VIETNAM

Export Performance in 1999 and Beyond

Prepared for the Mid-year Consultative Group Meeting
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VIETNAM: EXPORT PERFORMANCE IN 1999 AND BEYOND

An Informal Economic Report of the World Bank
Vietnam Consultative Group
Informal Mid-Year Review

June 2000
Acknowledgements

This report was prepared by a World Bank team comprising Patrick Belser and Viet Dinh Tuan and working closely with Kazi M. Matin and Duc Minh Pham.

The team would like to express its sincere thanks to: Ministry of Trade, General Department of Customs, Vietnam Textile and Garment Corporation (Vinatex), Vietnam Leather and Footwear Association, Department of Planing and Investment of Hai Phong city, EPZ and IZ Authority of Ho Chi Minh city

SUMMARY FINDINGS

Overall

• Exceptional export growth of 23.4% in 1999, especially non-oil exports (growing at 16.3%), suggests that Vietnam is very competitive in world markets. Vietnam’s export growth exceeded those of other countries in the region.

• Reforms expanding trading rights and access of private Vietnamese SMEs have paid off as non-oil exports by these firms grew by 72.5% over two years (i.e. 1997-99), accounting for 39.1% of the growth in non-oil exports.

• If reforms to liberalize the private sector continue and if normal access to all world markets is enhanced, private domestic SMEs and foreign investors are likely to undertake the investment required to sustain Vietnam’s rapid export growth.

Part I. Exports in 1999

a) The Sectors:

• In 1999, Vietnam’s total export grew at 23.4%, from $9,338 million to $11,520 million. Oil export value grew at 69.7%, thus accounting for nearly 40% of Vietnam’s total export growth. Oil price changes alone accounted for more than one fourth of export growth. Non-oil export earnings grew at 16.3%. Although lower than overall export growth, this rate remains impressive compared to other countries in the region (see table).

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Growth in 1999 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>7.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.6</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>11.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>18.6</td>
</tr>
<tr>
<td>China</td>
<td>6.0</td>
</tr>
<tr>
<td>Vietnam non-oil</td>
<td>16.3</td>
</tr>
<tr>
<td><strong>Vietnam</strong></td>
<td>23.4</td>
</tr>
</tbody>
</table>

Source: Asia Pacific Quarterly Update, 21 March, 2000 and General Statistical Office (GSO)

• In non-oil exports, three sectors were crucial: garments, footwear, and seafood – growing respectively at 29.3%, 39.1% and 16.3%. Together, these sectors explain over two-thirds of non-oil export growth, and two-fifths of total export growth. Thus, together with oil these three sectors account for more than 80% of Vietnam’s 1999 export growth. Agriculture only explains 5% of export growth, mainly because of falling prices. After
increasing by 12.8% in 1998, our export-weighted agricultural price recorded a 13.9% decline in 1999.

b) The Demand:

- Of Vietnam’s 23.4 percent export growth, around half is due to increased exports to only three countries: China, Australia and Japan. Of non-oil export growth, about 70% is due to expanding exports to four Asian countries (Japan, China, Laos, and Korea) and four European countries (Belgium, UK, Germany and France). By contrast, non-oil exports to both Singapore and Hong Kong (China) declined by 30% and 26%, respectively –either due to the decline in subcontracting arrangements or due to import diversion towards cheaper sources.

- Seafood export growth went mainly to Asia (Japan, and Korea) and to the U.S. Footwear exports went essentially to Europe (Germany, Netherlands, France and the UK) and garments went to both Asia (Japan and Taiwan) and Europe (with France in the lead).

- In line with the regional recovery, Vietnam’s exports to non-ASEAN Asian countries increased by 14.7% in 1999 after having declined by 8.5% in 1998. Exports to ASEAN countries, however, declined in 1999 –partly because of better harvest and less rice imports by Indonesia and the Philippines.

- In terms of regional aggregates, it is Europe which absorbed nearly half (49%) of Vietnam’s increase in non-oil exports. Recovering Asia –despite being Vietnam’s largest trading partner- only accounted for 30% of non-oil export growth.

c) The Supply:

- Between 1997 and 1999, exports by the private sector grew very fast and much faster than those of SOEs: over the two years 98-99 non-oil exports by small and medium domestic private enterprises grew by 72.5%, while non-oil exports of SOEs rose by 4.6% only. Thus, despite its small size, the private domestic sector accounted for 39.1% of the period’s non-oil export growth.

### Contribution to Non-Oil Export Growth in 1997-99

<table>
<thead>
<tr>
<th></th>
<th>1997 (US$ mn)</th>
<th>1999 (US$ mn)</th>
<th>2-Year Export Growth (%)</th>
<th>Distribution of Export Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-owned enterprises</td>
<td>5,027</td>
<td>5,260</td>
<td>4.6</td>
<td>13.7</td>
</tr>
<tr>
<td>Foreign-invested enterprises</td>
<td>1,790</td>
<td>2,590</td>
<td>44.7</td>
<td>47.2</td>
</tr>
<tr>
<td>in which: EPZs</td>
<td>292</td>
<td>581</td>
<td>98.8</td>
<td>17.0</td>
</tr>
<tr>
<td>Non-state enterprises</td>
<td>915</td>
<td>1,578</td>
<td>72.5</td>
<td>39.1</td>
</tr>
<tr>
<td>Total</td>
<td>7,732</td>
<td>9,428</td>
<td>21.9</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: General Department of Customs and Ministry of Trade
• The increase in private sector exports occurred in the face of a decline in investment since 1997. According to managers of export-oriented companies this was possible because investment in 1996/97 led to excess capacity in 1997/98, as the Asian crisis broke out. The increase in exports in 1999 was therefore in large part due to a higher utilization rate of existing capacity. Companies also report a shift away from subcontracting arrangements and towards more direct (FOB) exports with substantially higher value-added.

• Given declining investment since 1997, will manufacturing sectors be able to raise production sufficiently to ensure fast export growth in 2000 and 2001? Interviews with leading export companies suggest that the answer is yes. First, the economy is still not running at full capacity. Second, domestic companies in the footwear and garment sectors seem to have increased investment since 1999. Third, and more generally, increasing capacity in labor-intensive export-oriented sectors requires little capital and no more than 6 months lead time. Finally, managers still report being more concerned about demand than about supply constraints.

• The extent to which new investment will materialize in the future depends crucially on Vietnam’s policies, and in particular on the signature of a trade agreement with the U.S. which would ensure normal access to the U.S. market for Vietnamese exporters.

Part II: The Future

• Average oil prices are likely to be higher in 2000 than in 1999, but are likely to decline sharply thereafter. Based on IMF oil price forecasts, Vietnam’s oil exports are likely to grow by 35% in 2000, decline by 19% in 2001 and decline by another 7% in 2002.

• Based on the first 5 months of 2000, non-oil exports are likely to grow slower in 2000 than in 1999 – at around 14 percent instead of 16.3 percent. Total exports earnings are thus likely to increase by about 17%, compared to 23.4 percent last year. Thereafter, the growth of export earnings is likely to decline due to falling oil prices.
Introduction: Vietnam’s

Changes in trade policies have been an essential component of the doi moi policy implemented by the Government of Vietnam since 1986. Over the years, most export quotas have been lifted and export taxes have been reduced to generally low levels. In addition, export activities by the private sector (both domestic and foreign) have been increasingly encouraged, thus breaking the trade monopoly of a small number of state-owned enterprises. These reforms –together with sound macroeconomic management- have led to a rapid export and import growth. As can be seen in Table 1, between 1992 and 1997 the dollar value of imports and exports roughly quadrupled (to $11,592 million and $9,185 million respectively), raising the share of trade in GDP from 52% to 86% - a high share by international standards.

