

Understanding Viet Nam in the Regional Context

**Presentation at the
Vietnam Securities Market 2010**

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Outline of the presentation

1. Viet Nam Today
2. An Urgent Topic: Why Vietnamese Economy is under Pressure Now
3. Public and External Debt
4. Global and Regional Economy
5. For Future Growth of the Region
6. Viet Nam in the Regional Context

1. Viet Nam Today

- Population – 86.0 million
- Total GDP - \$96.4 billion
- GDP Per capita - \$1,121
- “State sector” share in the economy is below 50%
- Industry and services comprise 80% of GDP
- Very open economy
- Rapid changes in the economic systems
- “Project 30” to reduce “red tapes” is rigorously being implemented

Development Pattern

Viet Nam is one of Asia's fastest growing economies

- Growth of real GDP averaging 7.4% during 1989-2008
- Real GDP growth moderated to 6.2% in 2008, and 5.3% in 2009
- Poverty incidence has declined from 58.1% in 1993 to 12.1% in 2009
- Economy is recovering to achieve growth of 6.5-6.7% in 2010

Key Factors of Development

- Rapid economic growth accompanied sharp decline in poverty
- A broad range of economic and institutional reforms
- Market-oriented reforms involved partial privatization of state-owned enterprises, liberalization of markets
- Increasingly integrated into the global economy

Development Framework

- Middle income country by 2010, and industrialized nation by 2020
- Socio Economic Development Plan 2006-2010 called for \$140 billion investment
- WTO Accession
 - Integration into global economy
 - Efficiency as the basis of competitiveness
 - Not just a trade policy

Viet Nam 2010

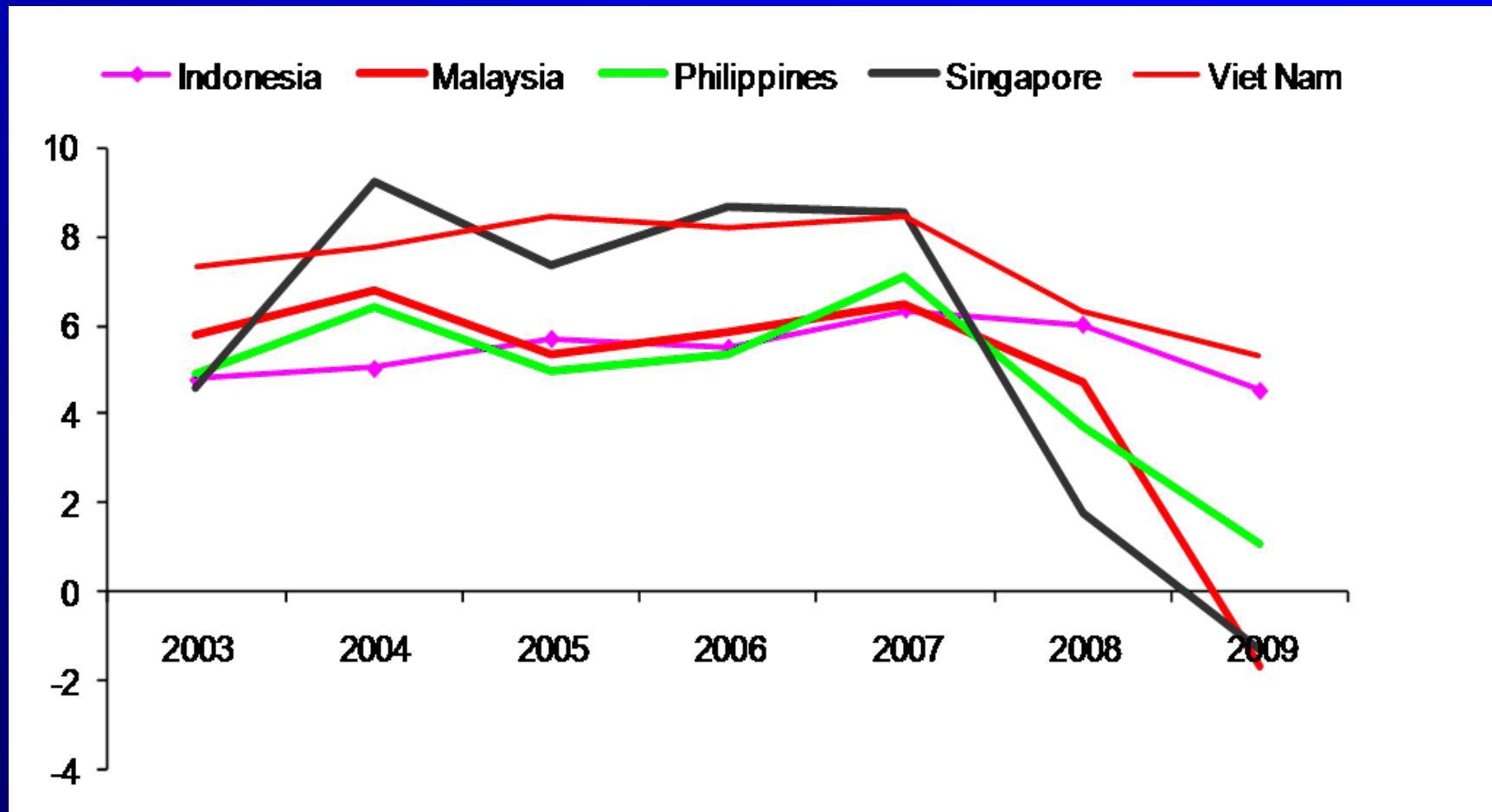
- Middle Income Country
- Chair of ASEAN
- PRC-ASEAN FTA
- India-ASEAN FTA
- 1000th Anniversary of Ha Noi

2. An Urgent Topic: Why Vietnamese Economy is under Pressure Now?



Viet Nam performing well in the global crisis...

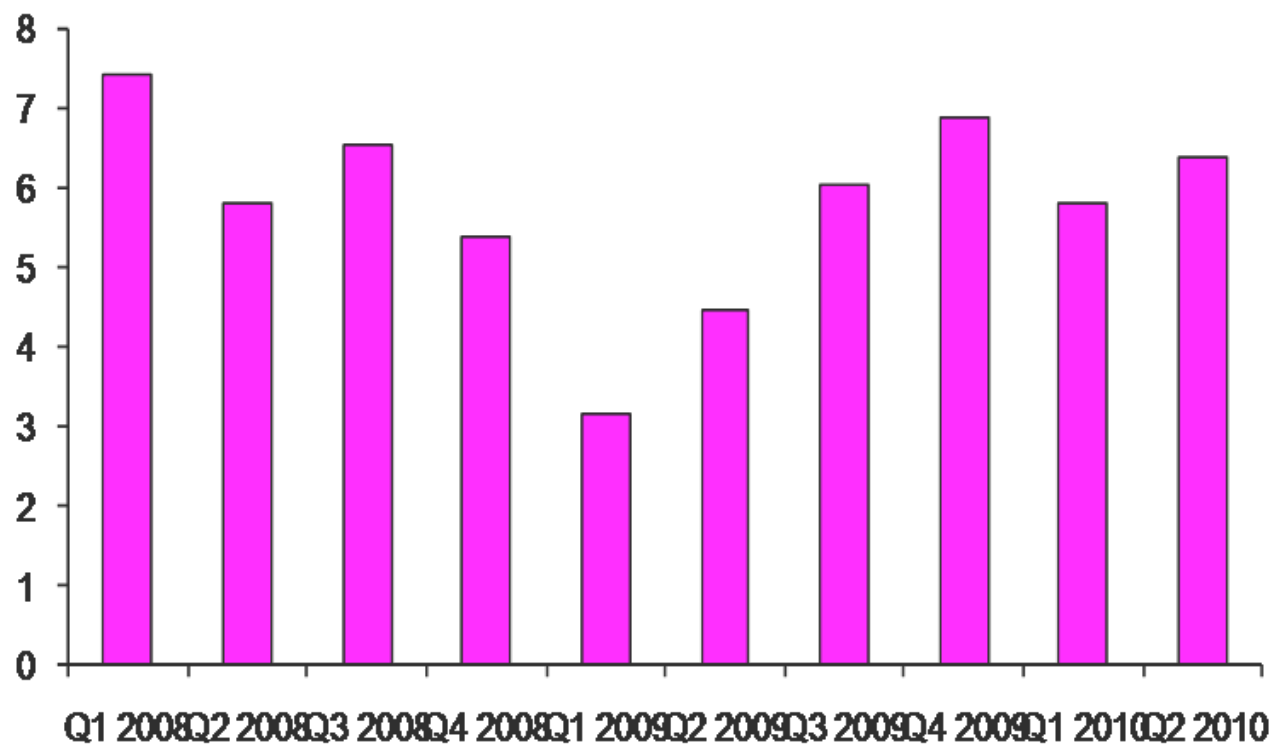
Growth of GDP in Selected Countries, 2003-2009 (%)



Source: Staff calculations based on CEIC data.

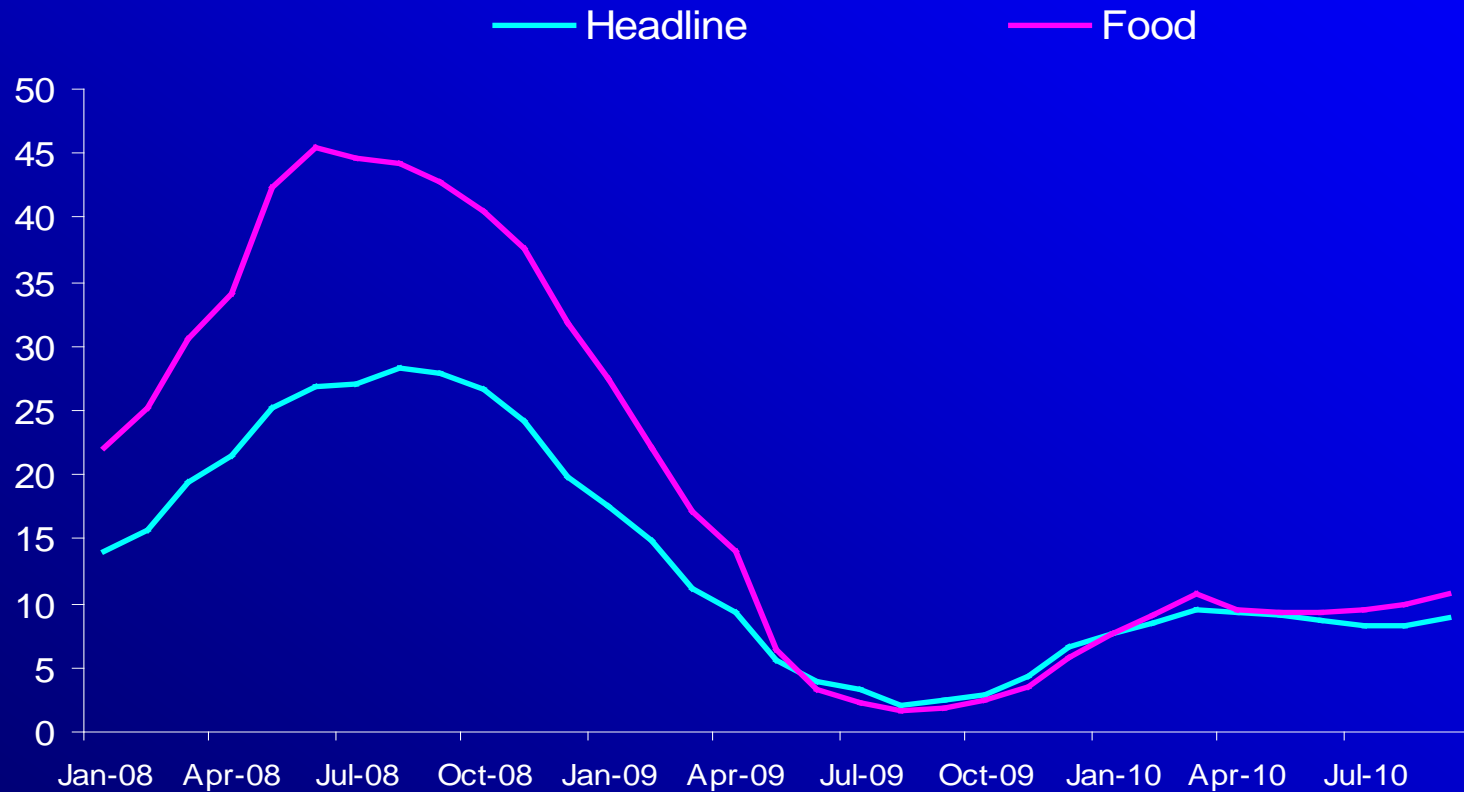
... with GDP growth consolidating in 2010

Viet Nam: Growth of GDP, 1Q08 – 2Q10 (Relative to the same period a year earlier, %)



