

Vietnam Country Report

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1. Executive summary

Vietnam is developing country; urbanization occupies 28 percent of population. Hanoi is capital city and Hochiminh city which is largest in Vietnam as regarding the motive force in whole country.

From 2004 to 2007, average GDP growth rate was 8.22 percent. In late 2007 and early 2008, Vietnam was confronted with the overheating economy resulting from massive capital inflows. Attempts to sterilize these inflows were not able to prevent a boom in banking credit, an acceleration of inflation, a ballooning trade deficit and asset price bubbles. A determined reaction by the government from March 2008 onwards succeeded in stabilizing the economy a reducing the trade deficit to manageable levels. In the second half of 2008, the financial crisis originating in the United States affected foreign demand. The international prices of commodities exported by Vietnam were on declining trend since the third quarter, export orders for garments and other industrial products collapsed in the fourth quarter, and a slowdown in manufacturing become noticeable. The government reacted swiftly to this second economic shock, shifting gear from stabilization to supporting economic activity in November 2008. Subsequent stimulus measures prevented a collapse of economic activity and might have put the economy on a recovery track.

In 2009, Vietnam economy remains challenging year. GDP growth several percentage points below Vietnam's potential: GDP growth rate in the first half of 2009 was 3.9 percent. On the social front, open unemployment may not have been as large as initially feared, but job losses were common among casual and seasonal workers, and cuts in wages and over time affected even those who kept their jobs. As good year in agriculture and the recovery in the construction sector may not be enough to offset the impact.

For the whole year of 2009, the economy is expected to reach approximately 4.5 percent of GDP growth rate and 7.51 percent of CPI growth; in a more optimistic scenario, GDP growth rate is projected to exceed 5 percent but with higher CPI increase.

2. Macro economic review and outlook

2.1 Overview of national economy

After "Doimoi" (Comprehensive innovation) since 1986 Vietnam have achieved success as follows: GDP growth averaged around 9 percent per year from 1993 to 1997. The late 1997 Asian financial crisis heightened the problems in Vietnamese economy, GDP growth of 8.5 percent in 1997 fell to 6 percent in 1998 and to 5 percent in 1999 and rose more than 6 in 2000 and 2001. Vietnam has been one of the fastest-growing economies in Asia over the past five years; averaging growth rate approximated 8.0 percent per year.

The structure of economy has also gradually shifted towards industrialization and modernization. The proportion of agriculture, forestry and fishery in GDP has declined from 20.4 percent in 2004 to 17.57 percent in 2008, share of industry and construction in GDP has risen from 39.35 percent in 2004 to 41.60 percent in 2008, and services have increased from 40.25 percent in 2004 to 40.82 percent in 2008.

Vietnam is second ranking of rice export as well as footwear in the world. Goods exportation almost crude materials such as crude oil, coffee, rubber, rice etc. Increasing regional and international integration of the economy will present major challenges to less competitive of the economy.

The global crisis has led to a noticeable slowdown of economic growth in Vietnam. In 2008, GDP growth rate only gained 6.18 percent and went down 3.9 percent in the first half of 2009. It is expected 5 percent in the end of 2009. However, the recovery will most probably be led by the construction sector. In 2008, the bursting of the real estate bubble, the escalation of interest rates resulting from the stabilization policy and skyrocketing prices for cement and steel, had led to a decline in the GDP of the construction sector. The first time GDP growth rate of construction sector was negative -0.38 percent since the beginning of the East Asian crisis. Helped by much lower interest rates and a sharp fall in the prices of cement and steel, the construction sector is clearly bouncing back. The first half of 2009, its GDP grew by 8.74 percent.

Due to influence of international economic crisis, it appears that underemployment has been more common than open unemployment. Industrial parks serve as the platform for large share of manufacturing exports, so that they should feel the impact of the global crisis more directly than the rest of economy.