Table 1: Increased Openness

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of exports (US$ million)</td>
<td>2,581</td>
<td>9,185</td>
</tr>
<tr>
<td>Value of imports (US$ million)</td>
<td>2,540</td>
<td>11,592</td>
</tr>
<tr>
<td>(Exports + Imports)/ GDP (%)</td>
<td>52</td>
<td>86</td>
</tr>
</tbody>
</table>

Source: General Statistical Office (GSO) and World Bank.

The structure of exports also changed. During the 1990s, Vietnam started to exploit its comparative advantage in labor-intensive manufactures. Table 2 shows that export growth was led by light manufactures, dominated by the garment and footwear sectors. Between 1992 and 1997, the share of light manufactures in total exports rose from 13% to 37% – a growing but still relatively low share compared to other countries in the region1. Also remarkable, despite the shrinking share of agricultural goods in total exports, was the strong rise in the volume of rice exports. In only few years Vietnam turned from being a net rice importer into the world's second largest exporter.

Table 2: The Emerging Light Manufacturing Sector

<table>
<thead>
<tr>
<th></th>
<th>Share in total Exports in 1992 (%)</th>
<th>Share in total Exports in 1997 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Agriculture</td>
<td>50</td>
<td>35</td>
</tr>
<tr>
<td>Heavy industry and minerals</td>
<td>37</td>
<td>28</td>
</tr>
<tr>
<td>Light Industry</td>
<td>13</td>
<td>37</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Textiles and garments</td>
<td>n.a</td>
<td>16</td>
</tr>
<tr>
<td>Footwear</td>
<td>n.a</td>
<td>11</td>
</tr>
</tbody>
</table>


1 In 1997, the share of manufactures represented around 87% of exports in both China and the Philippines, 79% of exports in Malaysia, and 73% of exports in Thailand (COMTRADE).
The Asian crisis has interrupted Vietnam’s trade expansion. In 1998, exports increased by a sluggish 2.1 percent. To avoid an external deficit, the Government imposed additional import restrictions which, together with slumping domestic demand, led to a 0.8% decrease in the value of imports. Of course, this downturn in export performance was not unique to Vietnam. It was observed across Asia. What is surprising, however, is the exceptional magnitude of the recovery in 1999. Table 3 shows that in 1999, Vietnam’s exports grew by an impressive 23.4 percent, much faster than in most other Asian countries. While Indonesia is still struggling to recover from the crisis, exports expanded at a quick pace in Korea, Malaysia and the Philippines. None of these countries, however, came close to Vietnam’s astonishing rate of export growth. As can be seen in table 3, Vietnam’s recovery is not exclusively an oil-related phenomenon. Non-oil exports also grew at a fast 16.3 percent.

### Table 3: Strong Export Growth in 1999

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Growth in 1999 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>7.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.6</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>11.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>18.6</td>
</tr>
<tr>
<td>China</td>
<td>6.0</td>
</tr>
<tr>
<td>Vietnam</td>
<td>23.4</td>
</tr>
<tr>
<td>Vietnam non-oil</td>
<td>16.3</td>
</tr>
</tbody>
</table>

*Source:* Asia Pacific Quarterly Update, 21 March, 2000 and General Statistical Office (GSO)

This paper takes a detailed look at the factors that explain this strong export performance in 1999 and asks whether such a high rate of export growth can be sustained in the year 2000 and beyond. The analysis relies on two type of sources: official trade data collected by the General Statistical Office (GSO) and Vietnam Customs, as well as information collected during a visit of 16 companies in the footwear and garment industries in Hanoi, Hai Phong, Bien Hoa and Ho Chi Minh City in May-June 2000. The visit included seven private domestic companies (among which one equitized company), four private foreign-owned enterprises, and five SOEs. All these companies were among the largest and fastest growing exporters in 1999.
PART I: Explaining Export Performance in 1999

I.1 The Sectors

Table 4 shows the sectoral sources of Vietnam’s export performance in 1999. The first two columns show the two factors that determine each sector’s importance in Vietnam’s exports: the rate of export growth and the share in total exports. The third column shows the share for which each sector’s export growth accounts in Vietnam’s total export growth, while the fourth column presents the same information under a slightly different angle; it shows each sector’s percentage point contribution to Vietnam’s overall 23.4 percent export growth.

In the first two rows of table 4, we can observe the relative importance of oil and non-oil sectors. We see that in 1999 the value of non-oil exports grew by 16.3 percent, while the value of oil exports increased by almost 70 percent. Thus, we find that 9.2 percentage points out of Vietnam’s 23.4 percent export growth came from the growth in oil exports. To put it differently: if oil export value had remained identical to 1998, overall exports would have increased by 14.2 percent in 1999 instead of 23.4 percent. Although substantially lower, this rate remains high.

Table 4: The Sectors in 1999

<table>
<thead>
<tr>
<th></th>
<th>Export value Growth rate (%)</th>
<th>Share in Total exports (%)</th>
<th>Distribution of Incremental export growth (%)</th>
<th>Percentage point Contribution to Export growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>69.7</td>
<td>18.2</td>
<td>39.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Non-oil</td>
<td>16.3</td>
<td>81.8</td>
<td>60.7</td>
<td>14.2</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>5.6</td>
<td>19.0</td>
<td>5.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Mining</td>
<td>-5.2</td>
<td>0.9</td>
<td>0.0</td>
<td>-0.1</td>
</tr>
<tr>
<td>Seafood</td>
<td>16.3</td>
<td>8.3</td>
<td>6.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>32.5</td>
<td>33.8</td>
<td>43.8</td>
<td>10.2</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Garments &amp; textiles</td>
<td>29.3</td>
<td>15.2</td>
<td>18.1</td>
<td>4.2</td>
</tr>
<tr>
<td>- Footwear</td>
<td>39.1</td>
<td>12.1</td>
<td>17.9</td>
<td>4.2</td>
</tr>
<tr>
<td>- Electronic and computer goods</td>
<td>23.5</td>
<td>5.1</td>
<td>5.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Others</td>
<td>5.8</td>
<td>19.8</td>
<td>5.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Total Exports</td>
<td>23.4</td>
<td>100</td>
<td>100</td>
<td>23.4</td>
</tr>
</tbody>
</table>

Source: General Department of Customs and Bank staff

Among non-oil exports, manufactures were most important –growing at an impressive 32.5 percent and accounting for almost half of Vietnam’s 1999 export growth (10.2 percentage points out of 23.4 percent). This was mainly due to only two industries: garments & textiles, and footwear. Together, these two industries accounted for more than one-third of total export growth. Exports of both Seafood and electronics & computer goods also grew fast, at 16.3 and 23.5 percent respectively. Agriculture, although crucial to Vietnam’s poor and near-poor, made only a modest 1.2 percentage point contribution to total export growth.
I.2 Prices and Volumes

The strong growth in oil exports is largely due to rocketing prices. Table 5 shows that the average price of Vietnam’s oil exports in 1999 increased by nearly 40 percent over 1998 (chart I). This means that changes in oil prices alone accounted for more than one quarter of Vietnam’s export growth in 1999 (6.2 percentage points out of the 23.4 percent). In terms of volume, oil exports increased by a very good but more sober 22.5 percent.