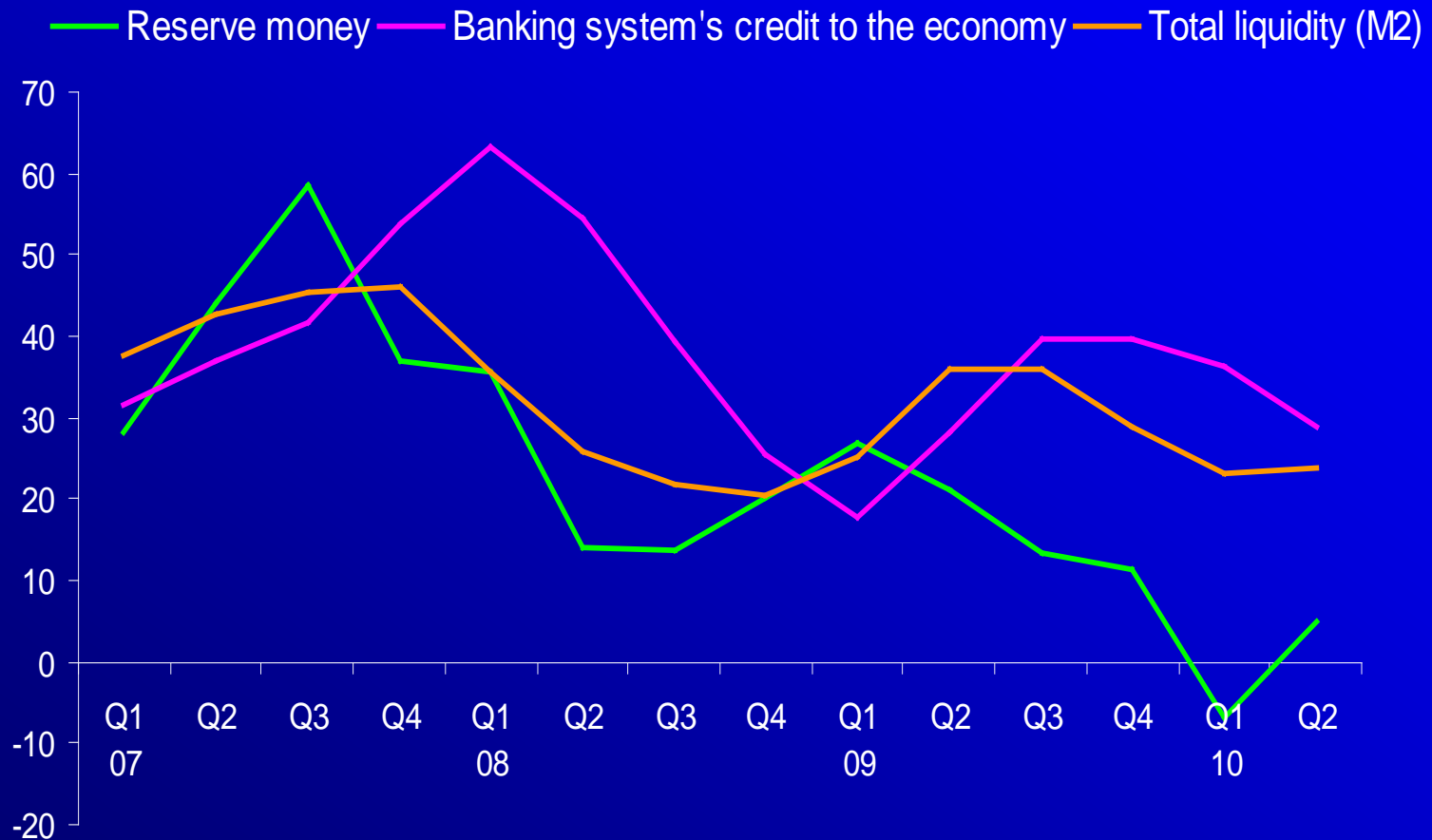
Inflation stabilizing....

Viet Nam: Inflation, Jan 2008-Sep 2010
(Relative to the same period a year earlier, %)



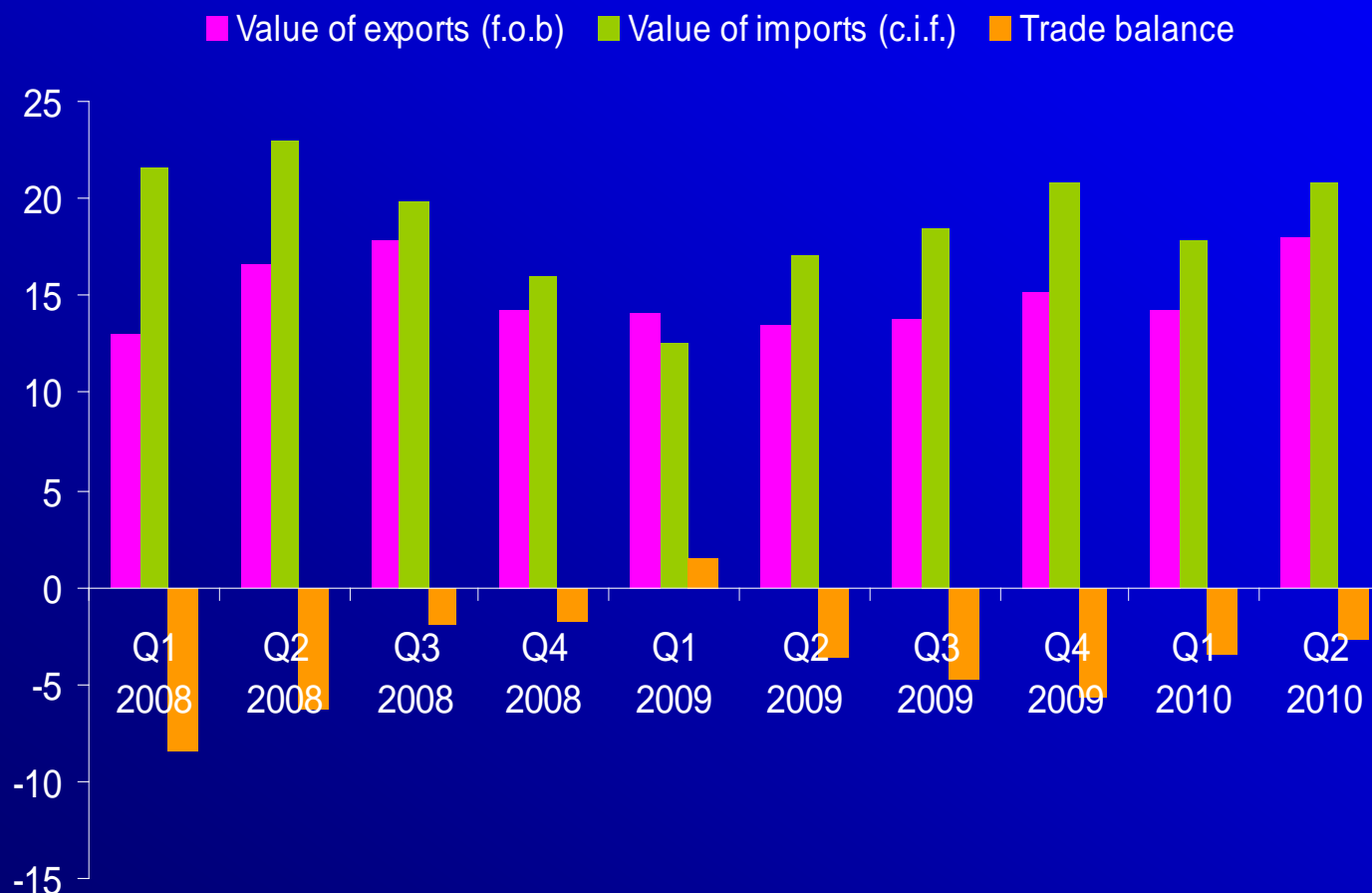
...and credit growth moderating

Growth of money and banking indicators, 1Q07 – 2Q10 , %



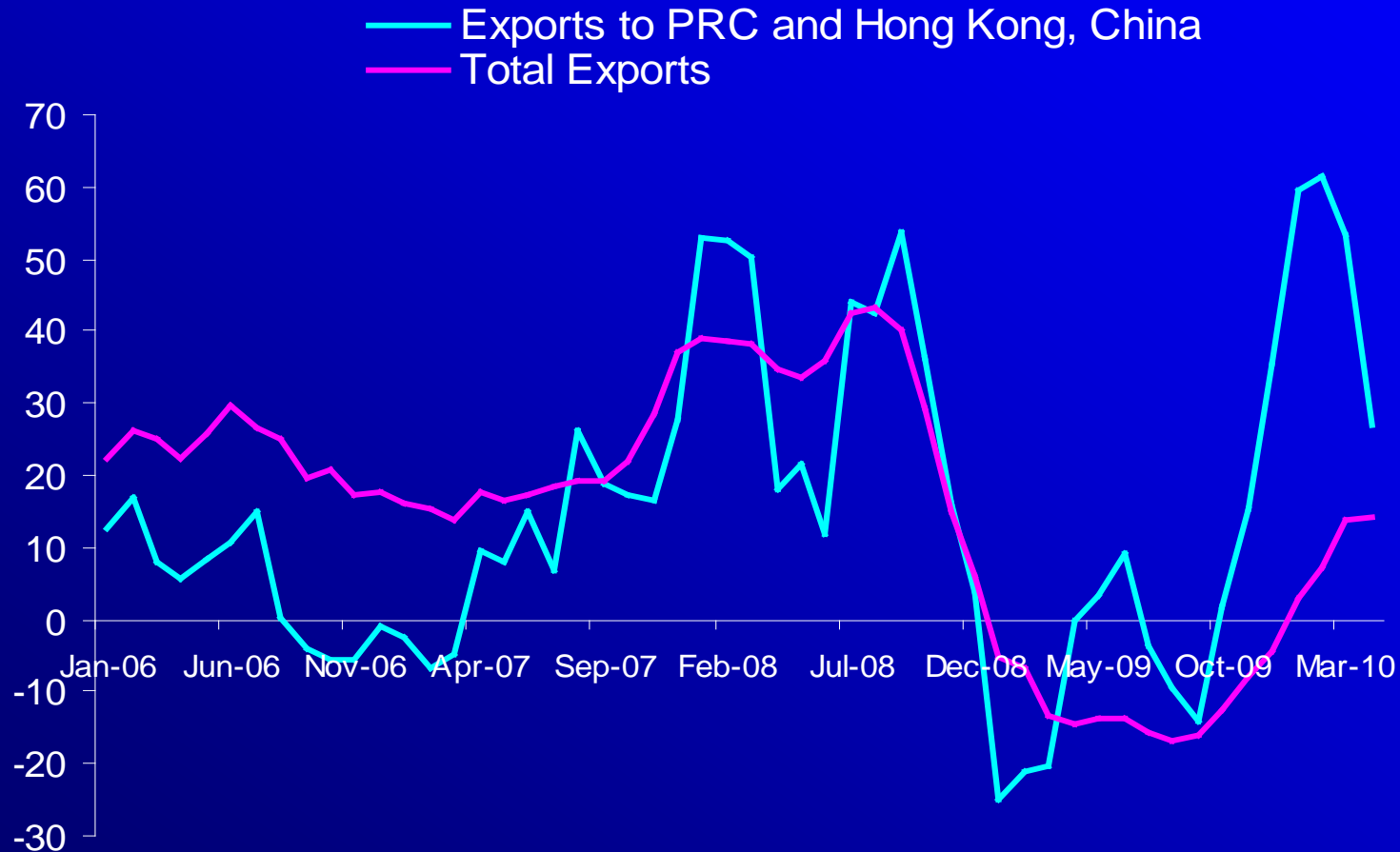
Exports rebounding with smaller deficit

Trade Value, 1Q08 – 2Q10 (US\$ billion)



Exports to China surging, and....

Viet Nam: Exports growth¹ January 2006 – April 2010 (y-o-y, %)

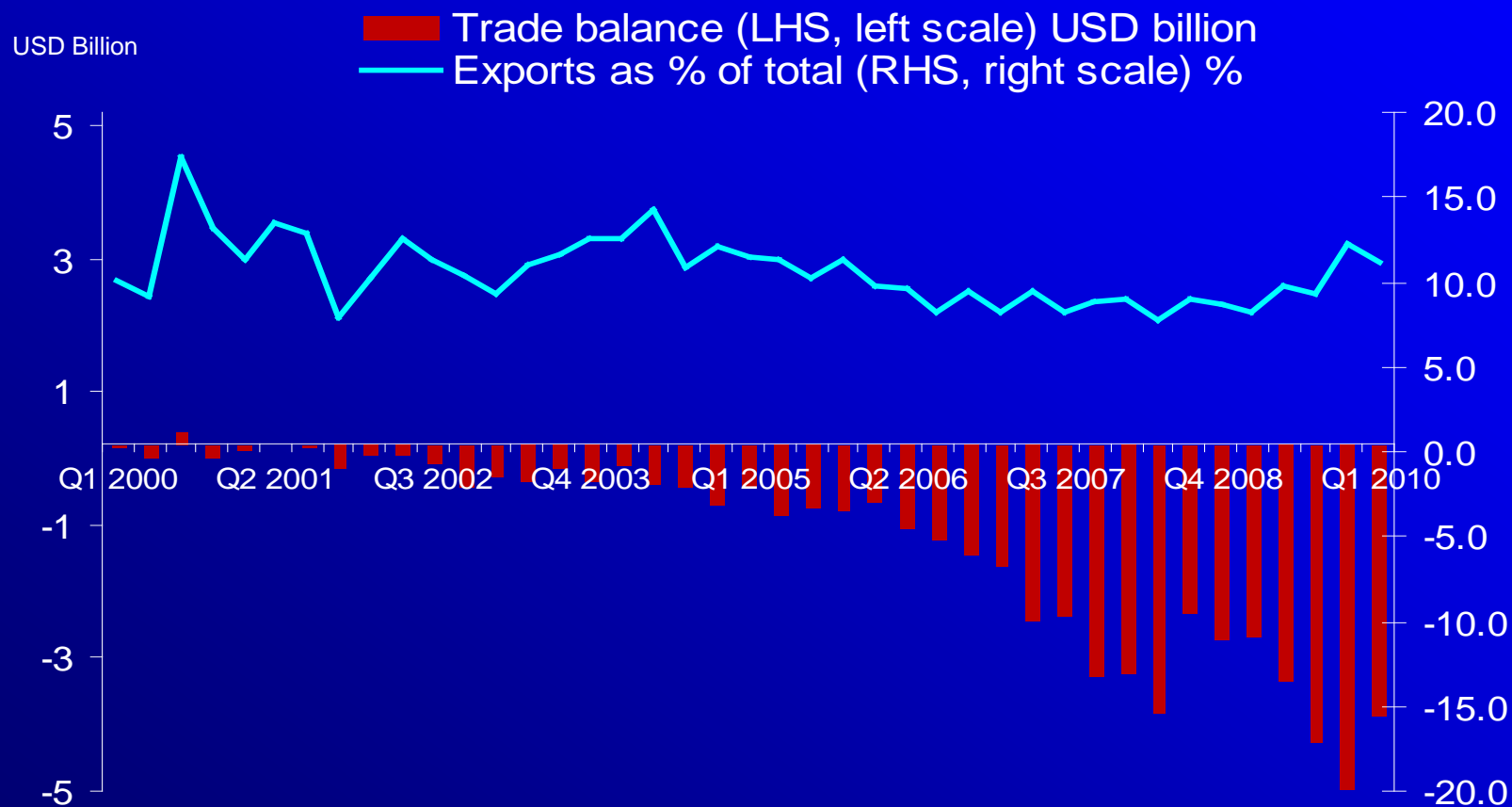


¹3-month moving average.

