on under-funded rural social services and infrastructure.
- Put in place legal and financial reforms to implement the 1993 Land Law and end discrimination against the formation of non-state enterprises and in provision of credit to private companies.
- Remove regulatory barriers which prevent farmers from diversifying cropping or moving into off-farm businesses.
- Improve roads and inland waterways which link rural regions to urban areas; expand access to energy in the countryside to spur rural development.
- Decentralize fiscal operations to raise the efficiency of rural economic and social service programs.

4. The cost of not continuing the reform process is a deeper and more prolonged economic slowdown, further inequality, and a country poorly equipped to move ahead quickly when the regional crisis ends. Agriculture has already accepted more job-seekers than it can absorb, and without private investment in off-farm jobs outside growth centers, Vietnam will face more

massive underemployment, falling competitiveness, and lower growth. Private investors, however, are reluctant or unable to invest in rural areas. Without policy reforms, private investment will not come; without adequate infrastructure, rural industry will not have access to markets or energy sufficient to power industrialization; and without investment in social services, the human capital of rural areas will deteriorate or lie fallow.

5. Because one-third of the population occupies underserviced uplands that cover three-quarters of the country, targeted programs are required to address their particular needs. However, nothing raises living standards like broad-based growth and the general reforms that will encourage Vietnam's transformation into a predominantly private sector-led, labor-intensive economy are those which will help rural areas the most.

THE ASIAN CRISIS AND OTHER THREATS TO RURAL GROWTH

6. In the current economic environment, and with urban industrial growth declining sharply, the rural economy will play an important part in helping Vietnam ride out the Asian crisis. But rural growth will not be unaffected by events. The rural economy cannot avoid all the effects of the crisis and continued progress in poverty reduction, and provision of needed rural infrastructure and social services in rural areas, will become harder to achieve. With current trends, and without adequate safeguards, rates of poverty and absolute poverty could rise sharply among the rural poor.

7. The Asian crisis magnifies the costs of existing strategic weaknesses in rural policy. Rural job creation has been negligible because Vietnam's unsuccessful strategy of state-led, import substitution has deprived the rural sector of vital investment. The slow evolution of the rural land market and constraints on rural credit provision, business formation, and agricultural diversification have meant that agriculture has not diversified and rural workers have not moved from low- to high-productivity activities and to off-farm rural industry. The rural sector remains unattractive to urban and foreign investors. Agriculture and the informal sector have provided temporary and unreliable part-time employment for many of the one million job seekers who enter the labor market annually.

8. However, the rural sector's partial insulation from regional economic fluctuations does mean that it can provide a modest, short term safety net during a period of economic distress. Rice prices have risen significantly over the last year, giving irrigated rice growers some momentary protection from the severest effects of the downturn. In addition, the crisis draws attention to strategic obstacles to rural growth. Some of these are discussed in the following sections. First, however, we turn to the crisis itself and its impact.

9. ***The Regional Crisis***. The Asian crisis will have a mixed but mainly negative effects on the rural sector. As overall GDP growth dips below 4 percent in 1998, agricultural growth will fall to around 2 percent. Rising world prices for rice will cushion the effects of the crisis in the short-term but forecasts of a possible rice glut next year could spell medium-term pain. Low growth, or no growth, will have a markedly negative impact on the rate of poverty reduction, rural expenditures, education, health, and rural welfare.

10. ***Rural Poverty, Income and Employment.*** What will happen to these indicators if agricultural GDP grows by three percent on average (or less) through 2002? Vietnam's impressive accomplishments in increasing rural expenditures and reducing rural poverty will be counteracted. With rural population growth above 2 percent and economic growth at the same rate or lower, rural per capita incomes will stagnate at best, or decline. Per capita expenditures, which have grown by roughly a third over the past five years, will also fall. Actual data for the first half of the year confirms a slowing of the rural economy: agricultural growth for the first six months of 1998 was only 2 percent.

11. Vietnam has made impressive progress in reducing rural poverty from over 50 percent in 1992-3 to around 30-35 percent in 1997-8.[i] The regional crisis, however, will cause poverty reduction to slow, or possibly be reversed in the medium-term. Ethnic minorities, female-headed households, and those living in rain-fed, remote, and mountainous areas will be the hardest hit.

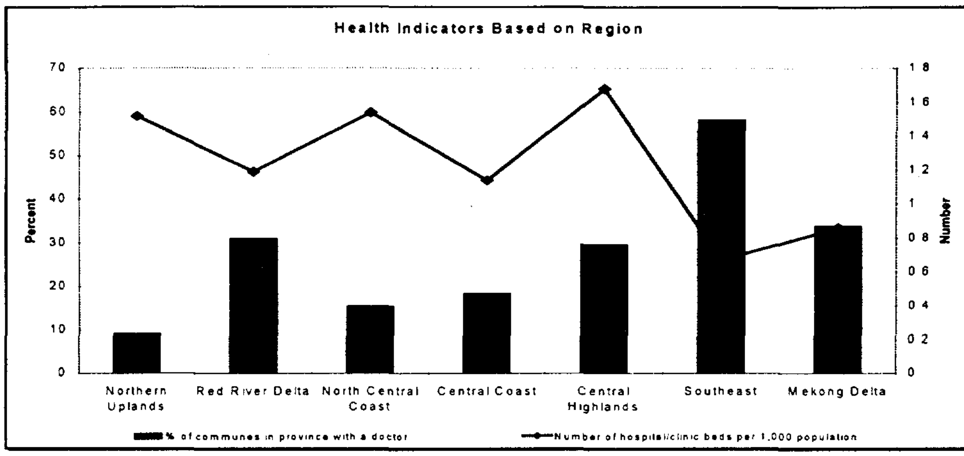
12. More workers will be chasing fewer jobs and wage growth will slow. Despite already high agricultural underemployment and a low endowment of arable land, job loss in the formal sector and a rapidly growing labor force will put even more pressure on farm and off-farm activities to absorb job seekers.

13. On the other hand, though, low rural incomes will probably be more stable than urban ones and the likely increase in unemployment will be less severe in the countryside than in urban areas over the short-run. 1998's bumper rice crop, surging rice exports, and rising rice prices (up 40 percent in domestic currency terms over last year) will cushion much of the countryside.[ii] However, rice experts are divided on the outlook for next year's crop. Many believe that recovery from drought in the Philippines and Indonesia will mean a much reduced export market in 1999 and *lower* prices. Other experts feel that lower production in India and China could lead to a sharp drop in exports which could *raise* prices dramatically. Bad weather in any of the major producing countries would contribute to this result, raising rice prices and those of other crops.

14. ***Health and Welfare.*** Rural health care will be negatively affected by the economic slowdown. Vietnam currently compares favorably to the regional competition on most rural health indicators. Most rural residents have access to health clinics in their communes, and hospital beds are generally more plentiful in rural than in urban areas. Rates of infant and maternal mortality are below average for the region and for low- and middle-income countries, and child immunization is widely practiced.

15. On the other hand, the *quality* of healthcare is lower in rural areas -- three-quarters of the poorest quintile of the population, most of which is rural, resort to self-medication when sick and rural residents have less than a 10 percent chance of being treated by a trained doctor.[iii] Getting medical treatment puts a far greater financial burden on people in the countryside than those in the city[iv] and basic health care that is accessible to the rural poor is severely underfunded.[v]

Figure 3.1: A Mixed Record on Rural Health.



Source: **Vietnam Ministry of Health, Health Statistics Yearbook 1997.**

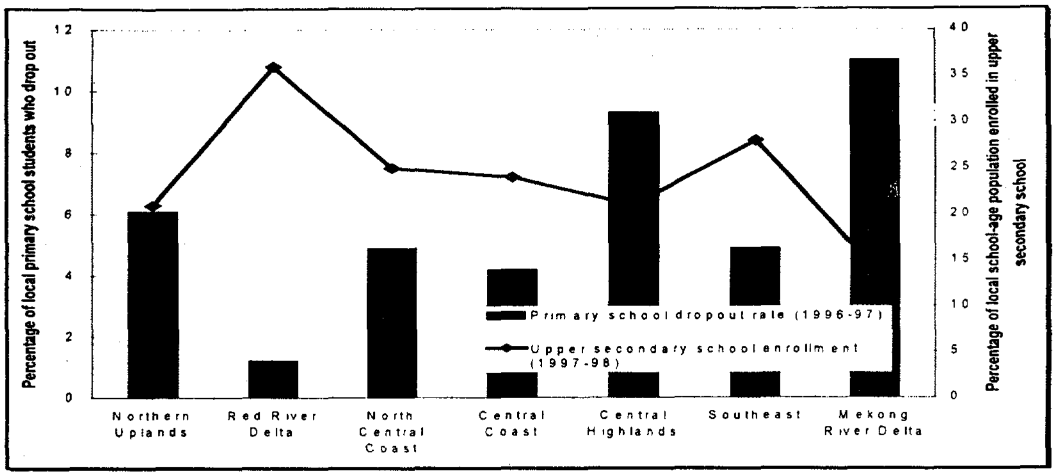
16. The Asian crisis and lower economic growth threaten to further reduce both the quality of rural health care and access. If public expenditure on healthcare does not rise, affordable healthcare will stay beyond the reach of the rural poor. Already high rates of self-medication and child malnutrition rates could rise further. Morbidity may increase, leading to declining worker productivity.

17. Private transfers, which provided an important safety net during almost a decade of rapid rural growth, will contract as employment and income opportunities shrink. Those most at risk live in areas affected by drought, who already lack adequate food, seed stocks, and clean drinking water, and could be pushed to extremes without assistance.

18. ***Education***. Education, like healthcare, has seen impressive progress in aggregate indicators. Vietnam's literacy and enrollment rates are almost unparalleled for such a low-income country. However, as the following table shows, the quality of and access to education is lower in rural areas: secondary enrollment and drop out rates are lower in rural and remote regions, such as the Mekong Delta and Central Highlands. Literacy also tends be lower in rural regions.

19. A slowing economy will reduce income and force the poor to forgo children's education as out-of-pocket expenditures become a burden. Household spending for education is already a heavy load for most poor families to carry. Whereas richer households spend 44 dong for every 100 spent by government in higher education, poorer households must spend 80 dong for every 100 spent by the state on primary education.[vi] Covering the average cost of an upper secondary education costs a rural household half its income, but an urban family only a quarter (see table 3.1 below).[vii] In the short-run, in response to the crisis, enrollment rates, particularly at the secondary level, could decline markedly. In the long-run, this will lower worker productivity and limit rural growth.

Figure 3.2: Education Lags in Rural Areas.



Note: Enrollment rates are net.
Sources: MOET Statistical Data of General Education 1996-1997, 1997-1998.

Table 3.1: The Burden of Education According to Income Group.

Burden of Public Schooling, 1996 (% of per capita income paid out by households)								
	Income Quintile							
	I	II	III	IV	V	Vietnam	Urban	Rural
National average education burden ratio								
Primary	22	14	11	8	4	9	6	11
Lower secondary	46	30	23	17	8	18	13	22
Upper secondary	100	54	50	38	18	40	28	48

Source: World Bank, Vietnam Education Financing Sector Study 1996.

20. ***Agricultural Production will Increase but the Effects of Natural Disasters are Severe.*** **Despite drought and a catastrophic** typhoon, Vietnam is projected to produce a record rice harvest this year. This will help to shield much of the rural sector from the brunt of the Asian crisis through the short term. The forecast is for aggregate rice production to be up some 900,000 tons over 1997, mainly attributable to an expansion of triple cropping -- in the Mekong Delta[viii] -- and farmer response to the increased price of rice.[ix] Aggregate food production is projected to rise to 31.3 million tons, a 700,000 ton increase over last year.[x] Vietnam is expected to export 3.5 million tons of rice in 1998, 500,000 tons lower than the official target at the beginning of the year, but still enough to make Vietnam the world's second largest exporter of rice after Thailand.[xi]

21. However, the localized effects of recent natural disasters have been severe. Typhoon Linda battered the southern part of the country last Fall, damaging fields and agricultural production. A drought which started last Autumn and stretched into the Spring, destroyed 380,000 tons of paddy equivalent, and caused shortages of drinking water and livestock losses.[xii] This Summer's drought in the Central Coast and Central Highlands also reduced crop yields and left food and water supplies depleted. Lack of income, rising prices, and weak infrastructure make food security a problem in drought-hit regions. Overall, 200,000 tons of rice crop were

destroyed and nearly a million people could go hungry in the seven central coastal provinces.[xiii] Non-rice crops such as coffee, rubber, sugar cane and pepper have also been affected.

22. Though rainfall improved in late-Summer, 2.3 million people still lacked safe drinking water.[xiv] In Quang Tri, the worst hit central province, some reservoirs dried up and irrigation ceased to function. In September, half of the province's 500,000 people lacked access to safe drinking water and the Summer/Autumn crop was estimated at only one-third of normal production.[xv] Half the pepper crop was lost and serious shortages of food have arisen in some localities.

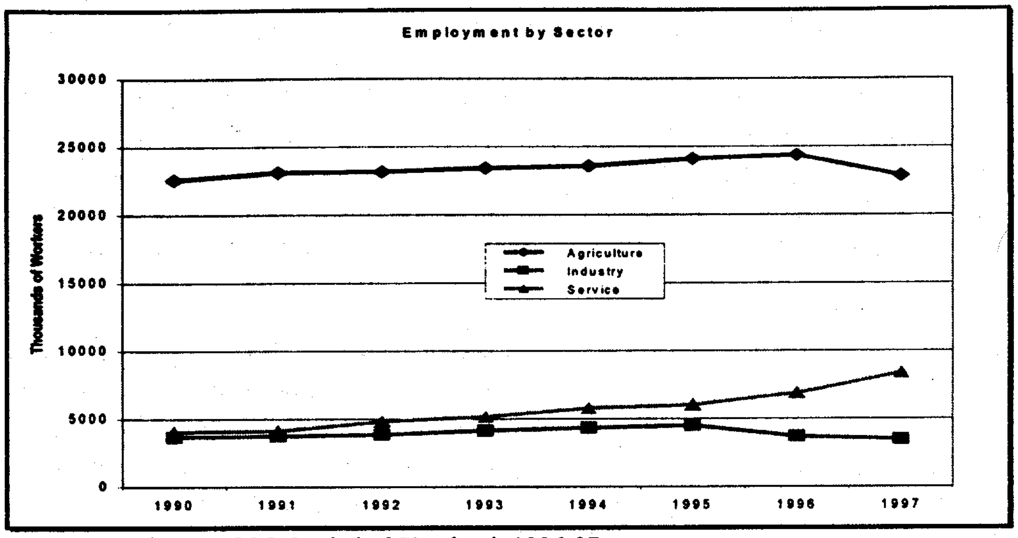
23. In Quang Binh, another drought-hit province, a third of the population were without adequate supplies of potable water this Summer and total food production was only two-thirds of the level expected.[xvi] Much of the coffee and sweet potato crops were lost. Thanh Hoa, Ha Tinh and Quang Nam provinces were affected, though to a lesser extent, while Nghe An and Thua Thien Hue seem to have largely escaped the worst impact of the drought. No local assessments have yet been done of the impact of the drought on the Central Highland provinces, but anecdotal accounts of the situation there paint a similarly bleak picture.

24. The government and international organizations have mobilized to provide aid to the worst hit areas in the Central Coast and Central Highlands, but more remains to be done to alleviate distress. Tax breaks to encourage farmers to plant heartier, less drought susceptible crops, is a long-term idea. Public works programs and subsidized provision of rice to the poor may provide short-term solutions.

25. ***Industry: Growth in Off-Farm Employment is Weak.*** Notwithstanding the enhanced role agriculture will be forced to play in the current crisis, the country will not become rich with an agrarian economy: no country has. Agriculture and the service sector have had to absorb most of the growth in the labor force since the early 1990s. From 1990-1998, employment in the industrial sector actually shrank from 3.6 to 3.5 million, a 5 percent decline (see figure 3.3). Over the same period, however, the population grew by 16 percent. Total employment in agriculture grew slightly, but the low-productivity informal sector provided most new jobs, with employment in services growing from 3 to 8 million over the same period. Vietnam's export profile reflects the effects of excessive concentration of resources in state-run, heavy industry. Labor-intensive goods currently account for only one-third of total exports, significantly lower than in China, where they account for half of all exports.[xvii]

26. Despite high aggregate growth in Vietnam over the past six years, the share of the labor force in wage employment and industry has actually *fallen*, with declines particularly pronounced in more remote, rural regions. Despite enormous investment in state-run manufacturing, employment in industry declined from 12 to 10 percent between 1990 and 1997 (figure 4.4) – between 1995 and 1997, industrial employment dropped by 12 percent a year! Declining industrial employment has been particularly pronounced in rural areas – only in Ho Chi Minh City has employment in industry increased. At the same time, the percentage of the labor force in agriculture has fallen slightly, while employment in the informal or service sector has risen.

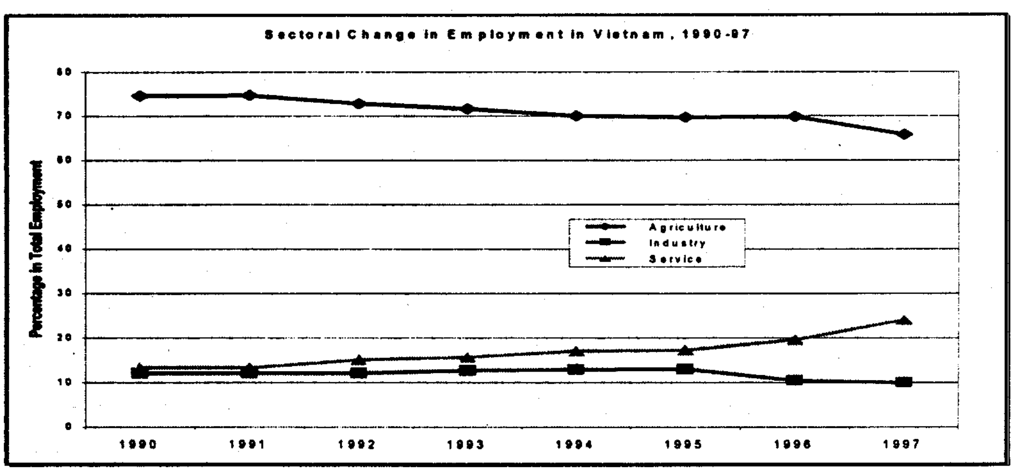
Figure 3.3: Change in Employment Over Time.



Source: Vietnam GSO Statistical Yearbook 1996-97.

27. One million young people enter the labor force annually and without more industrial employment outside the growth centers, most of them will enter agriculture or the informal sector. But underemployment in rural areas is already alarmingly high, claiming a quarter of the total working population,[xviii] and agricultural productivity will decline further if the sector is forced to absorb even more of the labor force.[xix] Falling agricultural productivity has led to a growing income gap between rural and urban areas.

Figure 3.4: Structural Change in Employment in Vietnam.



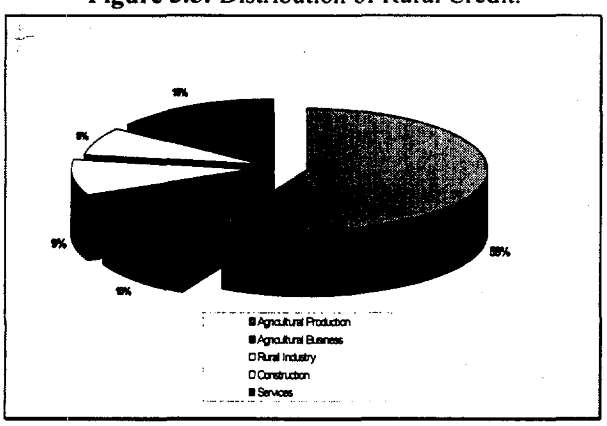
Source: GSO Statistical Yearbook1996-97.

28. To counter this stagnation, the government must enable the growth of private, off-farm industry. The evidence suggests that non-state enterprises are far more labor-intensive than SOEs and generate more employment per dollar invested (see chapter 2). The labor-to-capital ratio of non-state firms is about ten times that of SOEs.[xx] Encouraging off-farm industry will also help to close the gap in rural-urban incomes. Growth of non-farm output outside the major cities has been strong, averaging over 11 percent between 1994 and 1996.[xxi]

29. Unfortunately, instead of helping the private sector grow, the government has continued to emphasize SOEs, in keeping with its lingering desire to control the economy and its strategy of import-substituting industrialization. But this approach has generated no net new employment in the industrial sector and wasted huge amounts of public resources. Off-farm rural industry should have become a major employer, but now only 18 percent of rural households are engaged in such activity.[xxii]

30. ***Inadequate Financing for Private Farm and Non-farm Enterprises in Rural Areas.*** A central impediment to growing rural employment is lack of market-priced credit for farmers and small- and medium-sized private enterprises (SMEs). Small entrepreneurs are starved of capital. While only 12-15 percent of rural private enterprises have bank loans, three-quarters say they would like to borrow capital.[xxiii] These enterprises either remain without capital or are forced to borrow short term at high interest rates from private money lenders or from relatives. At least 50 percent of rural households are not served by the formal rural credit system.[xxiv] In the country as a whole, less than 10 percent of available credit goes to the private sector, which is low compared to the average of 18 percent for most poor countries and far behind the East Asian average of 85 percent.[xxv]

Figure 3.5: Distribution of Rural Credit.



Source: David Dapice. "Further Thoughts on Rural Industrialization," 1998.

31. The credit system serves rural industry badly as the accompanying chart demonstrates. Part of the problem is the inability to apply use-rights to non-farm land as collateral, which prevents rural entrepreneurs from securing bank loans, plus the fact that foreign investors are prohibited from holding equity in private firms.

32. Subsidized credit to SOEs creates a vicious cycle in the banking system: when credit is subsidized, there is a strong tendency to try to hold down interest rates on deposits, too. This depresses the amount of savings in the banking system as a whole, reducing the total amount of credit available for rural lending. Controls prevent banks from applying interest rates that cover the costs of funds, operating costs and risk. Ultimately, bank losses are underwritten by the government, which then has fewer funds to devote to productive, rural enterprise. With available credit constrained by the economic downturn, it is likely that even less will be available for the rural private sector given the continued preference for financing the state sector.

33. ***Public Investment – Biased against Agriculture.*** Government investment in agriculture does not match the sector's contribution to the national economy nor its ability to generate employment. While agriculture employs three-quarters of Vietnam's workers and contributes over one-quarter of GDP, it receives only 7.5 percent of total public investment.

34. Comparing public investment in agriculture to the sector's contribution to GDP, suggests a strong expenditure bias *against* agriculture: the smaller the coefficient, the stronger the bias.

At 0.25, Vietnam's expenditure bias against agriculture is greater than its neighbors in the Philippines (0.27), Indonesia (0.40), and Thailand (0.62).[xxvi] Indeed, agriculture is penalized twice because little non-state capital is currently available for investment in the sector.[xxvii]

35. Moreover, most public investment in agriculture is inefficient, as it is overwhelmingly concentrated in SOEs (see table 3.2 below). Three-quarters of Vietnam's SOEs are in agriculture, forestry, and agro-processing. The rural SOE sector makes a small contribution to employment but has a big claim over public sector resources. Nearly half the total investment made in agriculture goes to 4,500 SOEs. Government plans for investment in agricultural SOEs, that employ about 1.5 million workers, call for more than $3 billion between 1996 and 2000, more than twice the amount planned for Vietnam's 10 million farm households.[xxviii] The bias in favor of capital-intensive SOEs results in poor generation of labor-intensive industrial activities.

36. Government support to non-SOE agriculture has been meager, *less than* 10 percent of its support to SOEs in the sector.[xxix] Furthermore, two-thirds of rural, non-SOE public expenditure is spent on irrigation rehabilitation and flood control infrastructure rather than for infrastructure modernization.[xxx] FDI in agriculture has also been minimal. Only 7 percent of FDI is expected to go into agriculture, 1.6 percent if more recent estimates are accepted. This is largely due to the regulatory barriers to forming new enterprises and the inability of foreign investors to access land and local credit without being involved in a joint venture with an SOE, which is often not an attractive proposition.