Table 5: Oil Export Growth in 1999: Price and Volume Effect

<table>
<thead>
<tr>
<th></th>
<th>Growth rate (%)</th>
<th>Share in Total Exports (%)</th>
<th>Distribution of Incremental Export growth (%)</th>
<th>Percentage point Contribution to Export growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil exports</td>
<td>16.3</td>
<td>81.8</td>
<td>60.7</td>
<td>14.2</td>
</tr>
<tr>
<td>Oil exports</td>
<td>69.7</td>
<td>18.2</td>
<td>39.3</td>
<td>9.2</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Price</td>
<td>38.5</td>
<td>-</td>
<td>26.6</td>
<td>6.2</td>
</tr>
<tr>
<td>-Volume</td>
<td>22.5</td>
<td>-</td>
<td>12.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Total exports</td>
<td>23.4</td>
<td>100.0</td>
<td>100.0</td>
<td>23.4</td>
</tr>
</tbody>
</table>

Source: General Department of Customs and Bank staff;

Farmers were less fortunate with the recent changes in commodity prices. Table 4 showed that in 1999 the value of agricultural exports increased by only 5.6 percent. In Table 6 we see that this modest performance is due to a decline in prices of Vietnam’s most important agricultural exports, in particular rice and coffee. In 1999, our measure of an export-weighted agricultural price declined by 13.9 percent, after having increased by 12.8 percent in 1998. Agriculture’s export volume increased by 20.5 percent in 1999, compared to only 4 percent in 1998. This decline in the price of rice led the Government to adopt measures to support the stockpiling of rice in 1999 and withhold exports to wait for higher world prices (Decision 35/2000/GD-TTg, March 21, 2000).
## Table 6: Agricultural Exports, 1999

<table>
<thead>
<tr>
<th></th>
<th>Share in Agriculture Exports (%)</th>
<th>Prices (%)</th>
<th>Volume (%)</th>
<th>Value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture of which</td>
<td>100</td>
<td>-13.9</td>
<td>+20.5</td>
<td>+5.6</td>
</tr>
<tr>
<td>-Rice</td>
<td>46.8</td>
<td>-16.8</td>
<td>+20.3</td>
<td>+0.1</td>
</tr>
<tr>
<td>-Coffee</td>
<td>26.7</td>
<td>-22.0</td>
<td>+26.4</td>
<td>-1.4</td>
</tr>
<tr>
<td>-Rubber</td>
<td>6.7</td>
<td>-17.1</td>
<td>+38.9</td>
<td>+15.2</td>
</tr>
<tr>
<td>-Cashewnuts</td>
<td>5.0</td>
<td>+30.8</td>
<td>-28.2</td>
<td>-6.2</td>
</tr>
<tr>
<td>-Tea</td>
<td>2.1</td>
<td>-18.5</td>
<td>+9.7</td>
<td>-10.6</td>
</tr>
</tbody>
</table>

Source: General Department of Customs and Bank staff

### I.3 The Trading Partners

Table 7 lists the ten trading partners that have absorbed the largest share of Vietnam’s 1999 export growth (a complete list of the main export partners can be found in the appendix). The first two columns show the value of Vietnam’s exports to each partner in 1998 and 1999. The third column is the difference between the first two columns and shows the absolute increase in the value of exports. The last three columns show, respectively, the growth rate of exports to each partner and each partners’ share in Vietnam’s total exports in 1998 and 1999. We see that three countries were particularly important in Vietnam’s 1999 export growth: **China, Australia and Japan**. In 1999, these three countries have all increased their imports from Vietnam by $300 to $400 million (see third column). Together they absorbed roughly half of Vietnam’s total $2.18 billion export increase in 1999.

To some extent, however, the increase in the value of these three countries’ imports from Vietnam reflects changes in oil prices. Thus, table 8 shows the same information as table 7 but for non-oil exports instead of total exports. We see that the largest part of Vietnam’s increase in non-oil exports went -in that order- to **Japan, China, Laos and South Korea**. Together, these four Asian countries account for slightly less than half of 1999 non-oil export growth (though the export data to Laos is doubtful). They are followed by four European countries: **Belgium, U.K., Germany, and France**. Together, these eight countries absorbed roughly 70 percent of non-oil export growth.

Table 9 also shows the 5 partner countries that have most reduced their imports from Vietnam. Strikingly, in 1999, non-oil exports to **Singapore** declined by almost 30% and those to **Hong Kong (China)** declined by more than 25%. One possible explanation for this decline could be that Vietnam exports a higher share of its products directly to European markets –as opposed to through subcontracting arrangements with partners from Singapore and Hong Kong. This would, of course, be a positive development. Another possibility, however, is that Hong Kong and Singapore have diverted their imports towards other Asian sources that have recently become more competitive due to devaluation and structural reforms.
Table 7: Ten Largest Contributors to Total Export Growth in 1999

<table>
<thead>
<tr>
<th>Partners</th>
<th>Total Exports (US$ mn)</th>
<th>Growth (%)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>478.9</td>
<td>858.9</td>
<td>380.0</td>
</tr>
<tr>
<td>Australia</td>
<td>469.3</td>
<td>814.6</td>
<td>345.3</td>
</tr>
<tr>
<td>Japan</td>
<td>1,481.3</td>
<td>1,786.3</td>
<td>305.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>114.9</td>
<td>256.9</td>
<td>142.0</td>
</tr>
<tr>
<td>Laos (*)</td>
<td>33.3</td>
<td>164.3</td>
<td>131.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>316.4</td>
<td>421.0</td>
<td>104.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>211.6</td>
<td>306.7</td>
<td>95.1</td>
</tr>
<tr>
<td>South Korea</td>
<td>230.2</td>
<td>319.9</td>
<td>89.7</td>
</tr>
<tr>
<td>U.K</td>
<td>333.4</td>
<td>421.2</td>
<td>87.8</td>
</tr>
<tr>
<td>Germany</td>
<td>587.9</td>
<td>654.3</td>
<td>66.4</td>
</tr>
<tr>
<td>Total Exports</td>
<td>9,338.0</td>
<td>11,520</td>
<td>2,182</td>
</tr>
</tbody>
</table>

Source: General Department of Customs and Bank staff; (*) Trade data for Laos is unreliable due to barter trade arrangements between Vietnam and Laos.

Table 8: Ten Largest Contributors to Non-Oil Export Growth in 1999

<table>
<thead>
<tr>
<th>Partners</th>
<th>Non-oil Exports (US$ mn)</th>
<th>Growth (%)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>1,187.3</td>
<td>1,427.4</td>
<td>240.1</td>
</tr>
<tr>
<td>China</td>
<td>392.2</td>
<td>527.2</td>
<td>135.0</td>
</tr>
<tr>
<td>Laos</td>
<td>33.3</td>
<td>164.3</td>
<td>131.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>206.9</td>
<td>306.3</td>
<td>99.3</td>
</tr>
<tr>
<td>Belgium</td>
<td>211.6</td>
<td>306.7</td>
<td>95.1</td>
</tr>
<tr>
<td>U.K.</td>
<td>333.4</td>
<td>421.2</td>
<td>87.8</td>
</tr>
<tr>
<td>Germany</td>
<td>587.9</td>
<td>654.3</td>
<td>66.4</td>
</tr>
<tr>
<td>Iraq</td>
<td>163.4</td>
<td>211.3</td>
<td>47.9</td>
</tr>
<tr>
<td>France</td>
<td>307.4</td>
<td>354.9</td>
<td>47.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>114.9</td>
<td>159.6</td>
<td>44.7</td>
</tr>
<tr>
<td>Total non-oil</td>
<td>8,105.8</td>
<td>9,428.6</td>
<td>1,323</td>
</tr>
</tbody>
</table>

Source: General Department of Customs and Bank staff

Table 9: Five Largest Negative Contributors to Non-Oil Export Growth in 1999

<table>
<thead>
<tr>
<th>Partners</th>
<th>Non-oil Exports (US$ mn)</th>
<th>Growth (%)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>769.5</td>
<td>542.3</td>
<td>-227.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>317.2</td>
<td>235.8</td>
<td>-81.4</td>
</tr>
<tr>
<td>Russia</td>
<td>132.6</td>
<td>114.5</td>
<td>-18.1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>277.2</td>
<td>261.5</td>
<td>-15.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>58.3</td>
<td>45.2</td>
<td>-13.1</td>
</tr>
<tr>
<td>Total non-oil</td>
<td>8,105.8</td>
<td>9,428.6</td>
<td>1,323</td>
</tr>
</tbody>
</table>

Source: General Department of Customs and Bank staff
I.4 Non-oil Exports: the Role of the Regional Recovery

To what extent was the Asian regional recovery the reason for Vietnam’s non-oil export boom in 1999? Table 10 shows two measures of demand recovery in Asian countries: GDP growth and import demand growth. These measures are presented both as simple averages and as weighted averages (to take into account the relative importance of different Asian markets to Vietnam’s exports). The table shows that by all measures Asian demand has increased substantially. The trade-weighted import demand bounced back particularly sharply. According to this measure, ASEAN and non-ASEAN Asian countries’ demand for Vietnamese goods in 1999 grew by 7.6 percent and 8.2 percent respectively –after having declined by 24.9 percent and 14 percent in 1998.