Sources: Staff calculations based on DOTS data.

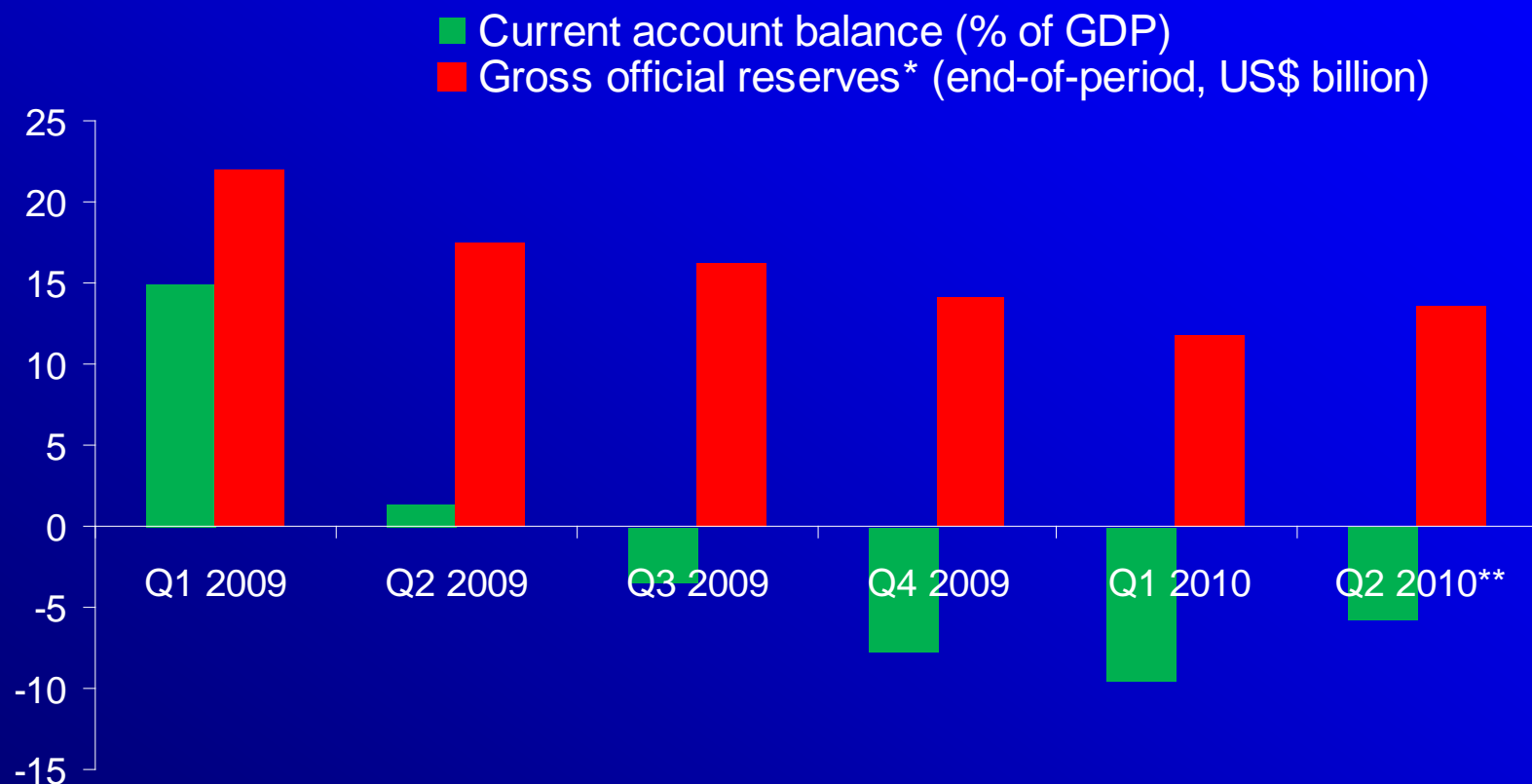
...possibly expanding further in the future

Viet Nam: Trade with the PRC and Hong Kong, China



Current account and reserves improving

Current account and Reserves, 1Q09 – 2Q10

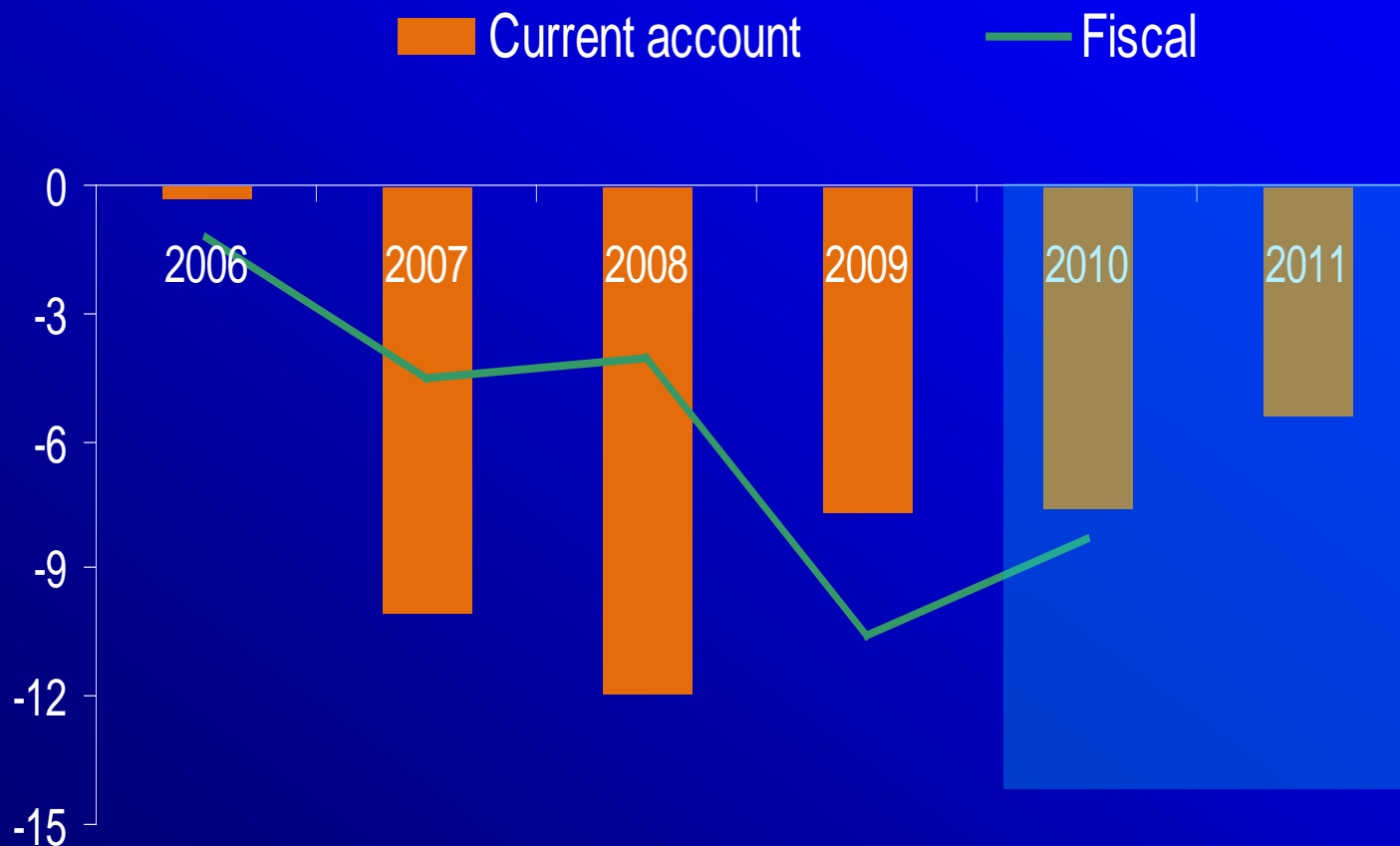


Note *: Excludes the Government's foreign exchange deposits at the State Bank of Viet Nam and the foreign exchange counterpart of swap operations

Sources: State Bank of Viet Nam, IMF, ** ADB estimates.

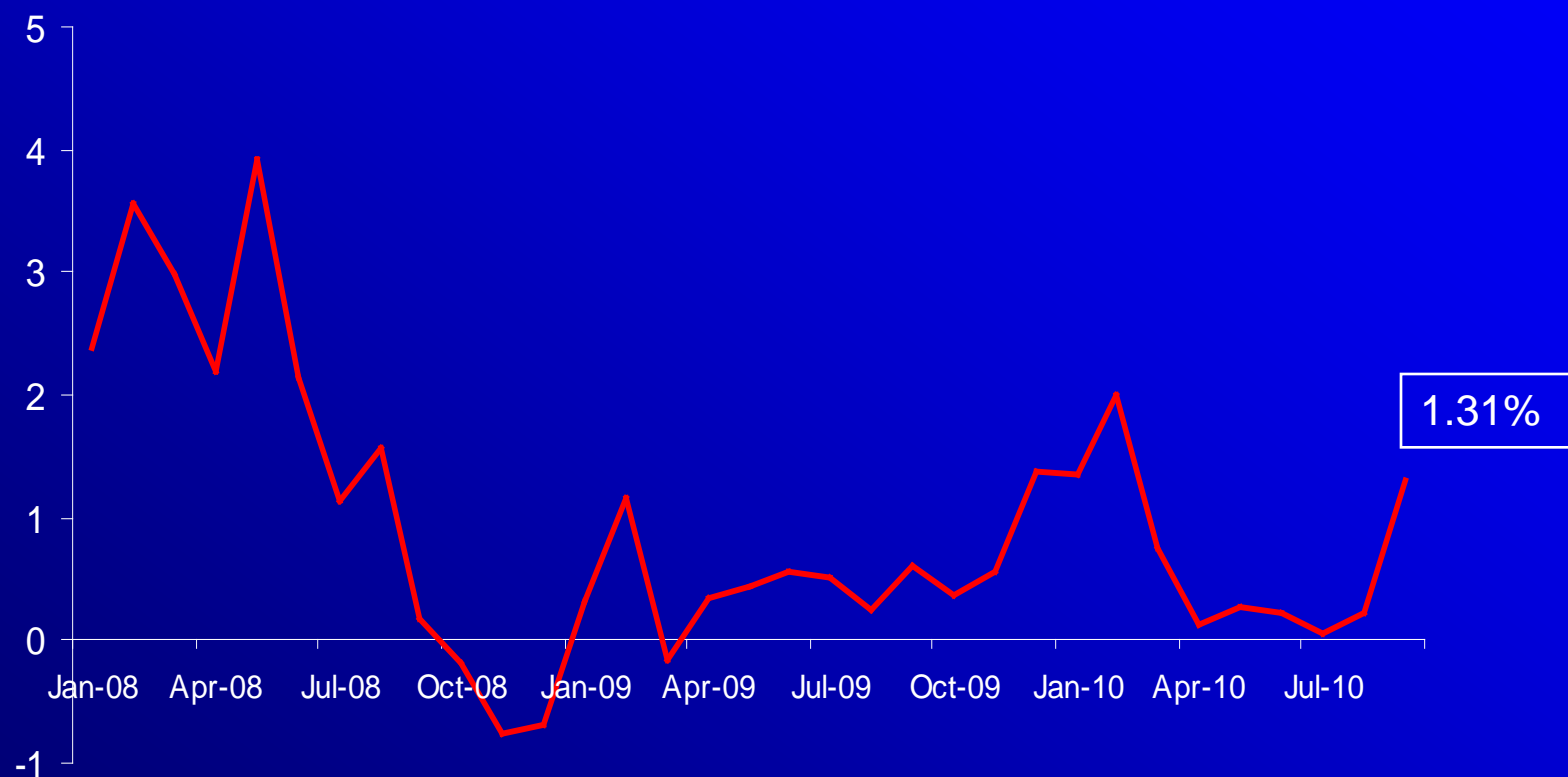
Fiscal and current account deficits to fall

Viet Nam: Fiscal and current deficit, (% of GDP)