Table 3.2: Government's plan for investment in agriculture, 1996-2000.

Investment in Agriculture, 1996-2000 (trillions of dong)						
	Public	SOE	Households	FDI	Total	Percent
Agriculture	2.9	34.9	14.2	6.5	58.5	61.3
Water management	14.5	0.0	0.0	0.0	14.5	15.2
Forestry	4.0	4.0	5.0	0.0	13.0	13.6
Storage/milling	0.5	4.0	5.0	0.0	9.5	9.9
SECTOR TOTAL	21.9	42.9	24.2	6.5	95.5	100
Sector total (%)	23%	45%	25%	7%	100%	
WHOLE PIP	96.8	142.4	76.5	144.3	460.0	
Whole PIP (%)	21%	31%	17%	31%	100%	

Source: World Bank, Advancing Rural Development in Vietnam, 1998.

Solutions for the Rural Sector in a Climate of Scarcity:

37. To preserve the gains made in poverty reduction and sustain economic growth, Vietnam must reinvigorate farm household production and encourage development of the private, off-farm industries that have spurred rural industrialization in other Asian countries. The government must also ensure a safety net for those hardest hit by the crisis. Several policy steps can be taken which require no resources, other steps require the reorientation of public expenditures and an end to the investment bias against the rural sector. Vietnam must reform land and credit markets; deregulate the business environment; end preferential treatment of SOEs; improve rural infrastructure; and encourage fiscal decentralization.

38. ***Equitize/Reform SOEs.*** Government policy calls for the elimination of loss-making SOEs and equitization of those that have the potential to survive in the market place, but virtually no equitizations have taken place. Vietnam has some 6,000 SOEs, including about 4,500 in the rural sector. Half of these are loss-making (up from 8 percent in 1993), generating little employment, draining the budget, and undermining the banking system by commandeering resources that could be more usefully employed elsewhere. As of Fall 1998, only around 40 state-owned enterprises had been equitized.[xxxi] The government should eliminate SOEs' exclusive entitlement to use land-use rights as equity in joint-ventures with foreign investors as well as their preferential access to government contracts, and export and import quotas. (See the section on financing rural investment for illustrations of savings from reduced support for SOEs.)

39. The bulk of rural infrastructure and social services are provided by government monopolies. Equitization could be extended to management companies in charge of irrigation, rural drinking water supply, and transport to good effect. Restructuring inefficient State Forestry Enterprises will save millions of dollars and create the incentives needed to spur conservation.

40. Reform Land and Credit Markets to Spur Off-Farm Employment, Private Sector Participation in Service Provision. **Creating** a clear and usable system of land-use rights is critical to enabling households and private enterprises to secure bank loans. Doing so can be accomplished at a modest cost. Without adequate credit, neither farmers nor private, off-farm industry can develop. To date, however, putting land-use rights into effect has been problematic.

41. Implementation of the rights of transfer, exchange lease, inheritance, and mortgage land has been stalled because the decree explaining how rights are to be implemented has not been issued and the capacity to implement the decree, once issued, at the provincial level and below has not been built. Issuing a decree and clarifying current laws, are urgent priorities. It is critical that land users understand their rights, that rights are enforced, and land users are able to employ them in practice. Specifically, ceilings on land holdings, uncertain and short-term land-use rights, constraints on the transfer of land, and high land taxes are issues to be addressed.

42. A functioning land market will lead to improved resource allocation by allowing amalgamation of fragmented plots of farmland, increased farm size, and accelerated adoption of new farm technology. Banks will lend more to farmers because land will serve as collateral, which can be transferred at market value.

43. The government should also mandate equal treatment for foreign and domestic banks in terms of the forms of security available to them. This will help to create a level playing field and spur credit to rural areas. In addition, controls on interest rates should be removed in order to improve bank performance and increase the availability of commercial credit to the rural private sector.

44. ***Remove Regulatory Barriers, Market Obstructions of all Kinds.*** Removing market restrictions is an immediate and costless way to bolster rural growth. Restrictions on agricultural land use include those imposed at the local level that mandate the planting of particular crops, and prevent farmers from diversifying their cropping or moving into more profitable off-farm businesses. Vietnam can boost agricultural output and liberalize input markets, for example, by eliminating export quotas on rice as well as import restrictions on sugar, fertilizers and seeds.

Domestically, the government should also move away from numerical targets for commodities' production, allowing farmers to diversify their cropping. Finally, more transparency in regulations, and consultation between those affected by regulations and the government, is needed to cut down on the arbitrary and sometimes corrupt behavior of officials.

45. The productivity gains from such measures are large. Removing rice quotas could add $225 million to national income and allow rice exports to reach 5 million tons annually. Sugar import restrictions are estimated to cost the country $95 million annually, while restrictions on fertilizer imports cost farmers an estimated $35 million per year.[xxxii]

46. Vietnam's legitimate concern about food security is best addressed by raising farm productivity and rural incomes, improving access to markets and long-term credit, and by enabling food to be stored and transported efficiently, rather than by focusing resources on guaranteed rice cultivation for an expanding population.

Box 3.1: Food Security versus Food Self-Sufficiency

Food security, defined as ensuring adequate and stable supplies of food to all residents, should not be confused with the more constraining goal of grain self-sufficiency. Food security can be achieved far more effectively and efficiently than grain self-sufficiency. The ineffectiveness of a self-sufficiency approach becomes very evident during times of drought. Countries closed to the rest of the world are far more vulnerable to variability of weather within the country than they would be if they could spread those risks over the lesser, average variability of weather across the world through trade.

The inefficiency of grain self-sufficiency increases if a country loses its comparative advantage in grain production as it develops, and as consumption patterns become more sophisticated as incomes grow. A better approach to food security is to allow openness in consumption, production, stock holding, and trade and investment regimes, thereby allowing full expression of comparative advantage to generate the economic wealth that can lead to *true* self-sufficiency.

47. ***Promote Rural Industrialization by Linking Rural to Urban Infrastructure.*** Vietnam must improve access both within rural areas, and between rural areas and its cities and towns. Linking cities and towns to their hinterlands will provide a market for agricultural products and a conduit for industry to escape high urban costs. It will also encourage dynamic synergies as urban business acumen and capital is combined with low cost rural labor. Private, off-farm industry is encouraged as cities and towns become service centers linked to industries on their outskirts and the rural areas beyond.

48. The success of China's Township and Village Enterprises (TVEs), which grew up mainly on the edges of coastal cities in the 1980s following market reforms that began in agriculture, confirms the efficacy of reforming SOEs, increasing credit to the private sector, and linking urban and rural infrastructure. By 1995, TVEs employed nearly 130 million rural workers and produced 43 percent of Chinese national exports.[xxxiii]

49. Evidence suggests that a similar phenomenon is occurring in Vietnam though on a more limited scale and at a more nascent stage. Further reforms are needed to help this process along. The non-urban region of the country with the highest industrial output growth has been in the non-urban zone around Ho Chi Minh City which grew 20 percent per annum in real terms

between 1994 and 1996.[xxxiv] The overall private, corporate contribution to industrial output in Vietnam, however, is still extremely small.

50. Weak rural infrastructure constrains rural industrialization. While 62 percent of national highways are paved, only a quarter and 13 percent, respectively, of provincial and district roads are asphalted.[xxxv] Moreover, while 88% percent of Vietnam's communes are connected to the nearest district center by motorable roads, most of these roads are not paved and cannot be used on a year-round basis.[xxxvi] Though economic returns to improved access are high, commonly estimated at 20-35 percent, current expenditure on rural transportation infrastructure remains disproportionately low.[xxxvii] The planned allocation for rural transportation infrastructure between 1996 and 2000 is only 5 percent of the total planned allocation for all transportation infrastructure.[xxxviii] Such low levels of investment lead to high production costs, spoiled goods, lost opportunities, and inequality.

51. Access to electricity has improved throughout the country, but is still only available to about half of those in the countryside, and only 35 percent of the rural population is connected to the national grid. This compares poorly with the cities and is a serious obstacle to attracting industry to rural regions.[xxxix] Rural electrification is also important for expanding irrigation (which is increasingly dependent on pumping) and food processing. While government plans envision an increase in rural electricity consumption to about 8,400 GWh by 2010, the countryside's share of electricity use is expected to drop from 15 to 13 percent of total consumption.[xl] Without an aggressive expansion of rural electrification, this disparity will increase, putting rural areas at a further disadvantage. Poor access to clean water and sanitation also discourages rural industry. Chapter 4 suggests ways in which the efficiency of infrastructure services can be improved.

52. ***Fiscal Decentralization to Enhance Local Finance and Efficiency.*** The experience of other developing and transitional economies suggests that rapid private sector development and sustained national economic growth may not be possible without friendly and self-motivated local governments. Developing country evidence also suggests that decentralization can increase spending on infrastructure. Greater discretion to local areas in determining priorities and raising revenues facilitates more effective use of local finance, improves the provision of public goods, and allows local programs to better address rural needs.

53. However, decentralization is useless if local governments lack the institutional capacity to plan and implement public programs cost effectively. For those localities which do not yet have the capacity to benefit from decentralization, investment in local training and system improvement are needed. At the same time, the central government should ensure that its broad, social sector priorities are met as responsibilities are devolved.

54. In education, fees at all levels, though particularly fees for higher education, should be raised for those who can afford them (many urban dwellers), while exemptions should be ensured for the poor at the primary and lower secondary levels. A similar pricing strategy should be followed in health to encourage rural health care access.

55. *End the Funding Bias Against the Rural Sector.* The rural economy is underfunded in relation to its contribution to employment and to economic output. This should be redressed by

reducing funding and credit provision to SOEs. The Bank's new rural development strategy for Vietnam recommends reallocating 20 percent of total public investment ($3.4 of $17.1 billion) for the period 1996-2000, from support of SOEs to provision of rural public goods.[xli] Such a reallocation would enable substantial increases in spending in rural infrastructure and social services. Without changes in the current pattern of public spending, morbidity, malnutrition, and school drop-out rates will all rise as the economy slows.

56. Though the government estimates that over 40 percent of public investment will be provided by overseas development aid, investment goals cannot be met without greater private sector participation. Widening the role the private sector already plays in health, and inviting more private participation in education and infrastructure provision, may alleviate some of the government's burden for providing services. But the greatest immediate opportunity comes from reallocating existing funds.

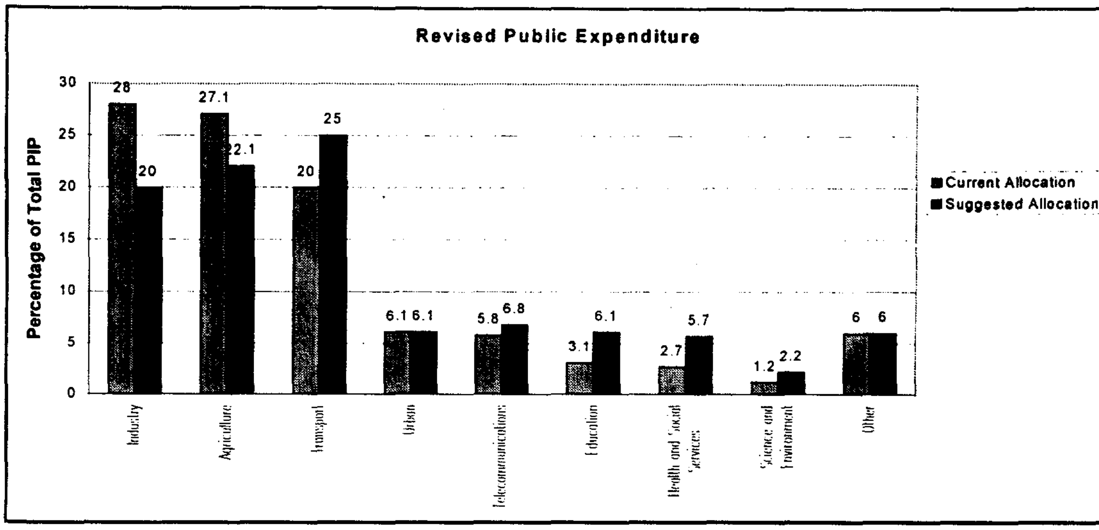
57. Spending on rural infrastructure should be increased by de-emphasizing the growth-center strategy that favors the big cities, and reducing spending on agricultural SOEs. Of total infrastructure spending, an additional 8 percent should be targeted for rural areas, and the allocation for agricultural infrastructure should be doubled.

58. Expanding rural electrification should be a key objective in rural infrastructure investment. By 2000, 80 percent of communes and all communes in plains regions should be electrified.[xlii] In agriculture, rehabilitation and modernization of irrigation works should be a priority as degraded and out-moded systems cannot deliver scarce water cost-effectively or support needed crop diversification.

59. Problems in rural health, such as the high incidence of stunting and malnutrition, and in education, such as overcrowded schools, poorly trained teachers and low rural secondary school enrollments, require concerted government action and increased financing. In health, more needs to be spent on primary, preventive care. Malnutrition and school drop-out rates will certainly rise as the economy worsens. As a percentage of total public investment, the allocation for social services and education should be roughly doubled.

60. The government should also ensure that the rural poor, particularly those in areas worst hit by recent natural disasters, do not lose access to basic social services. The government must continue to be engaged in and provide targeted support to lagging regions, such as the Central Coast, Northern Uplands and Central Highlands, where the poor are most vulnerable. Figure 3.6 proposes revised spending priorities for 1999-2000 in support of rural development.

Figure 3.6: Revised Public Investment Allocations:
Public Investment Program 1999-2000



Source: World Bank, Advancing Rural Development in Vietnam, 1998.

CONCLUSION:

61. Crisis creates the need for action. With sharply falling growth rates and a new crisis on its doorstep, Vietnam must reinvigorate its pro-reform policies to benefit rural areas. With a severe shortage of investible funds, reinvigorating farm household production and encouraging private sector participation in the rural economy are priorities. Doing so will encourage the more efficient use of scarce resources and help those most vulnerable to the slowing economy.

62. Reforms in the legal, institutional and regulatory framework of Vietnam are necessary to establish a functioning land market, increase credit to the private sector, and create a predictable business environment. These changes are also nearly costless and will have an immediate and beneficial effect on the rural economy. Policies which favor state-owned heavy industry and agro-processing need to be eliminated in favor of policies which promote Vietnam's comparative advantage in labor-intensive, export production, and service the unmet needs of the rural market. Regulatory barriers which prevent private production, marketing, and association decisions need to be eliminated.

63. The efficiency gains from reinvigorated reforms will free up resources to improve rural access and the quality of public goods which constrain rural development today. Infrastructure that connects cities, towns and the countryside should be expanded to link urban capital and acumen with abundant rural labor. More resources should be directed to rural education and health care. Safety nets should be provided for those most affected by the regional crisis and natural disasters. Continued rural reform, combined with new directions in public investment, will affect 80 percent of Vietnam's population directly. These changes will provide the best path out of the current crisis.

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[i] Preliminary data from 1997-8 Vietnam Living Standards Survey – new, more precise data available shortly.

[ii] Institute for Research on Markets and Prices as quoted in Vietnam Economic Times, October 1998. Retail white rice prices have risen 40% since August 1997. In value terms, Vietnam's rice exports were up 23% through September compared to the same period in 1997.
[iii] CAS Note for Health, Nutrition and Population Sector; Vietnam Poverty Assessment and Strategy, 1995; and Vietnam Poverty Assessment and Strategy 1995. 70% of the poor resort to self-medication when ill.
[iv] Vietnam Poverty Assessment and Strategy 1995. Hospital outpatient visits are the equivalent of a quarter of non-food consumption for the poorest but only 7% for the richest quintile, which lives almost exclusively in cities.
[v] Vietnam Poverty Assessment and Strategy 1995. Only 3% of the health budget goes to preventive care and only 2% to commune health centers, while 60-90% is invested in the mostly urban, large hospital sector.
[vi] Vietnam Education Financing Sector Study, 1996, World Bank.
[vii] Ibid. Covering the national average cost of an upper secondary education costs a rural household 48%, but an urban family only 28%, of household per capita income.
[viii] Vietnam News, 9/16/98.
[ix] Estimate, UN World Food Program.
[x] Thanh Nien Newspaper, 9/25/98.
[xi] Vietnam: Advancing Rural Development.
[xii] MARD estimate, 1998.
[xiii] Knight-Ridder/Tribune Information Services, "Vietnam endures worst drought in 90 years," August 24, 1998.
[xiv] Ibid.
[xv] Provincial estimate as reported by UN World Food Program.
[xvi] Ibid.
[xvii] Vietnam: Advancing Rural Development, 1998.
[xviii] Vietnam Investment Review, September 28-October 4, 1998.
[xix] Vietnam: Advancing Rural Development, 1998.
[xx] 1998 CAS Report.
[xxi] David Dapice, "Further Thoughts on Rural Industrialization," unpublished manuscript, 1998.
[xxii] Vietnam Rural Development Strategy: From Vision to Action, 1998.
[xxiii] Ibid. 70% say they would like to borrow capital but can't.
[xxiv] Vietnam: Advancing Rural Development, 1998. The formal rural credit system comprises three main institutions: the Vietnam Bank for Agriculture and Rural Development (VBARD), the Vietnam Bank or the Poor (VBF), and the People's Credit Funds (PCFs). Approximately 31% of rural households are served by VBARD, 11% by VBP, and 5% by PCFs.
[xxv] Vietnam: Poverty Assessment and Strategy, 1995.
[xxvi] Vietnam: Advancing Rural Development Strategy, 1998.
[xxvii] Vietnam Rural Development Strategy: Public Expenditure Review for the Rural Sector, 1998.
[xxviii] Vietnam: Advancing Rural Development, 1998.
[xxix] Vietnam Rural Development Strategy: Public Expenditure Review for the Rural Sector, 1998.
[xxx] Investment Newspaper, 10/12/98.
[xxxi] Vietnam: Advancing Rural Development, 1998.
[xxxii] Vietnam: Advancing Rural Development, 1998.
[xxxiii] Workshop on Agricultural and Rural Development Strategies for Vietnam, 21-22 March 1997.
[xxxiv] David Dapice, "Further Thoughts on Rural Industrialization," 1998.
[xxxv] Vietnam Economic News, No. 35, 1998.
[xxxvi] Vietnam: Draft Transport Sector Report, 1998.
[xxxvii] Vietnam Advancing Rural Development, 1998.
[xxxviii] Vietnam: Transport Sector Report, 1998.
[xxxix] Vietnam: Energy Sector Study, 1998.
[xl] Ibid.
[xli] Vietnam: Advancing Rural Development, 1998.
[xlii] Vietnam Energy Sector Report, 1998.

4. RAISING PRODUCTIVITY THROUGH INFRASTRUCTURE

1. The three principal themes of this report apply also to the provision of infrastructure services. Inadequate service levels and quality remain serious constraints on development and competitiveness. In the current difficult situation Vietnam must:

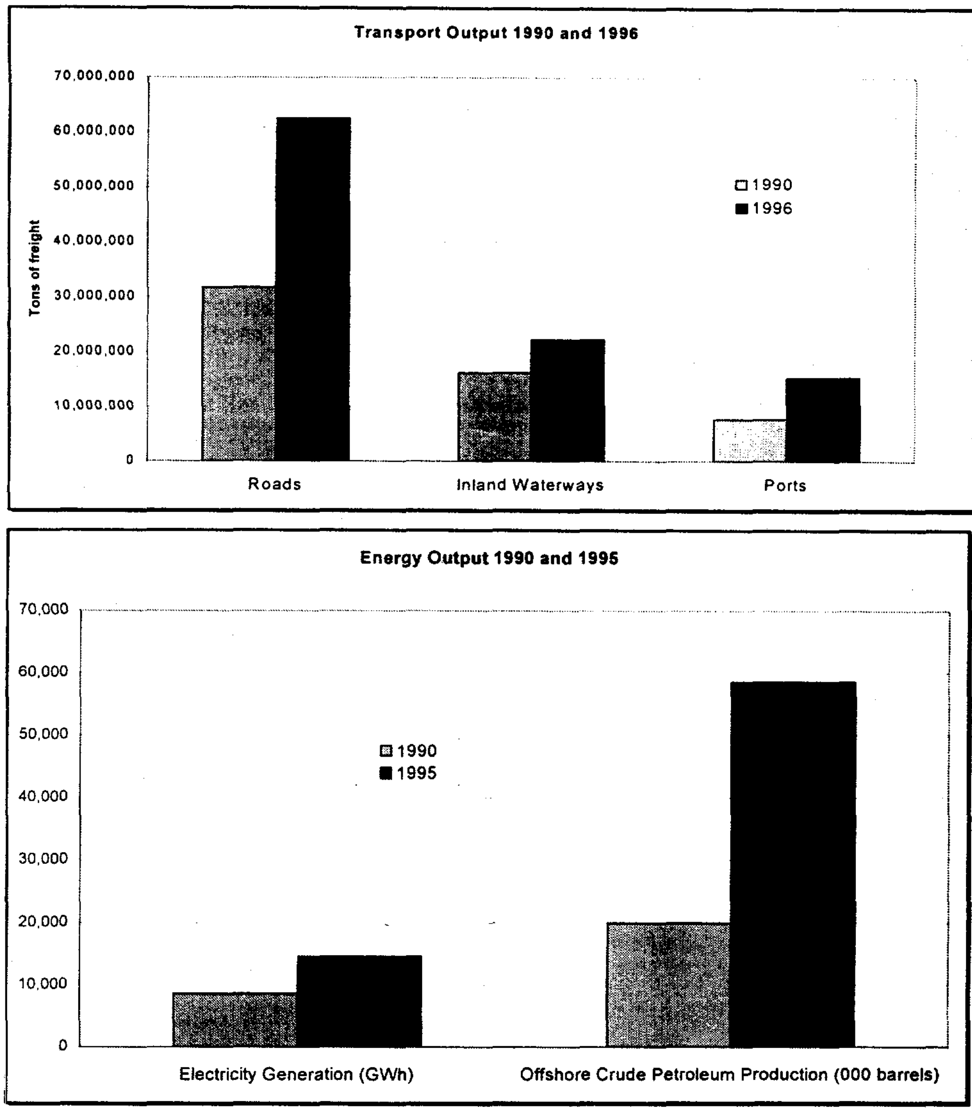
- improve the efficiency of existing infrastructure stock and new infrastructure investment
- mobilize more finance from existing and new sources, and
- enhance access and empowerment of the poor.

2. Investment in infrastructure has high returns in Vietnam, as does improving the efficiency of infrastructure services. Despite abundant natural energy sources in gas, hydro and coal, Vietnam's per capita commercial energy consumption remains one of the lowest in the world. The transport system – notwithstanding substantial improvements in the past five years – is over-stretched, adding to costs and preventing many upland and rural areas from sharing in the benefits of Vietnam's growth. Water supply and sanitation facilities will require investments and efficiency improvements to keep up with accelerating urban population growth and industrial demands. Currently, limited competition from private providers generates few economy-wide pressures for enhancing infrastructure performance. However, if the structural reforms described in Chapter 2 are implemented, infrastructure providers will come under pressure to improve quality and reduce cost, and users will have incentives to economize. Aggressive reform in the infrastructure sector is needed to respond to these pressures.

MEETING THE HUGE NEED FOR INFRASTRUCTURE

3. ***The Current Situation.*** Dramatic increases in infrastructure services since the late 1980s made rapid growth and exports possible. In transport, traffic on roads and ports doubled and, on inland waterways, rose by a third.[1] In energy, electricity generation doubled and crude oil production tripled. Access to electricity rose from 47% to 75% while crude oil became a major export commodity, accounting for one-fifth of the country's foreign exchange receipts.[2] Increased public spending and institutional reforms contributed to this dramatic increase in infrastructure services.

Figure 4.1: Increases in Infrastructure Capacity 1990-1996



Source: World Bank estimates.

4. Despite these increases in stock and services, infrastructure needs remain considerable. Vietnam's existing infrastructure stock lags behind many low-income countries. The proportion of paved roads in less than good condition is more than four times the developing country average. Only in telephones per capita is Vietnam better endowed than is the average low-income country.

