

CIEM-NIAS Seminar No. 2002/2

# Trade Horizons to 2020: Issues and Perspectives for Vietnam

**Speaker**

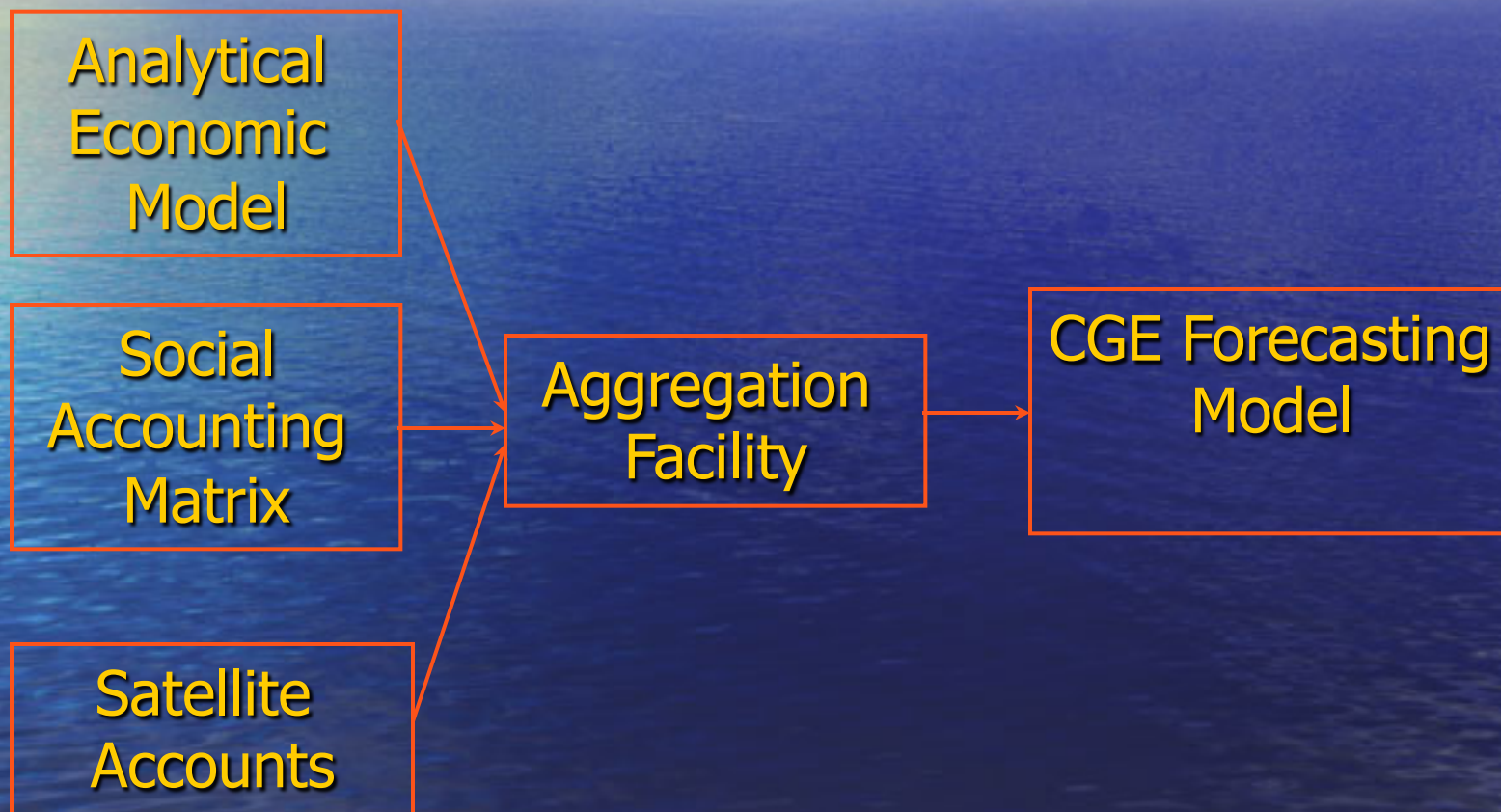
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**Central Institute for Economic Management (CIEM)  
Hanoi**

# The CIEM-NIAS Model





# Analytical Economic Model

- ★ Supply – Firm-level production technology with Leontief intermediate use.
- ★ Demand-Domestic consumption functions by household and commodity type.
- ★ Dynamic specification of factor growth and demographic transitions.
- ★ Extensive accounting for transfer relationships between institutions (fiscal, capital flows, remittances, etc.).