In 2008 the deficit of the current account of the balance of payment had reached 11.9 percent of GDP, above any reasonable comfort level. The first half of 2009, the deficit of state budget was approximate 11.48 percent of GDP.

Vietnam economy seems to be worse in 2008, namely, high inflation, decline of stock exchange and real state, weakness of finance system...The State Bank of Vietnam (SBV) greatly relaxed monetary policy from November 2008 to replace tighten monetary policy before. The interest rate subsidy 4 percent (taking from stimulus package to prevent from global crisis) to enterprises to carry out to amount a large-scale refinancing of enterprise debt. That helps enterprises start recovering activity nowadays.

2.2 Main economic indicator

Table 1: Main Economic Indicators

Year	2004	2005	2006	2007	2008 (prel.)	1st half of 2009
GDP and components						
GDP at 1994 prices (Billion)	362435	393031	425135	461344	489833	731600
GDP at current market	715307	839211	973790	1143442	1477717	230753
GDP growth (%)	7.79	8.44	8.17	8.48	6.18	3.9
Agriculture, Forestry and Fishing	73917	76888	79505	82717	86082	40927
% growth	4.36	4.02	3.40	3.41	4.07	1.25
Manufacturing Sector	79116	89338	100396	113801	125115	57446
% growth	10.86	12.92	12.38	12.79	9.94	1.09
Service sector	145897	158276	171392	186562	199960	96339
% growth	7.26	8.48	8.29	8.68	7.18	5.5
Construction sector	31053	34428	38232	42875	42712	16363
% growth	9.03	10.86	11.05	12.01	-0.38	8.74
Demographic Indicators						
Population (thous. person)	82,069.8	83,121.7	84,203.0	85,195.0	86,210.8	85,789.573
Population growth rate (%)	1.44	1.33	1.13	1.18	1.19	NA
Total labor force (thous. person)	41,586.3	42,526.9	43,347.2	44,173.8	44,915.8	4069.2
Labor force growth rate (%)	2.50	2.26	1.93	1.90	1.68	NA
Unemployment rate (%)	5.6	5.31	4.82	4.64	4.65	6.8

(in urban area)						
<i>Source: General Statistics Office (2009,)Statistical Yearbook of Vietnam 2008, Statistical Public House</i>						
Financial Indicators						
Short term interest rate ¹ (3-M deposits, period-end)	6.7%	7.7%	7.5%	7.8%	16.8%	7.98%
Long term interest rate ²	13.8%	14.2%	14.4%	16.2%	16.8%	8.63%
Changes in consumer price index	9.5%	8.4%	8.0%	12.63%	23%	10.27%
Change against US\$	15,739	15,872	16,020	16,084	16,583	17,816

¹ http://siteresources.worldbank.org/INTEAPHALFYEARLYUPDATE/Resources/550192-1143237132157/Key_Indicators_Tables_Vietnam.pdf

² Estimates on the basis of data of state bank of Vietnam, general statistics office,

3. Trading country

3.1 Value of import and export

Table 2: Exports and imports of goods

Year	Total		Of which				Balance (Million USD)
	Value (Million USD)	Index (%)	Exports		Imports		
			Value(Million USD)	Index (%)	Value (Million USD)	Index (%)	
2004	58453.8	128.7	26485.0	131.4	31968.8	126.6	-5483.8
2005	69208.2	118.4	32447.1	122.5	36761.1	115.0	-4314.0
2006	84717.3	122.4	39826.2	122.7	44891.1	122.1	-5064.9
2007	111326.1	131.4	48561.4	121.9	62764.7	139.8	-14203.3
Prel.2008	143398.9	128.8	62685.1	129.1	80713.8	128.6	-18028.7
The first half of 2009 (est.)	57300	77.22	27600	92.93	29700	66.74	-2100