Table 4.1: Vietnam and Low Income Country Infrastructure Indicators at a Glance 1996

	Vietnam	Low Income (excl. China and India)
Electricity prod. Per capita kwh	185	199
Tel. Lines per 1,000 people	16	11
% paved roads in less than "good" condition	91	20 /a
Railways (km/1,000 people) (1995)	0.039	0.106
% of pop. with access to safe water (1995)	36	51
% of pop. with access to sanitation (1995)	21	36

Source: World Development Indicators 1998.

Note: a/ Best practice for developing countries.

5. Endowed with abundant natural energy resources in gas, hydropower and coal, Vietnam's per capita commercial energy consumption (at 130 kgoe) is nevertheless one of the lowest in the world. The transport system, despite improvements, is often a bottleneck, raising costs and weakening Vietnam's competitive labor cost advantage. As a result of poor transport, many upland and rural areas cannot access services and economic growth opportunities easily. Incomplete irrigation and drainage limit agricultural production. Modern water supply and waste management services are absent in most cities and towns, as well as in rural communities.

6. Access to services of all kinds is generally worse for Vietnam's rural population (as described in Chapter 3), especially in poor and remote areas. Table 4.2 shows that 51 percent of public expenditure in the current plan period between 1996 and 1998 has been directed to the Red River Delta and Southeast Region -- the location of Vietnam's largest industrial zones.

Table 4.2: Regional Distribution of Public Expenditure 1996-98

	Expenditure by Year (VND billion)
Region	Percent
Red River Delta	24.6
Southeast	26.3
North Mountains	8.0
North-Central	9.5
Central Coast	11.5
Central Highlands	5.1
Mekong Delta	15.0
Total	**100.0**

Source: Ministry of Planning and Investment.

7. Vietnam's poorest regions, the Northern Mountains and Central Highlands, on the other hand, received a total of 13 percent. Three-quarters of the rural population do not have year-round access to all-weather roads and markets.[3] In energy, 50% of rural residents have no access to electricity whereas only 3% of urban dwellers suffer this fate. Poor quality rural power networks make rural users pay two to three times as much as urban residents.[4] In water, less than 40 percent of rural households have access to clean drinking water (urban residents are only slightly better off).[5] In transport, poor linkage between rural and urban areas and inadequate

intra-rural connections discourage industrialization of the countryside. Linking towns to their hinterlands will produce two-way markets for agricultural and manufactured products as well as a conduit for industry to escape high urban costs. These needs must be met but the greatest constraint is financing.

8. ***Scope for New Patterns of Financing.*** The historical pattern of financing infrastructure, in which government budgets, ODA and state credit from banks predominate, is unlikely to be adequate in the coming years. However, in view of the existing need for infrastructure services, and the high rates of return available, continued investment in infrastructure is warranted, especially in the transport and water sectors. Historically, over half of the public investment program (PIP) has gone to infrastructure (see table 4.3).

Table 4.3 Public Investment Plan 1996-2000 (VND billion - 1995 prices)

	1996-1998 Actual Investment		1999-2000 Projected Investment	
	Actual 1996-98	Percent of Total Infra. Invest.	Planned 1999-2000	Percent of Total Infra. Invest.
Public Investment Plan	114,000		100,000	
Infrastructure of which:	72,050	100	59,550	100
Transport, water	33,750	47	19,250	32
Irrigation	6,700	9	10,800	18
Energy	31,600	44	15,600	26
Posts & Telecoms	0	0.0	13,900	23

Source: Ministry of Planning and Investment.

9. In the present environment of resource scarcity, the investment plan for the next three years must be selected carefully. Recent infrastructure sector reviews have proposed a lower but adequate investment plan of around US$ 3.0 billion annually, or around 12 percent of GDP.[6] The government budget, ODA, foreign direct investment and self-financing from infrastructure SOEs are the four sources of financing. One possibility is for each of these four sources of finance to provide around a quarter of financing needs – i.e., 3 percent of GDP, each.

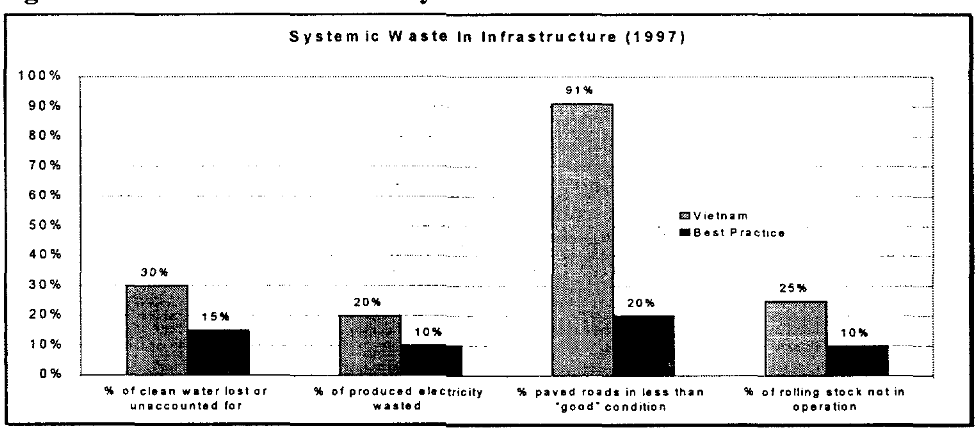
10. State credit from banks is unlikely to be a financing source, given that bank restructuring is underway. Achieving the required level of investment will necessitate substantial increases in the third and fourth of these categories. Government's own investment is unlikely to exceed 3 percent of GDP. ODA, even with accelerated disbursements, is unlikely to provide more than 2 percent of GDP. So private foreign investment and self-financing by SOEs together must provide 7 percent of GDP or US$2.1 billion a year to meet US$3 billion of infrastructure investment.

11. Current international market perceptions of high risk in emerging economies will make mobilizing FDI difficult, particularly given the policy framework in Vietnam. But it is not impossible. Neither is funding by infrastructure SOEs. These, nevertheless, pose major challenges for the Government.

12. One option is for the Government to make a serious attempt to unlock private investments which are already waiting in the wings (see table 4.5). This means quick decisions have to be made on the terms and conditions of projects that are in an advanced stage of negotiation and waiting to go. Second, all efforts should be made to improve the regulatory framework and reform infrastructure prices and tariffs. This will not only create a more favorable climate for greater private participation in infrastructure but also permit higher self-financing ratios for utility SOEs. Decentralization of taxing and spending authority to local areas according to the 1996 Budget Law will also help to reduce localities' dependence on the central budget, increase accountability, mobilize . ore resources for local development programs, and raise the efficiency of how these resources are spent. At present, only 14 of Vietnam's 61 provinces enjoy a revenue surplus that can be used for investment. The options for mobilizing additional private and public investment are discussed in subsequent sections.

13. ***Scope for Efficiency and Productivity Gains.*** The scope for efficiency gains from reducing waste and improving performance is considerable.[7] In Vietnam, too much water is lost, too much power is wasted, too many roads are in poor condition, and too much rolling stock is not operational.

Figure 4.2: Potential for Efficiency Gains in Infrastructure



Source: Various World Bank Reports.

14. Low system power factors and transformer inefficiencies plague the rural power distribution system. Twenty percent of produced electricity is lost before it can reach consumers, twice as much as in some countries. In the water sector, decayed distribution networks allow pollutants to seep into the water supply and 30% of piped water is lost before it ever reaches customers.[8] Water businesses lose almost 40% of their revenue because customers are not billed for the water they use, or because companies fail to collect.[9] Irrigation systems deliver water unreliably due to poor operation which causes users to incur pumping costs or suffer lower yields.

15. Maintenance expenditures on roads are still inadequate to keep them in good repair. Vehicle operating costs are nearly twice as high in Vietnam as in countries with well-maintained roads.[10] Each $1 deferred on road maintenance increases vehicle operating costs by a factor of two to three.[11] If paved roads are maintained in a proper and timely manner, the government can save $2 billion.[12] In rural areas, only a trickle of central funding is available at the local level.

Poor maintenance and navigation aids for inland waterways reduce the productivity of boats and ships by 40% or more. Recurrent expenditures on waterways are only about half of what is estimated to be needed.[13] Finally, ports ship around 15 million tons of freight per year but could carry three times that amount if ship-handling and access to land transport were improved.[14]

16. Inadequate competition between private and public providers of infrastructure services, and insufficient financial and managerial autonomy for public providers, gives little incentive to remove these inefficiencies. Public companies are often asked to deliver below cost, prohibited from adjusting prices, and sometimes required to be employers of last resort. Also, users of infrastructure -- actual and potential -- are not well positioned to make their demands known. Inadequate local participation and prices which do not reflect costs make it difficult to assess demand. Most detrimental of all to efficiency, however, are price controls and the absence of competition from the private sector in all infrastructure services.

PROMOTING PRIVATE PARTICIPATION

17. Expanded private participation is essential to meet Vietnam's need for infrastructure services for two reasons. First, available public resources cannot meet the demand for infrastructure services in rural and urban areas. Energy, urban water and telecommunications have excellent prospects for funding from private/foreign sources. Second, there is little competition in infrastructure sectors, which weakens incentives for efficiency. Without greater private participation, the quality of services will not improve significantly.

18. Though not all infrastructure sectors have the same competitive potential, Vietnam needs to exploit what is possible. Several developing countries in the region and elsewhere have encouraged private sector participation with impressive results. The potential for private competition in infrastructure provision and the scope for regulation differ across infrastructure sectors. Table 4.4 compares international best practice for private participation options in infrastructure, with current Vietnamese practice.

Table 4.4: Private Participation Options for Infrastructure Provision

	Government Ownership	Private Lease	Private Concession	Private Build-Operate-Transfer etc.		Best Practice Countries
				More Regulated	Less Regulated	
Transport						
Urban bus	**Vietnam**		Best/VN			Sri Lanka
Primary and secondary roads	Best/**Vietnam**					Most countries
Bridges and highways	Best/**Vietnam**					Most countries
Port, airport and rail services	**Vietnam**		Best			Chile, U.S., Britain
Power						
Generation	**Vietnam**			**Vietnam**	Best	Chile, Britain, Norway, U.S., Philippines
Transmission	**Vietnam**			Best		Argentina, Bolivia
Distribution	**Vietnam**		Best			Chile, Argentina, Brazil, India, Philippines
Water						
Urban piped network	**Vietnam**	Best	Best			Mexico,
Non-piped systems				Best/VN		Argentina
Sanitation						
On-site sewerage				Best/VN		Most industrialized countries
Piped sewerage and treatment	**Vietnam**	Best	Best			Chile, Argentina
Telecom						
Basic services	**Vietnam**			Best		U.S., Britain,
Long distance	**Vietnam**				Best	Argentina, Peru,
Value-added			**Vietnam**		Best	Brazil, Chile

Source: Bank Staff Assessment.

19. Different options for private participation exist for different services.[15] For example, in the water sector, private participation can be useful in developing small, piped and non-piped water supply systems in rural areas, especially in the Mekong Delta where fresh, shallow ground water is scarce. For large, piped water supply systems (such as exist in urban areas) where multiple providers may detract from economies of scale, it is best to create private concessions for a monopoly provider. In telecommunications, the enhanced competition that private ownership and management can yield, could lead to a reduction in the current exorbitant rates for long distance service. For urban bus service in Vietnam, best results may be achieved through a private concession. The regulatory changes needed to encourage this private sector participation are discussed in the next section.

20. ***Improving the Regulatory Framework.*** Though several steps have been taken to allow private sector entry in infrastructure sectors, Vietnam still has a long way to go. The absence of a clearly articulated framework makes the process of executing build-operate-transfer (BOT) contracts difficult. And preferential legal and financial treatment of SOEs is also a constraint to private participation.

21. Different categories of infrastructure require different regulatory frameworks for private participation. The first category contains firms that lend themselves naturally to competitive market structures without price regulation.[16] All that is required for these markets to function competitively is the clear allocation of property rights (for example, rights of cellular operators to scarce radio spectrums), and sanctions on collusive behavior by firms. The second category contains firms which are competitive but require more government regulation.[17] Some form of interim price regulation may be needed in this case. Even with multiple providers, effective competition has to rely on a degree of government regulation. In the third category, industry characteristics such as economies of scale or "contiguity" of network economies make it inefficient to have multiple firms operating in the same market. This is true for urban piped water systems, waste collection, power transmission, and basic port and rail services. The best practice in these sectors is to create concession areas, identify service responsibilities, and then auction off the rights to a concession for a fixed period of years.

22. A recently passed BOT decree permits private management and investment in power generation, water supply systems, on-site sewerage, urban bus services and value-added telephone services. Thus, entry barriers have been reduced in these sectors though no actual BOT contract has yet been executed under the new decree.

Box 4.1: Build-Operate-Transfer (BOT) Projects

The Ho Chi Minh City Water and Phu My 2.2 Power Projects

Water: The Binh An Water Corporation (BAWC) – a 100% foreign-owned BOT company -- has a 20 year build-operate-transfer (BOT) contract to supply 100,000m^3/day of treated water to HCMC's Bien Hoa Industrial Zone on a take-or-pay basis. The treated water will be sold on a bulk basis to the Water Supply Company (WSC) of HCMC. The BOT contract was negotiated, not competitively bid, with the People's Committee of HCMC in August 1994 with WSC signing the bulk sales contract. A license was issued in March 1995 while project completion is expected by April 1999. Some of the characteristics of this BOT are as follows:

- The project contract was negotiated with a single investment group. The BOT concept was being used for the first time in the water sector in Vietnam and the government's inexperience led it to negotiate a deal with a single supplier rather than employ a competitive bidding process.
- There was a one year delay in the start of construction due to difficult right-of-way, resettlement and land use negotiations. Land was donated "free" by HCM City but the site location was in a different province (Song Be) which would receive none of the services, and thus reap none of the benefits, of the BOT. Various fees had to be paid for resettlement and land compensation before it was approved.
- The state-owned People's Bank would not offer a guarantee to BAWC for the bulk sales contract with WSC. The only guarantee came from the HCMC People's Committee (based on an un-audited annual budget of US$286 million).

Power: Phu My 2.2, a 450/600 MW plant which is part of the Phu My gas complex in southern Vietnam, could become a good example for other build-operate-transfer projects to follow. The prices offered by private bidders at Phu My range from 3 to 3.25 cents per kilowatt hour, several cents lower than the average cost of other private power providers in Vietnam, and lower than the estimated long-run marginal cost of power. These low prices will save Vietnamese consumers and industry hundreds of millions of dollars, while ensuring plentiful power. The following illustrate some of the strengths of Phu My 2.2's competitive bidding process.

- There was competitive bidding – 32 companies originally expressed interest in response to an open invitation, ten were pre-qualified, ten company consortiums purchased the bid documents and six internationally reputed power companies submitted bids.

- Explicit evaluation criteria included in the request for bid proposals (with 70% of weight given to price based on a defined formula), international competitive bidding and World Bank involvement created expectations that the evaluation and award process would be transparent.

- Early decision on award of contract and successful completion of the project could help establish the viability of the Phu My approach for private investment in other infrastructure projects.

What lessons can be learned from Phu My 2.2 for future BOT infrastructure projects?

- A competitive bidding process helps achieve the lowest prices.

- Transparency of process attracts reputable companies as bidders.

23. In the absence of a well-articulated legal framework and appropriate tariff structures, real experience with private participation in infrastructure has been limited in Vietnam. To date, the Government has signed a BOT contract in bulk water supply in Ho Chi Minh City (box 4.1). Though the government has been in discussion with energy developers for a number of years, no contracts have yet been signed. Two power generation BOTs, however, are now at advanced stages of discussion: Phu My 2.2 (box 4.1) and Wartsila. The completion of these projects will hopefully provide an important road map for future investors under the BOT decree. World Bank International Development Agency guarantees can play a significant role in mobilizing such private investment given the current difficult conditions (box 4.2).

Box 4.2: IDA Guarantees for Private Infrastructure Investment

To ease the transition in countries that are clearly on a path of policy reform, IDA offers partial risk guarantees on a pilot basis to private lenders against non-commercial country risks that are beyond the control of investors and where official agencies and private market currently offer insufficient insurance coverage.

Project Eligibility: It is expected that this guarantee would be provided primarily in infrastructure — power, water, transport, & telecommunications — projects. The project must also comply with all applicable World Bank requirements including those relating to the environment, social soundness, and resettlement.

Type of Guarantee: Partial Risk Guarantee.

Guarantee Amount: The Guarantee could cover up to 100% of the principal and interest of a private debt tranche. The amount of private debt guaranteed by the World Bank should be the minimum required to complete the financing package.

Risk Coverage: Risk Coverage would be limited to specific sovereign risks such as: (a) the risk of the government not fulfilling its contractual payment obligations, including payment obligations of state-owned entities; and (b) traditional country risks such as foreign currency convertibility, war and civil disturbance, and expropriation. The scope of risk coverage under the guarantee would be the minimum required to mobilize financing for the project.

Counter Guarantee: IDA will obtain a counter-guarantee from the host Government.

Guarantee Fee: IDA would charge the project company a minimum Guarantee Fee of 75 basis points (bp) per annum.

Processing Costs: For all guarantees to private sector borrowers, the sponsors or project company would be required to pay a one-time *Initiation Fee* of 15 basis points and in addition, reimburse the costs incurred by the World Bank in the course of drafting and negotiation of the guarantee agreements, and review of project documentation.

Project Structure: Financial arrangements such as a special escrow account for debt service may be required to help provide a cushion against the possibility of a guarantee being called.

24. Across all sectors, it is important that the government establish objective and autonomous regulatory agencies to protect the public interest, monitor infrastructure provision, set tariffs on a stable, legal basis, and ensure a fair market environment for infrastructure provision. This means that within government, regulatory, ownership, and service provision functions need to be allocated to independent bureaucratic entities to avoid conflicts of interest. In the energy sector,

policy and regulatory matters should be separate from commercial petroleum operations, and separate bodies should be established for the regulation of upstream and downstream gas operations (the latter perhaps to be combined with downstream electricity regulation). Deregulation, on the other hand, could produce dynamic results in the urban transport sector where provincial people's committees tightly control routes and fares. Deregulation of long distance telephone service will help to reduce high rates for international calls.

25. To protect public health and the environment, appropriate regulation of infrastructure services and users is needed. Vietnam's abysmal road accident rate could be reduced by modernized safety regulation and more stringent enforcement of these rules. Stronger enforcement, in turn, will require institution building in the traffic police force. Similarly, environmental health could be improved by regulation of domestic and industrial waste discharges with a suitable system of incentives and penalties. Public awareness about and participation in the formation of appropriate regulations and their enforcement would also increase effectiveness.

26. ***Getting the Prices Right.*** "Getting the prices right" will encourage private investment in infrastructure as well as generate more self-financing investment by infrastructure SOEs. It will increase the efficiency of service delivery, and make up for funding shortfalls in government agencies' delivery of services. In Vietnam, getting prices to cover costs will lead to higher tariffs for transport, energy, and water. This will come, however, with vastly improved quality and availability of service. Maintaining prices at below cost-recovery levels has resulted in poor quality service and lower access for the poor.

27. In no infrastructure service in Vietnam do tariffs meet the long-run marginal cost (LRMC) of supply. In many cases, regulated tariffs cannot cover even routine operation and maintenance costs. Thus, dependency on the state budget or on credit allocations is high. Mechanisms now in place for cost recovery range from *direct user charges* in the case of electricity, telecommunications and water supply, and annual *fees* for irrigation water supply and for vehicle registration; to *indirect methods*, such as fuel tax surcharges for highways.

28. Price ceilings imposed by the State Price Committee don't allow water companies to cover routine operations and maintenance costs. In water supply, tariffs in Vietnam are low by regional standards. Domestic and SOE rates in Hanoi, for example, although increased by 4,900 percent since 1988, are only $0.05 and $0.11 per cubic meter of water compared to the estimated LRMC of $0.26 per cubic meter. Currently, many of the poor who lack clean running water are compelled to pay nearly twenty times as much for bottled water. An average tariff level of $0.43 per cubic meter would allow Hanoi to finance 20 percent of its future investment costs in 2002, as well as cover its operations and maintenance costs.

29. In the energy sector, electricity prices are below the long-run marginal cost of producing power. Average tariffs for electricity, for example, are only $0.048 per kilowatt hour yet the long-run marginal cost of power provision is about $0.08 per kilowatt hour.[18] More appropriate electricity tariffs will conserve power and lower investment requirements in the electricity sector by about $770 million by 2002.[19] Stated differently, tariff reform will save Vietnam 624 MW of

capacity between 1998 and 2002. It will also help to put the Electricity Authority of Vietnam (EVN) on sounder financial footing. Prices hikes may be particularly desirable in urban areas where consumers pay one-half to one-third what rural users pay and consume 10-20 times as much energy.[20] Cheap electricity means less conservation and more waste. With increased tariffs, EVN is expected to finance 30 percent of its investment needs.

30. User charges play a limited role in the roads sector. Revenue raised through tolls met only 4 percent of the estimated maintenance needs for roads in 1997. Vietnam's road network includes some 210,000 km of various classes of road, of which 72,000 km are part of the designated national network. Financing of road maintenance currently depends on state budget allocations of $71 million per year – only about 40 percent of estimated requirements -- shared between the national and provincial highway transport authorities included in the designated network. Little funding reaches district or commune levels; voluntary, in-kind support from local residents fills the gap. In order to help stabilize funding for maintenance, a fuel tax surcharge of VND500 per liter is currently levied but a large share of the $149 million revenue is retained by the Ministry of Finance for other purposes. In order to safeguard road maintenance, a regulated Road Fund financed by fuel surcharge revenues (from which non-transport users would be exempt), and a new fee for heavy goods vehicles, could be established and operated on commercial lines. The annual cost of maintenance for the entire network is estimated to be $190 million which will require a surcharge of about VND980 on petrol and VND560 on diesel fuel.

31. All tariff increases must be implemented with attention to issues of equity and fairness. This means that those who use infrastructure most heavily must be made to bear the majority of the burden for financing its maintenance and operation. Trucks and other heavy vehicles should pay for the damage they cause to roads. Urban residents and industrial users should bear the burden of higher use of electricity and water. Finally, tariff setting should be done according to predictable criteria in consultation with local providers and users.

32. ***Expediting Government Decisions Can Unlock Private Foreign Investment.*** Expeditious government decisions would be especially fruitful in the energy sector. Table 4.5 shows several energy projects in advanced stages of discussion. Timely decisions on gas sector projects, and on BOT offers for electricity generation, can unlock millions of dollars of foreign investment. Though Vietnam has limited access to FDI today, these projects are very likely to get financing from international capital markets. They are generally high risk but also high payoff projects in which the specific country risks associated with Vietnam will play a less significant role.

Table 4.5: Private Energy Investments in Pipeline

	Project details	Total private sector investment (US$ mill.)
Gas Sector		
Nam Con Son Gas Field Development	3 BCM/yr.	430
Offshore Gas Pipeline	400 km	370
Power Sector		
Phu-My 2-2 BOT CCGT	700 MW	450
Phu-My 3 Power	600 MW	400
Quang Ninh Thermal	300 MW	300
Wartsila	150 MW	200
Total:		**2,150**

Source: Vietnam Energy Sector Report 1998.

33. These projects, if implemented quickly, will yield large gains. Undeveloped natural gas reserves, estimated at roughly 100 billion cubic meters, and valued at about $5 billion or one-fifth of the gross national product of Vietnam, are potential revenue delayed at a time when revenue is most needed. Similarly, a new gas pipeline raises power generation costs by $70-140 million for each year it is delayed after the year 2000.[21] Each day delayed in gas plant construction forces Vietnam to rely on imported fuel for electricity production which costs the economy $250,000 a day. On the other hand, concluding a commercial agreement to develop the Nam Con Son Gas Field at an early date will help mobilize $1.3-1.5 billion in additional foreign direct investment. Finalizing one of the above power projects in 1998 would greatly help to alleviate the electricity shortages which are predicted for coming years and send a signal that the government is serious about promoting private sector participation. In general, the cost of unserved energy demand is stifled production -- in economic terms, unserved energy demand is estimated at 50 cents per kilowatt hour, or almost seven times the cost of supply![22] Delays in decisions will have large costs.