# Vietnam Social Accounting Matrix

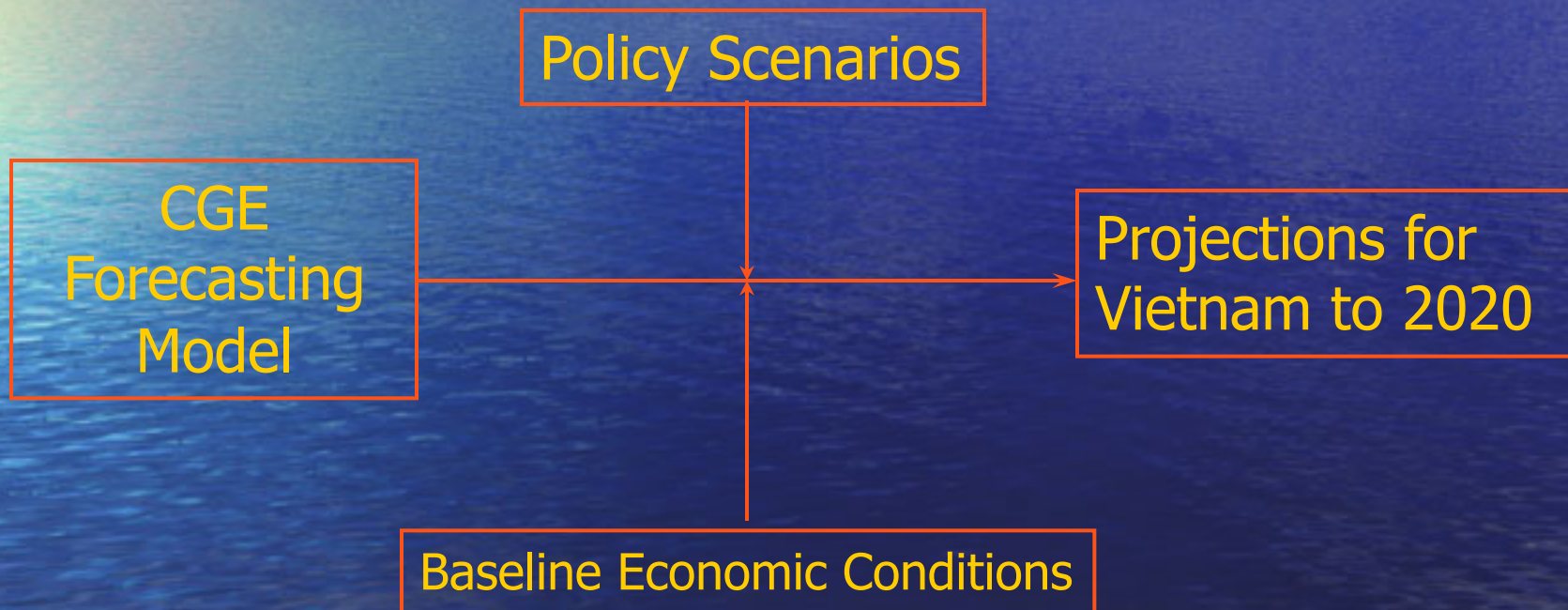
- ★ An economy-wide accounting device to capture detailed interdependencies between institutions. An extension of input-output analysis.
- ★ The 1999 Vietnam SAM
- ★ 97 domestic production activities/commodities
- ★ 13 factors of production
  - 12 labor categories
  - Capital
- ★ 5 household types
- ★ 3 enterprises (Private, Public, and Foreign)
- ★ State (detailed fiscal instruments)
- ★ Consolidated capital account
- ★ 94 international trading partners



