Viet Nam Economic Pulse: Exports still matter

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UNDP Viet Nam

Economic self-reliance through integration

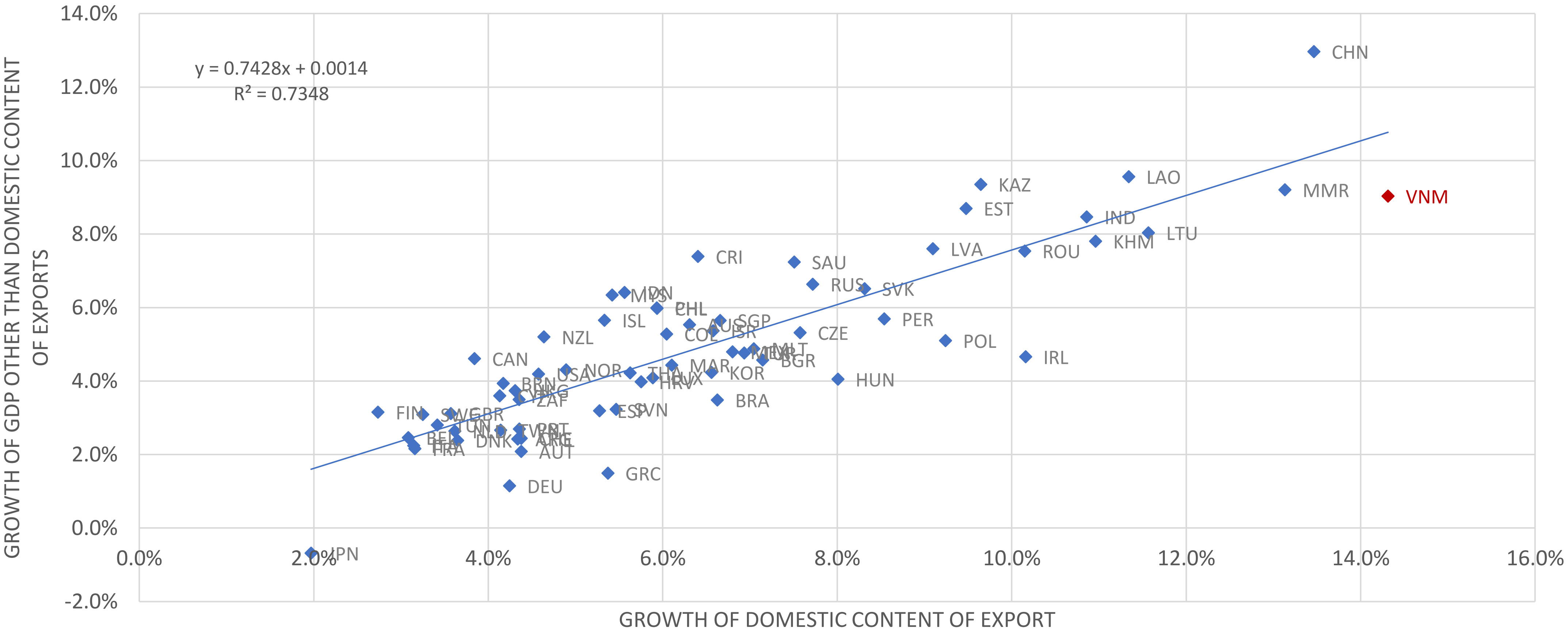
"Create a peaceful environment, maintain independence, sovereignty, territorial integrity, socio-political stability, stabilize the legal environment, create a foundation and favorable conditions for the development of an independent and self-reliant economy associated with deep international integration."

Prime Minister Pham Minh Chinh, June 5, 2022

Vietnam does not choose a closed economy but always insists on the open and proactive way

Vietnam does not choose a closed economy but always insists on the path of innovation, opening up, confidently building an independent and self-reliant economy associated with deep, substantive and effective international integration...