Source: General Statistical Office 2008

The table 2 shows that total value of import and export of Vietnam have increased from 2004 to 2008. Value of exports grew in parallel with value of import, but annual import value always exceeds export value, therefore Vietnam is known as a trade deficit. Over first half of 2009, total export value of Vietnam attained 27.6 billion USD, decreased by 7.07 percent in comparison to that of 2008. Commodity imports were also at low leveling both terms of quantity and value. Weakened exports and imports were attributed to the main reasons as follows: impacts of global economic crisis, which led to sharp narrowing in our traditional export and import market; average prices of almost key export products fell compared to the same period of 2008; domestic demands for both consumption and production shrank; appreciated VND/USD exchange rate partly discouraged import activities. Notably, as import fell more sharply than exports, Vietnam recorded trade surplus the first quarter of 2009, but the second quarter it again saw big trade deficit. Nevertheless, trade deficit appeared again the first half of 2009.

3.2 Top 5 major trading countries of import and export in value

1. United states
2. Japan
3. China, PR
4. Australia
5. Singapore

3.3 5 major import and export product by value

- 5 major export product by value as follows:
 - + Crude oil
 - + Textile, sewing products
 - + Footwear
 - + Rice
 - + Electronic parts (including TV parts), computers and their parts
- 5 major import product by value as given:

- + Petroleum oil, refined
- + Iron, steel
- + Textile fabrics
- + Electronic parts (including TV parts), computers and their parts
- + Plastic in primary form

4. Overview of construction industry

4.1 Construction investment

Table 3: Construction investment

	Bill. dong				
	2004	2005	2006	2007	Prel. 2008
Total investment at constant 1994 prices	7478	8426	9395	12140	12678
Index (previous year = 100)%	92.77	112.68	111.50	129.22	104.43
State investment at constant 1994 prices	4786	5256	5891	6667	5823
Index (previous year = 100)%	99.23	109.82	112.08	113.17	87.34
Non-state investment at constant 1994 prices	2692	3170	3504	5473	6855
Index (previous year = 100)%	83.14	117.76	110.54	156.19	125.25

Source: General Statistical Office 2008

We can realize the table 3 that the investment in construction sector from 2004 to 2008 almost increased every year except 2004. In particular total investment in 2007 raised peak of figure of 129.22 percent of which state investment growth rate was 13.17 percent and non-state investment growth rate reached 56.19 percent. In 2008, the government has halted some projects, besides, construction industry has faced difficult situation such as increasing material prices therefore the state investment in construction sector decreased, and that was 87.34 percent in comparison with 2007.

Foreign direct investment projects licensed in period 1988 – 2008 in construction industry had 396 projects with total registered capital 7300.1 million USD. Almost FDI projects invested in construction of urban area, construction of apartment and offices to rent, steel and iron mill, and cement plant.

4.2 Construction companies

Table 4: Construction companies in Vietnam

	Corporation	Company
Ministry of Construction	19	0
Other Ministries	12	34
Local provinces	3	2609
100% foreign capital		653
Vietnam- Foreign Joint venture		503
Total	34	3799

Source: construction yellow pages, 2007

Present construction companies of Ministry of Construction still occupies large market share. We must mention corporations and companies under Ministry of Construction as follows:

1. Vietnam national cement corporation (VINACEMENT)

2. Song Da Construction Corporation (SONG DA)
3. Vietnam construction import-export joint stock corporation (VINACONEX)
4. Housing and urban development corporation (HUD)
5. Hanoi construction corporation (HANCORP)
6. Vietnam machinery installation corporation (LILAMA)
7. Construction pottery and glass corporation (VIGLACERA)
8. Construction machinery corporation (COMA)
9. Vietnam construction consultancy corporation (VNCC)
10. Vietnam infrastructure development and construction corporation (LICOGI)
11. Vietnam water supply, sewerage and environment construction investment corporation (VIWASEEN)
12. Song Hong construction corporation (SONG HONG. CORP)
13. Bach Dang Construction Corporation (BACH DANG)
14. Central Construction Corporation (COSEVCO)
15. Construction Corporation No. 1 (CCNo 1)
16. Building Materials Corporation No. 1 (FICO)
17. Vietnam Industrial and Urban Development – Investment Corporation (IDICO)
18. Commerce and construction investment joint stock corporation (CONSTREXIM)
19. Development Investment Construction Joint Stock Corporation (DIC. CORP)