# Satellite Accounts

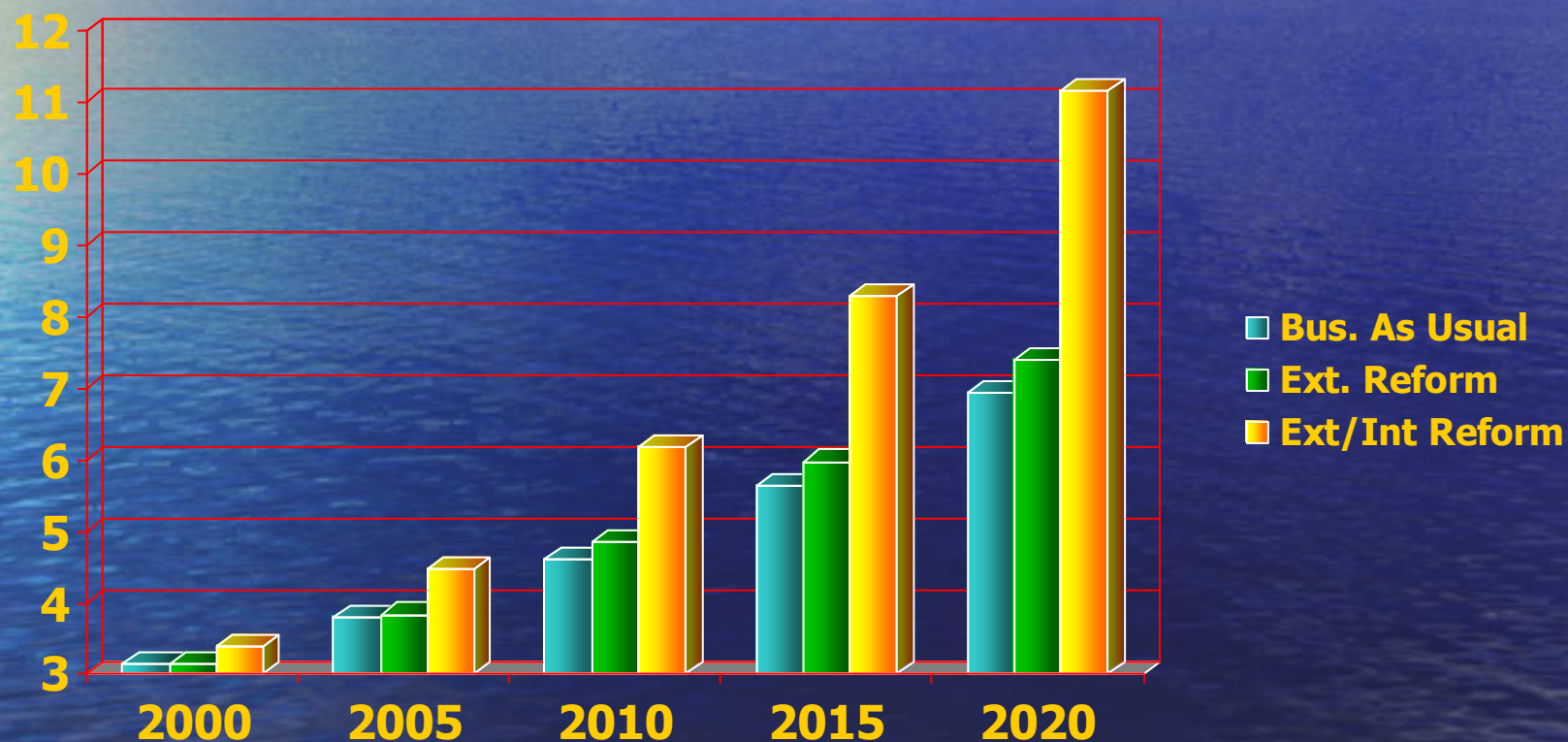
- ☆ Macroeconomic data series
- ☆ Structural parameters
- ☆ Demographic data
- ☆ Other resource data

