# TRADE DEFICIT – A CONCERN FOR VIETNAM

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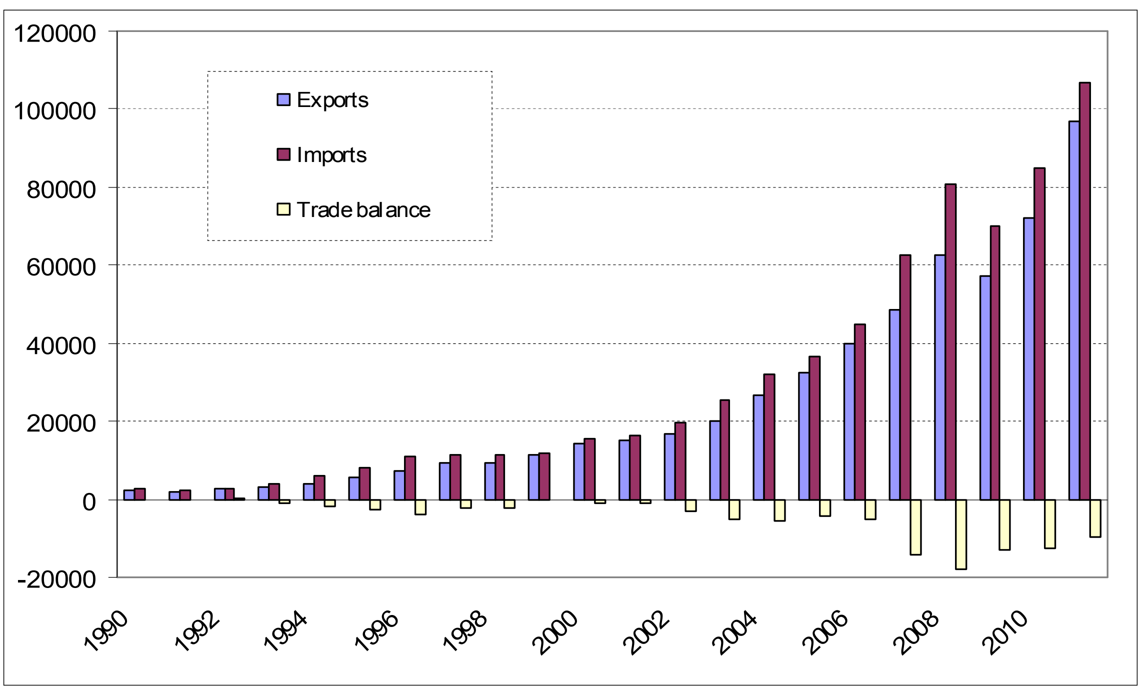
## ■ Persistent trade deficit in Vietnam[1]

- Data from the General Statistics Office of Vietnam (GSO) and Vietnam Customs shows the general picture of Vietnam's trade during the period 1990–2011 in which import value always exceeded export value. As a result, the country has held persistent trade deficit over the past two decades.

**Figure 1 – Vietnam's merchandise exports, imports and trade balance, 1990–2011**

*(US$ million)*




*Source: General Statistics Office of Vietnam (GSO) and Vietnam Customs*

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1 *General Statistics Office of Vietnam (GSO), Vietnam Customs and World Bank*

- If trade deficit in Vietnam was only US$348.3 million in 1990, about 4 years since the country started its economic liberalization process, the number increased more than three times to reach US$1,153.8 million in 2000. The negative trade balance hit the record of about US$ 18,028.7 million in 2008 – 15.6 times higher than the figure in 2000. The deficit stood at about US$12,601 million for the next two years and reduced to US$9,844.2 million in 2011. Trade deficit to GDP ratio of Vietnam is usually higher than 8% since 2002 and became serious during 2003-2004 and 2007-2010 when the number exceeded the conventional threshold of 10%.