<table>
<thead>
<tr>
<th>Table 10: GDP and Import Demand in Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
</tr>
<tr>
<td>GDP growth (%)</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Trade weighted average</td>
</tr>
<tr>
<td>Import demand growth (%)</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Trade weighted average</td>
</tr>
</tbody>
</table>

Source: World Bank, IMF; Consensus Forecast, March 2000 for Hong Kong SAR (China), Singapore, Taiwan (China) and Japan.

To what extent has this recovery contributed to Vietnam’s non-oil export growth in 1999? Tables 11 and 12 show the destination of Vietnam’s non-oil exports by region in 1998 and 1999, respectively. In the first column of table 11 we see that in 1998 Asia (both ASEAN and non-ASEAN) accounted for 60.6 percent of non-oil exports, while Europe and the U.S. & Canada accounted for 31.9 percent and 5.8 percent, respectively. Among Asian trading partners, non-ASEAN countries represented the larger market with 36.7 percent of non-oil exports, compared to 23.9 percent to ASEAN countries.

Surprisingly, however, the three last columns of table 12 show that it is Europe which has made the largest contribution to Vietnam’s 1999 export performance. Non-oil exports to Europe grew at a fast 24.8 percent and this increase accounted for 48.5 percent of the total increase in non-oil exports. Export growth to Asian countries accounted for less than one-third of total non-oil export growth. Thus, one may be tempted to conclude that Vietnam’s 1999 exports would have grown fast even without regional recovery. We can calculate that if there had been 0 percent non-oil export growth to Asia in 1999 (and everything else held constant), Vietnam’s total exports would have grown by 19.1 percent instead of 23.4 percent. Of course, such a simple calculation leaves aside global general equilibrium implications of the Asian recovery, as well as the possible effect of the Asian recovery on Vietnam’s export supply (a large share of exports originates in foreign invested companies). It nevertheless provides some evidence that European markets may have been relatively more important than the Asian recovery in explaining Vietnam’s 1999 export performance.
In addition, tables 11 and 12 show that the return of positive growth rates in Asian countries have not always been accompanied by increased demand for Vietnam’s exports. Recovering import demand in non-ASEAN Asian nations did indeed lead to an expansion of Vietnam’s exports to this region (+14.7 percent in 1999, compared to -8.5 percent in 1998). Exports to ASEAN countries, however, followed a surprising pattern. In 1998, they increased sharply (+56 percent) despite the sharp decline in ASEAN import demand, whereas in 1999 they fell (-2.1 percent) despite the ASEAN recovery. Part of the explanation for this anomaly lies in ASEAN countries’ rice imports. Poor harvests led to high rice imports in Indonesia and the Philippines in 1998. In 1999 these countries’ rice imports fell as their harvests improved.

### Table 11: Non-Oil Exports: Main Trading Partners in 1998

<table>
<thead>
<tr>
<th>Share in Non-oil exports (%)</th>
<th>Non-oil Export Growth (%)</th>
<th>Distribution of incremental export growth (%)</th>
<th>Percentage point Contribution to Export growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>23.9</td>
<td>56.4</td>
<td>187.2</td>
</tr>
<tr>
<td>Non-ASEAN Asia</td>
<td>36.7</td>
<td>-8.5</td>
<td>-74.4</td>
</tr>
<tr>
<td>Europe</td>
<td>31.9</td>
<td>27.0</td>
<td>147.1</td>
</tr>
<tr>
<td>U.S. &amp; Canada</td>
<td>5.8</td>
<td>39.4</td>
<td>35.5</td>
</tr>
<tr>
<td>Australia &amp; N.Z.</td>
<td>1.4</td>
<td>100.4</td>
<td>15.0</td>
</tr>
<tr>
<td>All Partners</td>
<td>100</td>
<td>4.8</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** General Department of Customs and Bank staff

### Table 12: Non-Oil Exports: Main Trading Partners in 1999

<table>
<thead>
<tr>
<th>Share in Exports (%)</th>
<th>Export Growth (%)</th>
<th>Distribution of incremental Export growth (%)</th>
<th>Percentage point Contribution to Export growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>20.2</td>
<td>-2.1</td>
<td>-3.2</td>
</tr>
<tr>
<td>Non-ASEAN Asia</td>
<td>36.3</td>
<td>14.7</td>
<td>33.1</td>
</tr>
<tr>
<td>Europe</td>
<td>34.3</td>
<td>24.8</td>
<td>48.5</td>
</tr>
<tr>
<td>U.S. &amp; Canada</td>
<td>5.3</td>
<td>5.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Australia &amp; N.Z.</td>
<td>1.4</td>
<td>15.8</td>
<td>1.3</td>
</tr>
<tr>
<td>All Partners</td>
<td>100</td>
<td>16.3</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** General Department of Customs and Bank staff

### I.5 The Leading Sectors

This section take a closer look at the three leading non-oil export sectors: seafood, garments and footwear. Table 13 shows the export share of each of these products by regions in 1999. We see that the expansion of leading non-oil industries seem to be driven by different markets. Whereas almost three-quarters of Seafood exports are shipped to Asian countries, the overwhelming majority of footwear exports go to Europe. Textiles & Garments are divided roughly evenly between both markets.
Table 14 and 15 focus on the partners that were driving the growth of these exports. These partners may be different as those in table 16 since—in principle—new markets may account for a small share in total exports, but explain a large share of growth. Table 14 shows export growth by region. Table 15 lists the 4 countries that were most important in explaining 1999 export growth in each of the three sectors (seafood, garments, and footwear), and shows the value of their increase in imports from Vietnam.

We can observe in the first column of table 14 and 15 that growth in Seafood exports mainly went to Asian countries and to North America, while European and other countries reduced their imports. Japan and the U.S. were the two nations that most increased their seafood imports from Vietnam. In garment & textiles, the largest increase in exports went to Japan and Taiwan. Overall, however, Asian countries accounted only for about one third of the sector’s export growth—less than their share in the sector’s 1999 exports. That is, although Asia remains the largest market for garments and textiles, other markets expanded faster. Finally, the last column of tables 14 and 15 show that footwear exports were almost exclusively driven by an expansion of the European market—in particular Germany, Netherlands, France and the UK—while Asian nations’ imports actually contracted.