IMPROVING THE EFFECTIVENESS OF PUBLIC PROVIDERS

34. ***Increasing Autonomy and Enhancing Financial Efficiency.*** Besides attracting more private sector participation, the government needs to improve the effectiveness of public providers as well. In a strategy of mixed, public-private provision of infrastructure such as the one Vietnam is following, this is essential. This will not only generate resources for self-financing of investment, but also improve the efficiency of service delivery. Vietnam must open up more sectors for private investment and develop regulatory frameworks. Currently, public infrastructure services are provided by two types of public organizations:

- *government service agencies* organized nationally like the Vietnam Roads Administration and the National Waterways Administration, or locally, like Irrigation Management Companies, or Provincial and District Roads Departments, which receive their funding from the state budget; or by

- *public utility-type organizations* – state-owned enterprises -- which are either nationally organized and administered, such as the Electricity Authority of Vietnam (EVN), Posts and Telecommunications (PTT) and the Ports Administration (Vinamarine); or local government-owned, like urban water supply and sanitation companies, which are revenue-earning and exercise some autonomy over their management and operations.

35. Public providers of infrastructure services need a greater degree of independence and associated accountability then they have currently. While the government should set clear policies and goals for infrastructure provision and provide regulatory supervision, it should leave detailed planning and implementation of delivery of services to providers. State companies should be run along commercial principles, not become holding bins for underemployed labor, as so many infrastructure SOEs now are. Firms' access to credit must be on commercial terms.

36. Successful public sector organizations enjoy financial strength. As discussed in the section on promoting private participation, this hinges to a large extent on tariffs which, at a minimum, cover operations and maintenance costs. Effective cost accounting (according to international accounting standards) improves cost control and increases transparency. However, if public sector organizations are required to deliver services below cost at the request of the government, fiscal support must be provided (which is, of course, easier said than done). Many well-run public providers also rely on private contractors and private capital in infrastructure maintenance and operation. In addition, public sector providers require experienced and well-trained professionals to manage operations efficiently. Attracting and retaining talented personnel is one key to the long-term viability of public infrastructure companies. Run well, with financial accountability, some of the larger SOEs also have the potential to mobilize domestic savings.

37. ***Accelerating Use of Committed ODA for Public Projects.*** Accelerating ODA absorption means quickening the pace of implementation of existing aid commitments by public providers. This will free up an important source of public financing. However, accelerating new commitments will not be easy. Due to systemic project management problems, Vietnam has not yet achieved the level of disbursement performance common to other ODA beneficiaries in the East Asia region. In order to speed up disbursement of the $7 billion in committed ODA now waiting in the wings, Vietnam needs to eliminate delays caused by processing difficulties in steps such as engineering design, resettlement planning, annual budgeting of counterpart government funds, procurement processes, payment arrangements, and consultant recruitment. The following box elaborates on these points.

Box 4.3: Measures that are key to accelerating disbursement from existing and future ODA commitments

- Better *prioritization of future expenditures* through an improved PIP mechanism based on program priorities, factual analysis, and participatory and rational selection criteria, which includes balance between investment, and operations and maintenance costs, and a more appropriate regional focus reflecting relative poverty conditions.

- Reducing *processing costs* through harmonization of government and donor procedures at programming and project levels, particularly in preparation and implementation.

- Increasing *quality of planning and design services* by formation of an independent, competitive, consulting industry and encouragement of joint ventures with foreign consultants in order to facilitate technology transfer.

- More *cost effective infrastructure assets* through technology transfer to help modernize obsolete national planning and engineering design standards, construction techniques, and building materials standards.

- Controlling investment costs and quickening results through *improved project management* using open, competitive bidding processes, strong quality control mechanisms, streamlined disbursement mechanisms, and just-in-time monitoring.

- Increasing the *competitiveness of the construction industry* through equitization of medium- and large-scale firms, and promotion of private firms; encouragement of joint-ventures with foreign contractors; and elimination of construction input price controls.

EMPOWERING USERS AND THE POOR

38. ***Protecting Access of Vulnerable Groups.*** There is scope to alleviate the pressures put on the poor by the current crisis by accelerating funding commitments for rural infrastructure. The government's clear priority for public investment during the crisis period is to protect vulnerable groups and the poor, and to stimulate growth in rural areas. However, decisions to shift investment into rural development priorities through the launch of major programs for poverty alleviation in poor communes -- much of which entails community infrastructure construction and national reforestation -- won't have much impact until 2000, at the earliest. Rebalancing intersectoral and regional priorities will be a task for the upcoming 2001-2006 PIP. Therefore, making the most of *existing* commitments to rural development will be the only way to make an impact in the short-term.

39. Implementation of the PIP in agriculture and irrigation actually shrunk during the current plan period, reflecting implementation delays in several major projects. In the case of irrigation, however, more is expected to be spent during 1999 and 2000. Chapter 3 suggests increased funding allocations for rural infrastructure. But, key to realizing these goals will be accelerated adoption of simplified procedures as well as expansion of implementation capacity through decentralized arrangements.

40. ***Involving Users of Transport, Water and Sanitation Services.*** Decentralizing service provision and involving users in the design and operation of infrastructure can improve the efficiency of infrastructure investment. The efficacy of decentralization, however, depends greatly on building local administrative capacity. In the transport sector, decentralization should include implementation of maintenance as well as local financing to ensure that communities are willing to pay for the quality of road service provided. A review of 42 developing countries found that where road maintenance was decentralized, backlogs were lower and the condition of roads was better. Countries which had decentralized provision also had a higher proportion of paved roadway and more roads in "good" condition. Estimates suggest that the Vietnamese government could save $4 billion in inter-urban road transport and $2.4 billion in port investment over the next decade if the authorities would shift from supply-oriented policies to those more keyed to likely demand.[23] Local government is better able to respond to this demand than the center.

41. In water and sanitation, per capita water production costs are *four times higher* in centralized than in fully decentralized systems and lowest of all when decentralization is combined with centralized coordination.[24] Local areas should be assigned responsibility for managing local systems, collecting fees, monitoring use and maintenance, and planning local budgets, all of which may help reduce high levels of systemic waste given proper local capacity building. Currently, rural areas in Vietnam are starved for funding for water-related projects because few central fiscal resources make it down to the district and commune levels.

CONCLUSION

42. There will be no way for Vietnam to avoid trauma to its economy from the effects of the Asian crisis. In the short term, however, some relief may be had from redeploying existing investment commitments and accelerating their implementation. For the longer term in the infrastructure sector, as in other sectors, the best way to ameliorate this impact and to improve efficiency is by improving the administration of public service providers and utility enterprises, and by inviting private participation in infrastructure provision and construction. An injection of market reform to enable competition is the best prescription for achieving both.

43. Most of all, this means "getting the prices right," regulatory reform, decentralization, sector reform, and cutting loose inefficient SOEs which provide poor service at high cost. Higher prices, while initially difficult for consumers, will improve the quality and quantity of infrastructure by attracting private participation and allowing for greater cost recovery with which to fund operations and maintenance. Principles of corporate governance should be introduced in the public sector. Such measures will enable Vietnam to improve infrastructure where improvements are most needed: in linking rural market to rural market and urban areas to the proximate hinterlands; in expanding access to safe water, sanitation and electricity; and by intensifying exploration and provision of energy.

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[1] Vietnam Transport Sector Report 1998. Passenger traffic increased by 90%.
[2] Vietnam Energy Sector Report 1998.
[3] Vietnam Transport Sector Report 1998. 70% of the rural population does not have year-round access to all weather roads and markets.
[4] Vietnam Energy Sector Report 1998.
[5] World Development Indicators 1998.
[6] Of this, $1.5 billion is for energy, $0.5 billion for transport and the remainder, US$1 billion, for all other infrastructure sectors.
[7] In developing countries, enhancing operational efficiency has generated $55 billion of additional infrastructure services.
[8] Vietnam Economic Times, July, 1998.
[9] Ibid.
[10] Vietnam: Advancing Rural Development, 1998.
[11] Vietnam Transport Sector Report 1998.
[12] Vietnam Transport Sector Report 1998. Capital cost savings of $2 billion over a 15 year period in today's dollars.
[13] Advancing Rural Development in Vietnam, 1998.
[14] World Bank staff estimate of potential port capacity.
[15] For provision of bridges and highways, as well as primary and secondary roads, only public provision is currently viable.
[16] Examples include value-added services in telecommunications (cellular phone and telephone directory information services), informal, non-piped sanitation systems, and some rail and port services (such as catering).
[17] This group includes long-distance and basic telecommunications services, and power generation, where capital requirements are higher.
[18] Vietnam Energy Sector Report 1998.
[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Ibid.
[23] Ibid.
[24] World Development Report 1994.

5. MEDIUM-TERM PROSPECT AND EXTERNAL FINANCING

1. ***The Global Context.*** Vietnam's outlook depends on what happens outside (in Asia and the world), as much as on what happens in Vietnam. External prospects are highly uncertain, and it is prudent to base policy on a slow recovery in East Asia. Table 5.1 shows the current projections for the global economy recently prepared by the World Bank (cite GEP). The five East Asia "crisis countries" (Indonesia, Philippines, Korea, Malaysia, Thailand) are projected to have no growth in 1999, with only a slow recovery thereafter. High income countries are expected to have another year of low growth in 1999, pulled down, again, by Japan. China is expected to continue a reasonably healthy growth trajectory. It is important to recognize, however, that there remains a serious downside risk to these projections: a global recession is still a possibility.

Table 5.1: World Growth, 1981-2007 (Annual Percentage Change in Real GDP)

				Forecasts			
Region	**1981-90**	**1991-97**	**1997**	**1998**	**1999**	**2000**	**2001-07**
World total	3.1	2.3	3.2	1.8	1.9	2.7	3.2
High-income countries	3.1	2.1	2.8	1.7	1.6	2.3	2.6
Developing Countries	3.0	3.1	4.8	2.0	2.7	4.3	5.2
East Asia	7.7	9.9	7.1	1.3	4.8	5.9	6.6
East Asian crisis countries [a]	6.9	7.2	4.5	-8.0	0.1	3.2	5.2
Developing countries, excl. Transition and ASEAN-4[b]	3.1	5.1	5.5	3.9	3.6	4.7	5.2

Note: GDP is measured at market prices and expressed in 1987 prices and exchange rates. Growth rates over historic intervals are computed using least squares method.

a. Indonesia, the Republic of Korea, Malaysia, Philippines, and Thailand.

b. Asian crisis countries, excluding the Republic of Korea.

Source: World Bank, Global Economic Prospects, 1998.

2. ***The Domestic Policy Response.*** More fundamental to medium-term prospects is the extent to which Vietnam adopts an accelerated pace of reforms. Though the current pace is faster than that of the previous two years, it is not adequate to prevent further declines in GDP growth, given the large decline in available resources. It is also insufficient to reverse the worsening perceptions of investors and exporters. Agricultural growth will probably be more buoyant next year. But faster growth of rural industry, which is key to future rural growth, will require more rapid reforms in trade, state enterprises, banking and in attitudes towards the private sector.

3. Under current trends, Vietnam faces three sets of risks that may pull down growth in both the near term and over a longer period. First, continued import contraction could lead to a downward spiral, as enterprises and exporters are hurt, leading to their inability to repay debts, in turn weakening fragile banks even further. As a result, credit could contract, and/or depositors' confidence may be undermined. Second, a slow reform strategy will make Vietnam less ready than its neighbors to participate fully in the regional recovery three years from now. Indeed, low growth between now and then may also impair Vietnam's social and physical infrastructure. Third, the country's capacity to mobilize additional external financing, both commercial and concessional, may be further diminished, given low and falling growth.

4. Earlier chapters argued that an accelerated reform path will be necessary to ensure positive per capita growth rates over the next three years. Credible announcement of that reform path can immediately improve the perceptions of potential investors and current producers and exporters. It will unlock foreign investments that are in the pipeline, most of which are in energy. Exporters will have the incentive to improve competitiveness and to invest in the development of new export markets. Normal access to the U.S. market and improved penetration in Europe could also help compensate for the sharp downturn in the Asian market. Reforms in trade, banking and state-enterprises could channel resources to rural industry and exports, in particular labor-intensive manufactures and processed agriculture, thus promoting faster rural growth and export earnings.

5. ***Growth Under Accelerated Reforms.*** The Government's accelerated policy agenda implemented over the coming months will begin to pay off in terms of higher growth in 2000, with the real effects in succeeding years. However, the decline in growth would begin immediately. For 1999, GDP growth will likely remain at this year's depressed level; if poverty is not to rise, enhanced social and rural infrastructure programs will be needed. In 2000, growth is likely to be in the range of 4.5 to 6.0 percent and in 2001, 5.5 to 7.0 percent. These ranges are indicative of the difficulty of predicting the exact extent of the growth-response to reforms. For example, recovery of both exports and investment is expected in those two years. However, uncertainty about the timing and the impact of most-favored nation access to the US market and the magnitude of Asia's recovery makes the export growth rate uncertain. Any estimate of the extent of FDI inflow will also have a significant margin of error, given the constrained external environment. The precise magnitude of domestic supply response to reforms (e.g. rural industry) is difficult to pin-point, too; historically it has been large in Vietnam and so a range is appropriate. Table 5.2 provides indicative estimates of future growth.

Table 5.2: Economic Growth under Accelerated Reform

		Est.	**Projected**		
	1997	**1998**	**1999**	**2000**	**2001**
GDP Growth (% pa)	**8.8**	3.5 - 4.5	3.5 - 4.5	4.5 - 6.0	5.5 - 7.0
Agriculture	4.5	2.5	3.5	3.5	3.5
Industry	13.1	7.0-8.0	6.0-8.0	6.5 – 7.5	7.5-8.2
Services	8.3	1.5 - 3.0	1.0-2.5	3.5 – 6.3	5.0-8.0

Source: Actual data: Vietnamese authorities, Bank and Fund staff estimates
Projection: World Bank staff estimates

6. ***External Balance.*** The current account deficit has declined significantly out of necessity. Falling foreign investment inflows have reduced the deficit from 7.6% of GDP in 1997 to 4.6% of GDP in 1998, with more than 60 percent of this reduction coming from a decline in the trade deficit. Imports have been compressed using import controls and foreign exchange restrictions. In the absence of reforms and/or additional financing, this pressure on import capacity will intensify, with adverse implications for investment and growth.

Table 5.3: External Balance, 1996-2001 (US$ Billion)

	Rev. 1996	Prel. 1997	Est. 1998	Projected 1999	2000	2001
Exports (fob)	7.3	9.0	9.3	9.7	10.9	12.5
Imports (fob)	10.5	10.3	10.1	10.4	11.9	14.0
Trade Balance	-3.2	-1.4	-0.8	-0.6	-1.0	-1.5
Services & Transfers (Net)	0.7	-0.4	-0.2	-0.2	-0.1	0.1
O/w: Interest payments	0.5	0.5	0.6	0.7	0.8	0.7
Current Account Balance (exc. Grants)	-2.6	-1.9	-1.2	-1.0	-1.2	-1.6
Share in GDP	-11.2%	-7.6%	-4.6%	-4.0%	-4.5%	-5.3%
Export Value Growth Rate		22%	4%	5%	12%	15%
Import Value Growth Rate		-2%	-2%	3%	15%	18%

Source: Actual data: Vietnamese authorities and World Bank/IMF staff estimates.
Projections: World Bank staff estimates.

7. The decline in imports cannot continue if Vietnam is to grow out of its current difficulties. For 1999, with foreign investment rates still depressed and with GDP growth still low, total imports are projected to grow modestly. In subsequent years it will be essential for imports to grow at a faster rate, e.g. around 15 percent. Under an accelerated reform program, exports are projected to grow slightly faster than imports in 1999, and thereafter at roughly the same pace. However, despite expected gains in export earnings, Vietnam will still have a difficult challenge in mobilizing external finance for needed imports in the coming years. In view of this year's dramatic fall in FDI, careful thought will need to be given to filling the financing gap for the coming three years.

8. ***External Financing 1999-2001*** Under current trends with no acceleration of reforms, FDI disbursements could fall further next year. An assessment of investor sentiment and the pipeline of firm commitments make this likely. If this were to happen, and if ODA disbursements were at the same level as 1998, Vietnam would have an overall external financing gap of around $1 billion a year for the next 2-3 years.

9. This overall gap can be filled from three sources. First, FDI disbursements need not continue to decline. With an accelerated reform program and with the rapid completion of a number of important infrastructure projects with private developers, it should be possible to sustain higher FDI inflows. It would, however, be imprudent to assume that FDI flows will be quickly restored to the extraordinary levels of 1997 (when they reached almost 10 percent of GDP). Second, disbursements from the existing ODA pipeline could be accelerated with

continued progress on project implementation arrangements. The pipeline of committed but undisbursed ODA stands at around $6 billion, offering good scope for accelerated disbursements.

10. These two sources of additional finance – FDI and accelerated disbursements from existing ODA commitments – could cover on average about half of the $1 billion gap per year for three years. This has been assumed in the figures in table 5.4. This still leaves an estimated gap of around $500 million per year over the next three years.

Table 5.4: External Financing Requirements, 1999-2001 (US$ billion)

	Prel.	*Est.*		*Projected*	
	1997	*1998*	*1999*	*2000*	*2001*
Financing Requirements	**3.01**	**2.28**	**2.25**	**2.68**	**3.11**
Current Account Deficit	1.90	1.18	1.03	1.24	1.56
Medium & Long-Term Amortization	0.80	1.05	1.14	1.34	1.31
o/w FDI related loans	0.17	0.36	0.56	0.73	0.76
IMF Repurchases	0.05	0.08	0.03	0.02	0.05
Reserve Requirements	0.26	-0.03	0.05	0.08	0.20
Financing Resources	**3.01**	**2.28**	**1.75**	**2.19**	**2.62**
Official Grants	0.18	0.20	0.21	0.22	0.22
ODA Loan Disbursements	0.57	0.86	0.94	1.07	1.20
Foreign Direct Investment	2.00	0.60	0.50	0.80	1.10
Non-Concessional Borrowing	0.60	0.40	0.10	0.10	0.10
Short-term Capital (Net)	-0.34	+0.22	...	...	...
Financing Gap			*0.50*	*0.50*	*0.50*

Source: Actual data: Vietnamese authorities and Bank and IMF staff estimates.
Projections: Bank staff estimates

11. ***The Role of Official Development Assistance.*** The international community can play an essential role over the next three years as Vietnam seeks to navigate through the current difficulties. There is evidence that ODA to date has been largely effective in Vietnam, both because rehabilitation of existing infrastructure has yielded high returns and because the earlier reforms created a policy environment conducive to the effective use of ODA. A recent major cross-country study on the effectiveness of ODA around the world found that the policy environment is the most important determinant of aid effectiveness (see box 5.1). This finding has great relevance for the relationship between Vietnam and the official development community, and explains why agreement on policy reform is such a central element of the CG agenda.

12. ***Quick Disbursing Assistance.*** In the presence of a credible acceleration of Vietnam's *doi moi* renewal program, continued and increased donor support is both justified and necessary. First, the reforms themselves – especially SOE reform, trade liberalization and banking reform -- will involve social and financial costs to Vietnam. Second, the effectiveness of the reform measures in terms of generating an adequate supply response will require that foreign exchange be available for needed imports during the next three years. Combined, these argue for the provision of quick disbursing funds of around $500 million per year, predicated on a strong

program of action. The World Bank, the IMF, and the Asian Development Bank are currently in discussions with the Government on the form of a policy and financing package. Other donors would need to consider providing such quick disbursing assistance, too.

13. With regard to project financing, the need is not so much for increased *levels* of annual assistance, but for a different *composition* of assistance. In the current slowdown, a way must be found to channel resources more effectively to the local level for employment- generating small and medium scale infrastructure programs. Similarly, after banking reform takes place, an increasing share of support needs to go to help promote the domestic private sector, especially through the provision of credit to small and medium enterprises. Similarly, it will also be essential to think innovatively about how to support the Government's new emphasis on rural development. For a growing share of large scale infrastructure investment – especially in power generation and water supply – FDI can play a leading role, thus freeing up some ODA resources for poverty-focused and human resource programs, "public goods" programs and in creating an enabling environment for the domestic private sector. Finally, it will be essential that donors find ways of improving the practice of partnership – with other donors, with the government and with civil society.

Box 5.1: ODA Must Go Hand-in-Hand with Policy and Institutional Reforms

Foreign aid has at times been a spectacular success – and others, an unmitigated failure. A 1998 World Bank study, "Assessing Aid: What Works, What Doesn't, and Why," explores options for improving the effectiveness of ODA. It concludes that aid is only effective if it helps countries to help themselves:

- With good economic policies, an additional 1% of GDP in aid increases growth by 0.5 %. Aid has no effect or a negative effect on growth in countries with poor economic policies.
- Combined with sound economic management and policy reform, evidence shows assistance translates into a decline in poverty and infant mortality. There is no such correlation in countries with poor economic management and policies.
- In countries with sound economic policies, aid acts as a magnet for private investment. Every $1 in aid increases private investment by $2. In distorted policy environments, ODA is found to crowd out private investment.
- The most critical contribution of aid projects is not to increase funding for particular sectors but to help improve service delivery by strengthening sectoral and local institutions. ODA is most effective when it can compliment local efforts to reform institutions.
- Aid works more effectively when it supports a participatory approach to service delivery. When combined with appropriate decentralization and local capacity building, ODA can have a big impact on the quality of public provision of social and economic services. A World Bank study of 121 rural water supply projects financed by ODA shows that 62% of projects which had local beneficiary involvement were successful. Of those projects with little beneficiary involvement, only 12% were successful.

14. ***External Debt Management.*** Vietnam's debt and debt-servicing burden is sustainable. Its total convertible debt stock was US$ 10 billion at end-1997 (or 40 percent of GDP) with two-thirds of it, public or publicly guaranteed. Half the debt stock is on concessional terms. And most of the remaining half, which is non-concessional, came as part of foreign direct investment flows. Total debt stock is projected to rise to $14.4 billion by 2001, with most of the growth in debt coming from concessional loans. The share of concessional debt is thus projected to rise

from half in 1998 to three-quarters of total debt in 2001. This is because FDI is likely to be constrained to substantially lower levels than before, and with it, FDI-related commercial debt.

Table 5.5: Vietnam: Debt Stock and Debt Service *a/* (US$ Billion)

	Estimated			***Projected***	
	1997 b/	***1998 b/***	***1999***	***2000***	***2001***
Total Debt Outstanding and Disbursed (TDOD)	10.05	10.76	13.08	13.61	14.44
Public	**6.57**	**7.30**	**9.91**	**10.74**	**11.72**
Multilateral (incl. IMF)	1.30	1.97	2.69	3.40	4.13
Bilateral	**5.27**	**5.34**	**7.23**	**7.34**	**7.59**
Concessional *c/*	3.34	3.66	5.80	6.14	6.54
Non-concessional *d/*	**1.92**	**1.68**	**1.43**	**1.20**	**1.05**
Foreign Direct Investment	3.49	3.45	3.17	2.87	2.72
Key Debt Service Indicators (%)					
Debt Service/ XGNFS	11.7	13.9	15.0	15.1	13.1
Debt Service/ GDP	**5.4**	**6.4**	**7.3**	**7.7**	**6.9**

Note: a. Includes future disbursements
b. Convertible debt only.
c. For 1999 onwards, includes the rescheduled non-convertible Russian debt.
d. Suppliers credit, financial institutions, export credits, and other private creditors.
Source: World Bank staff estimates, based on information from the Government.

15. The debt-servicing burden, after falling until 1997, is expected to rise. Debt service fell from 27 percent in 1989 to nearly 12 percent in 1997. Rescheduling and debt-service reduction agreements under the Paris and London Clubs made this possible. Despite lower export growth rates in the coming years, current and projected debt service ratios (shown in Table 5.5) of between 13 and 15 percent remain manageable and sustainable.

