AN INDEPENDENT ECONOMY FOR INTERNATIONAL INTEGRATION

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In his closing speech at the 10th Conference of the VCP Central Executive Committee (8th term) on July 4, 2000, Secretary-General Lê Khả Phiêu said: "In the *Đổi Mới* process, the VCP affirmed that its central task is to develop the economy and its essential task is to beef up its organization, and build a socialism-oriented and mixed economy led by the public sector."

One of important problems discussed by the VCP Central Executive Committee in this conference was the development of an independent economy in parallel with international integration. The VCP affirmed and supported the policy to diversify and multilateralize economic relations and take all possible chances to integrate into the world economy with a view to protecting national interests. Economic independence is considered as a basis for political independence. The overall principles are to ensure national independence, socialist orientation and national security; protect the environment and national traditions; support mutual beneficial cooperation and struggle against unfair and inequitable imposition.

The strategy for socioeconomic development in the next decade aims at accelerating the socialism-oriented modernization and industrialization and developing Vietnam into an industrialized country by 2020.

The most important point of the speech given by the Secretary- General is the affirmation of the policy to develop an independent economy and integrate into the world market – an urgent problem to Vietnam today.

1. Potential dangers to Vietnam's economic independence

The Vietnamese economy is far behind developed countries. It produces and exports mainly mineral and agricultural goods and depends on foreign supplies of various kinds of raw materials, high- quality consumer goods and machinery. Its exports meet competition from developing countries, quotas set by developed countries and fluctuations of prices in the world market. In many years, falls in prices of Vietnamese exports reduced income of farmers and workers. This situation damages Vietnam's position in the world arena and leads to many potential dangers to its socioeconomic development.

The first danger is the increasing trade gap caused by differences between Vietnam's exports (cheap raw materials and farm products) and imports (high-quality manufactured goods and machinery). The trade gap, in its turn, leads to foreign debt. In the years 1995-98, the average trade gap amounted to some US$3 billion while the foreign debt rose by US$2 - 3 billion a year. To repay principal and interest, Vietnam, in the 1990s, had to borrow more loans with the result that the foreign debt rose quickly, equaling 50% of the GDP at times.

Lessons from Thailand show that heavy foreign debt could push the central bank into insolvency and the whole economy into financial crisis.

The second danger is the fact that technological backwardness and shortage of capital make Vietnam dependent on foreign investment. Foreign investors always look for measures to maximize their profit. As a result, most machinery and equipment invested by foreign companies in Vietnam in the 1990s were obsolete, but in comparison with local machinery, they were modern enough for foreign companies to control increasing market shares. Most Vietnamese companies acting as partners in joint ventures with foreign parties could only hold at most a 30% stake in form of the land use right or factory buildings, and after a while, foreign parties managed to buy their stake and formed foreign-owned companies. If the situation isn't improved in the near future, foreign companies will control most industries and market share. The economic independence seems beyond our reach then.

2. How to build an independent economy

In our opinion, the best and only strategy to build an independent economy is to concentrate on the following measures:

- industrialize the agricultural production by making farm machinery and other materials by ourselves.
- develop the agro-industry in order to stop exporting unprocessed farm products.
- develop the heavy industry with a view to modernize local factories.
- promote the production of high-quality manufactured goods and necessary raw materials as import substitutes.

If these measures are taken, Vietnam could make a great step forward on its way to industrialization and modernization based on its internal strengths. Vietnam will be able to stop exporting cheap farm and mineral products and importing expensive manufactured goods; and start selling high-quality manufactured goods on both domestic and foreign markets, thereby improving its trade balance and reducing foreign debt. Changes in production and exports structure could allow Vietnam to ensure its economic independence.

To carry out successfully these measures, two preconditions are needed: the Ministry of Trade should restrain import of inessential consumer goods in order to accumulate foreign exchange needed for import of machinery that couldn't be made locally; the Ministry of Finance and central bank should make plans to increase soft loans to projects to build new factories proposed by Ministries of Industry, and of Planning and Investment. When those two preconditions are achieved, we can secure enough foreign exchange and domestic currency to carry out the strategy to change the structure of industry and exports.

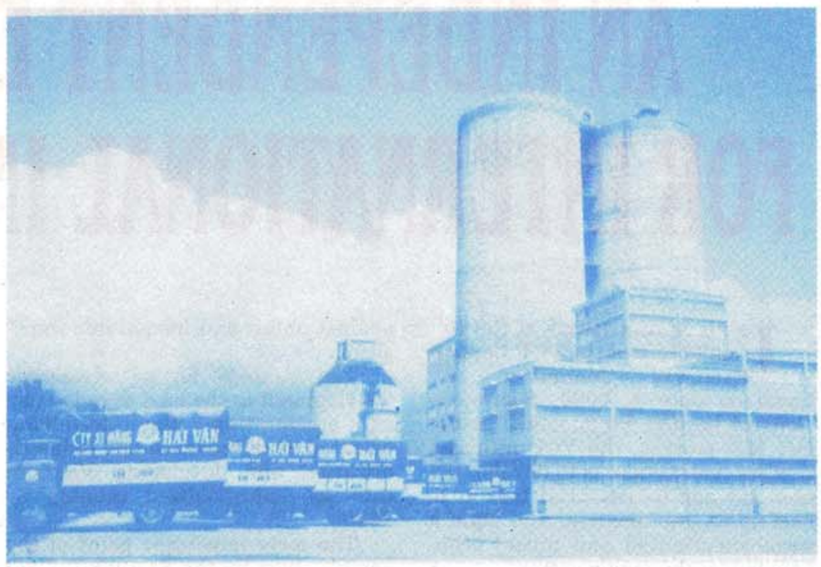
3. To develop an independent economy for international integration

According to Marxist economics, the economy is divided into two sectors: the first one producing capital goods and the second making consumer goods and it's reasonable to make intensive investment in the first one. In addition, Japanese and South Korean experience shows that the production of high-quality manufactured goods for export is the best way to improve the trade balance and achieve the trade surplus. Economists also agree that gross investment of at least 30% of the GDP is needed to make an economy take off.

Certain commercial banks, even those specialized in investment and industrial development, want to invest in local industries but their working capital is made mainly of short-term deposits because most small savers don't make long-term deposits with banks.

The market mechanism could encourage production of consumer goods suitable to various tastes but it couldn't orient investment towards the heavy industry while most private companies in developing countries, because of shortage of capital, tend to take part in the service sector. That is why the market economy needs good orientation and planning.

In Vietnam, most state-owned companies have small working capital, obsolete machinery, badly-trained workers and managers and some of them have suffered losses for years and only existed on government subsidies. The Government should think of forming companies with big working capital, modern machinery and well-selected management. These companies could be invested by banks or financial authorities in order to avoid a poor cash position ratio and big payments for bank interest. The public sector, consisting of such companies, will be strong enough to compete against, or cooperate with, private and foreign sectors. This is, in our opinion, the best way to "build a socialism-oriented and mixed economy led by the public sector" expressed by the Secretary- General in his above-mentioned speech.■



In developing an independent economy, however, we could meet difficulties caused by the market mechanism and liberal trade.

While local producers couldn't produce high-quality goods at reasonable prices because of the lack of capital and modern machinery, foreign companies agree to supply these goods on deferred payment terms. Under the market mechanism, importers are ready to buy these goods and even state-run banks are willing to provide them with loans and foreign exchange when necessary instead of supply long-term loans to local manufacturers. In other words, preferential treatment is offered to importers instead of exporters or producers.