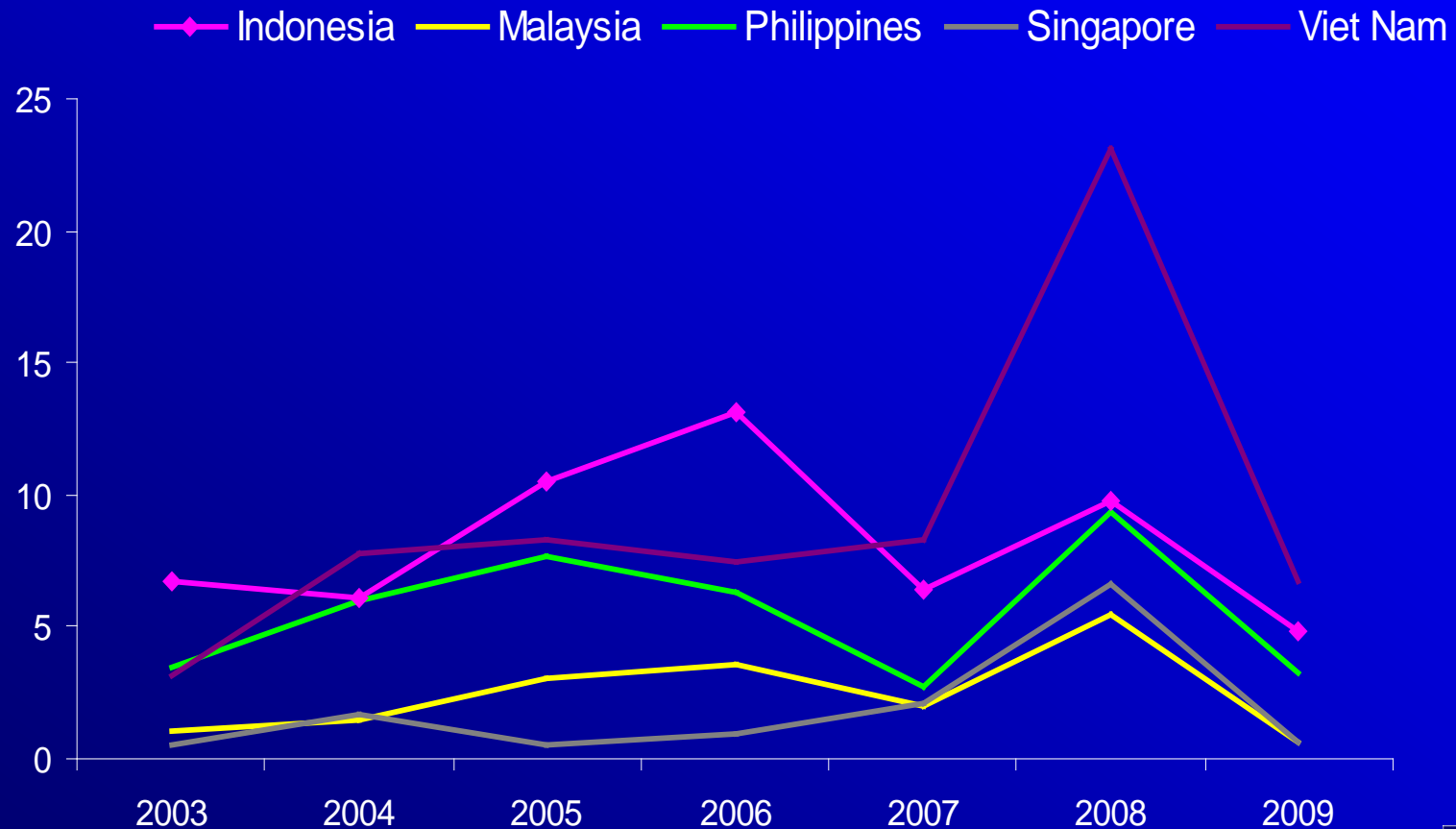
...yet monthly inflation rising in September

Viet Nam: Inflation, Jan 2008-Sep 2010
(m-o-m, %)



Inflation substantially higher than regional countries

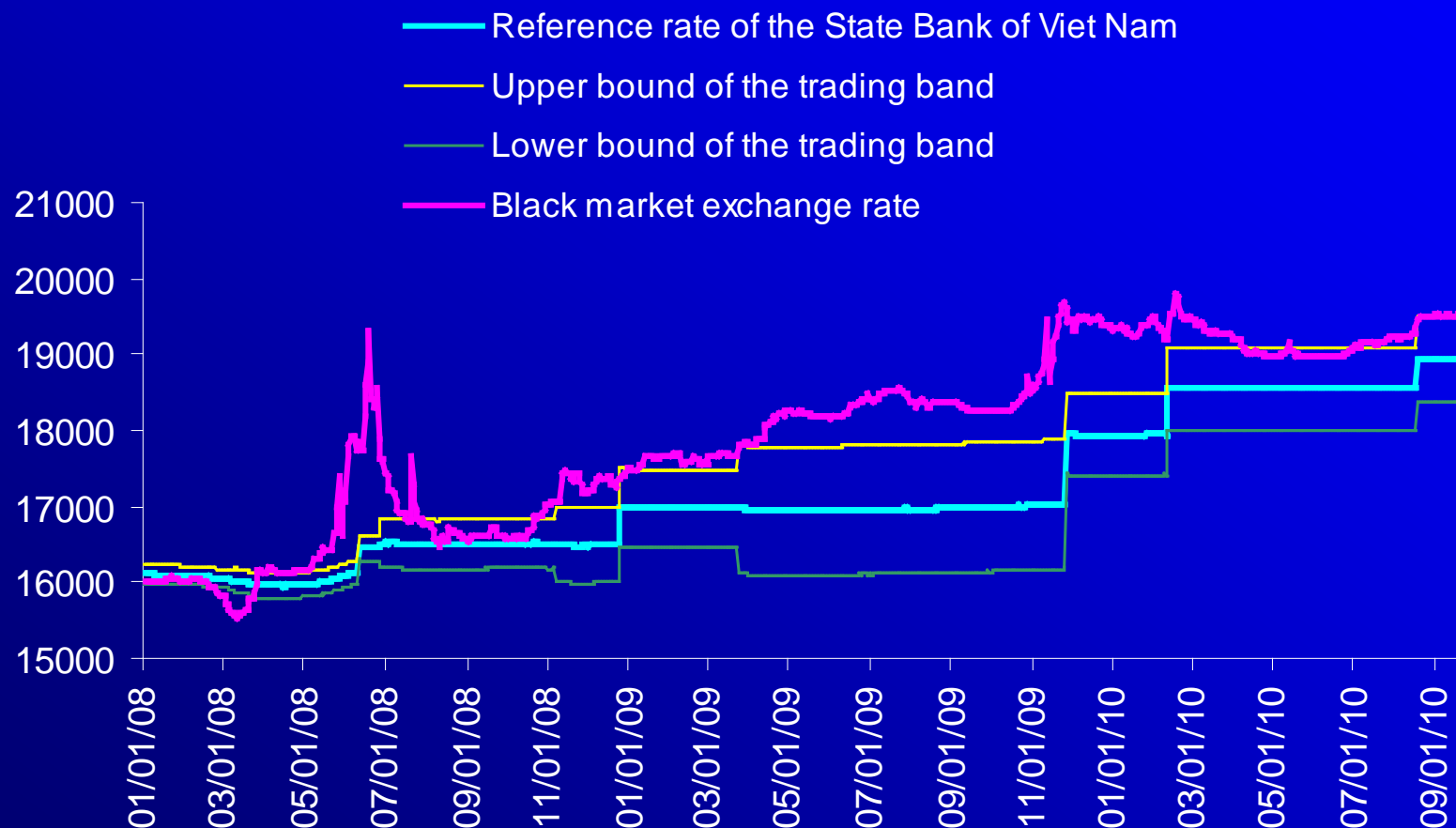
Inflation in Selected Countries, 2003-2009 (%)



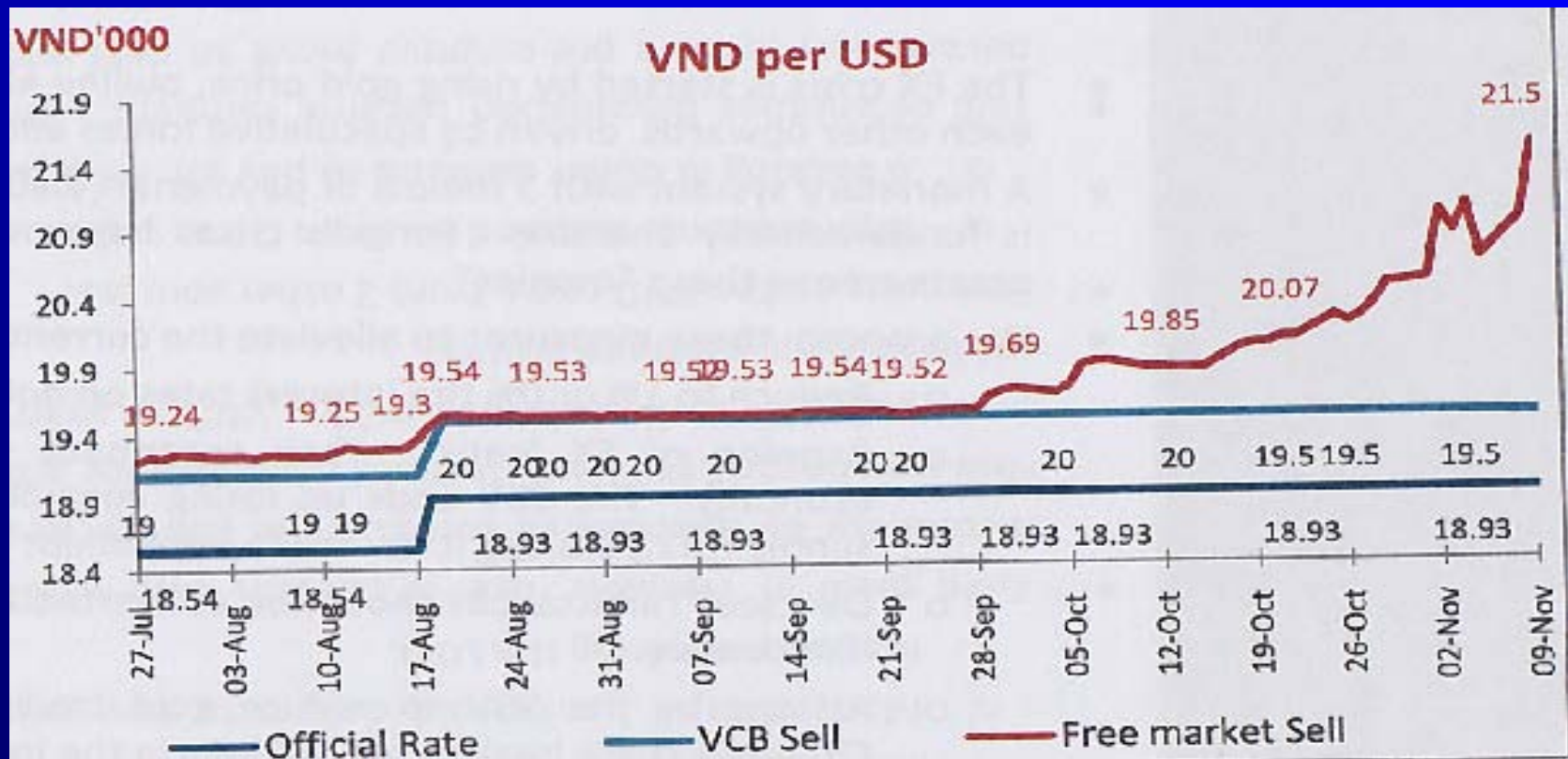
Source: Staff calculations based on CEIC data.