16. Though the debt and debt-servicing burden remains low, current pressures on Vietnam's external account argues for a prudent debt-contracting strategy. Increases in non-concessional borrowing should be limited to ensure that debt service ratios do not rise beyond the 15 percent under current conditions. Tapping non-concessional sources to fund higher investment rates and growth rates is likely to undermine macroeconomic stability.

17. To improve monitoring and debt management capacity, the Government has recently revised its decrees and regulations governing external debt. A new decree has clarified the roles of different agencies in external debt management and sought monitoring of all debt, not only public debt. An action plan has also been formulated and donor technical assistance to implement the plan is being sought.

Statistical Appendix

Table 1.1: POPULATION

Year	Population (mid-year) (000 persons)	Growth Rate (%)	By Sex Male	By Sex Female (000 persons)	By Area Urban	By Area Rural
1975	48,030	-	-	-	-	-
1976	49,160	2.35	23,597	25,563	10,127	39,033
1977	50,237	2.19	24,197	26,039	10,116	40,114
1978	51,337	2.19	24,813	26,524	10,105	41,226
1979	52,462	2.19	25,444	27,018	10,094	42,368
1980	53,630	2.23	26,047	27,583	10,295	43,335
1981	54,824	2.23	26,665	28,159	10,499	44,324
1982	56,045	2.23	27,297	28,747	10,708	45,336
1983	57,292	2.23	27,944	29,348	10,921	46,371
1984	58,568	2.23	28,607	29,961	11,138	47,429
1985	59,872	2.23	29,285	30,587	11,360	48,512
1986	61,109	2.07	29,912	31,197	11,817	49,292
1987	62,452	2.20	30,611	31,841	12,271	50,181
1988	63,727	2.04	31,450	32,277	12,662	51,065
1989	64,774	1.64	31,589	33,185	12,919	50,801
1990	66,233	2.25	32,327	33,906	13,281	51,908
1991	67,774	2.33	32,994	34,780	13,619	53,111
1992	69,405	2.41	33,814	35,591	13,285	55,075
1993	71,026	2.33	34,671	36,355	13,663	56,318
1994	72,510	2.00	35,386	37,123	14,139	57,326
1995	73,962	2.00	36,095	37,867	14,575	58,342
1996	75,355	1.88	36,923	38,432	15,086	59,225
1997	76,710	1.80	37,736	38,973	15,726	59,939
1998	78,090	1.80	38,416	39,675	16,009	61,018

Note:

Source:

EASPR: September 6, 1998, based on GSO update.
Note: The revision above was made by the Population Department in early 1991

Table 1.2: POPULATION BY SEX, BY SECTOR, AND BY PROVINCE

Region/Province	1994 Population (000 Persons)				
	Total	Male	Female	Urban	Rural
Ha Noi - Hai Phong:					
Ha Noi	2.194.4	1,077.2	1.117.2	1.150.8	1.043.6
Hai Phong	1.615.1	786.5	828.6	539.5	1.075.6
Sub-Total	3.809.5	1.863.7	1.945.8	1.690.3	2.119.2
Northern Mountains:					
Ha Giang	535.2	259.8	275.4	47.6	487.6
Tuyen Quang	645.3	315.2	330.1	64.3	581.0
Cao Bang	638.0	313.8	324.2	64.6	573.4
Lang Son	689.6	311.2	378.4	89.6	600.0
Lai Chau	520.6	296.1	224.5	74.3	446.3
Lao Cai	552.1	272.2	279.9	72.7	479.4
Yen Bai	651.5	318.0	333.5	115.6	535.9
Bac Thai	1,168.0	578.2	589.8	219.6	948.4
Son La	802.0	396.8	405.2	103.2	698.8
Hoa Binh	729.1	360.9	368.2	117.6	611.5
Vinh Phu	2.248.7	1,083.7	1.165.0	163.5	2,085.2
Ha Bac	2.308.2	1,100.6	1.207.6	114.8	2.193.4
Quang Ninh	899.6	454.1	445.5	387.5	512.1
Sub-Total	12.387.9	6.060.6	6.327.3	1.634.9	10.753.0
Red River Delta:					
Ha Tay	2.256.7	1.067.4	1.189.3	173.1	2.083.6
Hai Hung	2,708.6	1.300.1	1.408.5	140.9	2,567.7
Thai Binh	1,789.2	844.2	945.0	103.5	1.685.7
Nam Ha	2.640.3	1.254.1	1.386.2	303.3	2,337.0
Ninh Binh	861.1	416.6	444.5	76.5	784.6
Sub-Total	10.255.9	4,882.4	5.373.5	797.3	9.458.6
North Central Coast:					
Thanh Hoa	3.381.7	1.621.2	1,760.5	319.5	3.062.2
Nghe An	2.743.4	1,340.4	1,403.0	225.0	2.518.4
Ha Tinh	1.308.8	630.9	677.9	74.5	1,234.3
Quang Binh	762.3	369.5	392.8	89.1	673.2
Quang Tri	535.0	254.5	280.5	89.2	445.8
Sub-Total	8.731.2	4.216.5	4,514.7	797.3	7,933.9
South Central Coast:					
Thua Thien - Hue	995.4	483.8	511.6	256.6	738.8
Quang Nam - Da Nang	1.952.7	937.3	1.015.4	603.4	1,349.3
Quang Ngai	1.178.8	562.1	616.7	102.0	1,076.8
Binh Dinh	1,407.0	676.1	730.9	251.1	1,155.9
Phu Yen	730.6	348.1	382.5	135.5	595.1
Khanh Hoa	947.0	464.4	482.6	356.1	590.9
Ninh Thuan	459.3	222.0	237.3	105.9	353.4
Binh Thuan	882.2	426.1	456.1	208.1	674.1
Sub-Total	8.553.0	4.119.9	4.433.1	2.018.7	6,534.3
Central Highlands:					
Gia Lai	763.3	374.2	389.1	170.5	592.8
Kon Tum	255.8	120.2	135.6	55.5	200.3
Dac Lac	1.210.5	598.2	612.3	201.6	1,008.9
Lam Dong	769.1	388.4	380.7	259.1	510.0
Sub-Total	2.998.7	1.481.0	1.517.7	686.7	2.312.0
Ho Chi Minh City and Environs					
Ho Chi Minh City	4.391.9	2.108.1	2.283.8	3.251.8	1,140.1
Song Be	1.113.8	541.3	572.5	55.1	1,058.7
Tay Ninh	888.1	426.3	461.8	105.4	782.7
Dong Nai	1.813.4	892.2	921.2	455.0	1.358.4
Baria - Vung Tau	670.8	330.4	340.4	224.9	445.9
Sub-Total	8.878.0	4.298.3	4,579.7	4.092.2	4,785.8
Mekong Delta:					
Long An	1.251.7	591.4	660.3	158.2	1,093.5
Dong Thap	1.490.7	706.6	784.1	236.3	1,254.4
An Giang	1,970.7	954.0	1.016.7	365.6	1,605.1
Tien Giang	1,655.8	779.5	876.3	200.7	1,455.1
Ben Tre	1.330.2	651.8	678.4	97.5	1,232.7
Vinh Long	1,061.9	504.1	557.8	144.9	917.0
Tra Vinh	958.2	451.0	507.2	58.7	899.5
Can Tho	1,817.2	873.7	943.5	353.4	1,463.8
Soc Trang	1,197.1	565.2	631.9	195.6	1,001.5
Kien Giang	1,359.7	655.5	704.2	285.4	1,074.3
Minh Hai	1.757.4	842.7	914.7	325.6	1,431.8
Sub-Total	15.850.6	7,575.5	8.275.1	2,421.9	13,428.7
Grand Total	**72,509.5**	**35,386.4**	**37,123.0**	**14,139.3**	**57,325.5**

Note: Data do not add to grand total, due to possible exclusion of military forces.

[illegible]

Table 1.3: TOTAL EMPLOYMENT BY SECTOR
(000 persons)

	1990	1991	Rev. 1992	1993	1994	1995	1996	Prel. 1997	Prel. 1998	Prel. 1999	Prel. 2000
Total Employed Labor Force	30,289	30,974	31,819	32,724	33,664	34,590	35,792	36,994			
State	3,416	3,144	2,975	2,960	2,928	3,053	3,138	3,291			
Cooperatives	20,414	18,071	18,629)	-	-	-	-	-			
Non-state	6,459	9,759	10,215)	29,764	30,736	31,537	32,654	33,703			
State Sector Employment (by unit)	3,416	3,136	2,975	2,960	2,928	3,053	3,138	3,291			
Government	1,340	1,296	1,242	1,256	1,232	1,281	1,300	1,351			
Central	253	279	264	260	254	265	273	295			
Local	1,087	1,017	978	996	978	1,016	1,027	1,056			
State-owned Enterprises	2,076	1,840	1,733	1,704	1,696	1,772	1,838	1,940			
Central	1,091	1,018	978	995	996	1,055	1107	1178			
Local	985	822	755	709	700	717	731	763			
Employment by Sector											
Productive Sector	28,710	29,361	29,859	30,614	31,267	34,590	35,792	36,994			
Industry	3,094	3,156	3,210	3,322	3,366	3,435	3,501	3,503			
Construction	567	579	637	818	960	996	975	977			
Agriculture & Forestry	22,319	22,841	22,867	22,935	23,000	23,521	24,153	24,814			
Marine Products	275	281	293	490	565	601	623	630			
Transportation	523	533	537	550	556	781	856	856			
Hotels & Tourism	508	518	484	486	458	507	518	519			
Trade and Supply	1,266	1,292	1,640	1,813	2,137	2,040	2,311	2,825			
Other	158	161	191	200	225	133	201	202			
Non-productive Sector of which:	1,579	1,613	1,960	2,110	2,397	2,577	2,655	2,670			
Science	44	45	40	40	37	38	39	41			
Education & Training	753	769	844	883	947	973	994	999			
Culture, Arts, and Sports	55	56	72	77	91	94	96	96			
Health & social welfare	234	240	250	260	271	279	293	296			
Finance, Insurance, Banking	72	73	95	103	122	126	125	126			
State Management	289	295	292	298	297	393	409	411			
Others	132	135	367	449	632	674	698	702			

Note: Figures are rounded.
Source: General Statistical Office.
EASPR: September 6, 1998, based on GSO update.

Table 2.1: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR IN CURRENT PRICES (Billions of Dong)

	(Old Series)					(New Series)			
	1990	1991	1992	1993	1994	1994	1995	1996	1997
Total	41,955	76,707	110,535	136,571	170,258	170,258	222,840	258,609	295,696
State	13,811	26,137	40,012	55,740	70,267	70,267	83,643	98,596	114978
Non-State	28,144	50,570	70,523	80,831	99,991	99,991	139,197	160,013	180,718
Agriculture, Forestry	17,107	31,058	37,513	40,796	48,865	48,865	63,219	70,334	77520.0
-- State	688	1,294	1,423	1,824	2,210	2,210	2,995	-	-
-- Non-State	16,419	29,764	36,090	38,972	46,655	46,655	60,224	-	-
Industry -- Total	9,572	18,252	30,135	39,472	50,481	50,481	66,804	79,501	92357.0
-- State	5,848	11,864	19,833	25,933	33,558	33,558	45,207	-	-
-- Non-State	3,724	6,388	10,302	13,539	16,923	16,923	21,597	-	-
Industry	7,959	15,193	23,956	29,371	37,535	37,535	50,912	61,409	71718.0
-- State	5,025	10,477	17,053	20,943	27,618	27,618	-	-	-
-- Non-State	2,934	4,716	6,903	8,428	9,917	9,917	-	-	-
Construction	1,613	3,059	6,179	10,101	12,946	12,946	15,892	18,092	20639.0
-- State	823	1,387	2,780	4.990	5,940	5,940	-	-	-
-- Non-State	790	1,672	3,399	5,111	7,006	7,006	-	-	-
Services -- Total	15,276	27,397	42,887	56,303	70,912	70,912	92,817	108,774	125819.0
-- State	7,275	12,979	18,756	27,983	34,499	34,499	47,617	-	-
-- Non-State	8,001	14,418	24,131	28,320	36,413	36,413	45,200	-	-
Transport & Communications	1,449	2,860	4,662	6,036	6,924	6,924	8,747	10,634	12779.0
-- State	869	1,730	3,190	4,123	4,729	4,729	6,298	-	-
-- Non-State	580	1,130	1,472	1,913	2,195	2,195	2,449	-	-
Trade	5,460	9,742	15,281	17,549	23,072	23,072	29,198	33,974	38463.0
-- State	1,802	2,728	3,973	4,071	5,906	5,906	7,934	-	-
-- Non-State	3,658	7,014	11,308	13,478	17,166	17,166	21,264	-	-
Banking & Insurance	490	1,108	1,567	2,318	3,450	3,450	5,314	6,083	6940.0
-- State	482	1,104	1,562	2,311	3,439	3,439	4,596	-	-
-- Non-State	8	4	5	7	11	11	984	-	-
Public Adm., Medical, Education	3,608	6,807	9,718	14,402	18,270	18,270	22,993	27,973	31200.0
-- State	3,586	6,772	9,673	14,333	18,160	18,160	22,475	-	-
-- Non-State	22	35	45	69	110	110	518	-	-
Rent, NGO, Tourism & Others	4,269	6,880	11,659	15,998	19,196	19,196	26,565	30,110	36257.0
-- State	536	645	358	3,145	2,265	2,265	6,314	-	-
-- Non-State	3,733	6,235	11,301	12,853	16,931	16,931	20,251	-	-

Source: General Statistical Office, 1998.

Table 2.2A: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR IN CONSTANT PRICES (Billions of Dong)

	(1989 Prices)					(1994 Prices)			
	1990	1991	1992	1993	1994	1994	1995	1996	1997
Total	29,526	31,286	33,991	36,736	39,982	170,258	186,499	203,919	221,872
State	9,598	10,700	11,948	13,373	15,174	70,267	68,499	76,168	84,015
Non-State	19,928	20,586	22,043	23,363	24,808	99,991	118,000	127,751	137,857
Agriculture, Forestry	12,003	12,264	13,132	13,634	14,169	48,865	51,282	53,539	55,923
-- State	467	523	581	636	692	2,210	-	-	-
-- Non-State	11,536	11,741	12,551	12,998	13,477	46,655	-	-	-
Industry -- Total	6,629	7,228	8,242	9,324	10,631	50,481	57,094	65,000	73,493
-- State	4,286	4,858	5,742	6,578	7,631	33,558	-	-	-
-- Non-State	2,343	2,370	2,500	2,746	3,000	16,923	-	-	-
Industry	5,500	6,042	6,925	7,766	8,771	37,535	42,504	48,442	54,914
-- State	3,630	4,057	4,832	5,543	6,306	27,618	-	-	-
-- Non-State	1,870	1,985	2,093	2,223	2,465	9,917	-	-	-
Construction	1,129	1,186	1,317	1,558	1,860	12,946	14,590	16,558	18,579
-- State	656	801	910	1,035	1,325	5,940	-	-	-
-- Non-State	473	385	407	523	535	7,006	-	-	-
Services -- Total	10,894	11,794	12,617	13,778	15,182	70,912	78,123	85,380	92,455
-- State	4,845	5,319	5,625	6,159	6,851	34,499	-	-	-
-- Non-State	6,049	6,475	6,992	7,619	8,331	36,413	-	-	-
Transport & Communications	744	792	842	897	960	6,924	7,599	8,158	8,892
-- State	447	483	520	563	605	4,729	-	-	-
-- Non-State	297	309	322	334	355	2,195	-	-	-
Trade	3,486	3,654	3,877	4,109	4,478	23,072	25,804	28,653	31,439
-- State	1,115	1,167	1,236	1,292	1,358	5,906	-	-	-
-- Non-State	2,371	2,487	2,641	2,817	3,120	17,166	-	-	-
Banking & Insurance	379	448	496	578	710	3,450	3,940	4,388	4,739
-- State	373	446	493	574	705	3,439	-	-	-
-- Non-State	6	2	3	4	5	11	-	-	-
Public Adm., Medical, Education	2,675	2,841	3,040	3,322	3,760	18,270	19,975	21,595	22,759
-- State	2,660	2,824	3,021	3,298	3,731	18,160	-	-	-
-- Non-State	15	17	19	24	29	110	-	-	-
Rent, NGO, Tourism	3,610	4,059	4,362	4,872	5,274	19,196	20,805	22,586	24,627
-- State	250	399	355	432	452	2,265	-	-	-
-- Non-State	3,360	3,660	4,007	4,440	4,822	16,931	-	-	-

Source: General Statistical Office, 1998.

Table 2.2B: GDP BY INDUSTRIAL ORIGIN -- GROWTH RATE
(Billions of Dong in Constant 1989 Prices)

	(1989 Prices)					(1994 Prices)			
	1990	1991	1992	1993	1994	1994	1995	1996	1997
Total	5.1%	6.0%	8.6%	8.1%	8.8%	8.8%	9.5%	9.3%	8.8%
State	2.5%	11.5%	11.7%	11.9%	13.5%	13.5%	-2.5%	11.2%	-
Non-State	6.4%	3.3%	7.1%	6.0%	6.2%	6.2%	18.0%	8.3%	-
Agriculture, Forestry	1.5%	2.2%	7.1%	3.8%	3.9%	3.9%	4.9%	4.4%	4.5%
-- State	-22.9%	12.0%	11.1%	9.5%	8.8%	8.8%	-	-	-
-- Non-State	2.3%	1.8%	6.9%	3.6%	3.7%	3.7%	-	-	-
Industry -- Total	2.9%	9.0%	14.0%	13.1%	14.0%	14.0%	13.1%	13.8%	13.1%
-- State	5.4%	13.3%	18.2%	14.6%	16.0%	16.0%	-	-	-
-- Non-State	-0.8%	1.2%	5.5%	9.8%	9.2%	9.2%	-	-	-
Industry	2.5%	9.9%	14.6%	12.1%	12.9%	12.9%	13.2%	14.0%	13.4%
-- State	4.7%	11.8%	19.1%	14.7%	13.8%	13.8%	-	-	-
-- Non-State	-1.6%	6.1%	5.4%	6.2%	10.9%	10.9%	-	-	-
Construction	4.7%	5.0%	11.0%	18.3%	19.4%	19.4%	12.7%	13.5%	12.2%
-- State	10.4%	22.1%	13.6%	13.7%	28.0%	28.0%	-	-	-
-- Non-State	-2.3%	-18.6%	5.7%	28.5%	2.3%	2.3%	-	-	-
Services -- Total	10.8%	8.3%	7.0%	9.2%	10.2%	10.2%	10.2%	9.3%	8.3%
-- State	2.1%	9.8%	5.8%	9.5%	11.2%	11.2%	-	-	-
-- Non-State	19.4%	7.0%	8.0%	9.0%	9.3%	9.3%	-	-	-
Transport & Communications	4.8%	6.5%	6.3%	6.5%	7.0%	7.0%	9.7%	7.4%	9.0%
-- State	-1.1%	8.1%	7.7%	8.3%	7.5%	7.5%	-	-	-
-- Non-State	15.1%	4.0%	4.2%	3.7%	6.3%	6.3%	-	-	-
Trade	5.3%	4.8%	6.1%	6.0%	9.0%	9.0%	11.8%	11.0%	9.7%
-- State	-31.3%	4.7%	5.9%	4.5%	5.1%	5.1%	-	-	-
-- Non-State	40.5%	4.9%	6.2%	6.7%	10.8%	10.8%	-	-	-
Banking & Insurance	8.3%	18.2%	10.7%	16.5%	22.8%	22.8%	14.2%	11.4%	8.0%
-- State	20.3%	19.6%	10.5%	16.4%	22.8%	22.8%	-	-	-
-- Non-State	-85.0%	-66.7%	50.0%	33.3%	25.0%	25.0%	-	-	-
Public Adm., Medical, Education	13.1%	6.2%	7.0%	9.3%	13.2%	13.2%	9.3%	8.1%	5.4%
-- State	12.4%	6.2%	7.0%	9.2%	13.1%	13.1%	-	-	-
-- Non-State		13.3%	11.8%	26.3%	20.8%	20.8%	-	-	-
Rent, NGO, Tourism	16.6%	12.4%	7.5%	11.7%	8.3%	8.3%	8.4%	8.6%	9.0%
-- State	229.7%	59.6%	-11.0%	21.7%	4.6%	4.6%	-	-	-
-- Non-State	8.7%	8.9%	9.5%	10.8%	8.6%	8.6%	-	-	-

Source: General Statistical Office, 1998.

Table 2.3A: GDP DEFLATOR
(1989=100)

	(1989 Prices)					(1994 Prices)			
	1990	1991	1992	1993	1994	1994	1995	1996	1997
Total	142.1	245.2	325.2	371.8	425.8	100.0	119.5	126.8	133.3
State	143.9	244.3	334.9	416.8	463.1	100.0	122.1	129.4	136.9
Non-State	141.2	245.7	319.9	346.0	403.1	100.0	118.0	125.3	131.1
Agriculture, Forestry	142.5	253.2	285.7	299.2	344.9	100.0	123.3	131.4	138.6
-- State	147.3	247.4	244.9	286.8	319.4	100.0	-	-	-
-- Non-State	142.3	253.5	287.5	299.8	346.2	100.0	-	-	-
Industry -- Total	144.4	252.5	365.6	423.3	474.8	100.0	117.0	122.3	125.7
-- State	136.4	244.2	345.4	394.2	439.8	100.0	-	-	-
-- Non-State	158.9	269.5	412.1	493.0	564.1	100.0	-	-	-
Industry	144.7	251.5	345.9	378.2	427.9	100.0	119.8	126.8	130.6
-- State	138.4	258.2	352.9	377.8	438.0	100.0	-	-	-
-- Non-State	156.9	237.6	329.8	379.1	402.3	100.0	-	-	-
Construction	142.9	257.9	469.2	648.3	696.0	100.0	108.9	109.3	111.1
-- State	125.5	173.2	305.5	482.1	448.3	100.0	-	-	-
-- Non-State	167.0	434.3	835.1	977.2	1309.5	100.0	-	-	-
						100.0			
						100.0			
						100.0			
Services -- Total	140.2	232.3	339.9	408.6	467.1	100.0	118.8	127.4	136.1
-- State	150.2	244.0	333.4	454.3	503.6	100.0	-	-	-
-- Non-State	132.3	222.7	345.1	371.7	437.1	100.0	-	-	-
Transport & Communications	194.8	361.1	553.7	672.9	721.3	100.0	115.1	130.4	143.7
-- State	194.4	358.2	613.5	732.3	781.7	100.0	-	-	-
-- Non-State	195.3	365.7	457.1	572.8	618.3	100.0	-	-	-
Trade	156.6	266.6	394.1	427.1	515.2	100.0	113.2	118.6	122.3
-- State	161.6	233.8	321.4	315.1	434.9	100.0	-	-	-
-- Non-State	154.3	282.0	428.2	478.5	550.2	100.0	-	-	-
Banking & Insurance	129.3	247.3	315.9	401.0	485.9	100.0	134.9	138.6	146.4
-- State	129.2	247.5	316.8	402.6	487.8	100.0	-	-	-
-- Non-State	133.3	200.0	166.7	175.0	220.0	100.0	-	-	-
Public Adm., Medical, Education	134.9	239.6	319.7	433.5	485.9	100.0	115.1	129.5	137.1
-- State	134.8	239.8	320.2	434.6	486.7	100.0	-	-	-
-- Non-State	146.7	205.9	236.8	287.5	379.3	100.0	-	-	-
Rent, NGO, Tourism	118.3	169.5	267.3	328.4	364.0	100.0	127.7	133.3	147.2
-- State	214.4	161.7	100.8	728.0	501.1	100.0	-	-	-
-- Non-State	111.1	170.4	282.0	289.5	351.1	100.0	-	-	-

Source: General Statistical Office, 1998.