Relationship between growth of domestic content of exports and other output growth



Source: Calculated from OECD data

Balance of payments constraint and economic growth

- Countries need dollars to pay for essential imports and to meet payments obligations associated with interest payments on debt and profits of foreign companies
- Countries receive dollars for their net exports, profits from or interest on assets held abroad, remittances, inwards investment and foreign borrowing
  - Foreign borrowing and inward investment give rise to new dollar liabilities
  - Dollar-constrained countries need to raise interest rates to attract dollar borrowing (which slows economic growth)
  - If the supply of dollars is insufficient, the government and monetary authories may need to curtail demand and/or devalue the currency to reduce imports
  - But currency devaluation makes it hard to pay dollar debt with local currency earnings

- Relevant factors are:
  - Relative prices of imports and exports
  - Price elasticities of imports and exports
  - Rate of growth of domestic and foreign income
  - Income elasticity of demand for imports and exports
- What the country exports and imports will affect the sustainable rate of growth
  - Countries with a high income elasticity of demand for imports will tend to grow more slowly (imports of fuel and consumer goods)
  - Countries with a high income elasticity of demand for exports will growth more quickly (exporters of manufactured goods, ores and metals, high-value agricultural commodities)

Export growth equal to or greater than import growth is needed to sustain economic growth

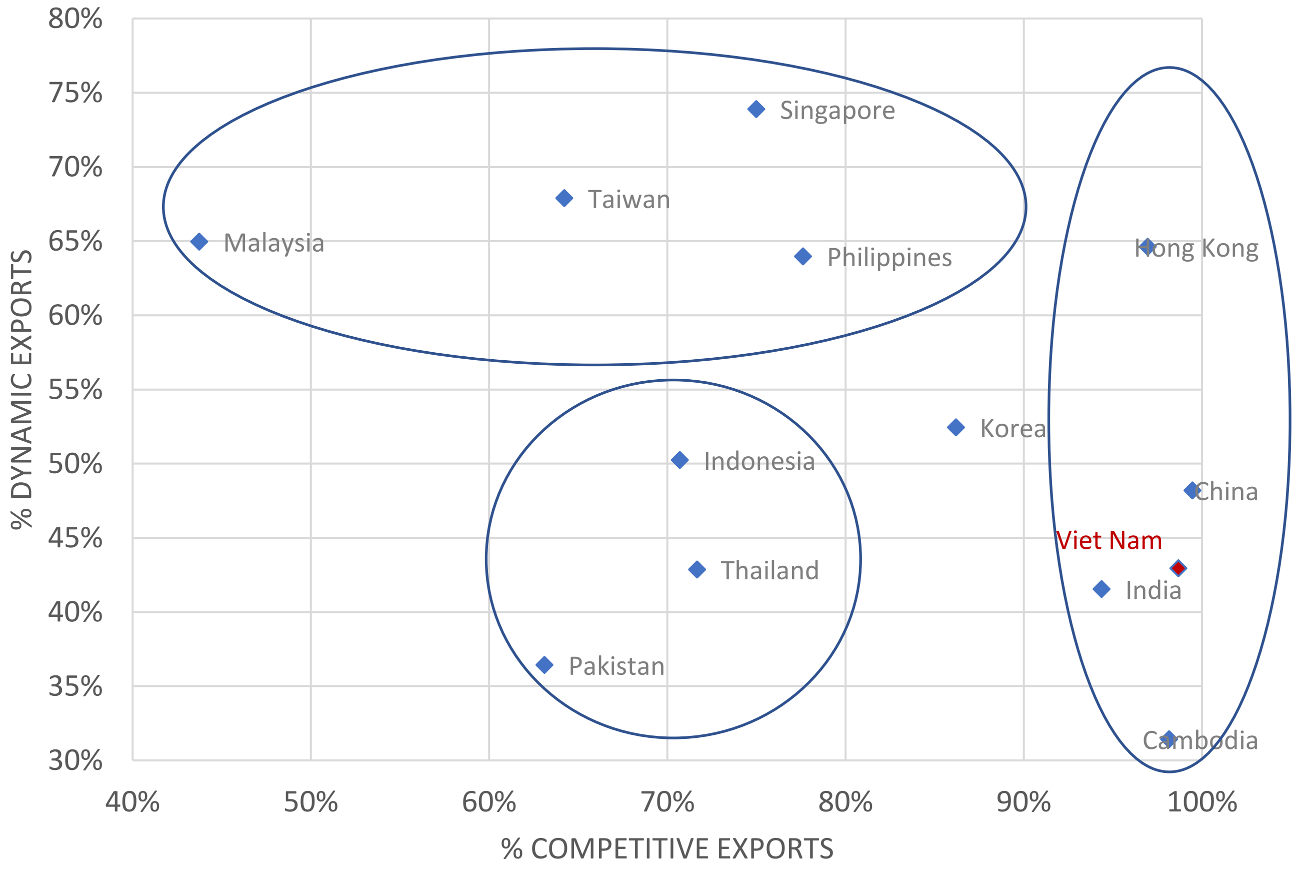
‘Competitive’ and ‘dynamic’ goods

- Competitive commodities: The country has increased its share of global exports of the good
- Dynamic commodities: The share of the good in global exports has increased
- UN Comtrade data, SITC 3-digit level
  - Initial period: 1995 (1994-1996 average)
  - End period: 2018 (2017-2019 average)
- Removed oil and coal because of significant price increase in second period

‘Dynamic’ goods that increased global market share, 1995-2018

Good	Value 2018 (billion USD)	% Global trade	Good	Value 2018 (billion USD)	% Global trade
Valves and transistors	822.0	5.5%	Fruit/nuts, fresh/dried	114.4	0.8%