Table 13: Export Market Shares in 1999

<table>
<thead>
<tr>
<th></th>
<th>Seafood (%)</th>
<th>Garments &amp; Textiles (%)</th>
<th>Footwear (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>7.8</td>
<td>3.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Non-ASEAN Asia</td>
<td>66.0</td>
<td>40.8</td>
<td>10.3</td>
</tr>
<tr>
<td>Europe</td>
<td>10.0</td>
<td>38.6</td>
<td>68.9</td>
</tr>
<tr>
<td>US &amp; Canada</td>
<td>14.0</td>
<td>3.3</td>
<td>9.6</td>
</tr>
<tr>
<td>Australia &amp; New Zealand</td>
<td>1.8</td>
<td>1.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Others</td>
<td>0.4</td>
<td>12.2</td>
<td>8.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: General Department of Customs and Bank staff

Table 14: Growth contribution by Region, 1999

<table>
<thead>
<tr>
<th></th>
<th>Seafood (%)</th>
<th>Garments &amp; Textiles (%)</th>
<th>Footwear (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>12.7</td>
<td>6.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Non-ASEAN Asia</td>
<td>63.3</td>
<td>29.4</td>
<td>-5.1</td>
</tr>
<tr>
<td>Europe</td>
<td>-2.8</td>
<td>12.3</td>
<td>79.6</td>
</tr>
<tr>
<td>US &amp; Canada</td>
<td>33.9</td>
<td>2.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Australia &amp; New Zealand</td>
<td>1.4</td>
<td>2.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Others</td>
<td>-8.6</td>
<td>47.0</td>
<td>19.9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: General Department of Customs and Bank staff
Table 15: Growth in Export Turnover by country in 1999 (in US$ million)

<table>
<thead>
<tr>
<th>Seafood</th>
<th>Garment &amp; Textiles</th>
<th>Footwear</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>412.4 65.3</td>
<td>Japan</td>
</tr>
<tr>
<td>US</td>
<td>125.6 44.0</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Korea</td>
<td>43 32.3</td>
<td>France</td>
</tr>
<tr>
<td>Taiwan</td>
<td>55.2 7.2</td>
<td>Singapore</td>
</tr>
</tbody>
</table>

**Source:** General Department of Customs and Bank staff

I.6 Supply-side (I): The Private Sector and the State Sector

On the supply side, table 16 shows that over the 2-year period 1998-1999 exports by the private sector grew much faster than those by SOEs. Exports by domestic private companies grew fastest at 72.5 percent, followed by foreign invested companies with 44.7 percent. This contrasts with export growth by SOEs which only expanded at 4.6 percent. The last column of table 17 thus shows that almost half of 97-99 export growth is due to foreign invested companies and –despite its small size- 39.1 percent originated in the private domestic sector. SOEs contributed less than 14 percent of the period’s export growth.

Table 16: Contribution to Non-Oil Export Growth in 1997-99

<table>
<thead>
<tr>
<th></th>
<th>1997 (US$ mn)</th>
<th>1999 (US$ mn)</th>
<th>2-Year Export Growth (%)</th>
<th>Distribution of Export Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-owned enterprises</td>
<td>5,027</td>
<td>5,260</td>
<td>4.6</td>
<td>13.7</td>
</tr>
<tr>
<td>Foreign-invested enterprises</td>
<td>1,790</td>
<td>2,590</td>
<td>44.7</td>
<td>47.2</td>
</tr>
<tr>
<td>in which: EPZs</td>
<td>292</td>
<td>581</td>
<td>98.8</td>
<td>17.0</td>
</tr>
<tr>
<td>Non-state enterprises</td>
<td>915</td>
<td>1,578</td>
<td>72.5</td>
<td>39.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,732</strong></td>
<td><strong>9,428</strong></td>
<td><strong>21.9</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Source:** General Department of Customs and Ministry of Trade

No systematic breakdown of the size of the state and the private sector is available at the sectoral level. The case of seafood may nevertheless be considered as representative of the growing export-oriented industries. Table 17 shows that in Seafood, the State sector is large, accounting 73.0 percent of exports in 1999. The State sector’s exports, however, are growing at a much slower pace than those of the private sector: 14.6 percent compared to over 50 percent for the private sector. Thus, the State sector’s contribution to 97-99 seafood export growth (50.6 percent) is smaller than its (steadily declining) share in exports.
Table 17: Exports of Seafood in 1997-99

<table>
<thead>
<tr>
<th></th>
<th>Incremental (%)</th>
<th>Exports Growth (%)</th>
<th>Share in 1999 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-owned enterprises</td>
<td>50.6</td>
<td>14.6</td>
<td>73</td>
</tr>
<tr>
<td>Foreign-invested enterprises</td>
<td>3.4</td>
<td>50</td>
<td>1.9</td>
</tr>
<tr>
<td>Non-state enterprises</td>
<td>46</td>
<td>50.7</td>
<td>25.1</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>22.5</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Ministry of Fisheries

I.7 Supply-side (II): Investment and capacity

Vietnam’s 1999 export growth happened after a 2-year decline in investment. Table 18 shows that Vietnam’s total investment as a share of GDP fell sharply from 29 percent in 1997 to 19 percent in 1999, due in large part to the precipitous drop in foreign investment including in export-oriented sectors (see table 19). Almost all components of investment were down in 1999. Private investment by households and the Vietnamese corporate sector fell, while SOE investment and ODA-funded public investment fell by even more. Foreign direct investment fell the most. After an average inflow of $2 billion a year during the period 1995-97, it fell to $800 million in 1998, and to around $600 million in 1999. The largest decline in direct foreign investment came from East Asia and Japan as a result of the regional crisis. However, the decline in FDI commitments had started as early as in 1996 and the low commitments in 1999 are likely to keep inflows of foreign investment down in the near future.

Table 18: Investment Share in GDP, 1997-99

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1999 (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public investment</td>
<td>10.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Government budget</td>
<td>6.6</td>
<td>5.7</td>
</tr>
<tr>
<td>Investment credit (incl. on-lending)</td>
<td>4.0</td>
<td>3.1</td>
</tr>
<tr>
<td>SOE Investment</td>
<td>4.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Non state investment</td>
<td>6.4</td>
<td>5.5</td>
</tr>
<tr>
<td>FDI</td>
<td>8.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Total investment</td>
<td><strong>29.2</strong></td>
<td><strong>18.7</strong></td>
</tr>
</tbody>
</table>

Source: World Bank
Table 19: FDI in 1995-1999

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Light industry</td>
<td>265.9</td>
<td>409.3</td>
<td>569.0</td>
<td>167.7</td>
<td>109.5</td>
</tr>
<tr>
<td>Aquatic products</td>
<td>15.0</td>
<td>9.8</td>
<td>15.0</td>
<td>12.0</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Planning and Investment

This raises the following two questions: first, how could non-oil exports such as garments and footwear expand at respectively 29 percent and 39 percent in 1999 in the face of this sharp decline in investment since 1997? Second, would companies in these sectors will be able to respond to any sharp increase in world demand in 2000/01? We asked the managers of 16 of the largest garment and footwear exporters in Hanoi, Hai Phong, Bien Hoa and Ho Chi Minh City (see Box I)

**Box I: Investment, Capacity and Exports in the Garment and Footwear Sector**

- **What explains export expansion in 1999?**

Managers usually tell the following story: as the Asian crisis broke out in 1997, the garment and footwear sector’s exports growth declined. This means that investment that took place in 1996/1997 led to some substantial excess capacity in 1997/1998. The effect of the crisis, however, was relatively limited as it did not lead to a contraction in production nor to any significant number of job losses. It merely led to a zero-growth situation. According to managers this was not only due to a decline in regional demand but also to the devaluation in neighboring countries that hurt Vietnam’s competitiveness.

In 1999, demand recovered and exports picked up. To a very large extent, the supply-side response was due to an increase in the utilization rate of available capacity. A large share of excess capacity that existed in 1998 was thus eliminated in 1999. This is true in both the North and the South of Vietnam. It seems, however, that it is in the domestic sector –especially the private domestic sector, where excess capacity was smallest to start with- that the utilization rate increased the most. Domestic companies (both private and SOEs) usually report an 80-90% capacity utilization in 1999, a higher rate than in foreign-owned enterprises.