# Forward-looking Policy Analysis



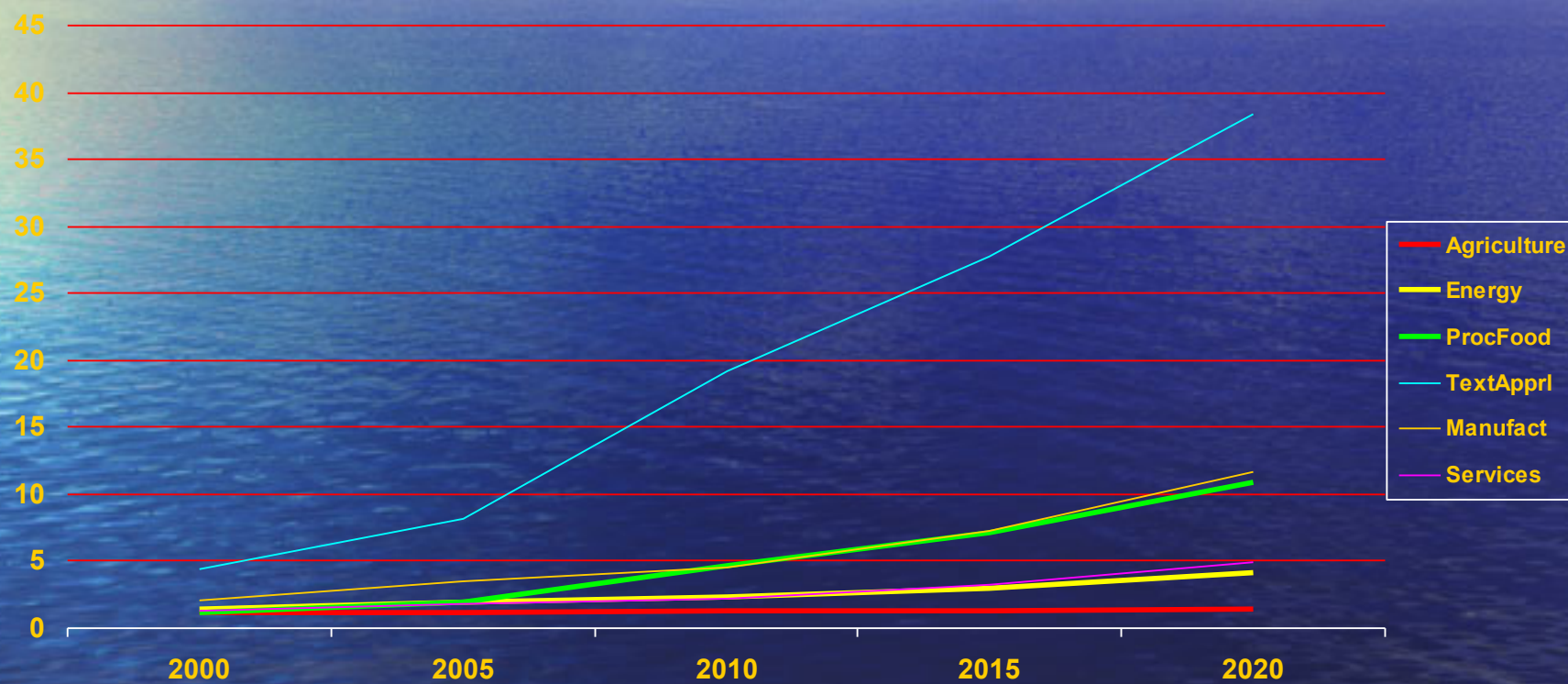


# Trade and Economic Growth: Real GDP to 2020



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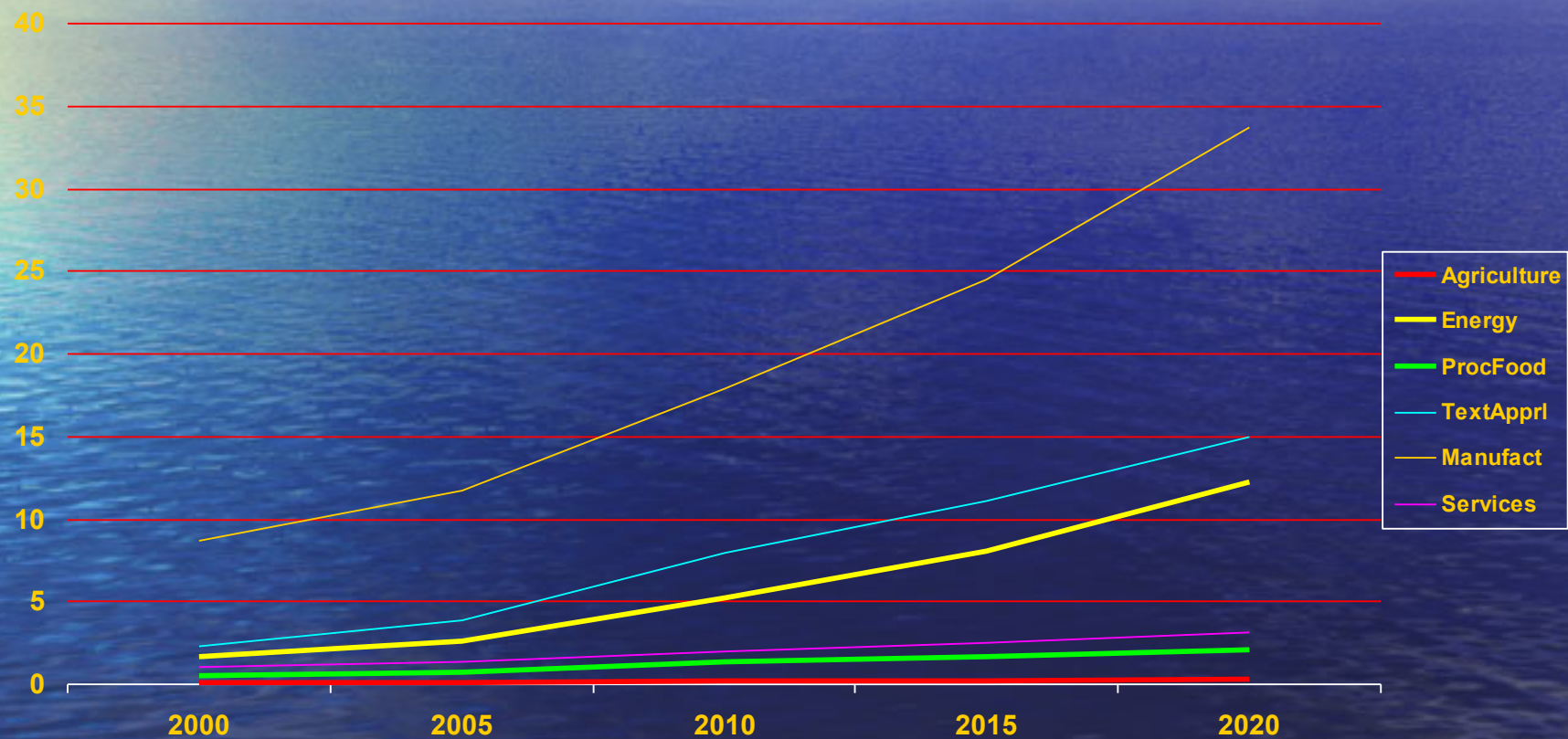
# Sectoral Export Trends