Table 2.3B: CHANGE IN GDP DEFLATOR
(in percent)

	(1989 Prices)					(1994 Prices)			
	1990	1991	1992	1993	1994	1994	1995	1996	1997
Total		72.5%	32.6%	14.3%	14.5%	14.5%	19.5%	6.1%	5.1%
State		69.8%	37.1%	24.5%	11.1%	11.1%	-	-	-
Non-State		73.9%	30.2%	8.1%	16.5%	16.5%	-	-	-
Agriculture, Forestry		77.7%	12.8%	4.7%	15.3%	15.3%	23.3%	0.6%	5.5%
-- State		67.9%	-1.0%	17.1%	11.4%	11.4%	-	-	-
-- Non-State		78.1%	13.4%	4.3%	15.5%	15.5%	-	-	-
Industry -- Total		74.9%	44.8%	15.8%	12.2%	12.2%	17.0%	4.5%	2.7%
-- State		79.0%	41.4%	14.1%	11.5%	11.5%	-	-	-
-- Non-State		69.6%	52.9%	19.6%	14.4%	14.4%	-	-	-
Industry		73.8%	37.6%	9.3%	13.2%	13.2%	-	-	-
-- State		86.6%	36.7%	7.1%	15.9%	15.9%	-	-	-
-- Non-State		51.4%	38.8%	15.0%	6.1%	6.1%	-	-	-
Construction		80.5%	81.9%	38.2%	7.4%	7.4%	-	-	-
-- State		38.0%	76.4%	57.8%	-7.0%	-7.0%	-	-	-
-- Non-State		160.0%	92.3%	17.0%	34.0%	34.0%	-	-	-
Services -- Total		65.7%	46.3%	20.2%	14.3%	14.3%	18.8%	7.2%	6.8%
-- State		62.5%	36.6%	36.3%	10.8%	10.8%	-	-	-
-- Non-State		68.3%	55.0%	7.7%	17.6%	17.6%	-	-	-
Transport & Communications		85.4%	53.3%	21.5%	7.2%	7.2%	15.1%	13.2%	10.3%
-- State		84.2%	71.3%	19.4%	6.7%	6.7%	-	-	-
-- Non-State		87.3%	25.0%	25.3%	8.0%	8.0%	-	-	-
Trade		70.2%	47.8%	8.4%	20.6%	20.6%	13.2%	4.8%	3.2%
-- State		44.6%	37.5%	-2.0%	38.0%	38.0%	-	-	-
-- Non-State		82.8%	51.8%	11.7%	15.0%	15.0%	-	-	-
Banking & Insurance		91.3%	27.7%	26.9%	21.2%	21.2%	34.9%	2.8%	5.6%
-- State		91.6%	28.0%	27.1%	21.2%	21.2%	-	-	-
-- Non-State		50.0%	-16.7%	5.0%	25.7%	25.7%	-	-	-
Public Adm., Medical, Education		77.6%	33.4%	35.6%	12.1%	12.1%	15.1%	12.5%	5.8%
-- State		77.9%	33.5%	35.7%	12.0%	12.0%	-	-	-
-- Non-State		40.4%	15.0%	21.4%	31.9%	31.9%	-	-	-
Rent, NGO, Tourism		43.3%	57.7%	22.9%	10.8%	10.8%	27.7%	4.4%	10.4%
-- State		-24.6%	-37.6%	621.9%	-31.2%	-31.2%	-	-	-
-- Non-State		53.3%	65.6%	2.6%	21.3%	21.3%	-	-	-

Source: General Statistical Office, 1998..

EASPR: September 6, 1998 update.

Table 2.4: NATIONAL ACCOUNTS: SOURCES AND USES

	1993	1994	1995	1996	1997
Sources	148,867	187,124	243,659	288,251	322,441
- GDP	136,571	170,258	222,840	258,609	295,696
- Trade Balance	12,296	16,866	20,819	29,642	26,745
Uses	148,867	187,124	243,659	288,251	322,441
- Total Consumption	116,719	141,175	180,522	214,074	236,197
- Gross Capital Formation	34,020	43,375	60,488	72,117	85,844
- Statistical Discrepancy	-1,872	2,574	2,649	2,060	400

Table 3.1: BALANCE OF PAYMENTS
(US$ million)

	1990	1991	1992	1993	1994	Rev. 1995	Rev. 1996	Prel. 1997
Exports, Total	1,731	2,042	2,475	2,985	4,054	5,198	7,330	8,955
Imports, Total	-1,775	-2,107	-2,535	-3,532	-5,250	-7,543	-10,483	-10,313
Trade Balance	-44	-65	-60	-547	-1,196	-2,345	-3,153	-1,358
Services and Transfers	-218	-69	49	-220	11	417	710	-338
Interest Payments	-238	-248	-284	-335	-221	-360	-494	-462
Imputed Interest on Arrears	-	-	0	0	0	0		
Private Remittances	50	36	0	0	0	0		
Freight and Insurance	-	-	0	0	0	0		
Official Transfers	88	55	64	194	135	150	150	175
Others	-118	88	269	-80	97	474	1,046	713
Current Account Balance	-262	-134	-10	-767	-1,185	-1,928	-2,443	-1,696
Capital Account Balance	122	188	656	-78	897	1,762	2,105	1,980
Disbursements	233	109	540	54	272	443	772	695
Scheduled Amortizations	-279	-104	-175	-652	-547	-733	-674	-796
Amortization of Debt Relief	0	0	0	0	0	0		
Short Term Loans (Net)	48	19	-41	-313	124	-184	169	-520
Direct Foreign Investment	120	165	333	832	1,048	2,236	1,838	2,601
Errors and Omissions	-2	-4	-378	-210	-121	-32	40	-57
Overall Balance	-142	50	268	-1,056	-409	-199	-298	228
Financing:	142	50	-268	1,056	409	199	298	-228
Change in NFA (excl. IMF)	-159	-276	-463	477	-292	-439	-471	-368
IMF Credit (Net)	0	-6	0	-39	175	92	178	-41
Gold Revaluation	0	0	0	0	0	0	0	
Debt Rescheduling	0	0	0	883	0	0	0	0
Change in Arrears	301	332	195	-266	526	546	591	181
Memorandum Item:								
Dong per US$	5,133	9,274	11,150	10,640	10,978	11,100	11,500	12,938

Note: Figures are rounded.

1/ Figures for 1996 are preliminary.

Source: Data provided by the Vietnamese authorities and Bank staff estimates.

Table 3.2: MERCHANDISE EXPORTS BY COMMODITY
(US$ million)

	1990	1991	1992	1993	1994	1995	1996	1997
Total Exports	1,731	2,042	2,475	2,985	4,054	5,198	7,330	8,955
Convertible Area	1,305	1,999	2,475	2,985	4,054	5,198	7,330	8,955
Rice	272	225	300	363	429	549	855	870
Quantity (000 tons)	1,455	989	1,860	1,725	1,950	2,052	3,003	3,553
Unit Value (US$/ton)	187	228	161	210	220	268	285	245
Petroleum	390	581	756	844	866	1,024	1,346	1,419
Quantity (000 tons)	2,600	3,917	5,400	6,153	6,942	7,652	8,705	9,614
Unit Value (US$/ton)	150	148	140	137	125	134	155	148
Coal	38	48	47	70	75	81	115	111
Quantity (000 tons)	1,075	1,173	1,580	1,940	2,319	2,800	3,647	3,449
Unit Value (US$/ton)	35	41	30	36	32	29	32	32
Rubber	16	50	54	74	133	181	163	191
Quantity (000 tons)	20	63	68	97	129	130	122	195
Unit Value (US$/ton)	800	789	800	763	1,031	1,392	1,336	981
Tea	2	14	16	26	16	33	29	48
Quantity (000 tons)	2	10	13	21	17	25	21	32
Unit Value (US$/ton)	1,000	1,370	1,231	1,262	905	1,300	1,397	1,506
Coffee	25	74	86	110	328	495	337	491
Quantity (000 tons)	28	94	96	122	177	200	239	389
Unit Value (US$/ton)	893	795	900	901	1,853	2,475	1,410	1,261
Marine Products	220	285	302	427	551	620	651	781
Quantity (000 tons)	-	-	-	1,197	1,462	1,564	1,550	
Unit Value (US$/ton)	-	-	-	357	377	396	420	
Agriculture & Forestry Products	203	440	434	400	608	1,050	1,481	1,780
of which:								
* Cashew Nut	13	26	41	44	59	130	130	133
Quantity (000 tons)	25	30	52	48	57	130	130	33
Unit Value (US$/ton)	508	850	799	922	1,030	1,000	1,000	4,100
* Meat	28	45	21	26	45	-	-	-
Quantity (000 tons)	16	25	12	15	30	-	-	-
Unit Value (US$/ton)	1,728	1,800	1,783	1,733	1,500	-	-	-
* Pepper	12	18	15	15	17	-	-	63
Quantity (000 tons)	9	16	22	20	20	-	-	23
Unit Value (US$/ton)	1,333	1,080	695	750	850	-	-	2,727
Handicrafts & Light Industrial Goods	20	204	321	576	870	1,020	1,952	2,950
of which:								
* Textiles and Garments	20	156	221	336	550	800	1,150	1,349
* Footwear							530	965
*								121
*								
*								
Others	119	78	158	88	178	145	401	315
Non-Convertible Areas	426	43	-	-	-	-	-	-

Table 3.3: MAJOR IMPORTS BY COMMODITY
(US$ millions)

	1990	1991	1992	Rev. 1993	Rev. 1994	Rev. 1995	Rev. 1996	Prel. 1997
Total Imports	**1,772**	**2,105**	**2,535**	**3,532**	**5,245**	**7,543**	**10481**	**10313**
From the Convertible Area	1,208	1,846	2,535	3,532	5,245	7,543	10,482	10,313
Petroleum	356	485	615	614	696	856	1079	1,094
Quantity (000 tons)	2,400	2,572	3,075	4,095	4,550	4,969	5803	5,947
Unit Value (US$/ton)	148	189	200	150	153	172	186	184
Fertilizers	210	246	320	189	247	339	643	425
Quantity (000 tons)	2,233	2,425	1,600	925	1,495	1,471	2919	2,458
Unit Value (US$/ton)	94	101	200	204	165	230	220	173
Steel	23	25	104	233	211	-	651	529
Quantity (000 tons)	200	113	260	656	725	-	1548	1,401
Unit Value (US$/ton)	115	221	400	355	291	-	421	377
Machines and Spare Parts	-	-	100	922	1,815	2,761	-	1,777
Equipment for oil & gas								
Spare parts								
Others	619	1,090	1,396	1,574	2,276	3,419	-	-
of which:				793	885	891	-	-
* Cotton Textiles	102	32	23	54	55	96	-	164
Quantity (Mil. meters)	23	29	25	24	34	49	-	-
* Raw Cotton	38	61	13	20	43	77	-	-
Quantity (000 tons)	62	32	11	16	24	35	-	-
* Wheat	32	36	59	51	52	60	-	-
Quantity (000 tons)	116	150	283	250	300	226	-	-
* Cars and Trucks	50	12	39	69	103	134	221.6	189
Quantity (number)	5,240	1,320	3,502	6,869	14,350	19,549	25866	18,787
* Sugar	3	5	4	14	39	61	-	-
Quantity (000 tons)	60	14	13	44	124	147	-	-
* MSG	40	45	53	70	44	32	-	-
Quantity (000 tons)	24	30	38	56	42	23	-	-
* Motorbikes	-	-	50	286	347	460	434	95
Quantity (number)	-	-	54	374	285	458	472	147
* Pharmaceuticals	-	-	60	86	140	114		66
Quantity								
* Other Good: ____								
Quantity								
* Other Good: ____								
Quantity								
* Other Good: ____								
Quantity								
Non-Convertible Area	564	259	-	-	-	-		

Source: Ministry of Trade and Bank staff estimates.

Table 4.1: MONETARY SURVEY

	Rev. 1994	Rev. 1995	Dec 1996	Dec 1997	Jan 1998	Feb 1998	Mar 1998	Apr 1998
Foreign Assets (Net)	9,400	10,851	14,195	20,699	20,911	21,987	22,595	24,117
Net Domestic Assets:	39,900	41,871	52,633	63,072	63,510	63,803	64,208	64,921
of which:								
- Domestic Credit:	42,770	47,071	57,815	69,925	70,607	70,890	71,631	71,309
-- Government (Net)	4,503	4,700	4,535	4,430	4,459	4,321	3,846	4,266
-- Non-Financial Public Enterprises	22,390	24,079	26,932	31,317	31,579	31,873	32,469	32,262
-- Non-State Sector:	15,877	18,292	26,348	34,177	34,569	34,697	35,316	34,782
--- Cooperatives	0	-	-					
--- Private Business and Households	0	-	-					
- Other Items (Net)	-2,870	-5,200	-5,182	-6,853	-7,096	-7,087	-7,423	-6,388
Total Liquidity (M2):	49,300	52,710	66,828	83,770	84,421	85,791	86,802	89,038
- Currency Outside Banks a/	21,235	19,170	22,595	25,065	26,025	25,401	25,231	25,073
- Deposits (in Dong)	19,136	22,479	30,236	38,947	38,152	39,026	40,338	40,876
- Deposits (in foreign currency)	8,929	11,061	13,997	19,758	20,244	21,364	21,233	23,089
					Change from previous month			
Foreign Assets (Net)	35.4	56.4	30.8	45.8	1.0	5.2	2.8	6.7
Domestic Credit:	12.7	24.0	22.8	19.8	1.0	0.4	1.0	-0.4
- Government (Net)	-1.1	3.3	-3.5	-1.6	0.6	-3.1	-11.0	10.9
- Non-Financial Public Enterprises	9.4	17.7	11.8	16.3	0.8	0.9	1.9	-0.6
- Non-State Sector:	22.7	41.4	44.0	29.7	1.1	0.4	1.8	-1.5
-- Cooperatives	-	-	-	-	-	-	-	-
-- Private Businesses and Households	-	-	-	-	-	-	-	-
Total Liquidity (M2)	14.6	22.6	26.8	25.4	0.8	1.6	1.2	2.6
of which:								
- Currency Outside Banks a/	14.0	2.9	17.9	10.9	3.8	-2.4	-0.7	-0.6
- Deposits (in Dong)	28.8	51.4	34.5	28.8	-2.0	2.3	3.4	1.3
- Deposits (in foreign currency)	-6.3	16.1	26.5	41.2	2.5	5.5	-0.6	8.7
Memorandum Items:								
Savings Deposits (Billions of Dong)	-	-	-	-				
Currency/GDP Ratio a/ b/	9.5	8.6	8.7	8.5	7.9	7.7	7.7	7.6
Liquidity (M2)/GDP Ratio b/	22.1	23.7	25.8	28.3	25.7	26.2	26.5	27.2
Deposits in Dong/GDP	8.6	10.1	11.7	13.2	11.6	11.9	12.3	12.5
Deposits in Foreign Currency/GDP	4.0	5.0	5.4	6.7	6.2	6.5	6.5	7.0
Domestic Credit/GDP b/	19.2	21.1	22.4	23.6	21.5	21.6	21.8	21.7
GDP in Current Prices (Billions of Dong)	222,840	222,840	258,609	295,696	327910	327910	327910	327910

Note: Figures are rounded.
a/ Currency in circulation.
b/ GDP in current prices, revised by the General Statistical Office, May 1997.
Source: State Bank of Vietnam, General Statistical Office, and IMF estimates.

Table 5.1: SUMMARY OF BUDGETARY OPERATIONS

	Actual 1990	1991	1992	1993	1994	1995	1996 Rev.	1997 Est.
				(Percent of GDP)				
Revenue and Grants	14.7	13.5	19.0	22.5	24.7	23.9	24.1	22.4
Tax Revenue	4.0	3.7	5.0	8.3	9.9	10.5	11.0	10.2
Transfers from State Enterprises a/	8.6	8.1	10.8	11.2	12.1	9.8	10.0	9.3
Other Non-Tax Revenue	2.0	1.4	2.5	2.2	2.1	2.9	2.6	2.4
Grants	0.0	0.4	0.8	0.7	0.7	0.7	0.6	0.5
Current Expenditure (exc. Interest)	14.7	11.4	14.0	18.8	18.3	17.8	17.2	16.4
Wages and Salaries	4.2	2.6	-	6.5	8.0	6.5	6.7	7.1
Subsidies	0.0	0.0	-	0.2	0.1	0.1	0.1	0.1
Other	10.5	8.8	-	12.0	10.1	11.2	10.4	9.2
of which: Operation and Maintenance	0.7	0.6	-	0.4	0.7	0.7	0.7	0.7
Capital Expenditure	5.1	2.8	5.8	7.0	6.9	5.4	6.0	5.9
Overall Primary Balance	-5.1	-0.7	-0.8	-3.3	-0.4	0.8	0.8	0.1
Interest (Scheduled)	3.0	3.0	2.9	2.7	2.6	1.9	1.6	0.7
Interest (Paid)	0.7	0.8	0.9	1.3	0.6	1.3	1.0	0.7
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Overall Balance (Accrual Basis)	-8.0	-3.7	-3.7	-6.0	-3.0	-1.1	-0.7	-0.6
Overall Balance (Cash Basis)	-5.8	-1.5	-1.7	-4.6	-1.1	-0.5	-0.2	-0.6
Financing	5.8	1.5	1.7	4.6	1.1	0.5	0.2	0.6
Foreign Grants and Loans (Net)	3.0	1.0	2.4	2.7	0.1	-0.7	0.0	-0.3
Domestic Loans (Net)	2.8	0.5	-0.7	1.8	0.9	1.2	0.2	0.9
State Bank (Net)	2.0	0.9	-2.0	0.0	0.0	0.0	0.0	0.0
Government Securities (Net)	0.8	-0.4	1.3	1.8	0.9	1.2	0.2	0.9
Arrears	-	-	-	-	-	-	-	-
Memo Item: GDP	41,955	76,707	110,535	136,571	170,258	222,840	258,609	295,696

Note: a/ Transfers include all taxes, operating surplus, depreciation allowances, and capital user fees.
b/ For 1986-88, figures include amortization.
c/ For 1986-88, gross amortization.

Source: Ministry of Finance and General Statistical Office.

EASPR: September 1998.

Table 5.2A: GOVERNMENT REVENUE

	Actual						Rev.	Est.
	1990	1991	1992	1993	1994	1995	1996	1997
	(Billions of Dong)							
I. State Enterprises:	3,620	6,189	11,913	15,322	20,558	21,938	25,817	27,461
A. Taxes:	-	5,567	9,636	12,780	16,732	20,311	24,857	26,511
a. Profit Tax	-	1,103	2,028	4,041	5,585	5,997	7,761	8,302
b. Turnover Tax	-	1,779	2,158	2,967	4,402	5,832	7,450	7,750
c. Special Consumption Tax (Excises)	-	739	1,317	1,395	2,120	2,520	3,200	3,180
d. Natural Resources Tax	-	797	1,874	1,714	1,934	2,369	3,011	3,292
e. Licence Tax	-	-	6	7	8	9	10	10
f. Capital User Charge	-	262	530	678	1,174	1,322	1,505	1,517
g. Other Taxes	-	887	1,723	1,978	1,509	2,262	1,920	2,460
B. Transfers	3,620	622	2,277	2,542	3,826	1,627	960	950
a. Operating Surplus	3,112	-	-	-	-	-	-	-
b. Depreciation Allowance	508	622	2,277	2,542	3,826	1,627	960	950
c. Capital User Fee	-	262	530	806	1,174			
II. Non-State Sector:	965	1,715	3,286	4,714	5,619	7,971	10,317	11,539
A. Agricultural Tax	298	707	1,294	1,350	1,107	1,552	1,902	1,695
B. Non-Agricultural Tax:	667	1,008	1,992	3,364	4,512	6,419	8,415	9,844
a. Turnover Tax	262	250	582	806	1,318	2,017	2,612	3,357
b. Profits Tax	118	161	420	560	900	1,443	1,850	2,344
c. Personal Income Tax	-	62	153	181	336	520	1,354	1,484
d. License Tax	31	-	72	114	142	198	248	320
e. Commodities Tax	75	69	22	0	8	7	0	0
f. Wholesale Tax	32	-	-	-	-	-	-	-
g. Slaughter Tax	26	35	45	57	69	92	110	132
h. Land Tax	-	5	18	241	220	313	380	332
i. Other	123	426	680	1,405	1,519	1,829	1,861	1,875
III. External Trade:	733	1,099	2,194	6,398	10,012	13,273	15,105	14,700
A. Non-Commercial Import Tax	126	-	-	-	-			
B. Import and Export Duties	607	1,099	2,194	6,398	10,012	13,273	15,105	14,700
IV. Joint Ventures	-	-	-	225	1,215	2,131	2,992	4,006
V. Other Revenue	835	1,080	2,782	3,020	3,522	6,437	6,556	6,980
VI. Grants	-	270	848	1,017	1,200	1,620	1,600	1,624
Total Revenue (inc. Grants)	**6,153**	**10,353**	**21,023**	**30,696**	**42,126**	**53,370**	**62,387**	**66,310**

Source: Ministry of Finance.

Table 5.2B: GOVERNMENT REVENUE: PERCENTAGE SHARE

	Actual						Rev.	Est.
	1990	1991	1992	1993	1994	1995	1996	1997
	(Percent of GDP)							
I. State Enterprises	8.6	8.1	10.8	11.2	12.1	9.8	10.0	9.3
- Taxes:	-	7.3	8.7	9.4	9.8	9.1	9.6	9.0
-- Profit Tax	-	1.4	1.8	3.0	3.3	2.7	3.0	2.8
-- Turnover Tax	-	2.3	2.0	2.2	2.6	2.6	2.9	2.6
-- Special Consumption Tax (Excises)	-	1.0	1.2	1.0	1.2	1.1	1.2	1.1
-- Natural Resources Tax	-	1.0	1.7	1.3	1.1	1.1	1.2	1.1
-- Licence Tax	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
-- Other Taxes	-	1.2	1.6	1.4	0.9	1.0	0.7	0.8
- Transfers:	8.6	0.8	2.1	1.9	2.2	0.7	0.4	0.3
-- Operating Surplus	7.4	-	-	-	-	-	-	-
-- Depreciation Allowance	1.2	0.8	2.1	1.9	2.2	0.7	0.4	0.3
-- Capital User Fee	-	0.3	0.5	0.6	0.7	0.0	0.0	0.0
II. Non-State Sector:	2.3	2.2	3.0	3.5	3.3	3.6	4.0	3.9
- Agricultural Tax	0.7	0.9	1.2	1.0	0.7	0.7	0.7	0.6
- Non-Agricultural Tax	1.6	1.3	1.8	2.5	2.7	2.9	3.3	3.3
III. External Trade:	1.7	1.4	2.0	4.7	5.9	6.0	5.8	5.0
- Non-Commercial Import Tax	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Import and Export Duties	1.4	1.4	2.0	4.7	5.9	6.0	5.8	5.0
IV. Joint Ventures	-	-	-	0.2	0.7	1.0	1.2	1.4
V. Other Revenue	2.0	1.4	2.5	2.2	2.1	2.9	2.5	2.4
VI. Grants	-	0.4	0.8	0.7	0.7	0.7	0.6	0.5
Total Revenue (inc. Grants)	**14.7**	**13.5**	**19.0**	**22.5**	**24.7**	**23.9**	**24.1**	**22.4**
Memo Item: GDP (Billions of Dong)	41,955	76,707	110,535	136,571	170,258	222,840	258,609	295,696

(Percent of Total Revenues)

I. State Enterprises	58.8	59.8	56.7	49.9	48.8	41.1	41.4	41.4
- Taxes	-	53.8	45.8	41.6	39.7	38.1	39.8	40.0
-- Profit Tax	-	10.7	9.6	13.2	13.3	11.2	12.4	12.5
-- Turnover Tax	-	17.2	10.3	9.7	10.4	10.9	11.9	11.7
-- Special Consumption Tax (Excises)	-	7.1	6.3	4.5	5.0	4.7	5.1	4.8
-- Natural Resources Tax	-	7.7	8.9	5.6	4.6	4.4	4.8	5.0
-- Licence Tax	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
-- Other Taxes	-	8.6	8.2	6.4	3.6	4.2	3.1	3.7
- Transfers	58.8	6.0	10.8	8.3	9.1	3.0	1.5	1.4
-- Operating Surplus	50.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
-- Depreciation Allowance	8.3	6.0	10.8	8.3	9.1	3.0	1.5	1.4
-- Capital User Fee	-	2.5	2.5	2.6	2.8	0.0	0.0	0.0
II. Non-State Sector:	15.7	16.6	15.6	15.4	13.3	14.9	16.5	17.4
- Agricultural Tax	4.8	6.8	6.2	4.4	2.6	2.9	3.0	2.6
- Non-Agricultural Tax	10.8	9.7	9.5	11.0	10.7	12.0	13.5	14.8
III. External Trade:	11.9	10.6	10.4	20.8	23.8	24.9	24.2	22.2
- Non-Commercial Import Tax	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Import and Export Duties	9.9	10.6	10.4	20.8	23.8	24.9	24.2	22.2
IV. Joint Ventures	-	-	-	0.7	2.9	4.0	4.8	6.0
V. Other Revenue	13.6	10.4	13.2	9.8	8.4	12.1	10.5	10.5
VI. Grants	-	2.6	4.0	3.3	2.8	3.0	2.6	2.4

Source: Ministry of Finance and General Statistical Office.