Telecomms equipment	470.2	3.1%	Medical instruments	111.8	0.7%
Medicaments	356.5	2.4%	Perfume/toiletries/cosmetics	106.2	0.7%
Gold non-monetary ex ore	306.0	2.0%	Jewellery	105.8	0.7%
Electric circuit equipment	265.4	1.8%	Iron ore/concentrates	101.5	0.7%
Other special industrial machines	239.9	1.6%	Other manufactured articles	98.9	0.7%
Pharmaceutals	210.9	1.4%	Other edible products	88.6	0.6%
Measure/control apparatus	206.8	1.4%	Oil seeds etc - soft oil	77.2	0.5%
Furniture	181.9	1.2%	Primary ethylene polymer	76.0	0.5%
Other plastic articles	171.3	1.1%	Optical instruments	74.6	0.5%
Fans/filters/gas pumps	138.5	0.9%	Trunks and cases	67.5	0.4%
Other chemical products	137.9	0.9%	Optical fibres	60.9	0.4%
Electrical distribution equipment	130.5	0.9%	Copper ores/concentrates	59.1	0.4%
Non-electrical engines	127.0	0.8%	Lighting fixtures	54.3	0.4%
Organo-inorganic compounds	124.2	0.8%	Silver/platinum	48.7	0.3%

Competitive and dynamic exports in Asia



- Hypercompetitive economies: HK, China, VN, India, Cambodia
- Most dynamic: Singapore, Taiwan, HK Philippines, Malaysia
- Countries that have struggled post-EA Crisis: Indonesia, Thailand and Pakistan

Competitive and dynamic exports to USA

- Competitive commodities: Country has increased its share of US imports over the period.
- Dynamic commodities: Commodities that increased as a share of total US imports.

Country	Competitive 1996	%	Competitive 2018	%	Dynamic 1996	%	Dynamic 2018	%
China	Toys	16%	Telecom equip	14%	Toys	16%	Telecom equip	14%
Malaysia	Computer equip	16%	Transistors	44%	Transistors	29%	Transistors	44%
Thailand	Computer equip	16%	Computer equip	16%	Computer equip	16%	Telecom equip	9%
Indonesia	Footwear	12%	Apparel, other	8%	Furniture	3%	Vegetable oil	5%
Philippines	Computer equip	8%	Office equip	13%	Transistors	30%	Transistors	15%
India	Precious stones	24%	Precision stones	16%	Made up textiles	4%	Pharmaceuticals	9%
Mexico	Passenger cars	10%	Passenger cars	10%	Elec distrib equip	5%	Telecom equip	3%
Brazil	Steel products	6%	Oil	12%	Steel products	6%	Aircraft	8%
Viet Nam			Telecom equip	16%			Telecom equip	16%

Viet Nam’s Competitive and Dynamic Exports to USA, 2004-2018

Product	% Exports to USA
Telecomms equipment, other	16%
Footwear	11%
Furniture/stuffed furnishings	11%
Women/girl’s knit/woven apparel	8%
Articles of apparel, other	8%
Valves/transistors/etc	5%