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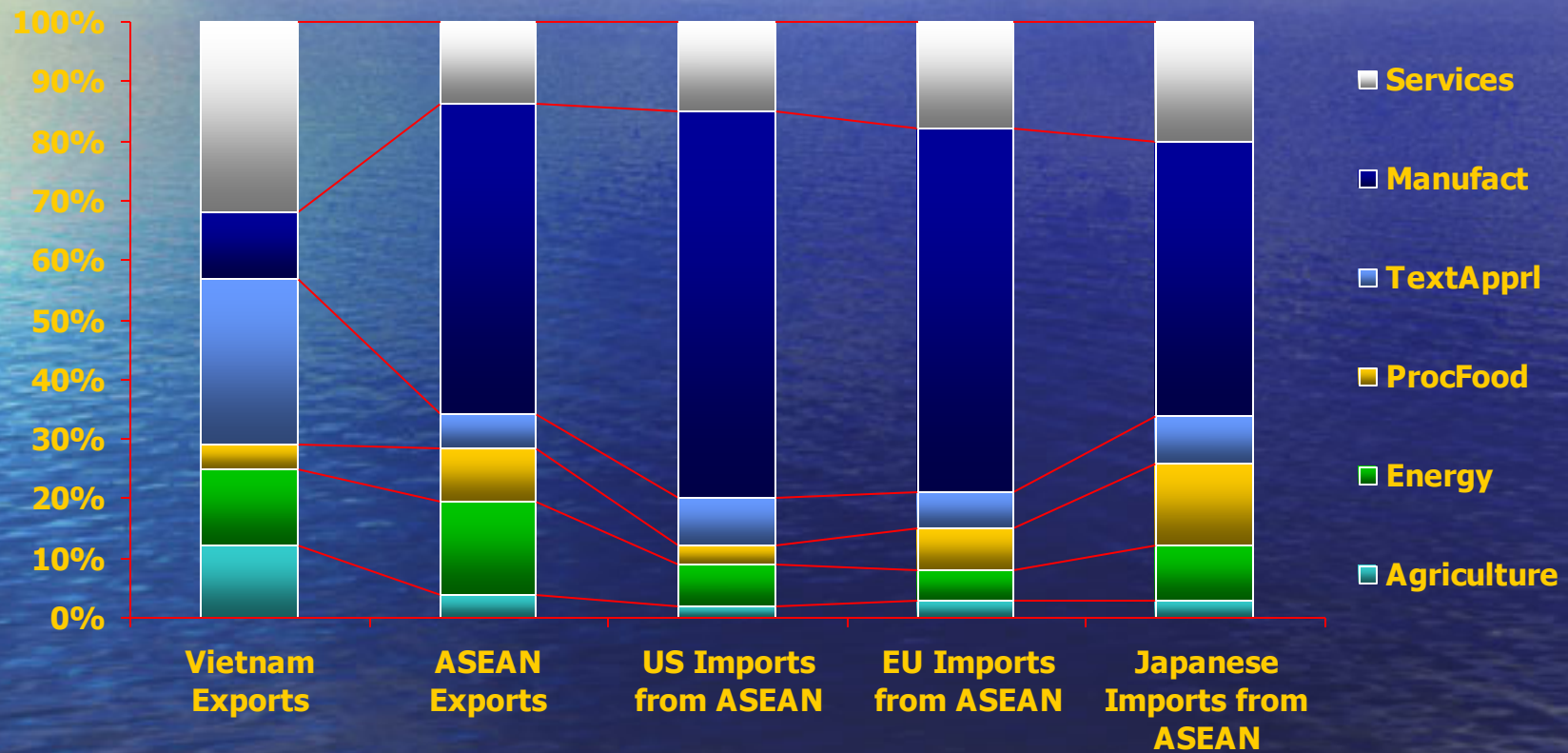