Employees

Table 5: Employees of annual construction industry

Year	2004	2005	2006	2007	Thous. Pers.
					Prel. 2008
Total	1923	1999	2137	2268	2394
Index (previous year = 100)%	113.9	104	106.9	106.1	105.6
State sector	531.5	498.5	423.5	428.2	416.2
Index (previous year = 100)%	98.44	93.79	84.95	101.1	97.2
Non-state sector	1391	1500	1713	1840	1978
Index (previous year = 100)%	121.2	107.8	114.2	107.4	107.5

Source: General Statistical Office 2006 and 2008

According to table 5, employees in construction industry increases year by year, but employed population of construction industry in state sector decreased almost period study except 2007 growth rate 1.1 percent while employees of non- state sector grows annually. Main cause is that new construction companies were established yearly and market share of state construction enterprises were reduced.

Nowadays, there is lack of skill workers in construction sector such as bricklayer, carpenter welder... although the government has not put forth encouragement policy to attract people to join these jobs.

4.3 Productivity

4.3.1 Value added per employee

Table 6: Value added per employee in construction industry

	Mill. Dong/ person				
	2004	2005	2006	2007	Prel. 2008
Average all sectors	17.2	19.7	22.5	25.9	32.9
Construction	23.2	26.7	30.2	35.1	40.0
Real estate, renting and business activity	241.4	222.2	206.0	201.4	213.7

Source: General Statistical Office 2006 and 2008

In comparison to average productivity of all sectors, productivity of construction sector is always higher. However, it is so lower than real estate, renting and business activity. Therefore, income of workers in construction industry is lower than some economic sectors.

4.3.2 Physical measurement of construction productivity

Table 7: Productivity of cement industry

(Vietnam national cement corporation)

Year	2004	2005	2006	2007	2008
Output (1000 tons)	11,800	12,643	13,400	14,500	16,870
Total workers (person)	15670	15828	15277	15107	15982
Productivity	0.75	0.80	0.88	0.96	1.06

Sources: Report of Ministry of Construction 2008, survey of Vietnam national cement corporation

Productivity of cement industry is presented in table 7. In general physical productivity of cement industry rises annually, so contribution's labour of cement sector grows yearly. Like this each person produced average 750 tons per year, but in 2008, one can made average 1.060 tons.

4.4 Construction cost

4.4.1 Major construction material average price

General goods price as well as the housing and construction materials of prices were very fluctuant from 2004 to 2008. General consumer price index and housing construction materials CPI increased 7.71 percent and 6.43 respectively in 2004 and as for consumer price index continued to increase lesser 10 percent up to 2007 and highest figure 2008: 22.97 percent, but Housing, construction materials CPI increased two digits in 2007 and 2008 namely 11.02 percent and 20.51 percent. Due to raise the prices of construction materials such as steel, cement, sand, wood made some construction companies to face seriously distressed in 2008.

Table 8: CPI Performance, 2004-2008

% increase compared to previous year

(End-period compared to beginning of the year)

Fluctuations of CPI	2004	2005	2006	2007	Prel. 2008
Average consumer price index	7.71	8.29	7.48	8.30	22.97
Housing, construction materials	6.43	7.05	8.90	11.02	20.51

Source: General Statistical Office 2008

4.4.2 Construction industry salaries and wages

Workers' salaries and wages in construction industry uninterruptedly increased duration of 2004 –2008. However, the income of construction labour is always lower than general average income of all sectors in state sector as given in the table 9. That is why construction sector has lack of skill employees, even semi-skill employees. But, the government does not have stimulus policy of salaries and wages to attract people to join construction industry.