But the strong export growth in 1999 not only reflects higher export volumes. Some domestic companies (both private and SOEs) have been able to substantially increase the share of direct exports (FOB) at the expense of exports based on subcontracting. One private company, in particular, reported an increase in FOB exports from 30% of total exports in 1998 to 50% in 1999. Most of these direct exports are to new markets, usually in Latin America and Eastern Europe. The value-added in FOB exports is much higher than in subcontracting arrangements – but so is the risk, because the company must find its own customers.

- **Prices, Costs and Profits**

All is not rosy, however, in the wear and garment sector. Most domestic companies report a decline in prices (or subcontracting fees). Over the last 2 years, prices/fees are said to have fallen by between 5% - 30%, depending on the type of good and on the export market. This has happened in response to falling demand and increased competitiveness in neighboring countries. So far, prices do not seem to have recovered.

Together with falling prices, companies in the North (Hanoi and Haiphong) also report a decline in profits of around 20%. In the South, companies are less willing to discuss profitability, but usually report slightly increasing profits. Production costs, in the meantime, have remained stable. Many companies complain that production costs are too high because of the absence of a competitive textile industry in Vietnam to provide
inputs. Textile inputs must be imported, which raises costs. The same conclusion was reached last year in an IFC report on the garment sector.

- **Capacity constraint in 2000/01?**

Following interviews with managers of 16 leading export companies, there does not appear to be any capacity constraint in the footwear and garment industry. Nor does a capacity constraint seem likely anytime in the near future. The reasons are the following:

First, there is still some excess capacity in the system. Foreign-invested companies are still below full capacity. The 5 Nike subcontractors, employing close to 10,000 workers each, are only operating at 75% of their capacity. As for domestic companies, many are currently operating at -or close to- full capacity. These domestic enterprises, however, do not usually turn down contracts. Most of the time, when demand exceeds capacity, they subcontract the excess work to other companies with some spare capacity. These companies –often SOEs- are still relatively easy to find. Almost every domestic company we visited reported to subcontract work to 3 - 4 enterprises on a regular basis and sometimes to up to 25 enterprises in the peak season.

Second, in the domestic companies we visited investment actually seems to have picked up in 1999. Virtually all Vietnamese companies we visited –both private and SOEs- appear to have made substantial investments in 1999. These investments were made both to increase the number of production lines and to improve the quality of production by modernizing technology. A further source of increase in domestic investment –according to the Vice Chairman of the Footwear Association of Vietnam- was the increase in the number of new domestic private enterprises created recently.

Third, and more generally, investment in the garment/footwear sector is quick and requires little capital. Lead time to increase capacity is around 5-6 months and the equipment needed for one production line of 20 workers costs no more than $15,000 to $20,000 (one sewing machine costs around $750). This means that is relatively easy for the industry to upgrade capacity, increasing investment when demand shifts upwards. Contrary to heavy industry, capacity in footwear and garment can be adjusted very quickly.

Fourth, managers are still more concerned about demand issues -rather than supply issues. Our interviews seem to indicate a slight slowdown in export growth in 2000, due to demand-side factors. This was especially the case in Haiphong. But one Nike subcontractor located in the South (and accounting for almost 6% of Vietnam’s total footwear exports) also reported declining exports.

- **Capacity and Policies**

How, according to managers, do policies affect investment decisions?

Almost all successful private companies have plans to substantially increase investment in the near future. However, the extent to which this investment will materialize depends to a large extent upon the signature of a Vietnam-U.S. trade agreement. The significance of this agreement to the export-oriented garment and footwear industries can hardly be overemphasized (some large enterprises plan to roughly double capacity as soon as the agreement is signed). Virtually all the companies we visited mentioned the trade agreement as the single most important current policy issue.

Second, Vietnam’s international competitiveness relative to China is also perceived as declining. The recent trade agreement (PNTR) between China and the U.S., as well as China’s prospect of joining the WTO soon are boosting China’s competitive position relative to Vietnam. The phasing out of the quota system for garments exports is also likely to hurt Vietnam if nothing is done in the near future to improve Vietnam’s competitive position.

With respect to domestic policies, managers of domestic private companies report that they have benefited most from two changes: the Law on Domestic Investment Promotion, and the simplification of export and customs procedures. They note however that the new Enterprise Law does not have any direct effect on their own business plans, but does affect the creation of new enterprises.
PART II. A tentative forecast of export growth in 2000-02

II.1 Export Performance in the first 5 months of 2000

Is Vietnam’s strong export growth rate in 1999 likely to be repeated in 2000? The next table shows Vietnam’s export growth for the first part of the year 2000. We can observe that the first quarter performance was particularly strong, with a 33.8 percent increase in export earnings over the same period last year. For the first 5 months, export earnings increased by slightly less: 27.3 percent. Such a high growth rate, however, is unlikely to be sustained throughout the year, for two reasons.

First, the period’s high growth rate reflects oil prices that are likely to be above this year’s average. Table 26 shows that the value of oil exports in the first 5 months of 2000 was nearly twice as high as in the same period last year. This was only due to a continued increase in the price of oil (+ 44 percent over the average 1999 price). In terms of volume, oil exports actually decreased by 5.6 percent. Thus, with the expected decline in oil price in the next few months, the yearly growth in oil export earnings is likely to be well below its 5 months performance.

Second, non-oil exports were still relatively weak in the first 5 months of 1999 (to which the first 5 months of 2000 are compared). Export performance in the second half of 1999, however, was very impressive. Therefore, one would expect non-oil export growth for the whole of 2000 to be lower than for the first 5 months. This indicates that the growth in non-oil export earnings may be lower in 2000 than in 1999. Indeed, in the first 5 months non-oil export growth reached 16 percent – already below last year’s 16.3 percent growth. As can be seen in table 26, this is due to a sharp decline in rice export earnings in the first 5 months of 2000 (- 53.8 percent compared to the same period last year) due to both low prices and delayed exports. But rice is not the only explanation. Table 20 also shows that footwear and garment export growth have slowed down considerably compared to last year.

Table 20: Export Performance in the First Months of 2000

<table>
<thead>
<tr>
<th>Export Earning</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>QI – 2000</td>
</tr>
<tr>
<td>Oil exports</td>
<td>117.2</td>
</tr>
<tr>
<td>Non-oil exports</td>
<td>20.8</td>
</tr>
<tr>
<td>Rice</td>
<td>-65.6</td>
</tr>
<tr>
<td>Garment</td>
<td>24.5</td>
</tr>
<tr>
<td>Footwear</td>
<td>22.5</td>
</tr>
<tr>
<td>Seafood</td>
<td>25.5</td>
</tr>
<tr>
<td>Electronics &amp; Computer</td>
<td>32.5</td>
</tr>
<tr>
<td>Total Export Turnover</td>
<td><strong>33.8</strong></td>
</tr>
</tbody>
</table>

Source: General Statistical Office
II.2 A Forecast

The Oil factor
Part I discussed the importance of fluctuations in the price of oil on Vietnam’s exports. In this section, we look at the possible evolution in oil prices until the end of 2002. Chart 2 shows that in 2000, despite the recent increase in OPEC production, we expect the average price of crude oil to rise to $24.4 per barrel – a 35 percent increase over 1999 prices. Beyond that, prices are likely to fall back. The IMF forecasts a decline of 19 percent in 2001 and of 7 percent in 2002, as prices move back below $20 per barrel.