EASPR: September 1998.

Table 5.3: FUNCTIONAL CLASSIFICATION OF CURRENT EXPENDITURE

	Actual						Rev.	Est.
	1990	1991	1992	1993	1994	1995	1996	1997
(Billions of Dong)								
General Administrative Service	676	1,290	2,404	4,335	4.779	5,683	6,354	5,517
Economic Services	523	784	1,490	2,498	3.085	4,004	4,192	5,420
Social Service	1,998	3,343	6,245	9,639	14,042	18,249	20,317	23,785
- Education	439	748	1,495	2,321	3.414	4,722	5,500	7,150
- Health	368	636	1,136	1,754	2,214	2,387	2,761	3,050
- Pensions, Social Relief	695	1,278	2,374	3,752	5.861	7,382	8,191	8,989
- Other	496	681	1,240	1,812	2,553	3,758	3,865	4,596
Interest due	1,242	2,333	3,218	3,675	4,415	4,177	-	-
Interest Paid	310	651	1,000	1,710	1,094	2,895	2,700	2,166
Others (inc. Subsidies and excl. Contingency)	2,959	3,311	5,313	9,154	9,215	11,679	13,696	13,687
Total Current Expenditure:								
- Cash Basis, incl. Interest	**6,466**	**9,379**	**16,452**	**27,336**	**32,215**	**42,510**	**47,259**	**50,575**
- Cash Basis, excl. Interest	**6,156**	**8,728**	**15,452**	**25,626**	**31,121**	**39,615**	**44,559**	**48,409**
(Percent of GDP)								
General Administrative Service	1.6	1.7	2.2	3.2	2.8	2.6	2.5	1.9
Economic Services	1.2	1.0	1.3	1.8	1.8	1.8	1.6	1.8
Social Service	4.8	4.4	5.6	7.1	8.2	8.2	7.9	8.0
- Education	1.0	1.0	1.4	1.7	2.0	2.1	2.1	2.4
- Health	0.9	0.8	1.0	1.3	1.3	1.1	1.1	1.0
Interest due	3.0	3.0	2.9	2.7	2.6	1.9	-	-
Interest Paid	0.7	0.8	0.9	1.3	0.6	1.3	1.0	0.7
Other (inc. Subsidies)	7.1	4.3	4.8	6.7	5.4	5.2	5.3	4.6
Total Current Expenditure								
incl. Interest	**15.4**	**12.2**	**14.9**	**20.0**	**18.9**	**19.1**	**18.3**	**17.1**
exc. Interest	**14.7**	**11.4**	**14.0**	**18.8**	**18.3**	**17.8**	**17.2**	**16.4**
Memo Item: GDP (Billions Dong)	41,955	76,707	110,535	136,571	170,258	222,840	258,609	295,696

Source: Ministry of Finance and General Statistical Office.

Table 5.4: ECONOMIC CLASSIFICATION OF CURRENT EXPENDITURE

	Actual		a/				Rev.	Prel.
	1990	1991	1992	1993	1994	1995	1996	1997
			(Billions of Dong)					
Wage and Salaries	1,744	2,001	5,369	8,921	13,654	14,450	17,380	20,880
Subsidies	-	-	-	262	190	265	303	309
Food Procurement	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-
Exports	-	-	-	-	-	-	-	-
Interest due	1,242	2,333	3,218	3,675	4,275	4,177	4,107	
Interest paid	310	651	1,000	1,710	1,094	2,895	2,700	
Other	4,412	6,727	10,083	16,443	17,277	24,900	26,876	27,220
Working Capital for SOEs	68	-	401	667	635	302		
Administrative Expenses	181	241	1,656	2,752	3,180	3,555	5,572	4,613
Medical and Social Benefits	295	433	1,218	2,024	2,200	3,195	3,876	2,944
Education and Scholarship	261	385	1,271	2,111	2,350	2,420	3,086	3,818
Operation and Maintenance	290	428	358	595	1,160	1,450	1,710	1,980
Residual b/	3,316	5,240	5,179	8,294	7,752	13,978	12,632	13,865
Total Current Expenditure (Cash basis; exc. Contingency; (Inc. Interest)	6,466	9,379	16,452	27,336	32,215	42,510	47,259	48,409
			(Percent of GDP)					
Wage and Salaries	4.2	2.6	4.2	6.5	8.0	6.5	6.7	7.1
Subsidies	-	-	na	0.2	0.1	0.1	0.1	0.1
Food Procurement	-	-	na	-	-	-	-	-
Interest due	3.0	3.0	2.9	2.7	2.5	1.9	1.6	0.0
Interest paid	0.7	0.8	0.9	1.3	0.6	1.3	1.0	0.0
Other:	10.5	8.8	9.1	12.0	10.1	11.2	10.4	9.2
of which:								
Operation and Maintenance	0.7	0.6	0.3	0.4	0.7	0.7	0.7	0.7
Total Current Expenditure (Cash basis; exc. Cont.; Inc. Interest)	15.4	12.2	14.9	20.0	18.9	19.1	18.3	16.4
Current Expenditures (exc. Intere	14.7	11.4	14.0	18.8	18.3	17.8	17.2	16.4
Memo Item: GDP (Billions Dong)	41,955	76,707	110,535	136,571	170,258	222,840	258,609	295,696

Note: a/ Figures for 1992 are estimated using the 1993 appropriate shares.

b/ For 1986-88, interest includes amortization.

b/ Including spending on security and national defense and others not elsewhere classified.

Source: Ministry of Finance and General Statistical Office.

Table 5.5: GOVERNMENT BUDGET: CAPITAL EXPENDITURE

	Actual						Rev.	Prel.
	1990	1991	1992	1993	1994	1995	1996	1997
			(Billions of Dong)					
Industry and Construction	746	49	2,284	5,692	2,925	1,408	825	1102
Agriculture and Forestry	113	70	345	266	580	830	1100	1622
Irrigation	244	244	456	623	1,240	1,516	1355	1557
Transportation & Communications	323	335	613	1,020	2,999	3,631	3711	3963
Commerce and Services	91	23	17	27	35	152	120	247
Non-Productive Sector a/	425	367	790	763	2,323	3,228	3820	4498
Contingency Fund b/	0	136	0	0	0	0	-	-
Other	6	566	452	1,209	1,613	1,314	4699	4396
Unallocated	176	345	1,494	0	0	0	-	-
Total Capital Expenditure	**2,124**	**2,135**	**6,450**	**9,600**	**11,715**	**12,079**	**15,630**	**17,385**
			(Percent in GDP)					
Industry and Construction	1.8	0.1	2.1	4.2	1.7	0.6	0.3	0.4
Agriculture and Forestry	0.3	0.1	0.3	0.2	0.3	0.4	0.4	0.5
Irrigation	0.6	0.3	0.4	0.5	0.7	0.7	0.4	0.5
Transportation & Communications	0.8	0.4	0.6	0.7	1.8	1.6	1.2	1.3
Commerce and Services	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Non-Productive Sector a/	1.0	0.5	0.7	0.6	1.4	1.4	1.3	1.5
Contingency Fund b/	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.7	0.4	0.9	0.9	0.6	1.6	1.5
Unallocated	0.4	0.4	1.4	-	-	-	-	-
Total Capital Expenditure	**5.1**	**2.8**	**5.8**	**7.0**	**6.9**	**5.4**	**5.2**	**5.8**
Memo Item: GDP	41,955	76,707	110,535	136,571	170,258	222,840	258,609	295,696

Note: a/ Includes education, health, culture, finance and government.

b/ Stockpiling of key commodities and materials.

Source: Ministry of Finance and General Statistical Office.

Table 8.1: INDUSTRIAL PRODUCTION AND NUMBER OF STATE ENTERPRISES

Item	1990	1991	1992	1993	1994	1995	1996	Rev. 1995	Rev. 1996	Est. 1997
	(1989 Billion Dong)							(1994 Billion Dong)		
Gross Industrial Produ	14,011	15,471	18,117	20,410	23,170	26,584	30,332	51,991	58,166	64,456
By Sector										
Heavy Industry	4,932	5,857	7,180	8,141	9,578	10,911	12,510	39,163	46,674	53,429
Light Industry	9,079	9,614	10,937	12,269	13,592	15,673	17,822	12,827	11,492	11,028
By Type of Manageme	14,011	15,471	18,117	20,410	23,170	26,584	30,332	103,375	118,097	133,685
Central	6,438	7,435	9,155	10,602	12,090	13,824	..	..	..	..
Local	7,573	8,036	8,962	9,808	11,080	12,760	..	..	..	..
By Industrial Branches	14,012	15,471	18,117	20,410	23,170	26,584	30,332	103,375	118,097	133,685
Energy Combustible	2,597	3,242	4,124	4,625	5,277	5,950	6,800	17,966	20,935	23870.5
Metallurgy	219	319	406	488	461	583	740	3,428	4,086	4547.5
Machinery	1,195	1,182	1,295	1,436	1,852	2,086	2,330	10,412	12,581	14589.2
Chemical Industry	921	1,114	1,355	1,592	1,988	2,292	2,640	7,358	9,073	10421.5
Other Manufacturing a	2,031	2,231	2,577	2,760	3,437	3,624	5,200	12,524	13,319	14803.1
Food and Foodstuffs	5,040	5,378	6,100	6,982	7,090	8,006	9,540	30,985	35,[illegible]62	39438
Weaving, Leather, Sewing, and Dyeing	1,555	1,552	1,764	1,856	2,393	2,760	2,611	12,696	14,243	16259.2
Printing and Cultural Products	97	108	128	152	242	566	361	1,947	2,294	2685.2
Other Industries	356	344	368	409	320	717	110	6,060	6,485	7070.9
	(Number of Enterprises)									
Number of Enterprises	2,762	2,599	2,268	2,030	2,002	1958	1,880	1958	1,880	..
By Sector										
Heavy Industry	1,384	1,192	990	..	..	..	..	..	..	..
Light Industry	1,378	1,407	1,278	..	..	..	..	..	..	..
By Type of Manageme	2,762	2,599	2,268	2,030	2,002	1958	1,880	1958	1,880	..
Central	589	546	537	522	528	549	553	549	553	..
Local	2,173	2,053	1,731	1,508	1,474	1409	1,327	1409	1,327	..

Note: a/ Including construction material, earthenware, porcelain, glassware, wood, forest products, cellulose part, and paper industries.

Source: General Statistical Service, Statistical Data of the Socialist Republic of Vietnam, 1976-90, 1991.

General Statistical Service, Statistical Data of the Socialist Republic of Vietnam. 1986-91, 1992, and May 1997and September 1998.

Update with GSO
as of September 1998

Table 6.1A: GROWTH RATE OF RETAIL PRICES, BY MONTH

Month/Year	1990	1991	1992	1993	1994	1995	1996	1997	1998
January	2.9%	13.2%	4.4%	1.7%	1.8%	3.8%	0.9%	0.8%	1.6%
February	3.8%	8.7%	5.5%	1.9%	3.7%	3.4%	2.5%	1.8%	2.2%
March	1.9%	0.5%	0.5%	-0.5%	-0.4%	0.2%	0.8%	-0.5%	-0.8%
April	2.5%	2.2%	0.9%	-0.2%	0.3%	1.0%	0.1%	-0.6%	1.6%
May	2.6%	3.0%	1.3%	1.5%	0.6%	1.8%	-0.5%	-0.5%	1.4%
June	2.1%	1.7%	0.2%	-0.3%	0.9%	0.8%	-0.5%	0.1%	0.0%
July	3.6%	2.5%	0.3%	-0.2%	0.2%	0.0%	-0.7%	0.2%	-0.5%
August	5.8%	3.4%	0.3%	0.5%	0.9%	0.3%	-0.4%	0.1%	
September	4.7%	3.7%	0.0%	-0.1%	1.6%	0.5%	0.3%	0.6%	
October	6.4%	2.8%	-0.2%	-0.3%	1.3%	0.1%	0.1%	0.3%	
November	7.8%	5.6%	2.0%	0.5%	1.7%	0.1%	0.9%	0.3%	
December	8.9%	6.1%	1.4%	0.6%	1.1%	0.3%	1.0%	1.0%	

Table 6.1B: RETAIL PRICE INDEX, BY MONTH (Jan 1986=100)

Month/Year	1990	1991	1992	1993	1994	1995	1996	1997	1998
January	15695.6	28925.0	44706.8	51203.4	53892.6	62941.2	68995.8	72061.6	75,272
February	16292.0	31441.4	47147.8	52176.3	55886.6	65062.3	70720.7	73358.7	76,928
March	16601.6	31598.6	47402.4	51915.4	55663.1	65179.4	71286.4	72991.9	76,313
April	17016.6	32293.8	47829.0	51811.6	55846.8	65831.2	71357.7	72553.9	77,534
May	17459.0	33262.6	48426.9	52588.8	56181.8	67003.0	71000.9	72191.2	78,619
June	17825.7	33828.1	48514.0	52431.0	56687.5	67532.3	70645.9	72263.4	78,619
July	18467.4	34673.8	48640.2	52326.1	56800.9	67532.3	70151.4	72407.9	78,226
August	19538.5	35852.7	48766.6	52587.8	57312.1	67728.2	69870.8	72480.3	
September	20456.8	37179.3	48766.6	52535.2	58229.1	68060.1	.70080.4	72915.2	
October	21766.1	38220.3	48678.9	52377.6	58986.0	68121.3	70150.5	73133.9	
November	23463.8	40360.6	49662.2	52639.5	59988.8	68182.6	70781.8	73353.3	
December	25552.1	42822.6	50347.5	52955.3	60648.7	68380.3	71489.7	74086.9	
Annual Index: (Jan 1986=100)	19177.9	35038.2	48240.7	52295.7	57177.0	66796.2	70544.3	72816.5	
Annual Index: (1989=100)	136.4	249.2	343.1	372.0	406.7	475.1	501.7	517.9	
Annual Growth Rat	36.4%	82.7%	37.7%	8.4%	9.3%	16.8%	5.6%	3.2%	
Dec/Dec Growth R	67.5%	67.6%	17.6%	5.2%	14.5%	12.7%	4.5%	3.6%	

Source: Statistical Data of the SRV, 1986-1991, 1992, p. 89; 1993-98: GSO.

TABLE 6.2A: PRICE INDEX BY COMMODITY GROUPS: Index (January 1990=100)

Year	Month	Goods	Total Food	Agr Products	Proc Food	Manu-factures	Services
	Dec	100.0	100.0	100.0	100.0	100.0	100.0
1991	Jan	114.3	119.1	115.8	120.6	114.3	104.3
	Feb	124.4	133.3	132.7	134.0	124.4	112.0
	Mar	124.6	130.2	133.4	129.4	124.6	114.7
	Apr	127.6	134.2	129.5	136.8	127.6	116.3
	May	131.7	140.2	131.3	144.6	131.7	118.4
	Jun	133.9	141.3	130.9	146.6	133.9	120.4
	Jul	137.5	145.4	135.4	150.6	137.5	122.2
	Aug	142.5	150.7	140.5	156.0	142.5	125.4
	Sep	147.9	154.7	143.7	160.4	147.9	128.5
	Oct	152.5	157.6	144.2	165.0	152.5	130.3
	Nov	161.6	164.2	147.8	173.6	161.6	134.4
	Dec	171.7	172.4	154.3	182.5	171.7	141.1
1992	Jan	178.9	179.3	161.2	193.0	178.9	149.8
	Feb	188.2	191.9	163.8	212.0	188.2	160.9
	Mar	188.2	187.3	157.9	208.2	188.2	165.4
	Apr	189.7	187.7	154.6	210.4	189.7	167.4
	May	191.2	188.8	150.9	215.1	191.2	175.0
	Jun	191.2	187.5	142.9	219.2	191.2	176.2
	Jul	191.4	187.1	140.2	220.3	191.4	179.2
	Aug	191.4	186.7	138.4	220.9	191.4	183.1
	Sep	191.0	184.3	132.1	221.6	191.0	185.0
	Oct	189.7	182.1	124.9	220.0	189.7	190.3
	Nov	193.5	185.7	130.9	221.3	193.5	194.9
	Dec	195.8	185.9	131.6	220.7	195.8	199.0
1993	Jan	198.9	189.4	135.2	224.7	198.9	203.8
	Feb	202.9	198.5	140.1	237.2	202.9	207.2
	Mar	201.7	197.7	142.9	234.4	201.7	208.7
	Apr	201.1	198.3	143.6	234.9	201.1	209.3
	May	203.5	200.9	146.3	236.7	203.5	215.4
	Jun	202.3	199.7	140.7	239.3	202.3	218.2
	Jul	201.6	199.5	136.8	242.5	201.2	218.6
	Aug	202.3	200.5	136.9	244.1	201.4	221.7
	Sep	201.8	199.5	136.4	241.7	201.6	223.4
	Oct	200.8	197.9	134.6	240.3	201.4	224.8
	Nov	200.2	195.9	134.6	236.7	202.3	228.6
	Dec	201.8	198.7	140.1	236.7	202.9	236.6
1994	Jan	205.2	199.9	148.7	236.4	207.6	240.8
	Feb	211.5	213.3	158.1	252.4	209.5	248.0
	Mar	210.3	212.0	157.2	251.2	208.6	248.5
	Apr	211.1	213.5	158.1	253.2	208.2	248.7
	May	212.6	215.9	159.8	256.1	208.6	249.7
	Jun	214.5	218.4	160.8	259.6	210.1	251.7
	Jul	215.0	218.4	158.2	261.7	211.1	252.0

TABLE 6.2A: PRICE INDEX BY COMMODITY GROUPS: Index (January 1990=100)

Year	Month	Goods	Total Food	Agr Products	Proc Food	Manu-factures	Services
	Aug	216.9	220.6	160.8	263.6	212.8	254.2
	Sep	220.6	225.7	167.5	267.0	214.9	257.0
	Oct	223.7	230.4	176.4	268.6	216.4	259.1
	Nov	227.7	237.8	191.4	269.9	217.3	261.1
	Dec	229.7	240.2	194.6	271.6	219.0	266.5
1995	Jan	239.2	252.2	206.9	283.2	221.7	266.1
	Feb	247.8	268.3	215.6	305.0	223.9	272.7
	Mar	248.5	269.9	214.7	308.4	224.1	271.3
	Apr	251.3	275.1	219.9	313.3	225.2	273.5
	May	256.0	283.0	226.5	322.4	228.2	276.5
	Jun	258.1	287.3	224.5	331.1	228.8	278.2
	Jul	257.6	285.0	217.7	332.1	229.8	280.4
	Aug	258.3	285.6	217.9	332.7	230.4	281.2
	Sep	259.6	287.8	224.9	331.7	231.1	283.8
	Oct	259.9	287.3	225.6	330.1	231.8	284.6
	Nov	260.1	287.6	228.1	[illegible]	231.8	285.5
	Dec	260.7	288.1	234.0	325.8	232.5	287.8
1996	Jan	262.5	290.7	240.1	326.1	233.7	293.2
	Feb	269.6	303.8	252.3	339.8	235.6	298.5
	Mar	272.0	309.0	255.1	347.0	235.3	299.7
	Apr	272.3	309.3	254.3	348.0	235.6	299.4
	May	270.6	305.6	247.7	346.3	235.8	299.4
	Jun	268.7	301.6	238.3	345.9	235.6	301.5
	Jul	266.6	296.7	225.5	345.9	235.8	303.1
	Aug	265.0	293.2	219.7	344.2	236.0	304.3
	Sep	265.5	292.9	219.4	343.8	237.4	305.5
	Oct	265.5	292.3	219.2	343.2	237.9	307.6
	Nov	268.2	296.9	227.8	344.5	238.6	309.2
	Dec	270.9	300.8	234.6	346.2	240.1	312.3
1997	Jan	272.5	302.0	237.4	346.2	242.2	318.2
	Feb	276.8	310.2	239.1	359.1	243.4	328.4
	Mar	275.2	306.4	236.2	354.4	243.9	327.4
	Apr	273.0	301.5	229.6	350.8	243.9	329.0
	May	271.1	297.0	221.8	348.7	244.4	330.3
	Jun	271.3	296.1	217.1	350.8	245.9	330.7
	Jul	271.6	295.8	217.6	350.1	246.9	331.7
	Aug	271.9	296.4	220.4	349.1	246.9	332.0
	Sep	273.5	299.4	223.7	351.5	247.4	334.0
	Oct	274.3	301.2	225.7	352.9	247.6	335.0
	Nov	275.2	301.8	229.1	351.5	248.6	336.0
	Dec	277.9	305.7	235.7	353.3	250.8	337.7
1998	Jan	282.4	312.1	240.7	358.6	252.5	342.5
	Feb	288.6	321.5	247.9	367.2	255.9	345.2
	Mar	286.3	318.9	246.7	362.4	254.5	341.1