# Sectoral Import Trends



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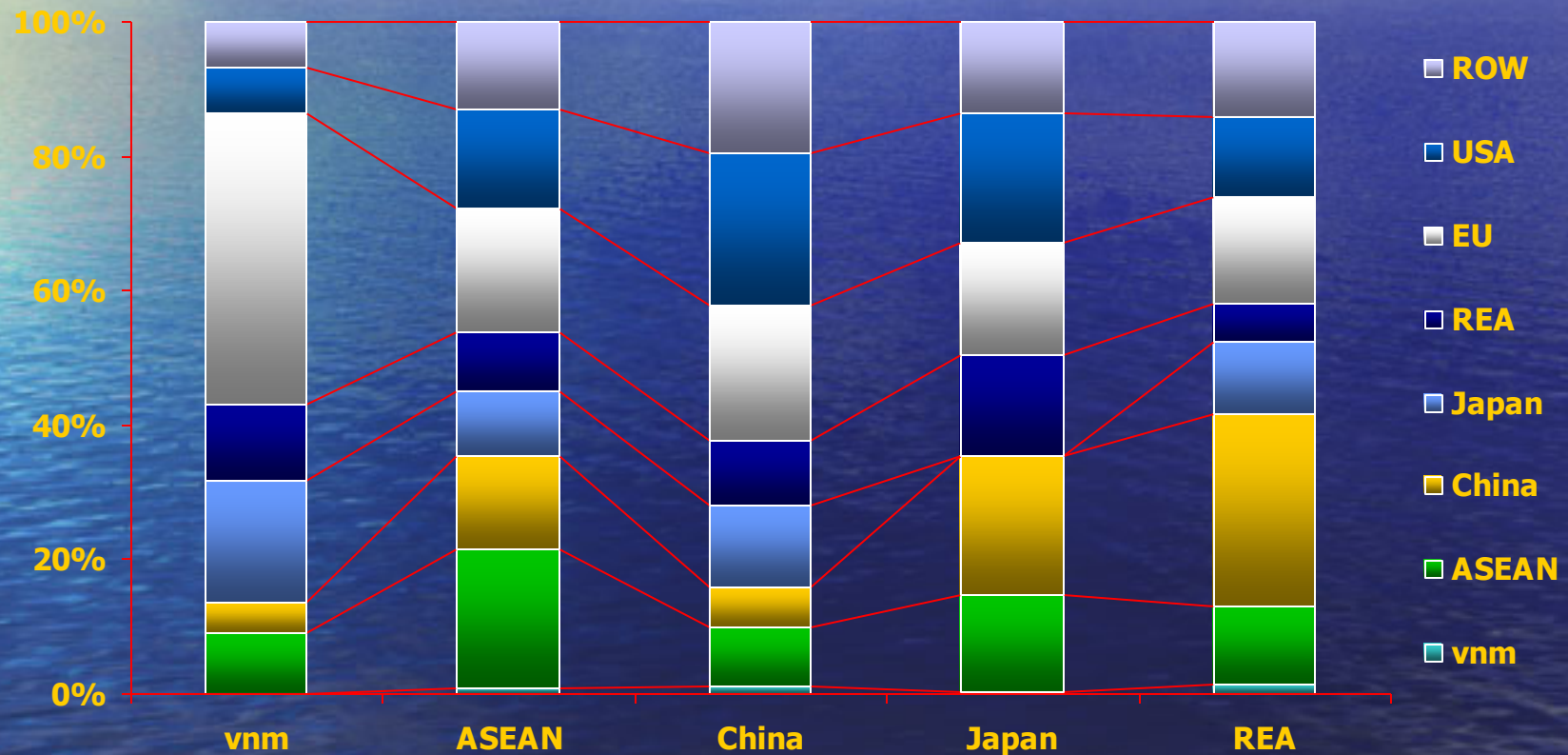
# Export and Import Composition by Partner (1999 Baseline Data)