Assuming a flat 0 percent annual growth rate in the volume of oil production and export (already an optimistic assumption given the −5 percent of the first 5 months of 2000), this means that the value of oil exports will grow by a strong 35 percent in 2000 (see table 21). Although high, this rate is well below the 94.4 percent growth in the first 5 months. The discrepancy arises because of the assumption of a 9 percentage points drop in average price of oil in the whole of 2000 compared to the first 5 months. Beyond, as prices will continue to fall, oil export earnings are likely to contract by 19 percent in 2001 and by 7 percent in 2002.

Chart 2: Oil Price Forecast

Table 21: Oil Export Growth Forecast

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Export Growth</td>
<td>+35.0</td>
<td>-19.0</td>
<td>-7.0</td>
</tr>
</tbody>
</table>

Source: Bank staff based on IMF (2000) price assumptions;
The assumption is that oil export volume will grow by 0% a year.
Non-oil exports

What about non-oil exports? Tables 22, 23 and 24 indicate that the rise in global import demand should be stronger in 2000 than in 1999. In principle, one could expect this to translate into an increase in the growth rate of Vietnam’s export earnings. Table 22 shows that export weighted measures of both GDP growth and import demand growth in non-ASEAN Asian countries –Vietnam’s most important non-oil export destination- are forecasted to increase in 2000 (before slowing down somewhat in 2001). Table 23 shows a similar forecast for ASEAN countries, whose imports should also expand at a quicker pace than last year. Finally, table 24 shows that GDP in non-Asian trading partners is also expected to grow faster in 2000 than in 1999 (before slowing down in 2001).

Table 22: GDP and Import-demand in Main Non-ASEAN Asia

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP growth (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>2.4</td>
<td>-0.2</td>
<td>3.1</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Trade weighted average</td>
<td>4.6</td>
<td>0.6</td>
<td>3.6</td>
<td>3.9</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Import demand growth (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>2.6</td>
<td>-15.0</td>
<td>10.5</td>
<td>13.6</td>
<td>9.3</td>
</tr>
<tr>
<td>Trade weighted average</td>
<td>1.5</td>
<td>-14.0</td>
<td>8.2</td>
<td>9.8</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Source: World Bank, IMF; Consensus Forecast March 2000 for China, Hong Kong SAR (China), Taiwan (China), Japan, and Korea.

Table 23: GDP and Import-demand in ASEAN

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP growth (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>4.6</td>
<td>-3.7</td>
<td>3.8</td>
<td>4.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Trade weighted average</td>
<td>6.3</td>
<td>-3.3</td>
<td>3.9</td>
<td>4.8</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Import demand growth (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>0.7</td>
<td>-26.4</td>
<td>8.7</td>
<td>14.8</td>
<td>13.0</td>
</tr>
<tr>
<td>Trade weighted average</td>
<td>0.2</td>
<td>-25.0</td>
<td>7.6</td>
<td>14.6</td>
<td>12.3</td>
</tr>
</tbody>
</table>

Source: World Bank, IMF; Consensus Forecast March 2000 for Singapore

Table 24: GDP Growth in Non-Asian Partners

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe (11)</td>
<td>2.2</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>U.S</td>
<td>4.0</td>
<td>4.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Canada</td>
<td>3.8</td>
<td>3.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Australia</td>
<td>4.2</td>
<td>4.1</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: The Economist
However, despite this favorable global environment, table 20 (above) has shown that non-oil export earnings in the first 5 months grew “only” by 16 percent over a relatively weak first 5 months in 1999. This suggests that over the whole of 2000, non-oil export growth is likely to decline rather than to increase. Table 25 shows our forecast: we expect non-oil export earnings to increase by 14 percent in 2000 – compared to 16.3 percent last year.

This forecast is based on the following assumptions. Based on the first 5 months, we predict a (rather optimistic) 18 percent decline in the volume of rice exports, as well as a slowdown in garments (assumed to grow by 14.5 percent) and footwear (assumed to expand at 10 percent). Our forecast for the remaining group of non-oil exports is based on predicted demand for imports in Vietnam’s trading partners (shown in the above tables 22 to 24). It relies on the simple assumption of an identical relationship between trading partner’s import demand and Vietnam’s export growth in 2000 than in 1999. That is, it is assumed that in 2000 each trading partner’s increase in import demand (or, if not available, in GDP growth) compared to 1999 will translate into a proportional increase for Vietnam’s remaining non-oil exports.

Table 25: Non-Oil Export Growth Forecasts for 2000

<table>
<thead>
<tr>
<th>Forecast</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil export growth (%)</td>
<td>14.0</td>
</tr>
</tbody>
</table>

Source: Bank staff estimates

Total export growth in 2000 and beyond

Table 26 summarizes our forecast for oil and non-oil export growth in 2000 and shows our estimates of total export growth. In the first column, we see that with a 35 percent increase in oil exports (see table 21) and a 14 percent rise in non-oil exports (table 25), total exports in 2000 would grow at 17 percent – substantially lower than last year’s 23.4 percent.

Beyond the year 2000, the growth of export earnings is likely to slowdown due to falling oil prices. Assuming a flat 14 percent growth in non-oil exports in both 2000 and 2001 (possibly an optimistic scenario given the forecasted slowdown in global import demand shown in tables 22 to 24) and oil prices shown in chart 2, we find a total export growth of 7 percent in 2001 and 10 percent in 2002 – substantially below the rates for 1999 and 2000. Although only indicative, this forecast shows that any export growth rate above 7 - 8 percent in the year 2001 should be interpreted as a success, for it probably implies high non-oil export growth. But, of course, one has to keep in mind that Vietnam’s export earnings are very sensitive to changes in oil prices. Thus, forecasting export growth is necessarily a tentative exercise.

---

2 What, given the rise in global import demand, explains the likely decline in the growth rate of Vietnam’s non-oil export earnings (13.6 percent instead of 16.3 percent)? There are at least two possibilities. The first is that the lack of investment since 1997 has created a capacity constraint on the supply-side. Box I, however, does not support such an hypothesis. The second, more likely, hypothesis is that although global import demand is growing faster in 2000, the demand for specific Vietnamese products (garments, footwear, etc…) does not.
Table 26: Total Export Growth Forecast

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil exports (%)</td>
<td>35.0</td>
<td>-19.0</td>
<td>-7.0</td>
</tr>
<tr>
<td>Non-oil exports (%)</td>
<td>14.0</td>
<td>14.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Total exports (%)</td>
<td>17.0</td>
<td>7.0</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Source: Bank staff estimates, based on IMF oil price forecasts
APPENDIX TABLES:

VIETNAM TOTAL EXPORT TURNOVER: 1997 – 1999

<table>
<thead>
<tr>
<th>Main Export Items</th>
<th>Volume</th>
<th>Value</th>
<th>Volume</th>
<th>Value</th>
<th>Volume</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Thousand tons</td>
<td>US$ thousand</td>
<td>Thousand tons</td>
<td>US$ thousand</td>
<td>Thousand tons</td>
<td>US$ thousand</td>
</tr>
<tr>
<td>Ground nut</td>
<td>83.3</td>
<td>44,649.9</td>
<td>86.8</td>
<td>42,048.5</td>
<td>55.5</td>
<td>32,747.6</td>
</tr>
<tr>
<td>Rubber</td>
<td>194.6</td>
<td>190,847.3</td>
<td>191.0</td>
<td>127,470.7</td>
<td>265.3</td>
<td>146,835.2</td>
</tr>
<tr>
<td>Coffee</td>
<td>389.3</td>
<td>490,825.9</td>
<td>381.8</td>
<td>593,793.5</td>
<td>482.5</td>
<td>585,255.9</td>
</tr>
<tr>
<td>Tea of all kinds</td>
<td>32.3</td>
<td>47,902.0</td>
<td>33.2</td>
<td>50,496.1</td>
<td>36.4</td>
<td>45,145.5</td>
</tr>
<tr>
<td>Rice</td>
<td>3,552.8</td>
<td>870,132.7</td>
<td>3,748.8</td>
<td>1,023,997.6</td>
<td>4,508.2</td>
<td>1,025,090.5</td>
</tr>
<tr>
<td>Cashew nut</td>
<td>33.3</td>
<td>133,330.9</td>
<td>25.6</td>
<td>116,954.4</td>
<td>18.4</td>
<td>109,747.0</td>
</tr>
<tr>
<td>Black peeper</td>
<td>23.1</td>
<td>62,765.8</td>
<td>15.0</td>
<td>64,449.5</td>
<td>34.8</td>
<td>137,262.3</td>
</tr>
<tr>
<td>Cinnamon</td>
<td>3.2</td>
<td>7,121.6</td>
<td>2.1</td>
<td>3,760.0</td>
<td>3.1</td>
<td>4,668.1</td>
</tr>
<tr>
<td>Crude oil</td>
<td>9,574.1</td>
<td>1,413,393.9</td>
<td>12,145.1</td>
<td>1,232,226.2</td>
<td>14,881.9</td>
<td>2,091,609.7</td>
</tr>
<tr>
<td>Coal</td>
<td>3,449.4</td>
<td>110,796.9</td>
<td>3,162.0</td>
<td>101,503.4</td>
<td>3,260.0</td>
<td>96,026.3</td>
</tr>
<tr>
<td>Tin</td>
<td>2.5</td>
<td>13,344.1</td>
<td>2.4</td>
<td>12,390.9</td>
<td>2.4</td>
<td>11,910.2</td>
</tr>
<tr>
<td>Vegetable and fruits</td>
<td>68,257.6</td>
<td>53,392.5</td>
<td>104,922.4</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Seafood</td>
<td>780,771.4</td>
<td>817,989.3</td>
<td>951,066.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Handicraft and fine art</td>
<td>121,343.0</td>
<td>111,180.9</td>
<td>168,194.2</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Garment and Textiles</td>
<td>1,349,267.5</td>
<td>1,351,379.1</td>
<td>1,747,304.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Footwear</td>
<td>965,419.4</td>
<td>1,000,781.2</td>
<td>1,391,636.4</td>
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<td></td>
<td></td>
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<tr>
<td>Electronic goods</td>
<td>73,026.7</td>
<td>112,803.1</td>
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<td></td>
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<tr>
<td>Computer and components</td>
<td>400,898.8</td>
<td>472,286.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>2,102,730.7</td>
<td>2,099,341.9</td>
<td>2,196,609.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-tradable goods</td>
<td>61,567.3</td>
<td>89,060.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL EXPORT TURNOVER**

9,145,878.9 | 9,338,648.4 | 11,520,182.1

*Source: General Department of Customs*
## VIETNAM EXPORT PARTNERS IN 1997

<table>
<thead>
<tr>
<th>Export partners</th>
<th>Total (in US$ million)</th>
<th>Crude oil</th>
<th>Rice</th>
<th>Footwear</th>
<th>Seafood</th>
<th>Garments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>1,614.6</td>
<td>416.5</td>
<td>1.1</td>
<td>n/a</td>
<td>360.4</td>
<td>325.0</td>
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<tr>
<td>Singapore</td>
<td>1,157.3</td>
<td>707.3</td>
<td>72.4</td>
<td>n/a</td>
<td>35.6</td>
<td>55.8</td>
</tr>
<tr>
<td>Taiwan</td>
<td>708.5</td>
<td>15.9</td>
<td>n/a</td>
<td>57.2</td>
<td>197.5</td>
<td></td>
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<tr>
<td>China</td>
<td>521.4</td>
<td>87.8</td>
<td>3.2</td>
<td>n/a</td>
<td>32.8</td>
<td>2.6</td>
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<td>Hong Kong</td>
<td>472.7</td>
<td>56.5</td>
<td>23.7</td>
<td>n/a</td>
<td>85.2</td>
<td>26.6</td>
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<td>Germany</td>
<td>395.7</td>
<td>9.2</td>
<td>n/a</td>
<td>4.8</td>
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<td>South Korea</td>
<td>352.0</td>
<td>22.4</td>
<td>n/a</td>
<td>18.1</td>
<td>76.0</td>
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<td>Switzerland</td>
<td>318.3</td>
<td>173.8</td>
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<td>4.1</td>
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<td>USA</td>
<td>273.3</td>
<td>63.5</td>
<td>n/a</td>
<td>42.6</td>
<td>23.0</td>
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<td>UK</td>
<td>255.8</td>
<td>23.1</td>
<td>n/a</td>
<td>7.6</td>
<td>32.2</td>
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<td>251.5</td>
<td>75.2</td>
<td>n/a</td>
<td>21.7</td>
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<td>233.5</td>
<td>n/a</td>
<td>16.4</td>
<td>2.1</td>
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<td>France</td>
<td>227.6</td>
<td>6.5</td>
<td>n/a</td>
<td>7.9</td>
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<td>The Philippines</td>
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<td>72.6</td>
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<td>Australia</td>
<td>181.3</td>
<td>145.3</td>
<td>7.1</td>
<td>n/a</td>
<td>10.9</td>
<td>16.7</td>
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<td>Malaysia</td>
<td>146.6</td>
<td>54.2</td>
<td>n/a</td>
<td>4.5</td>
<td>7.6</td>
<td></td>
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<tr>
<td>Russia</td>
<td>119.8</td>
<td>4.8</td>
<td>n/a</td>
<td>1.9</td>
<td>41.4</td>
<td></td>
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<tr>
<td>Belgium</td>
<td>114.1</td>
<td>n/a</td>
<td>19.0</td>
<td>18.1</td>
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<td></td>
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<td>Iraq</td>
<td>113.0</td>
<td>81.2</td>
<td>n/a</td>
<td>0.1</td>
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<td></td>
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<td>Italy</td>
<td>110.6</td>
<td>n/a</td>
<td>7.1</td>
<td>27.1</td>
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<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>105.5</td>
<td>0.4</td>
<td>n/a</td>
<td>9.3</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>70.3</td>
<td>n/a</td>
<td>0.9</td>
<td>13.5</td>
<td></td>
<td></td>
</tr>
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<td>Canada</td>
<td>63.4</td>
<td>n/a</td>
<td>3.3</td>
<td>18.2</td>
<td></td>
<td></td>
</tr>
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<td>Indonesia</td>
<td>48.4</td>
<td>15.8</td>
<td>n/a</td>
<td>1.1</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>46.4</td>
<td>18.5</td>
<td>n/a</td>
<td>0.2</td>
<td>10.7</td>
<td></td>
</tr>
<tr>
<td>Laos</td>
<td>46.1</td>
<td>5.6</td>
<td>n/a</td>
<td>3.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>41.0</td>
<td>3.5</td>
<td>n/a</td>
<td>9.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>33.2</td>
<td>n/a</td>
<td>0.2</td>
<td>5.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iran</td>
<td>23.6</td>
<td>18.5</td>
<td>n/a</td>
<td>0.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Zealand</td>
<td>20.2</td>
<td>6.2</td>
<td>n/a</td>
<td>1.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>14.9</td>
<td>0.1</td>
<td>n/a</td>
<td>0.3</td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>13.4</td>
<td>n/a</td>
<td>0.1</td>
<td>2.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>13.1</td>
<td>8.2</td>
<td>n/a</td>
<td>0.1</td>
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**Source:** General Department of Customs
### VIETNAM EXPORT PARTNERS IN 1998

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**Source:** General Department of Customs
## VIETNAM EXPORT PARTNERS IN 1999

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**Source:** General Department of Customs