Downward pressure on dong persisting

Exchange rate, January 2008 – September 2010, VND/US\$



....particularly since
September 2010



Key Considerations (1)

- Fundamentally, Vietnamese economy is making steady growth
- Inflation picked up from September (1.31%) October (1.05 %) and November (1.86%), YoY rate reached 11.09%. Increase in food prices (20.45%) is the major cause
- Trade deficit is decreasing
- In any case, structural balance is positive: should not be any pressure on the currency from the actual demand side

Key Considerations (2)

- For Vietnam, trade deficit is not really an issue
- Increase in global gold prices pushed up the price of USD in Vietnam
- Rapid increase in the capital flow in 2010 escaped Vietnam
- Need for further fiscal consolidation
- Need for further monetary tightening
- Need for greater information disclosure

Global Inflationary Pressure

	Currency vs USD	Stock Market Index	Inflation
India	+1.3	+9.6	8.6
PRC	+2.4	+12.0	4.4
S. Korea	+0.9	+13.0	4.1
Thailand	+10.0	+35.0	2.8
Philippines	+5.3	+33.0	2.8
Indonesia	+4.7	+44.0	5.7
Malaysia	+8.6	+17.0	2.0
Singapore	+6.5	+9.0	3.5
Australia	+7.4	-5.6	2.8

Source: WSJ Market Data Group, Nov 10

YTD change (%)

3. Public and External Debt

- Viet Nam's public/external debts are moderate
- ODA is relatively small in comparison to total GDP – Disbursement is \$3-3.5 billion a year
- No major issues anticipated with public debt

Viet Nam's external public debt and debt service from 2005-2009

	2005	2006	2007	2008	2009
Total external public outstanding debt (*) (in million USD)	14,208	15,641	19,253	21,816	27,929
Total external outstanding debt / GDP (%)	26.9	25.8	27.1	24.9	30.2
External public debt service (in million USD)	698	765	886	1,104	1,290
Government external debt service / Budget revenue (%)	4.1	3.7	3.6	3.5	5.1

Note: External public debt consists government and government guaranteed external debt

Source: Ministry of Finance of Viet Nam and ADB staff's computation

Public Debt of Viet Nam in September 2010

Public debt	\$50,716,438,356
Public debt per person	\$578.64
Population	87,591,780
Public debt as % of GDP	51.70%
Total Annual debt change	12.30%

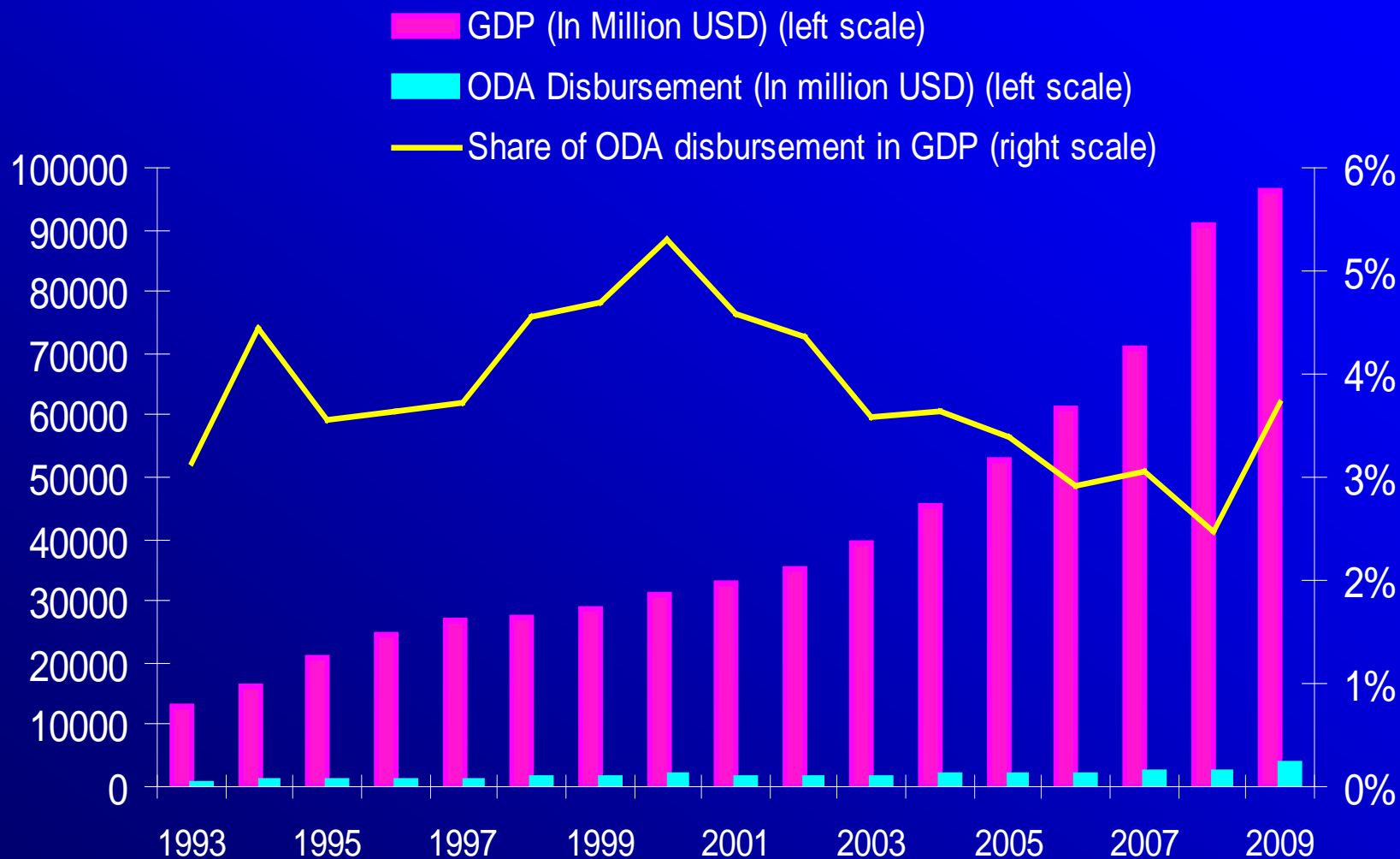
Viet Nam's public debt is expected to quicken to 56.7% of GDP by the end of December 2010, released by MOF.

Source: <http://www.fpts.com.vn/EN/News/Domestic-News/Economic-Financial-News/2010/10/3B9CEFB2/>

Public debt in Viet Nam in % of GDP in rank with some countries (estimated at the end of 2009)

Rank	Country	% of GDP
1	Zimbabwe	282.6
2	Japan	192.9
9	Singapore	110
35	Philippines	57.3
41	Malaysia	53.3
43	Viet Nam	52.4
56	Thailand	44.6
92	Indonesia	27.4
110	China	16.9

SHARE OF ODA IN GDP FROM 1993 TO 2009



4. Global and Regional Economy

- Global condition improved but still fragile
- Developing Asia recovered with speed and vigor
- Current account surplus reducing and capital account surplus increasing

Global conditions improved, but still fragile



saar: seasonally adjusted annualized rate

Risks to the global outlook

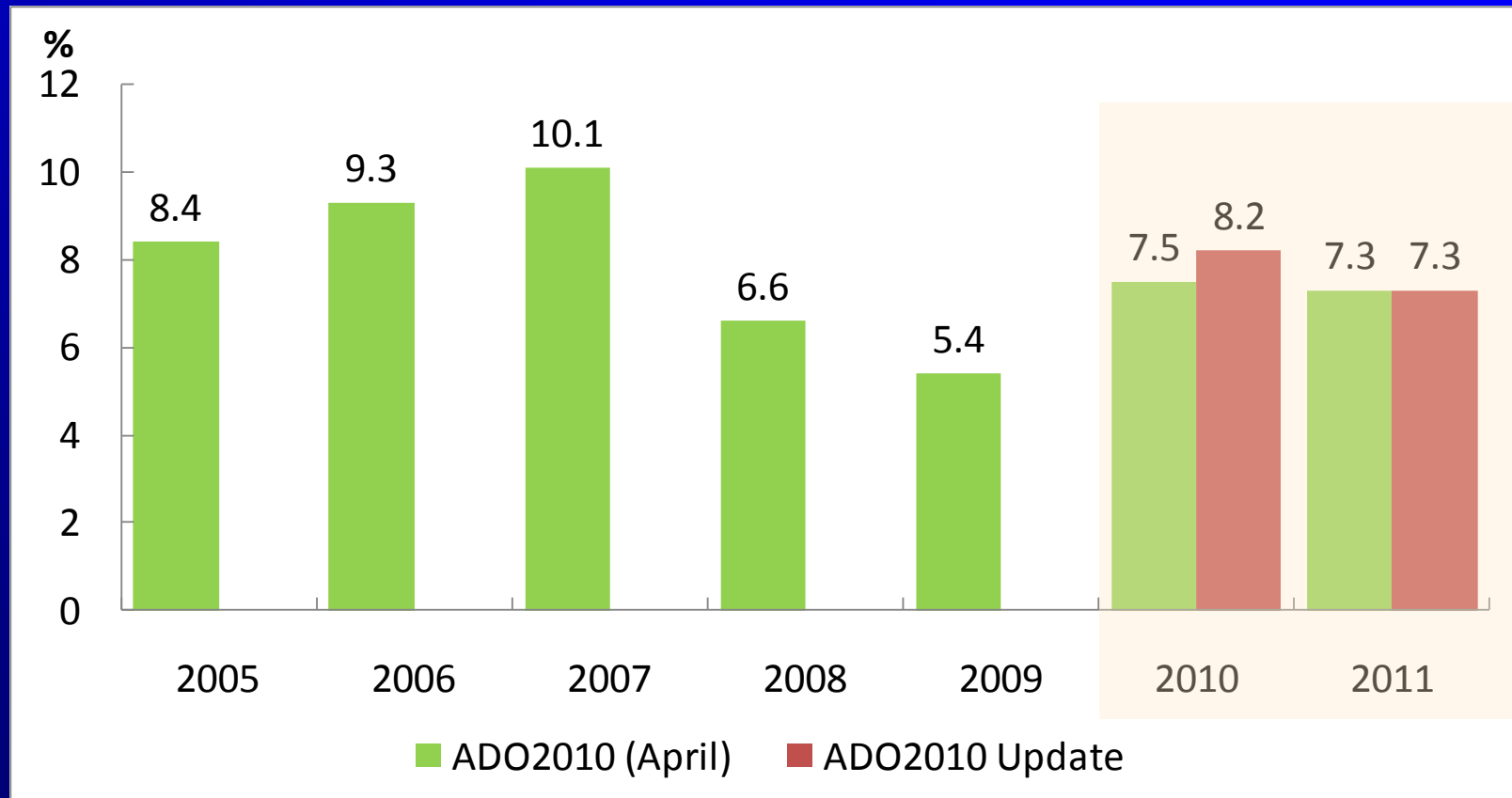
Threat of another contraction

Continued weakness of the US housing market

Risk of insolvency and default in eurozone

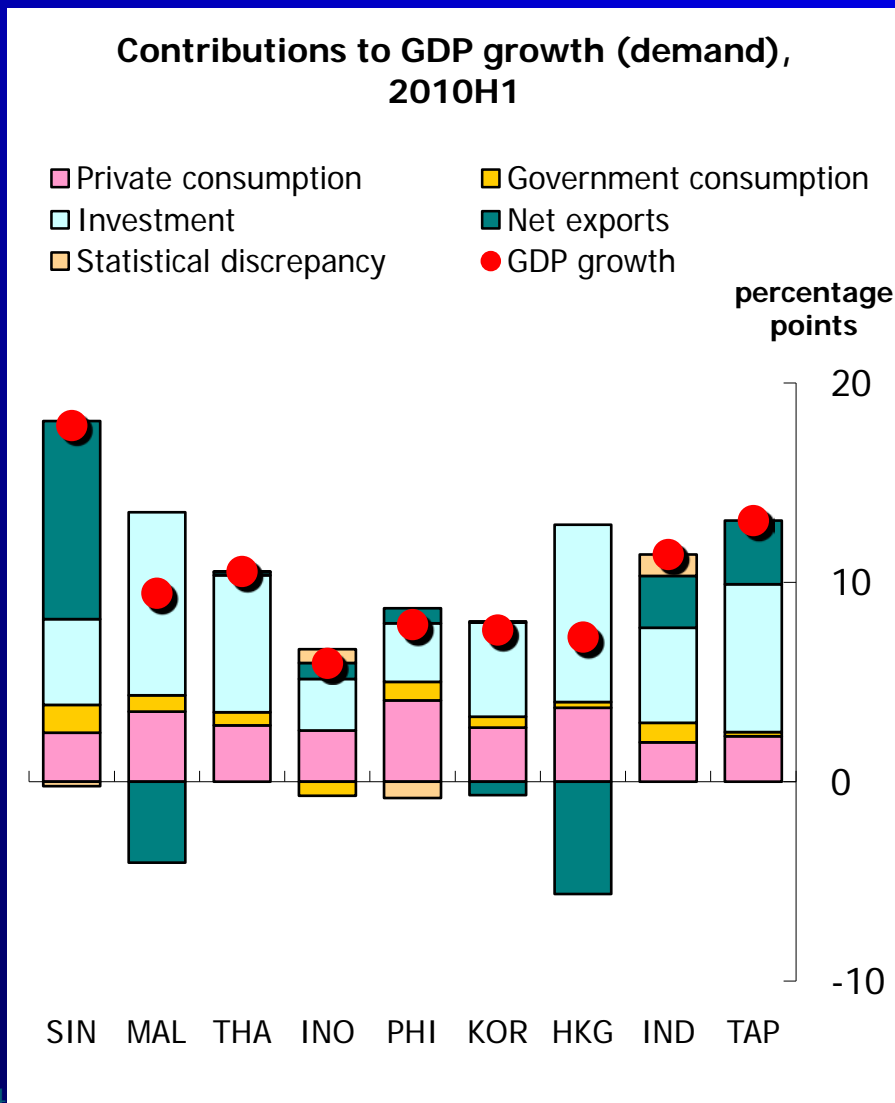
Spikes in commodity prices

Developing Asia recovered with speed and vigor...