TABLE 6.2B: PRICE INDEX BY COMMODITY GROUPS: Monthly Growth Rates

Year	Month	Goods	Total Food	Agr Products	Proc Food	Manu-factures	Services
	Dec						
1991	Jan	14.3%	19.1%	15.8%	20.6%	14.3%	4.3%
	Feb	8.8%	11.9%	14.6%	11.1%	8.8%	7.4%
	Mar	0.2%	-2.3%	0.5%	-3.4%	0.2%	2.4%
	Apr	2.4%	3.1%	-2.9%	5.7%	2.4%	1.4%
	May	3.2%	4.5%	1.4%	5.7%	3.2%	1.8%
	Jun	1.7%	0.8%	-0.3%	1.4%	1.7%	1.7%
	Jul	2.7%	2.9%	3.4%	2.7%	2.7%	1.5%
	Aug	3.6%	3.6%	3.8%	3.6%	3.6%	2.6%
	Sep	3.8%	2.7%	2.3%	2.8%	3.8%	2.5%
	Oct	3.1%	1.9%	0.3%	2.9%	3.1%	1.4%
	Nov	6.0%	4.2%	2.5%	5.2%	6.0%	3.1%
	Dec	6.3%	5.0%	4.4%	5.1%	6.3%	5.0%
1992	Jan	4.2%	4.0%	4.5%	5.8%	4.2%	6.2%
	Feb	5.2%	7.0%	1.6%	9.8%	5.2%	7.4%
	Mar	0.0%	-2.4%	-3.6%	-1.8%	0.0%	2.8%
	Apr	0.8%	0.2%	-2.1%	1.1%	0.8%	1.2%
	May	0.8%	0.6%	-2.4%	2.2%	0.8%	4.5%
	Jun	0.0%	-0.7%	-5.3%	1.9%	0.0%	0.7%
	Jul	0.1%	-0.2%	-1.9%	0.5%	0.1%	1.7%
	Aug	0.0%	-0.2%	-1.3%	0.3%	0.0%	2.2%
	Sep	-0.2%	-1.3%	-4.6%	0.3%	-0.2%	1.0%
	Oct	-0.7%	-1.2%	-5.5%	-0.7%	-0.7%	2.9%
	Nov	2.0%	2.0%	4.8%	0.6%	2.0%	2.4%
	Dec	1.2%	0.1%	0.5%	-0.3%	1.2%	2.1%
1993	Jan	1.6%	1.9%	2.7%	1.8%	1.6%	2.4%
	Feb	2.0%	4.8%	3.6%	5.6%	2.0%	1.7%
	Mar	-0.6%	-0.4%	2.0%	-1.2%	-0.6%	0.7%
	Apr	-0.3%	0.3%	0.5%	0.2%	-0.3%	0.3%
	May	1.2%	1.3%	1.9%	0.8%	1.2%	2.9%
	Jun	-0.6%	-0.6%	-3.8%	1.1%	-0.6%	1.3%
	Jul	-0.3%	-0.1%	-2.8%	1.3%	-0.5%	0.2%
	Aug	0.3%	0.5%	0.1%	0.7%	0.1%	1.4%
	Sep	-0.2%	-0.5%	-0.4%	-1.0%	0.1%	0.8%
	Oct	-0.5%	-0.8%	-1.3%	-0.6%	-0.1%	0.6%
	Nov	-0.3%	-1.0%	0.0%	-1.5%	0.4%	1.7%
	Dec	0.8%	1.4%	4.1%	0.0%	0.3%	3.5%
1994	Jan	1.7%	0.6%	6.1%	-0.1%	2.3%	1.8%
	Feb	3.1%	6.7%	6.3%	6.8%	0.9%	3.0%
	Mar	-0.6%	-0.6%	-0.6%	-0.5%	-0.4%	0.2%
	Apr	0.4%	0.7%	0.6%	0.8%	-0.2%	0.1%
	May	0.7%	1.1%	1.1%	1.1%	0.2%	0.4%
	Jun	0.9%	1.2%	0.6%	1.4%	0.7%	0.8%
	Jul	0.2%	0.0%	-1.6%	0.8%	0.5%	0.1%

TABLE 6.2B: PRICE INDEX BY COMMODITY GROUPS: Monthly Growth Rates

Year	Month	Goods	Total Food	Agr Products	Proc Food	Manu-factures	Services
	Aug	0.9%	1.0%	1.6%	0.7%	0.8%	0.9%
	Sep	1.7%	2.3%	4.2%	1.3%	1.0%	1.1%
	Oct	1.4%	2.1%	5.3%	0.6%	0.7%	0.8%
	Nov	1.8%	3.2%	8.5%	0.5%	0.4%	0.8%
	Dec	0.9%	1.0%	1.7%	0.6%	0.8%	2.1%
1995	Jan	4.1%	5.0%	6.3%	4.3%	1.2%	-0.2%
	Feb	3.6%	6.4%	4.2%	7.7%	1.0%	2.5%
	Mar	0.3%	0.6%	-0.4%	1.1%	0.1%	-0.5%
	Apr	1.1%	1.9%	2.4%	1.6%	0.5%	0.8%
	May	1.9%	2.9%	3.0%	2.9%	1.3%	1.1%
	Jun	0.8%	1.5%	-0.9%	2.7%	0.3%	0.6%
	Jul	-0.2%	-0.8%	-3.0%	0.3%	0.4%	0.8%
	Aug	0.3%	0.2%	0.1%	0.2%	0.3%	0.3%
	Sep	0.5%	0.8%	3.2%	-0.3%	0.3%	0.9%
	Oct	0.1%	-0.2%	0.3%	-0.5%	0.3%	0.3%
	Nov	0.1%	0.1%	1.1%	-0.3%	0.0%	0.3%
	Dec	0.2%	0.2%	2.6%	-1.0%	0.3%	0.8%
1996	Jan	0.7%	0.9%	2.6%	0.1%	0.5%	1.9%
	Feb	2.7%	4.5%	5.1%	4.2%	0.8%	1.8%
	Mar	0.9%	1.7%	1.1%	2.1%	-0.1%	0.4%
	Apr	0.1%	0.1%	-0.3%	0.3%	0.1%	-0.1%
	May	-0.6%	-1.2%	-2.6%	-0.5%	0.1%	0.0%
	Jun	-0.7%	-1.3%	-3.8%	-0.1%	-0.1%	0.7%
	Jul	-0.8%	-1.6%	-5.4%	0.0%	0.1%	0.5%
	Aug	-0.6%	-1.2%	-2.6%	-0.5%	0.1%	0.4%
	Sep	0.2%	-0.1%	-0.1%	-0.1%	0.6%	0.4%
	Oct	0.0%	-0.2%	-0.1%	-0.2%	0.2%	0.7%
	Nov	1.0%	1.6%	3.9%	0.4%	0.3%	0.5%
	Dec	1.0%	1.3%	3.0%	0.5%	0.6%	1.0%
1997	Jan	0.6%	0.4%	1.2%	0.0%	0.9%	1.9%
	Feb	1.6%	2.7%	0.7%	3.7%	0.5%	3.2%
	Mar	-0.6%	-1.2%	-1.2%	-1.3%	0.2%	-0.3%
	Apr	-0.8%	-1.6%	-2.8%	-1.0%	0.0%	0.5%
	May	-0.7%	-1.5%	-3.4%	-0.6%	0.2%	0.4%
	Jun	0.1%	-0.3%	-2.1%	0.6%	0.6%	0.1%
	Jul	0.1%	-0.1%	0.2%	-0.2%	0.4%	0.3%
	Aug	0.1%	0.2%	1.3%	-0.3%	0.0%	0.1%
	Sep	0.6%	1.0%	1.5%	0.7%	0.2%	0.6%
	Oct	0.3%	0.6%	0.9%	0.4%	0.1%	0.3%
	Nov	0.3%	0.2%	1.5%	-0.4%	0.4%	0.3%
	Dec	1.0%	1.3%	2.9%	0.5%	0.9%	0.5%
1998	Jan	1.6%	2.1%	2.1%	1.5%	0.7%	1.4%
	Feb	2.2%	3.0%	3.0%	2.4%	1.4%	0.8%
	Mar	-0.8%	-0.8%	-0.5%	-1.3%	-0.6%	-1.2%
	May						

TABLE 6.2B: PRICE INDEX BY COMMODITY GROUPS: Monthly Growth Rates

Year	Month	Goods	Total Food	Agr Products	Proc Food	Manu-factures	Services
	Jun						
	Jul						
	Aug						
	Sep						
	Oct						
	Nov						
	Dec						

Table 7.1: AGRICULTURAL PRODUCTION

	1990	1991	1992	1993	1994	1995	1996	1997
	(Billions of 1989 Dong)						(Billions of 1994 Dong)	
Gross Output	14,751	15,189	16,450	17,544	18,399	19,611	86,489	91,235
Crop Cultivation	11,099	11,512	12,331	13,186	13,801	14,786	69,620	73,457
Food Crops	7,396	7,542	8,281	8,747	8,999	9,431	44,654	46,953
Industrial Crops	3,703	3,970	4,050	4,439	4,902	5,355	12,806	13,898
Animal Husbandry	3,224	3,227	3,642	3,847	4,055	4,237	14,347	15,206
of which:								
Livestock	2,027	2,000	2,261	2,418	2,613	2,712	9,301	9,923
Poultry	615	618	691	707	713	736	2,507	2,691
	(Thousands of metric tons)							
Foodgrains a/	21,488	21,989	24,214	25,502	26,199	27,571	29,218	30,561
Paddy	19,225	19,622	22,590	22,837	23,528	24,964	26,397	27,646
Other	2,263	2,367	2,624	2,665	2,670	2,607	2,821	2,916
Memorandum Items:								
Area Cultivated (000 ha) b/	7,111	7,448	7,707	7,797	7,809	7972	8,218	8,295
Foodgrain Output per Capita (kg)	323	323	346	364	364	373	387	400

Note: Revised data series.
a/ Paddy equivalent.
b/ Foodgrains.

Source: General Statistical Office.

Table 7.2: INDUSTRIAL CROP PRODUCTION AND YIELDS

	1990	1991	1992	1993	1994	1995	1996	1997
Production (000 metic tons)								
Cotton	3.1	8.3	12.8	5.2	8.7	12.8	11.2	14.1
Jute	23.8	25.3	25.7	23.4	12.8	14.8	15.0	22.3
Rush	63.6	54.4	77.2	69.5	69.1	75.1	55.0	52
Mulberry	100.2	103.5	142.8	191.3	169.3	163.6	..	..
Sugarcane	5,397.6	6,130.9	6,437.0	6,083.2	7,750.1	10,711.2	11,371.8	11428.2
Peanuts	213.1	234.8	226.7	259.3	294.4	334.4	357.7	352.9
Soybeans	86.6	80.0	80.0	105.7	124.5	125.5	113.8	102.5
Tobacco	21.8	36.2	27.3	20.3	21.7	25.8	23.5	28.3
Tea	32.2	33.1	36.2	37.7	42.0	40.2	46.8	52.3
Coffee	92.0	100.0	119.0	136.0	180.0	218.0	320.1	400.3
Rubber	57.9	64.6	67.0	96.9	128.8	122.7	142.5	180.7
Coconut	894.4	1,052.5	1,139.8	1,184.0	1,100.0	1,022.0	1,130.8	..
Area Cultivated (000 ha)								
Cotton	8.3	16.1	19.2	11.5	13.2	17.5	15.0	15.2
Jute	11.7	10.5	11.6	14.4	6.6	7.4	8.0	12.4
Rush	11.4	9.4	11.0	9.9	10.9	10.4	9.1	7.4
Mulberry	12.3	13.9	20.2	26.7	24.1	21.3	..	
Sugarcane	130.6	143.7	146.5	143.2	166.6	224.8	237.0	251.1
Peanuts	201.4	210.9	217.3	217.2	248.2	260.0	262.7	251.3
Soybeans	110.0	101.1	97.3	120.1	132.0	121.1	110.4	100.1
Tobacco	26.5	37.7	31.4	23.5	24.5	27.7	23.9	28.3
Tea	60.0	60.0	62.9	65.6	67.3	66.7	74.7	81.7
Coffee	119.3	115.0	103.7	101.3	123.0	186.4	254.0	270
Rubber	221.7	220.6	212.4	242.5	258.4	278.4	303.0	329.4
Coconut	212.3	214.2	204.1	207.6	182.5	172.9	179.5	..
Average Yield (Metric ton/Ha; derived from above)								
Cotton	0.4	0.5	0.7	0.5	0.7	0.7	0.7	0.9
Jute	20.3	2.4	2.2	1.6	1.9	2.0	1.9	1.8
Rush	5.5	5.8	7.0	7.0	6.3	7.2	6.0	7.0
Mulberry	8.1	7.4	7.1	7.2	7.0	7.7	..	..
Sugarcane	41.3	42.7	43.9	42.5	46.5	47.6	48.0	45.5
Peanuts	1.1	1.1	1.0	1.2	1.2	1.3	1.4	1.4
Soybeans	0.8	0.8	0.8	0.9	0.9	1.0	1.0	1.0
Tobacco	0.8	1.0	0.9	0.9	0.9	0.9	1.0	1.0
Tea	..	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Coffee	0.8	0.9	1.1	1.3	1.5	1.2	1.3	1.5
Rubber	0.3	0.3	0.3	0.4	0.5	0.4	0.5	0.5
Coconut	4.2	4.9	5.6	5.7	6.0	5.9	6.3	..

Source: General Statistical Office, Statistical Data of the Socialist Republic of Vietnam, 1996, and GSO, May 1997.

Note:
Update with GSO data
May-97

Table 8.2: MAJOR INDUSTRIAL PRODUCTS

Product	Unit	1990	1991	1992	1993	1994	1995	Rev. 1996	Prel. 1997
Energy									
Electricity	Mil. Kwh.	8790	9307	9818	10851	12473	14665	16962	19123
- State		8787	9303	9813	10851	12473	14665	16949	19106
- Non-State		3	4	5	-	-	-	13	17
Coal	Mil. Tons	5	5	5	5	6	8	10	10647
- State		5	5	5	5	6	8	10	10600
- Non-State		0	0	0	0	-	0	0	0
Crude Oil	Mil. Tons	3	4	6	6	7	8	9	10
- State		3	4	6	6	7	8	9	10
- Non-State		-	-	-	-	-	-	-	-
Raw Material									
Steel	000 Tons	102	149	196	236	280	470	868	950
- State		101	149	196	236	280	398	505	490
- Non-State		1	-	-	-	-	72	365	460
Chromium	000 Tons	5	6	4	4	6	25	37	41
- State		5	6	4	4	6	21	31	34
- Non-State		-	-	-	-	-	4	6	7
Tin (sticks	Tons	1602	1686	4544	2050	0	1862	2805	2800
- State		1602	1686	4544	2050	0	1862	2805	2800
- Non-State		-	-	-	-	-	-	-	-
Manufacturing Goods									
Metalwork	Pieces	894	1235	844	1288	1358	1358	1408	-
- State		894	1235	827	1268	1358	1358	1408	-
- Non-State		-	-	17	20	-	-	-	-
Diesel Mo	Pieces	4470	5296	3264	2849	3371	4217	7838	8000
- State		4470	5296	3264	2849	3371	4217	7838	8000
- Non-State		-	-	-	-	-	-	-	-
Electric Ro	Pieces	10596	9550	13923	21363	28789	29390	35575	38258
- State		8413	9010	13443	21000	28109	28181	34148	37123
- Non-State		2183	540	480	363	680	1209	1427	1135
Transform	Pieces	2612	1964	1310	3750	5881	6186	6910	6450
Water Pum	Pieces	430	412	330	360	632	547	435	500
- State		430	412	330	360	632	547	435	500
- Non-State		-	-	-	-	-	-	-	-
Rice Mill E	Pieces	1013	657	706	820	2067	2043	2167	2100
- State		666	415	424	500	191	105	141	100
- Non-State		347	242	282	320	1876	1938	2026	2000
Ploughs an	000 Pieces	172	190	188	180	187	134	-	-
Chemical F	000 Tons	354	450	530	661	841	931	965	994
- State		354	450	530	661	841	931	962	990
- Non-State		-	-	-	-	-	-	3	4
Insecticide	000 Tons	9	10	11	14	14	16	20	20
Bicycle Ti	000 Pieces	9238	8606	8458	8144	9821	6703	8656	10213
- State		8318	7470	6959	7144	7470	8295	6823	8213
- Non-State		920	1136	1499	1000	2351	1408	1833	2000
Bicycle Tu	000 Pieces	8349	8533	9177	9100	10800	11917	12588	13100
- State		8349	8533	9177	9100	10740	11781	12488	13000
- Non-State		-	-	-	-	60	136	100	100
Cement	000 Tons	2534	3127	3926	4413	6371	5828	6585	7475
- State		2534	3127	3926	4413	5371	5828	6529	6550
- Non-State		-	-	-	-	-	-	56	207

Table 8.2: MAJOR INDUSTRIAL PRODUCTS (Continued)

Product	Unit	1990	1991	1992	1993	1994	1995	1996	1997
Bricks	Mil. Pieces	3476	3769	4274	4370	5413	6892	7119	7163
- State		809	808	740	1000	604	1121	1522	2153
- Non-State		2667	2961	3534	3370	4809	5771	5597	5010
Consumer Goods									
Glass and	000 Tons	39	32	37	47	38	77	93	93
- State		27	19	26	30	21	24	20	19
- Non-State		12	13	11	17	16	53	73	74
Porcelain	Mil. Pieces	140	163	130	168	152	187	232	238
- State		20	17	15	18	19	18	17	16
- Non-State		120	146	115	150	173	169	215	220
Sawn Woo	000 m3	896	1182	1246	844	1573	1606	1398	1480
- State		446	483	514	384	526	500	341	340
- Non-State		450	699	732	460	1047	1106	1014	1100
Matches	Mil. Packets	94	151	184	145	145	143	-	-
Paper and	000 Tons	79	108	118	128	154	216	220	240
- State		71	97	109	116	130	178	176	204
- Non-State		8	11	9	12	24	38	44	45
Salt	000 Tons	593	583	594	488	470	689	709	800
- State		77	108	131	88	93	174	137	140
- Non-State		516	475	463	400	377	515	572	660
Sea Fish	000 Tons	616	666	685	737	-	-	-	-
- State		47	38	42	37	-	-	-	-
- Non-State		569	628	643	700	-	-	-	-
Sugar	000 Tons	323	372	365	341	364	517	636	587
- State		59	68	98	91	99	117	178	195
- Non-State		264	304	267	250	265	400	458	392
Beer	Mil. Liters	100	131	169	217	366	465	533	572
- State		99	129	166	215	356	314	365	349
- Non-State		1	3	3	2	10	151	168	223
Cigarettes	Mil. Packets	1249	1298	1541	1604	1948	2147	2165	2102
- State		1243	1295	1536	1600	1645	2116	2147	2090
- Non-State		6	3	5	4	3	31	13	12
Tea	000 Tons	24	23	22	28	31	24	33	35
- State		20	18	19	20	23	13	18	19
- Non-State		4	5	3	8	10	11	15	16
Fish Sauce	Mil. Liters	131	151	148	131	141	149	167	174
- State		62	64	61	31	48	56	55	59
- Non-State		70	87	87	100	93	93	112	115
Textile Fib	000 Tons	58	40	44	40	50	59	65	70
- State		58	40	44	40	50	51	53	61
- Non-State		0	0	0	0	0	8	4	9
Cotton Fab	Mil. Meters	318	280	272	225	251	263	285	300
- State		256	205	180	188	161	150	152	160
- Non-State		62	75	92	37	0	113	133	140
Cotton Fab	Mil. Meters	67	36	86	0	0	-	-	-
Soap	000 Tons	55	68	72	79	97	129	167	201
- State		51	66	70	75	90	93	98	125
- Non-State		3	2	2	4	7	36	69	76

Source: General Statistical Office, Statistical Data of the Socialist Republic of Vietnam, 1993, Hanoi: Statistical Publishing House, 1994, GSO, Industrial Data, 1989-1993, Hanoi: Statistical Publishing House, 1994, GSO, May 1997.

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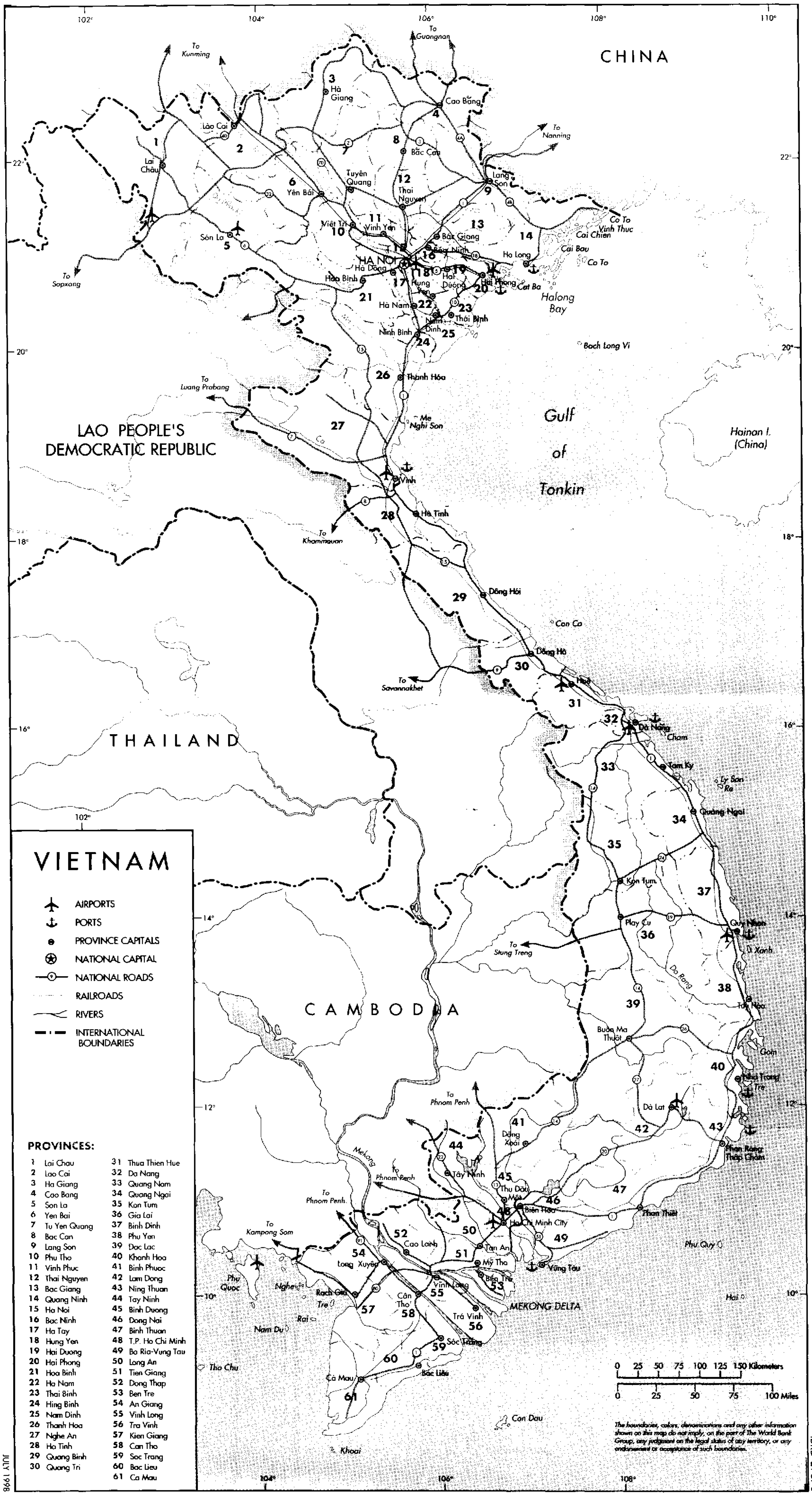
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AIRPORTS
PORTS
PROVINCE CAPITALS
NATIONAL CAPITAL
NATIONAL ROADS
RAILROADS
RIVERS
INTERNATIONAL BOUNDARIES
PROVINCES:
1 Lai Chau
2 Lao Cai
3 Ha Giang
4 Cao Bang
5 Son La
6 Yen Bai
7 Tu Yen Quang
8 Bac Can
9 Lang Son
10 Phu Tho
11 Vinh Phuc
12 Thai Nguyen
13 Bac Giang
14 Quang Ninh
15 Ha Noi
16 Bac Ninh
17 Ha Tay
18 Hung Yen
19 Hai Duong
20 Hai Phong
21 Hoa Binh
22 Ha Nam
23 Thai Binh
24 Hing Binh
25 Nam Dinh
26 Thanh Hoa
27 Nghe An
28 Ha Tinh
29 Quang Binh
30 Quang Tri
31 Thua Thien Hue
32 Da Nang
33 Quang Nam
34 Quang Ngai
35 Kon Tum
36 Gia Lai
37 Binh Dinh
38 Phu Yen
39 Dac Lac
40 Khanh Hoa
41 Binh Phuoc
42 Lam Dong
43 Ning Thuan
44 Tay Ninh
45 Binh Duong
46 Dong Nai
47 Binh Thuan
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52 Dong Thap
53 Ben Tre
54 An Giang
55 Vinh Long
56 Tra Vinh
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58 Can Tho
59 Soc Trang
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To Phnom Penh
To Kampong Som
Lào Cai
Lai Châu
Hà Giang
Cao Bằng
Bắc Cạn
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Bắc Giang
Bắc Ninh
Ha Long
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Cham
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Gom
Nha Trang
Tre
Đà Lạt
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Cao Lãnh
Long Xuyên
Vĩnh Long
Bến Tre
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Cần Thơ
Sóc Trăng
Rạch Giá
Phu Quoc
Nghe
Rai
Tre
Nam Du
Tho Chu
Cà Mau
Bạc Liêu
Con Dau
Khoai
Hai
Mekong
Ca
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0 25 50 75 100 Miles
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