Table 9: Monthly average income per employee in state sector at current prices

	Thous. dong				
Year	2004	2005	2006	2007	Prel. 2008
General income	1421.4	1639.5	1936.0	2349.7	2651.3
Construction	1361.4	1566.9	1669.0	2103.9	2495.2

Source: General Statistical Office 2008

5. Import and export of construction

Generally, the annual export turnovers of main construction items increased compared to previous year, mainly due to the world market rising prices. Two exported items are pottery and glassware; wood and wood products.

The import turnovers of most of main items increased compared to last year. Table 10 is given bellows

Table 10: Some main goods for exportation and importation

Year	2004	2005	2006	2007	Prel. 2008
Exportation					
Pottery and glassware (Mill. USD)	154.6	255.3	274.4	334.9	344.0
Wood and wooden products (Mill. USD)	1101.7	1561.4	1904	2384.6	2829.3
Importation					
Machinery, apparatus and parts for construction	254.9	255.8	290.8	392.6	N/A
Machinery, apparatus and parts for cement construction	52.8	63.3	112.5	273.1	N/A
Iron, steel (Thous. tons)	5495.1	5706.9	5667.0	8115.5	8263.6
<i>Of which: Steel, rough</i>	2278.3	2239.7	1972.2	2173.8	2392.9
Aluminum (Mill. USD)	348	357.4	512.6	659.6	N/A
Glass (Mill. USD)	8.3	14.2	24.1	29.9	37.3
Clinkers (Thous. tons)	4084.4	4375.5	3615.5	3812.0	3694.5

Wood and wooden products	522	667	760	1022	N/A
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Source: General Statistical Office 2008

6. Construction Outlook 2009/2010

6.1 Construction prospect

In 2009, banking interest rate is lower rate in comparison with 2008, in addition to stimulus package of government, and prices of steel, iron, cement was down, so construction sector has recovered. In 2009, Ministry of Investment and Plan has postponed to take back construction investment capital (which was on account 2009, but projects have not carried out yet), besides Prime Minister approved the programme of cities improvement period of 2009 - 2020 with investment capital 175 thousand billions VND.

Number construction projects of infrastructure were started such as Hanoi – Haiphong expressway length 105.5 km in March 2009. Project value is 22 thousand billions VND (equivalent to 1.25 billions USD) about 9 big bridges, 21 medium bridges and 22 flyovers. Expressway Noibai – Laocai were started in April 2009, its overall worth is 20 thousand billions VND (tantamount to 1.14 billions USD). In the southern Vietnam, expressway Hochiminh Longthanh – Dauguiay will be started soon in 2009, project value is about 15 thousands VND (856 millions USD). Project of expressway Caugie – Ninhbinh will be hastened rate of process. Ministry of Construction has made a plan of expenditure to build houses for low income people about 6 billions VND during 2009 – 2010.

Amount of number of construction projects will promote demand of construction materials such as cement, steel and iron...

By this tendency, the World Bank predicted that GDP growth rate of construction sector of Vietnam will be increase two digits in 2009 and 2010.

6.2 Issue and challenges

The construction sector has over the past 50 years proved itself an instrumental industry for national industrialization and modernization with rapid urbanization seen across the country. The construction was one of the booming sectors during Vietnam's remarkable and extended period of growth and poverty reduction. There are financially and technically capable of delivery of large-scale infrastructure and construction projects.

In the context of rapid growth and at a time when the institutions of a modern market economy are still emerging in the construction sector, extensive opportunities of rent-seeking exists as competition is limited to a relatively modest number of large SOEs. The risk of collusion often reflected in the similarity of bids.

In spite of the sizeable investments co-existing with the challenges to maintain integrity in construction, little is known about the specific extent and nature of corruption in the sector. According to the Investment Climate Survey undertaken by the World Bank, around 20% thought that gifts were expected or required when dealing with the Construction Department.

There is lack of skill manpower in construction sector. Some main materials prices are higher than neighbour countries.

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