Forecast

...due to a favorable mix of factors



Strong export recovery

Robust private demand

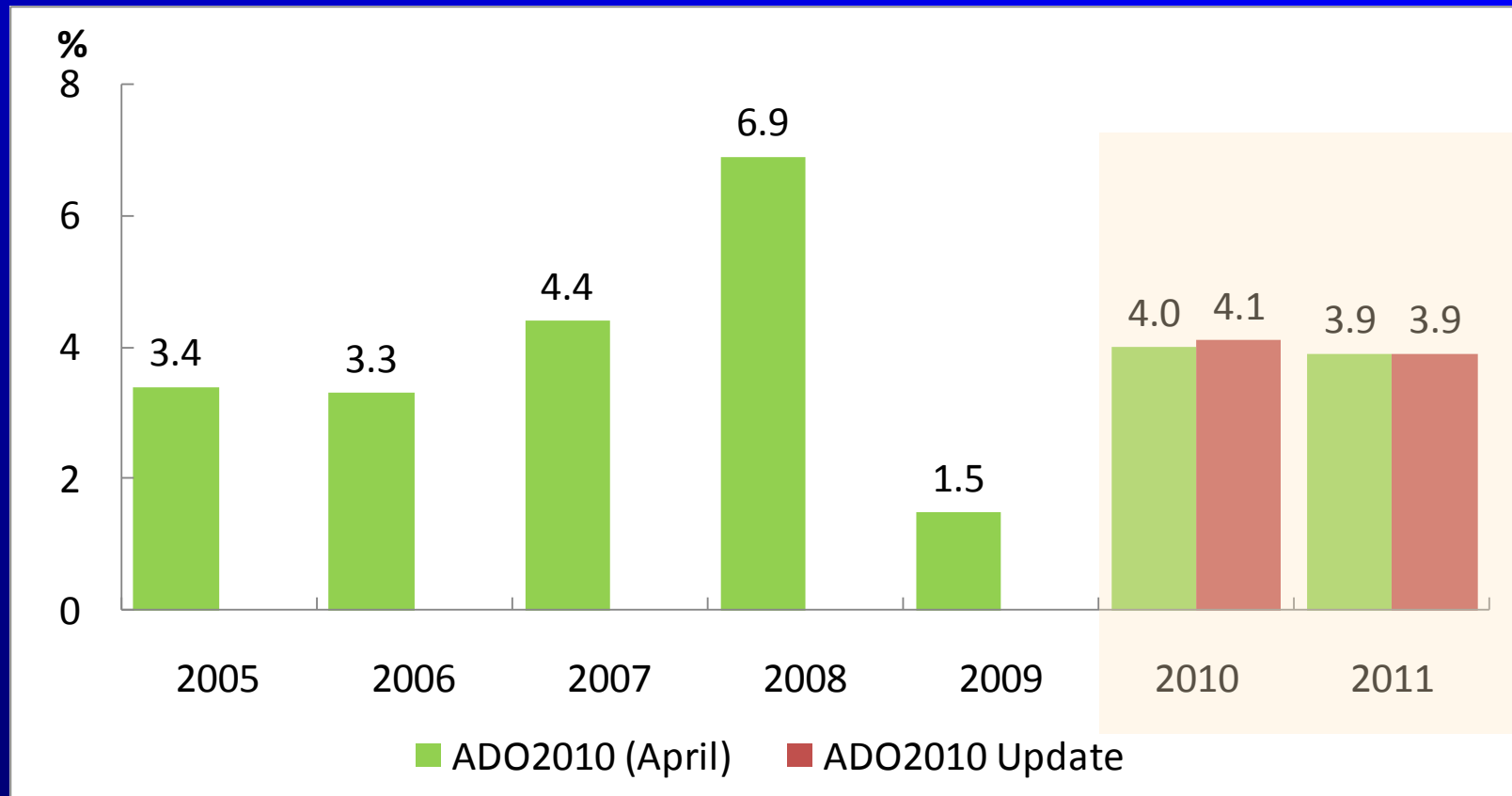
Sustained effects of stimulus policies

SIN=Singapore; MAL=Malaysia; THA=Thailand;
INO=Indonesia; PHI=Philippines; KOR=Republic of
Korea; HKG=Hong Kong, China; IND=India;
TAP=Taipei, China

...with variations across economies

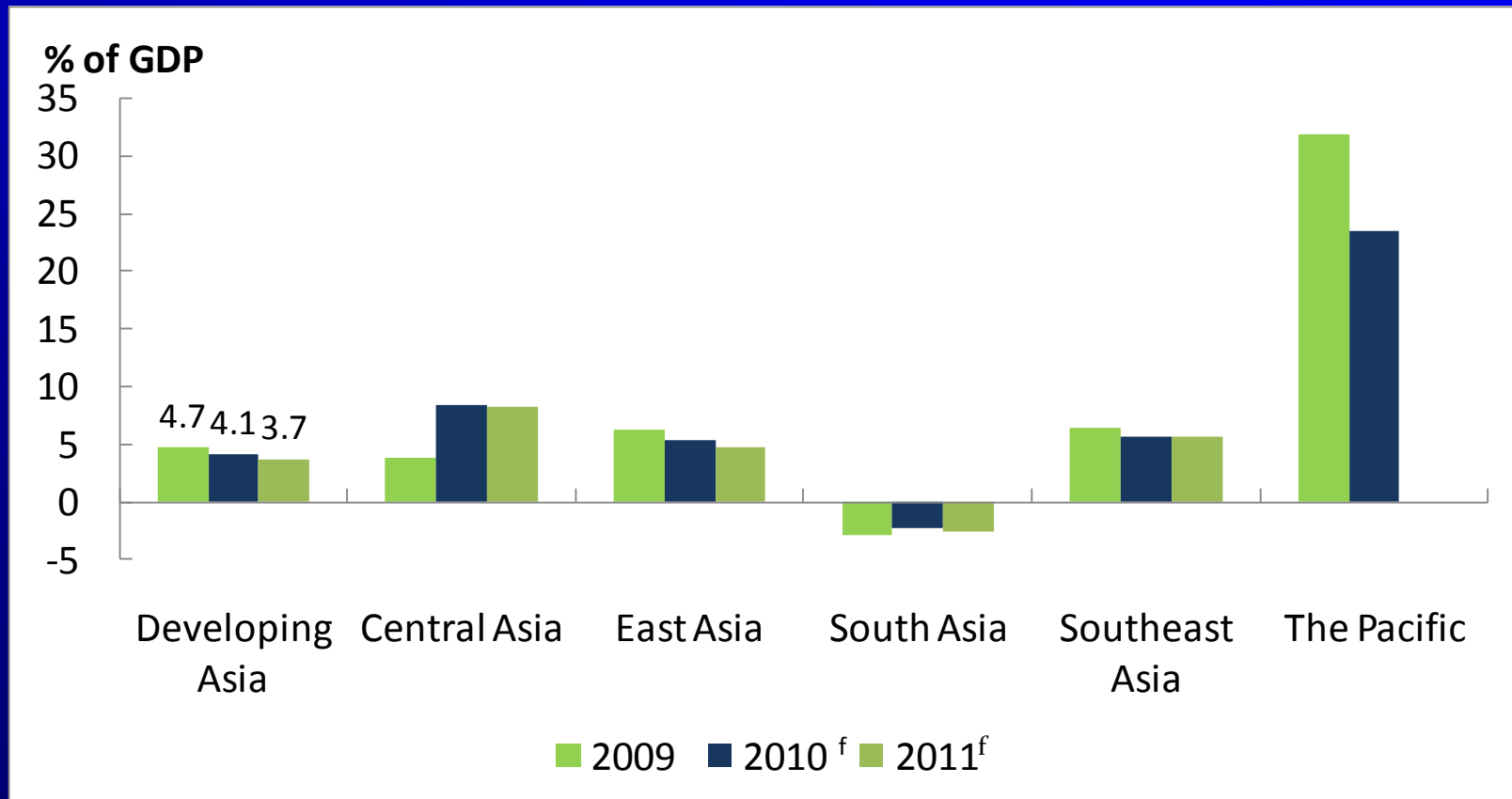
Subregion/Economy	2009	2010		2011	
		ADO 2010	Update	ADO 2010	Update
Central Asia	2.7	4.7	5.1	5.9	5.7
East Asia	6.1	8.3	8.6	7.7	7.7
China, People's Rep. of	9.1	9.6	9.6	9.1	9.1
Hong Kong, China	-2.8	5.2	5.8	4.3	4.3
Korea, Rep. of	0.2	5.2	6.0	4.6	4.6
Taipei, China	-1.9	4.9	7.7	4.0	4.0
South Asia	6.7	7.4	7.8	8.0	7.8
India	7.4	8.2	8.5	8.7	8.7
Pakistan	1.2	-	4.1	-	2.5
Southeast Asia	1.3	5.1	7.4	5.3	5.4
Indonesia	4.5	5.5	6.1	6.0	6.3
Malaysia	-1.7	5.3	6.8	5.0	5.0
Philippines	1.1	3.8	6.2	4.6	4.6
Singapore	-1.3	6.3	14.0	5.0	5.0
Thailand	-2.2	4.0	7.0	4.5	4.5
Viet Nam	5.3	6.5	6.7	6.8	7.0
The Pacific	3.7	3.7	4.3	5.0	5.1