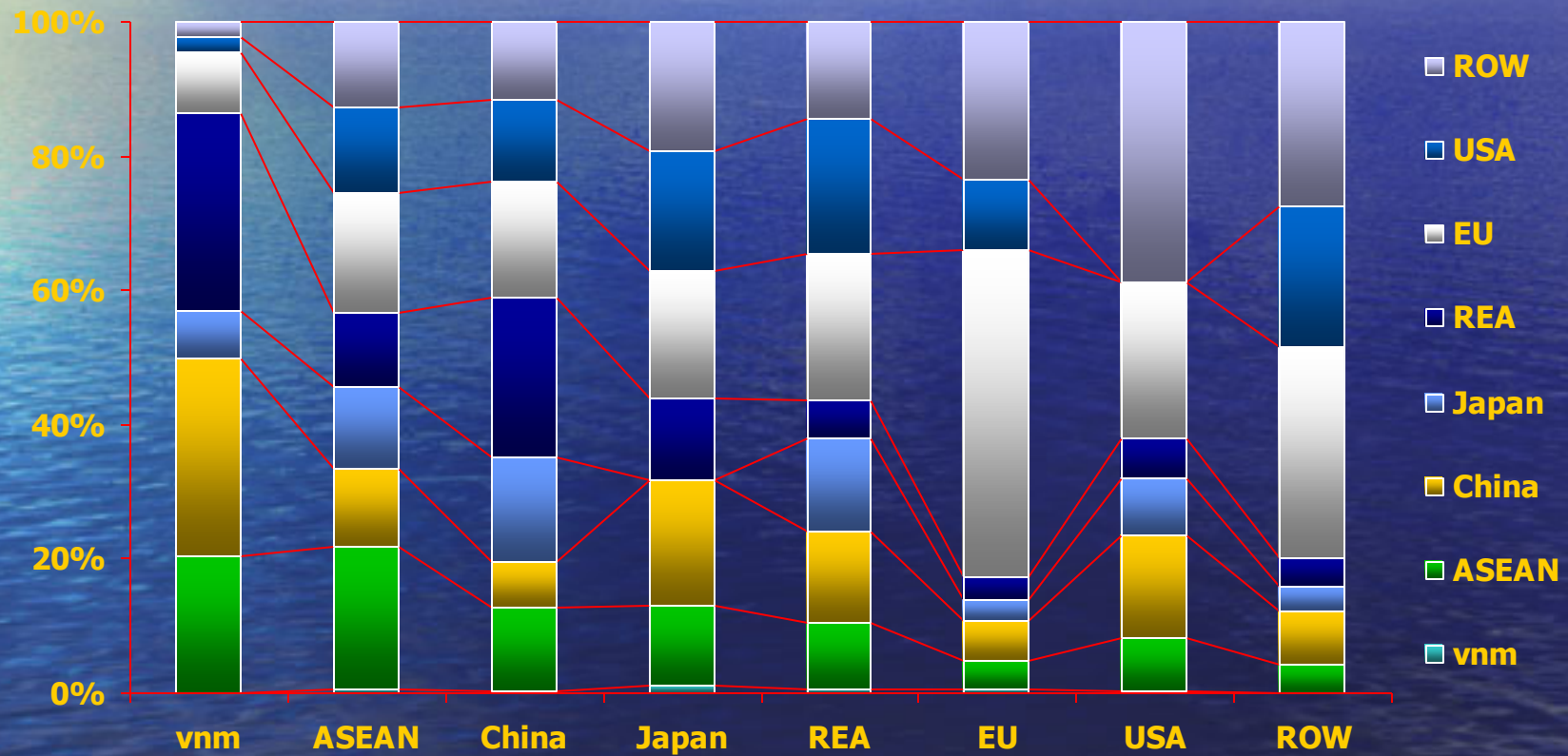
# Direction of Trade: Exports by Destination

(Ext. Reform projections to 2020)



# Direction of Trade: Imports by Origin

(Ext. Reform Projections to 2020)





# Preliminary Conclusions

- ★ External reform is necessary, but not sufficient for dynamic and sustained economic growth.
- ★ Passive external liberalization will lead to intensification of traditional, low wage comparative advantages.
- ★ Vietnam's export patterns are not representative of regional counterparts and do not take full advantage of existing markets.