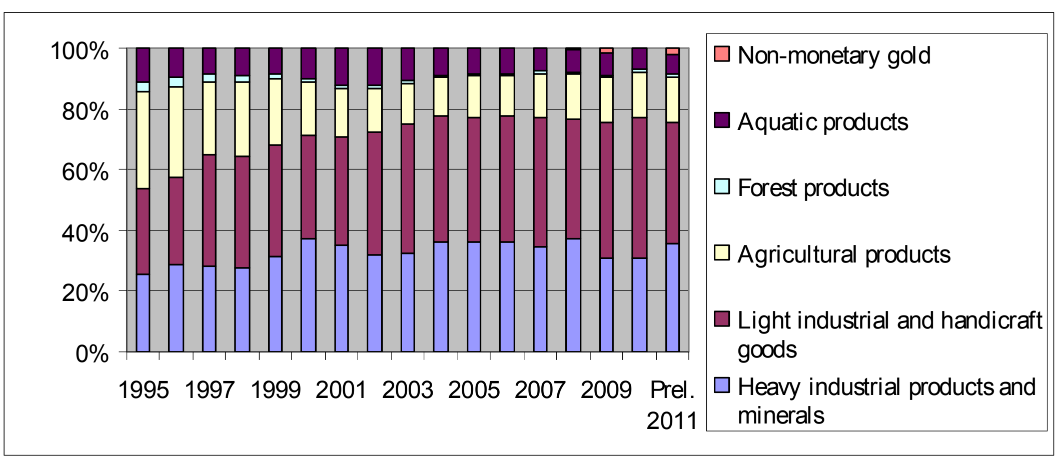
■ **Trade deficit related problems**

- Trade deficit leads to many consequences to the economy. Trade shortfall constitutes the largest component of Vietnam's current account deficit, which has been happened for years, putting pressure on the country's foreign currency reserves and balance of payments. As trade deficit is paid for out of a country's foreign currency reserves, the persistent negative trade balance significantly reduces the reserves of Vietnam, adversely affecting the country's reserves management capacity to stabilize the economy. If capital inflows and remittances are not enough, Vietnam's current account deficit, which is resulted from trade deficit, must be financed by borrowing from the rest of the world through adjustment of the interest rates of domestic and foreign currencies, increasing foreign debts, creating pressure to devaluate the Vietnamese dong, affecting inflation and the general price level. Therefore, trade deficit has attracted considerable attention of policy makers in Vietnam.

■ **Explanations for trade deficit in Vietnam**

- ***Export structure***. Figure 1 shows a general increasing trend of Vietnam's merchandise export turnover. Heavy industrial products and minerals with coal and crude oil as the main items account for about 32.6% of Vietnam's exports during the period 1995-2011 (Figure 2). The number for agricultural products and light industrial-handicraft goods, which are dominated by textiles, clothing and footwear, are 38.7% and 18%, respectively. The export structure of Vietnam remains the same over the past 10 years and does not much differ from those of China and other ASEAN countries. The main key export products of Vietnam include textiles and garments, footwear, seafood, rice, coffee, tea, rubber, cassava and cassava products, crude oil, coal, phone and phone accessories, computers, electronics and components. The export structure indicates that Vietnam mainly competes in raw materials, semi-processed and low-technology goods. This pattern makes the country more vulnerable to price and demand changes in the world market. Moreover, because Vietnam heavily relies on imported inputs for export production, an increase in exports will induce higher demand for foreign materials. Naray et al. (2009) estimated that imported inputs constitute about two thirds of the production cost of Vietnam's exports, including the country's key export items. In 2011, for instance, textile and garment industry, the second largest export industry of Vietnam in recent years, obtained a revenue of over US$14 billion, up 25.3% compared to that of 2010, while the importation of inputs for the operation of this industry reached US$8 billion, about 57% higher than the number of previous year[2]. Although computers, telephones, electronic products and parts are also regarded as the country's main export items, most of their parts and components are imported. As a result, the value added in exports created in Vietnam remains low; the country has not yet fully integrated into the global value chain and is just an assembling center for multinational corporations.