Product	% Exports to USA
Telecomms equipment, other	16%
Valves/transistors/etc	5%
Fruit/nuts, fresh/dried	2%
Trunks and cases	2%
Electrical distrib equip	1%
Miscellaneous manufactured articles	1%

<u>Competitive commodities</u>: Increased share of US imports between 2004 and 2018 (three year average)

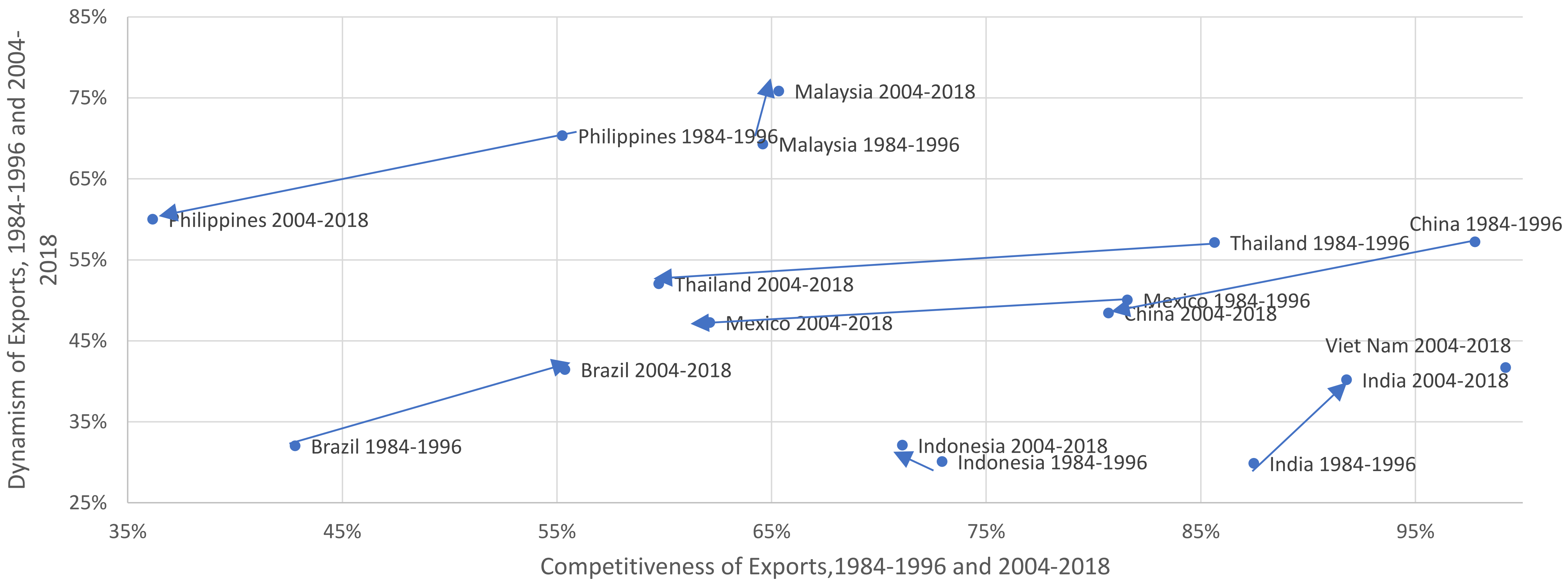
<u>Dynamic commodities</u>: Commodities that are increasing as a share of total US imports between 2004 and 2018 (three year average)

Relationship between GDP growth and competitive and dynamic exports to the world

	Coefficient	T-stat	Prob
Intercept	-1.79	-2.02	0.05
GDP per capita 1995	0.00	-3.80	0.00
Competitive export share	0.37	3.36	0.00
Dynamic export share	0.45	2.23	0.03
R^2	0.50		
n=65 countries			
Variables expressed in logs Dependent variable: Average GDP growth 1995-2018 (for Viet Nam and Cambodia 2002-2018)			

- The regression suggests that a 1% increase in the competitive export share increases the rate of GDP growth by 0.37%.
- And a 1% increase in the dynamic export share increases the GDP growth rate by 0.45%.
- The price competitiveness of exports is important
- And the goods that a country exports is also important