# Opportunities for Vietnamese Agriculture

- ★ Regional Cereals Demand
  - China
  - Japan
- ★ OECD Fishery Demand
  - Global marine stocks are being depleted
  - Dietary shifts in protein/fat content
- ★ Significant potential for agricultural diversification
  - Fruit
  - Salad vegetables
  - Horticulture



# Challenges for Vietnamese Agriculture

- ★ Institutional constraints
  - Price transparency
  - Cost of capital
  - Trade and transport margins
  
- ★ Process constraints
  - Technology
  - Diversification
  - Quality
  - Value-added

# Manufacturing Growth, Productivity, and Investment Patterns

Vietnam has important advantages among emerging economies.

- ★ Very attractive education/wage ratios
- ★ High levels of social coherence and discipline
- ★ Important geographic characteristics
  - Transport access
  - Regional (East Asian) market centrality
- ★ Significant energy potential



# Manufacturing Growth, Productivity, and Investment Patterns

At the same time, Vietnam's industrialization faces significant challenges. Some are the same as in agriculture. More serious in manufacturing, however, are

- ★ **Capital Insufficiency**, public and private, which critically limits
  - Industrial growth and diversification of
  - Labor productivity (= real wages)
  - Domestic savings and reinvestment
  
- ★ **Market Failure**
  - In the Asian Pacific region, market forces have achieved increases in material living standards that defied two generations of more interventionist development planning. While the government should never abdicate its responsibility for basic needs and security, in economic matters it can best play the role of facilitator.

# Domestic Policy Considerations

- ★ Product markets – reduce barriers to market access/entry, especially for domestic private interests
  - Invest in infrastructure, transport, and communications
  - Reduce trade margins due to administration/regulation
  - Reduce direct and indirect financial bias favoring state enterprises
- ★ Capital markets – greater respect for market forces
  - More equal private/public access to domestic and external savings
  - Promote a transparent relationship between risk and return
- ★ Labor markets – increase investments in education
- ★ Fiscal policy – nondistortionary standards for taxation, uniformly applied



# External Policy Considerations

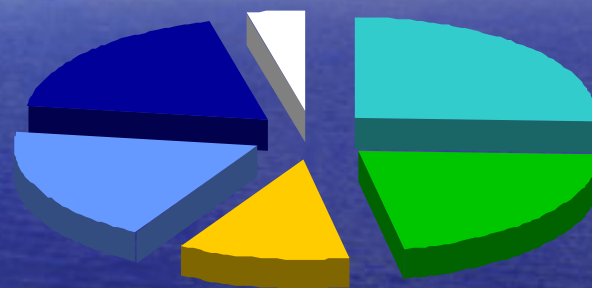
Fuller participation in the global economy will improve efficiency, leverage domestic production capacity and employment, and accelerate modernization. To facilitate this, the government can

- ★ Minimize price distortions in tradable commodities
- ★ More equal market access for domestic and international participants
- ★ Liberalize direct foreign investment and harmonize banking and financial market standards with international norms
- ★ Share more of the burden of development risk with foreigners
- ★ Promote Vietnamese enterprises abroad and negotiate balanced market access with trading partners

# Human Resources, Trade, and Development

Vietnam has not yet fulfilled the economic potential of its people.

GDP

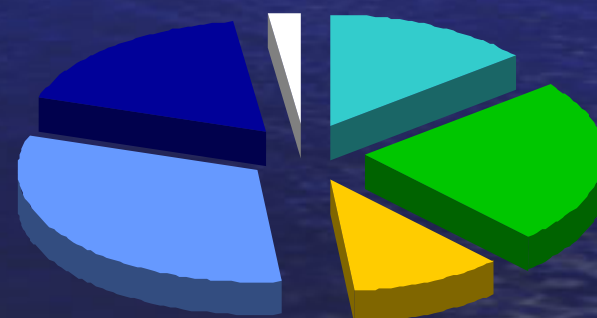


Population



- Indonesia
- Malaysia
- Philippines
- Singapore
- Thailand
- Vietnam

Exports

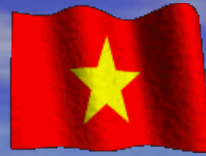




# Human Resources, Trade, and Development

To avoid economic marginalization with trade-induced economic growth, labor productivity must be increased and the skill base of the economy must be diversified. This can be done

- ★ - by intensification and extensification of the government's commitments to education
- ★ Privately – as the economy develops, so will the web of training opportunities for workers, particularly in emergent, higher tech sectors (let foreign capital do the work). Both domestic and external savings can then be invested in ways that will raise labor productivity and wages.



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