**Figure 2 – Vietnam's export structure by commodity group, 1995 - 2011**

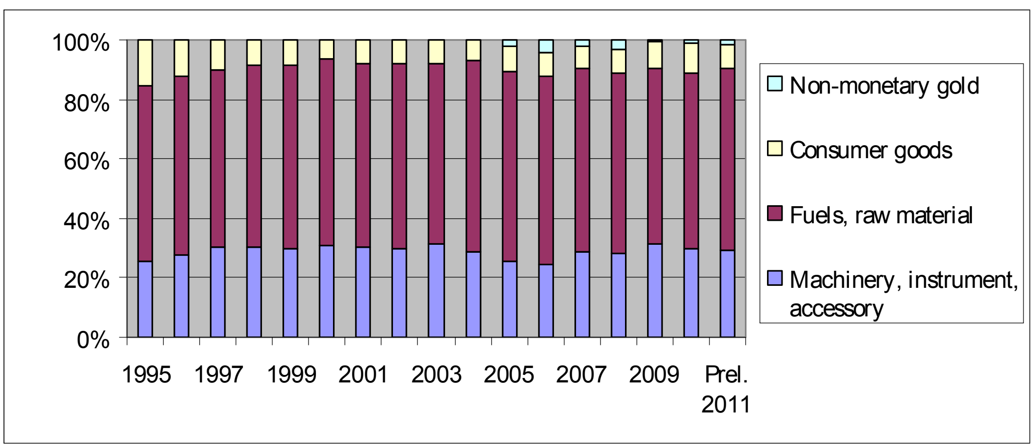



[2] GSO and Vietnam Customs

*Source: GSO*

- ***Import structure***. Statistics from GSO shows that total import value of Vietnam keeps growing over years (Figure 1). On average, the importation of means of production accounts for about 90% of the total import value (machinery-instrument-accessory: 30% and fuels-raw material: over 60%) while that of consumer goods forms about 8% (Figure 3). The high proportion of means of production in Vietnam's import structure can be explained by the high demand for this commodity group for the country's industrialization process and the operation of foreign invested sector, which focuses on manufacturing and has increasing investment in construction and real estate in recent years. Moreover, as Vietnam's export still depends heavily on imported materials, the increase of the country's export activities definitely result in the expansion of imports. In addition, higher income level and the reduction of tariffs owing to the country's integration process into the world economy through bilateral, regional and multilateral trade agreements also lead to higher demand for imported consumer goods, including luxury items.

**Figure 3 – Vietnam's import structure by commodity group, 1995 - 2011**




*Source: GSO*

- ***Economic growth***. Vietnam's economy has been growing very fast during the past two decades. The average annual GDP growth rate of Vietnam from 1991 to 2007 was more than 7.5%. Despite suffering from the global crisis, the country still maintains a growth rate of more than 5% since 2008[3]. As an economy under its industrialization

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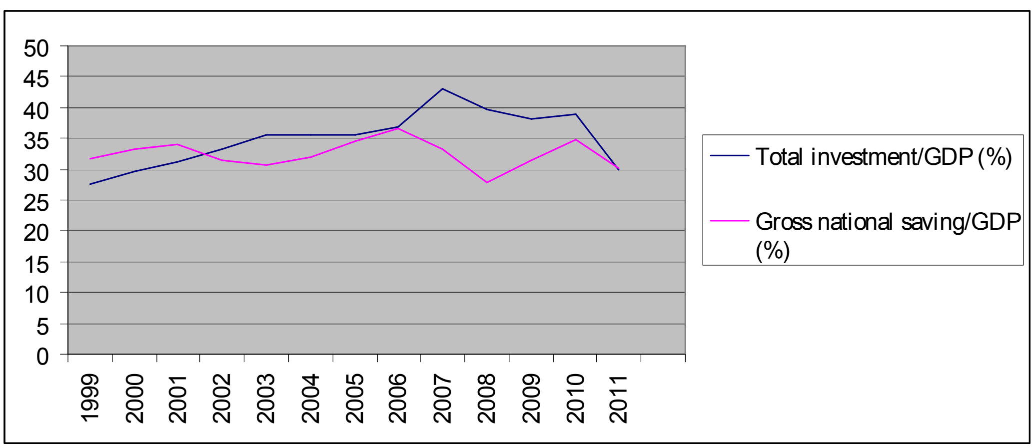
[3] United Nations

and modernization process with low technology level and weak supporting industry, Vietnam still has high demand for modern technology and machineries which must be imported from abroad. Moreover, the country also has to import inputs for the operations of many industries because domestic sources can not meet their demands.

- ***Saving-investment gap***. The deep root of Vietnam's negative trade balance lies in saving–investment gap. According to economic theory, trade deficit reflects the imbalance between saving and investment of a country. Pursuing economic growth by relying on investment, Vietnam has maintained high investment rate. However, domestic saving is not sufficient to support the investment demand. As a result, Vietnam's economy depends on external sources to finance the saving-investment imbalnce, raising concerns about the country's external deficits and foreign currency reserves. Figure 4 shows that the total investment/GDP ratio generally exceeds the gross national saving/GDP ratio from 2002. As long as the saving-investment gap exists, Vietnam will continue suffering from trade deficit.

**Figure 4 – Vietnam's total investment and gross national saving as percentage of GDP, 1999 - 2011**




*Source: International Monetary Fund*

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