Inflation remained stable



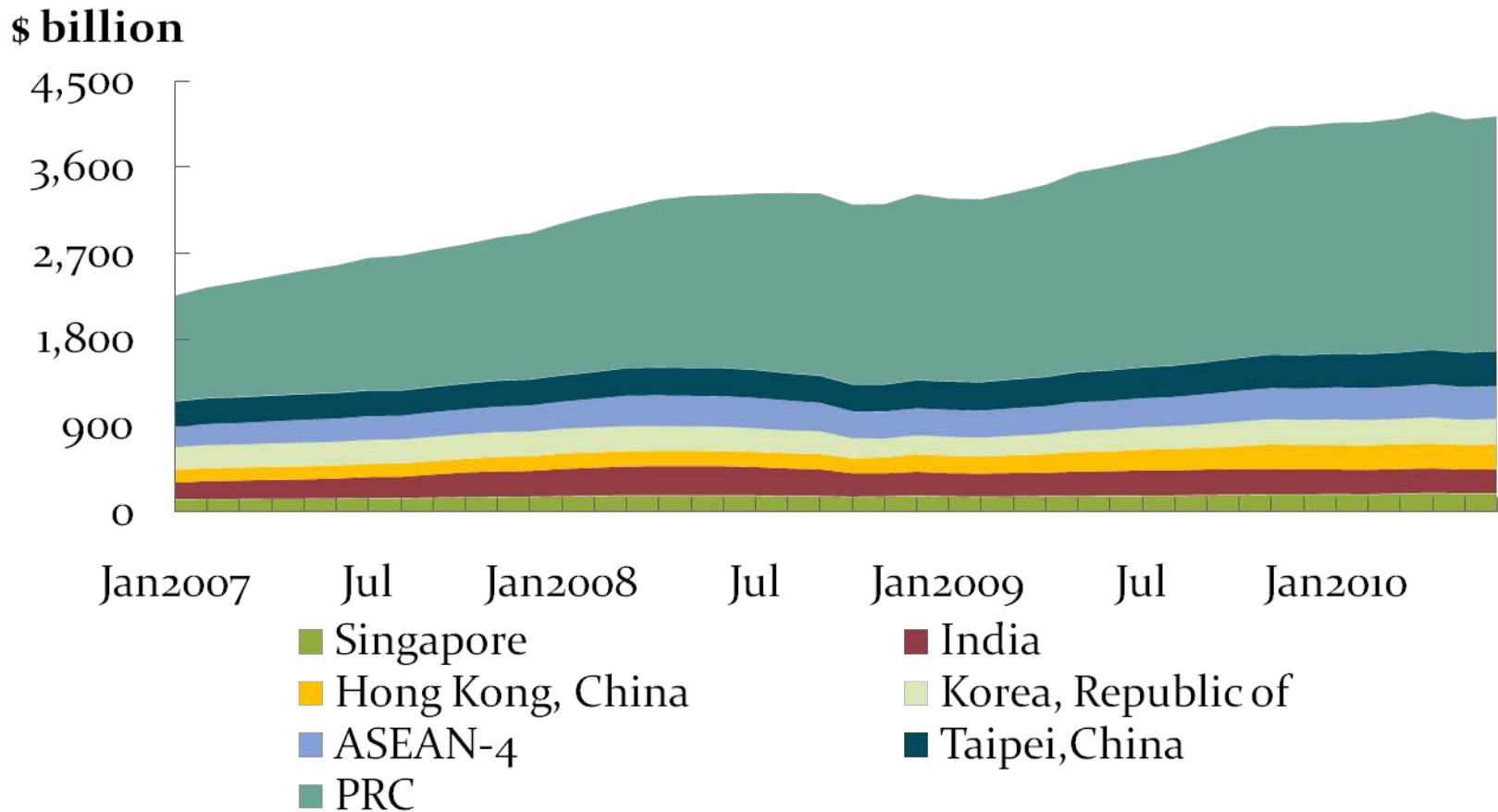
Forecast

Current account surplus declining



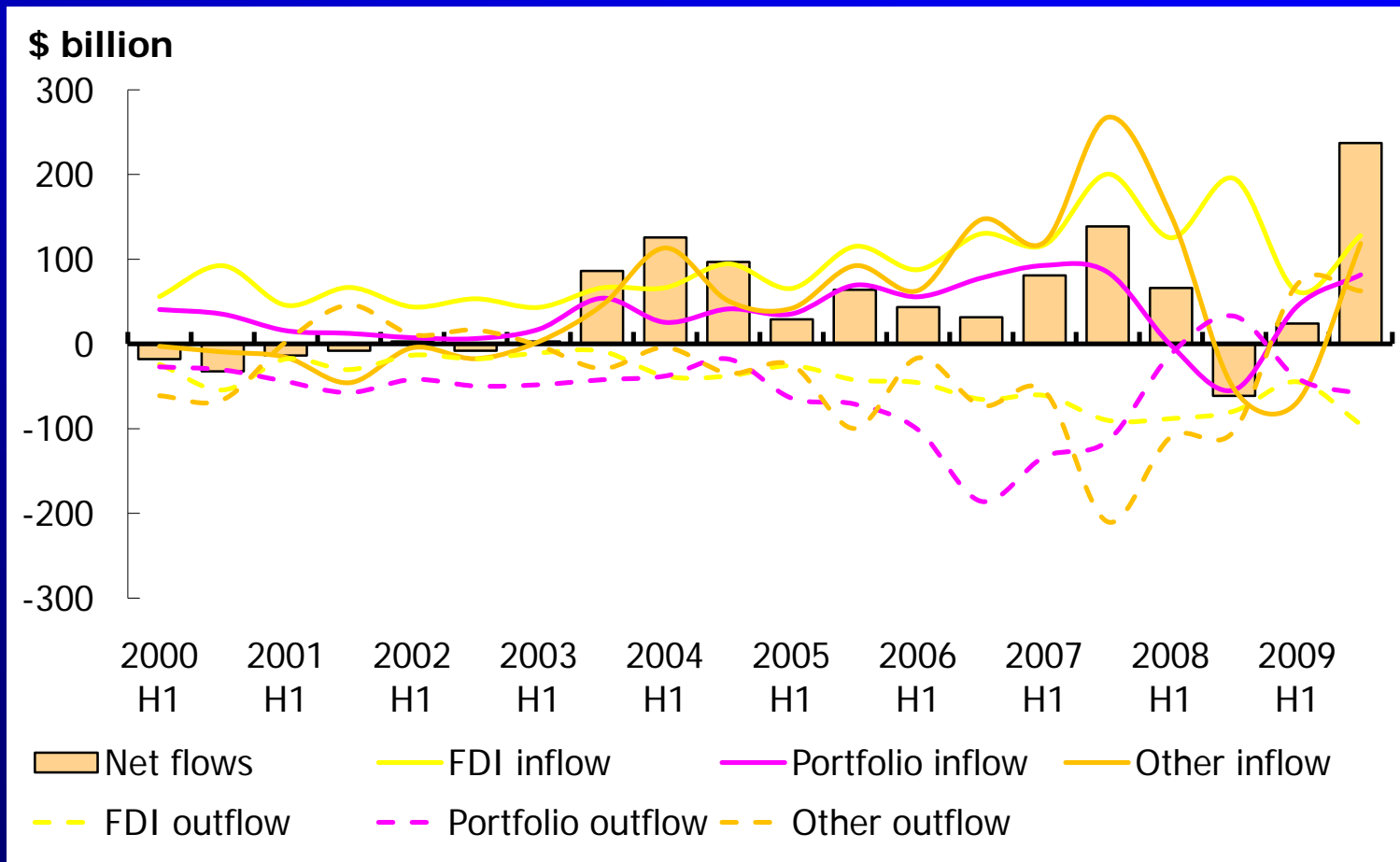
f: forecast

Foreign exchange holdings rising



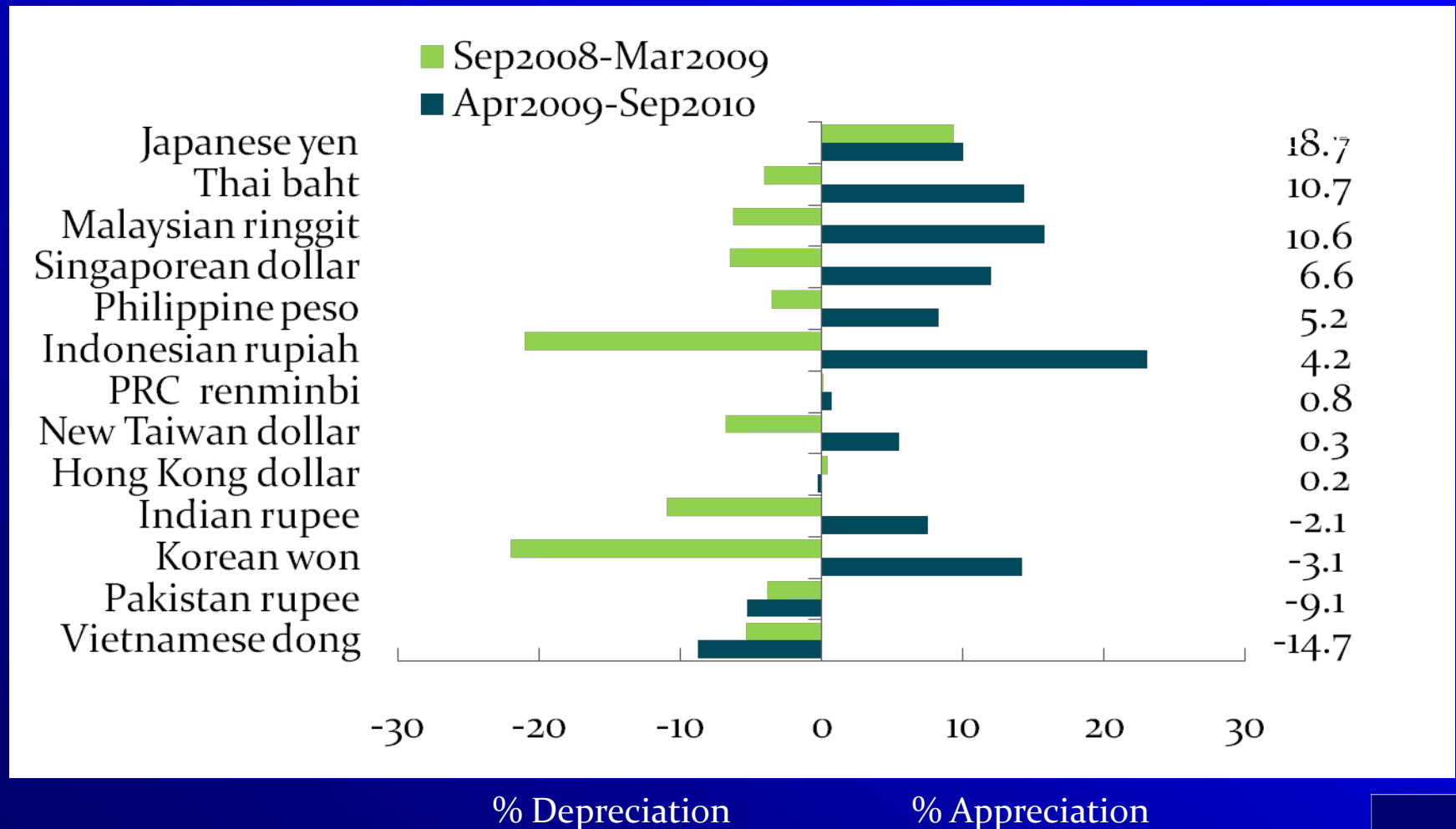
ASEAN₄=Indonesia, Malaysia, Philippines, and Thailand.

Strong rebound in capital flows



Refers to aggregate data for the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Philippines; Singapore; Taipei, China; and Thailand.

Exchange rates under appreciation pressure



Note: Based on monthly average of \$ value of local currency as of 15 September 2010.

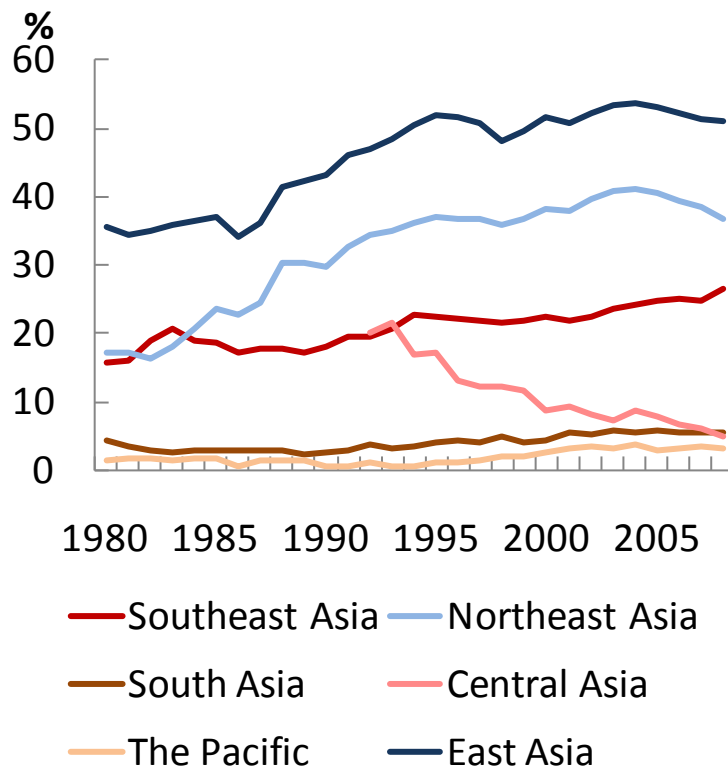
¹ PRC=People's Republic of China.

5. For Future Growth of the Region

- Trade
- Human Capital
- Infrastructure
- Financial Development

Trade

Intraregional Trade Shares



Promotes exploitation of economies of scale and better resource allocation through specialization

Central Asia=Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

Southeast Asia=Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.

South Asia=Afghanistan, Bangladesh, India, Maldives, Pakistan, and Sri Lanka.

Northeast Asia=Hong Kong, China; People's Republic of China; Japan; Republic of Korea; Mongolia; and Taipei, China.

The Pacific=Fiji Islands, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu.

East Asia=Northeast and Southeast Asia.

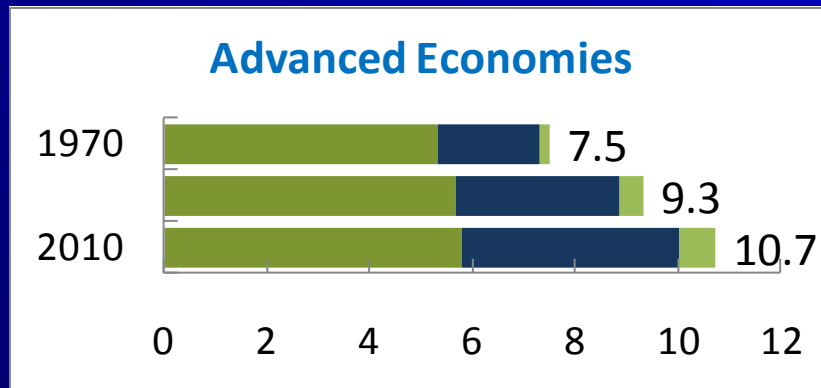
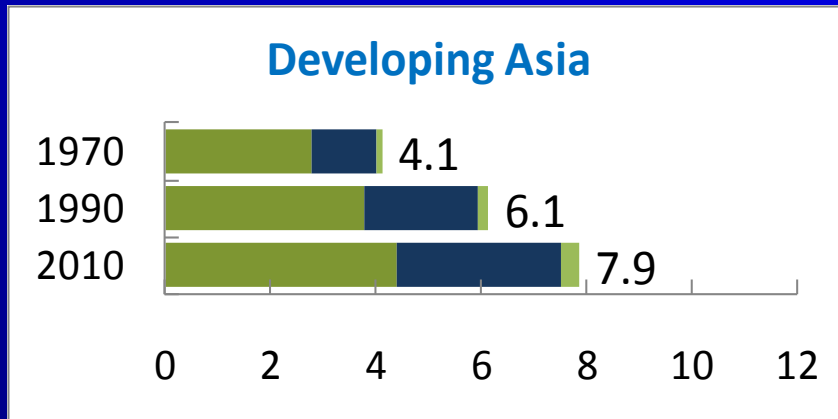
Trade policy should:

Take full advantage of potentially large domestic consumption and intraregional trade

Expand the base of domestic production and diversify exports for Asia's weaker economies

Human capital

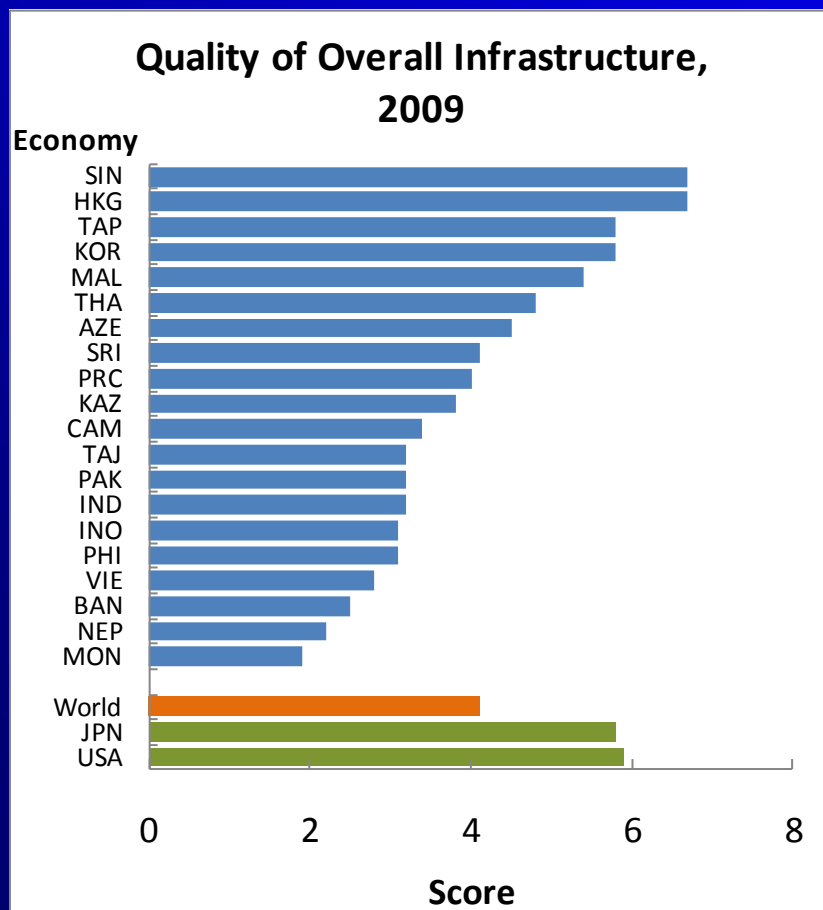
Educational Attainment
(average years of schooling)