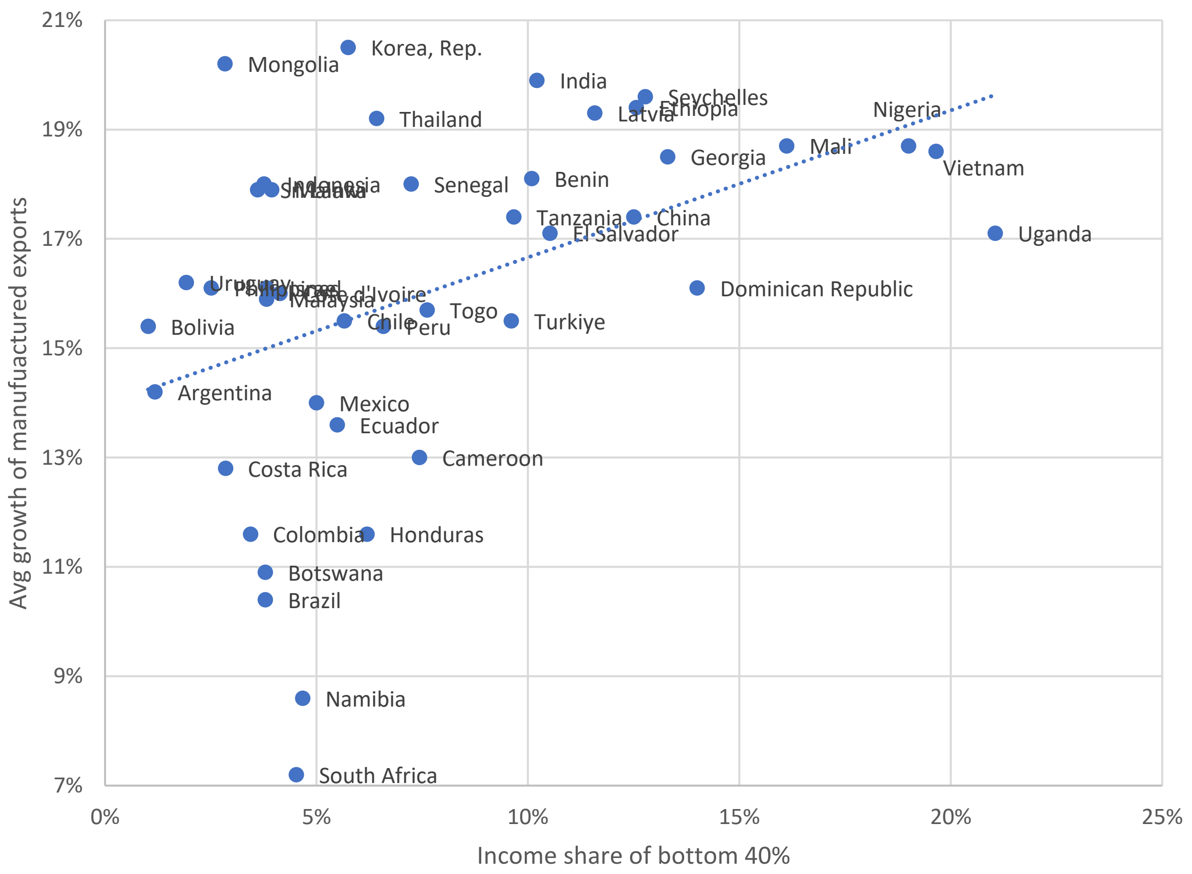
Competitive and dynamic exports to the USA, 1984-2018



Most dynamic exports are manufactured goods

- Nicholas Kaldor: special role of manufacturing because of productivity growth associated with increasing returns to scale
- Rediscovered by “endogenous” growth theorists in the 1980s and 1990s who emphasized technological spillover effects
- Dynamic goods not confined to manufactures: metals and ores (iron, copper), agricultural commodities (oil seeds, fruit and nuts)
- Policy implications: Remove barriers to entry into dynamic industries
  - Infrastructure—transport, logistics, utilities,
  - Technology, knowledge and skills—training, research, labor mobility
  - Smart regulation—global standards, product safety

Manufactured exports are also associated with equalizing wage earnings



- Relationship between growth of manufactured exports and income share of bottom 40%
- Many factors affect income shares, but job creation is important
- Viet Nam’s relatively high income rate of bottom 40% due in part to rapid employment growth

Thank you