■ Primary ■ Secondary ■ Tertiary

Improves labor
productivity and
facilitates technology
adoption and
innovation

Infrastructure

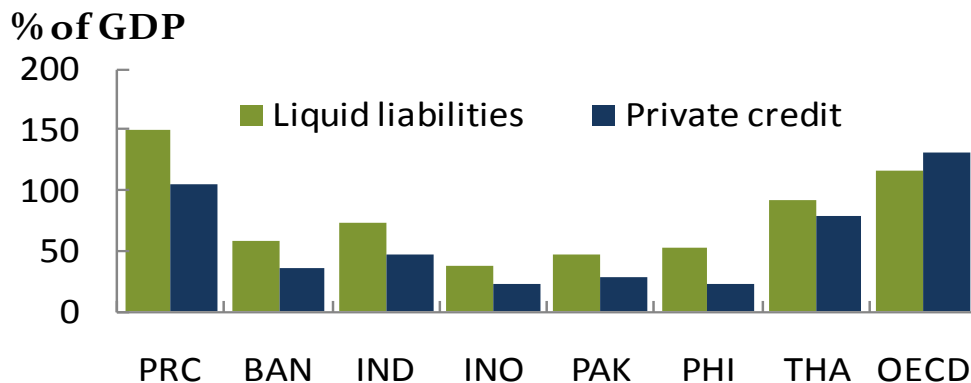


Provides key intermediate inputs for production and final consumption services to households

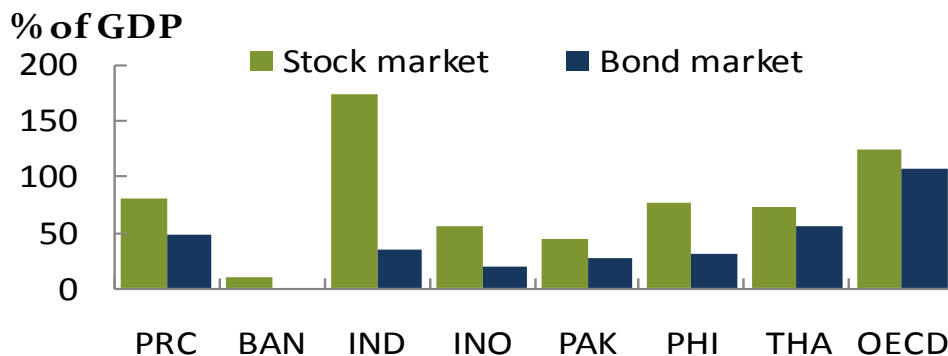
SIN=Singapore; HKG=Hong Kong, China; TAP=Taipei, China; KOR=Republic of Korea; MAL=Malaysia; THA=Thailand; AZE=Azerbaijan; SRI=Sri Lanka; PRC=People's Republic of China; KAZ=Kazakhstan; CAM=Cambodia; TAJ=Tajikistan; PAK=Pakistan; IND=India; INO=Indonesia; PHI=Philippines; VIE=Viet Nam; BAN=Bangladesh; NEP=Nepal; MON=Mongolia; JPN=Japan; USA=United States

Financial development

Overall Financial Market and Banks



Capital Markets



Fosters efficient allocation of resources, speeds up accumulation of physical capital, and promotes dynamic efficiency

PRC=People's Republic of China; BAN=Bangladesh; IND=India; INO=Indonesia; PAK=Pakistan; PHI=Philippines; THA=Thailand; OECD=high-income economies of the Organisation for Economic Co-operation and Development

6. Viet Nam in the Regional Context

- Regional Public Goods
- ASEAN, ASEAN+1, 3, 6
- Greater Mekong Subregion Regional Cooperation Program

Changing context

- WTO Accession and globalization
 - Not just a trade issue but economic policy issue
- Changing Asia and the region
- Current global financial sector crisis
- ASEAN Economic Community by 2015
- Changing role of People's Republic of China
- GMS Program as a "building block" of Regional Integration

ASEAN Economic Integration

Goal: Integrate economies and establish an ASEAN Economic Community by 2015.

Vision: A single market and production base with (i) free flow of goods, services, investment, skilled labor, and (ii) freer flow of capital.

In 2007, an AEC blueprint (with action plans and targets) was prepared to expedite the integration process.

Master Plan on ASEAN Connectivity: Endorsed on 28 October 2010 at ASEAN Summit. Plan of action for 2011-2015 to connect ASEAN through enhanced physical infrastructure, effective institutions, mechanisms and processes, and empowered people.

Challenges for ASEAN Economic Integration

- Tariff reduction to non-tariff barriers, including trade facilitation, e.g. ASW goals
- Risk mitigation of 1997 crisis to robust financial and capital markets integration
- Development divide and increased competitive pressures
- Risk of loss of centrality in regional architecture



Necessary Ingredients for integration

Increased physical connectivity

New initiative on ASEAN Connectivity

Basic aspects of Master Plan:

- **physical connectivity**
- **institutional connectivity**
- **people-to-people connectivity**



Subregional Programs as Building Blocks of ASEAN Integration

- Subregional frameworks such as GMS, BIMP-EAGA and IMT-GT are building blocks to regional integration/2015 AEC
- GMS's bottom-up and project based approach is a pace-setter to ASEAN
- BIMP-EAGA and IMT-GT are also being reinvigorated as a result of the recent crisis



GMS Strategic Framework for Railways

- Ensuring that all GMS countries are connected to a GMS rail network by 2020**
- Promoting the development of a seamless rail network:**
 - Common technical standards of interoperability
 - Streamlining and harmonizing procedures for cross-border movement of goods and people
 - Regional operating rules and safety standards
 - Connection to other modes of transport

Route 1



Route 2



Route 3



Route 4



GMS Outputs: CONNECTIVITY

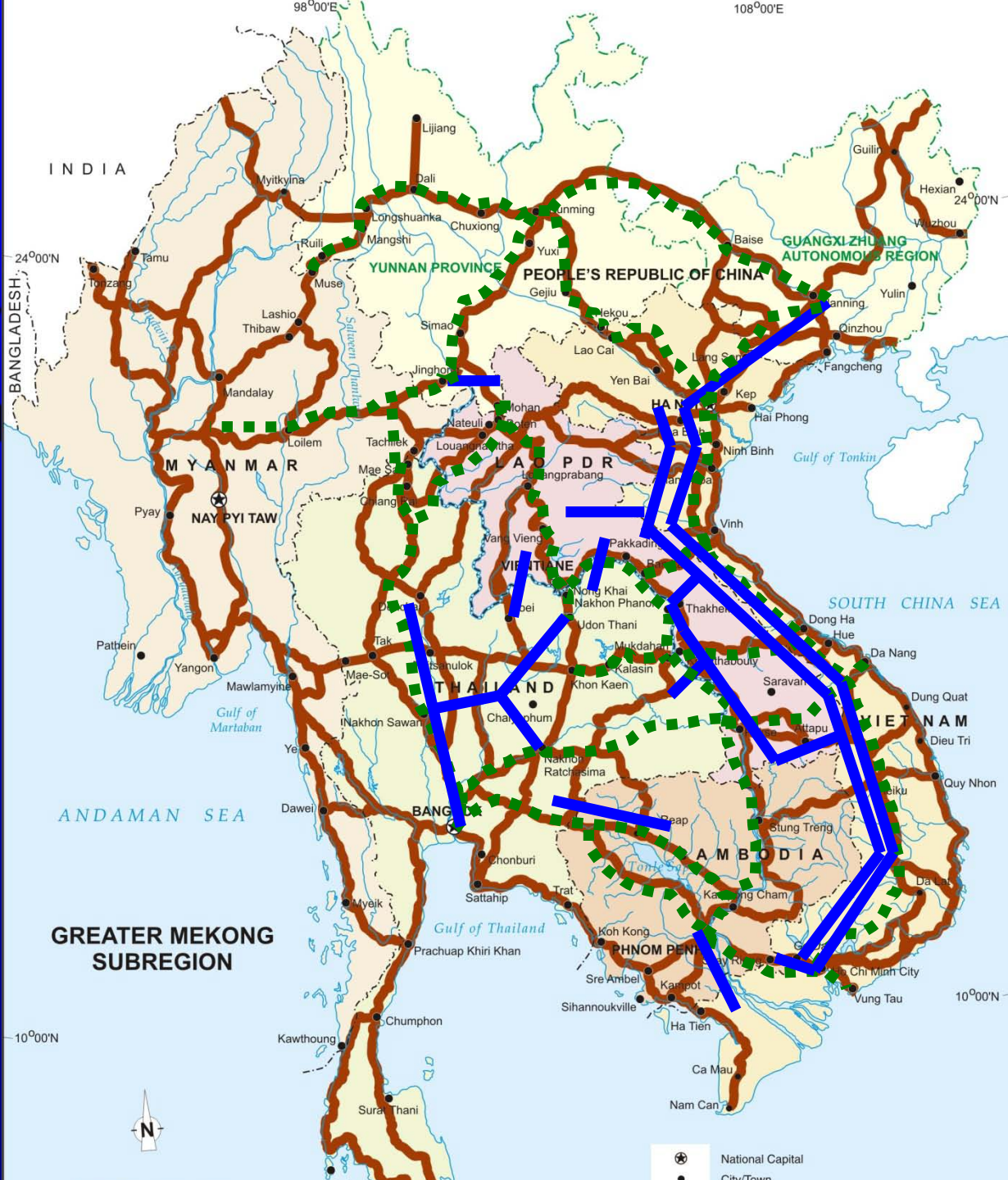
Facilitating subregional
trade and investment

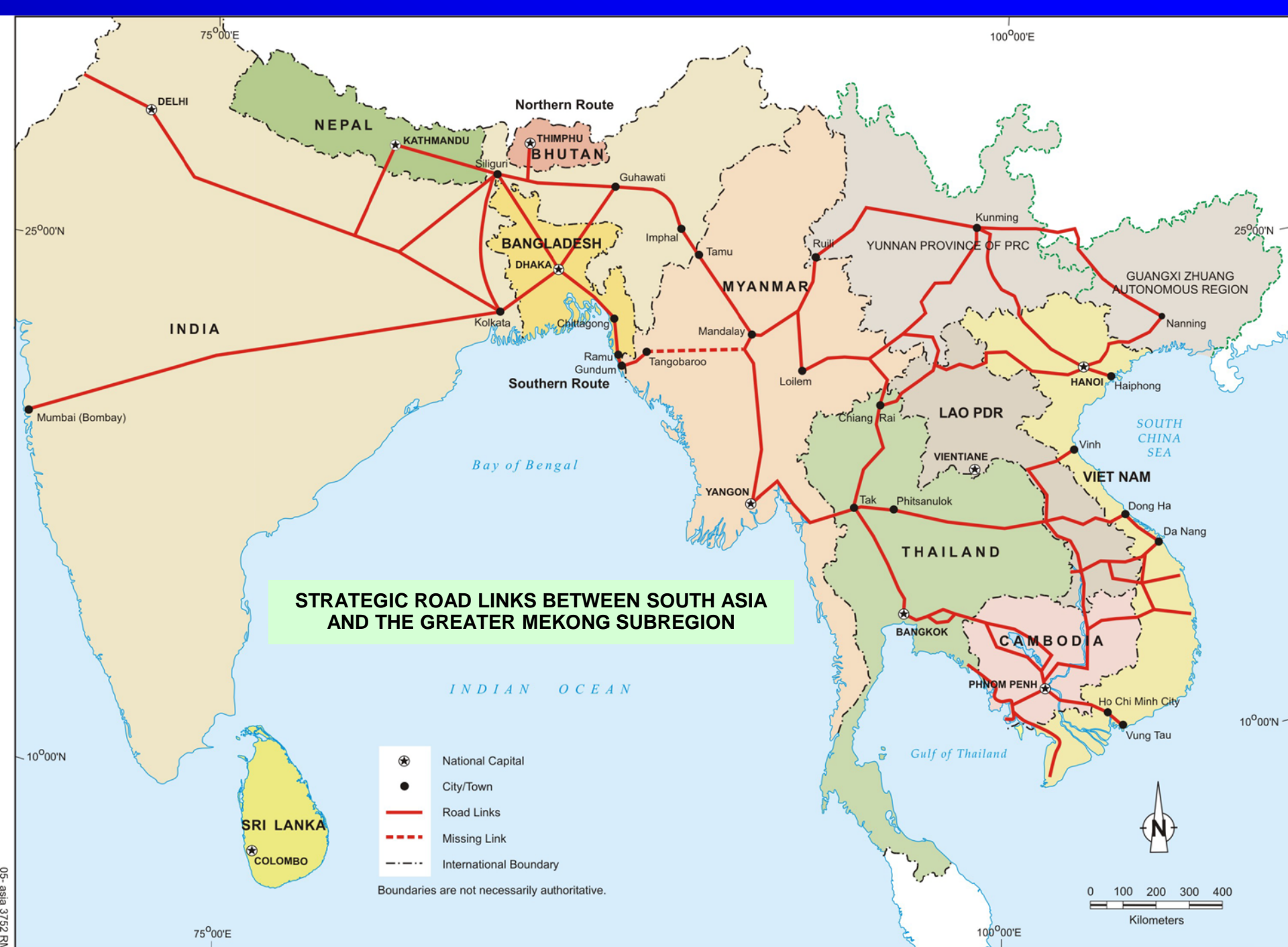
2015

Roads

Telecommunications

Power Transmission Line





More Information

ADB activities in general:

- Visit ADB web site at <http://www.adb.org>
- Email to Public Information Center
adbpub@adb.org

ADB activities in Viet Nam:

- Visit Viet Nam Resident Mission web site at
<http://www.adb.org/vrm>
- Email to adbvrm@adb.org