Vietnam's Economic Renovation And Internationalization Strategy

by Dr. NGUYỄN VĂN LUÂN

(See last issue)

III. VIETNAM'S STRATEGY OF INTERNATIONALIZATION

Vietnam's foreign economic relation had progress in recent years, Vietnam's customers has changed from traditional ones in the COMECON to the areas of convertible currency. Vietnam pushed up developing and diversifying exportation. Exports increased sharply in 1989 and 1990, the first years of the reform. In the following years, growth tempo inched down, but still at the rate of 25%. In 1993 Vietnam's export reached US$ billion 3.1. The most important exports are crude oil and rice. Other important ones are sea products, easily-made industrial products, agricultural products as rubber, coffee, fruit. Export increased to the rate assuring that import did not have to be reduced in the adjustment period, but the export growth rate is still low if compared with the fast developed economy.

Vietnam has directed more attention to outside in recent years, with increasing import, export and direct foreign investment. The growth and diversification of foreign trade is the most outstanding achievement in Vietnam's reform. The fall of the Eastern European block resulted in aid and trade reduction which threatened to break Vietnamese economy in 1990 and 1991. But for a short time, Vietnam has found new markets for exports in the region, as a result export turnover rose quickly and the foreign currency revenues was enough to replace the aid shortage.

The foreign trade industry itself had meaningful reforms. Vietnam has eradicated most of import quotas to liberalize trade at the first step. The government began freeing regime of granting certificate and export licence, although the State still controls foreign trade in a certain degree. This policy is rather well-performed in the exchange of four main products as crude oil and rice exports for petroleum and fertilizer imports. Vietnam's open policy has made impressive results. Vietnam's ratio of trade over GDP reached 55% in 1991, nearly equal to that of South Korea, though far lower than that of Taiwan, Singapore, and Hong Kong. Experiences from these economies clearly pointed out that: directing attention to outside is a well-developed strategy. It leads to more effective investment due to competition in the home market. It helps transfer technology by attracting foreign investment and by recommending domestic enterprises to the world market. The most crucial thing for Vietnam is that it stimulates employment, because Vietnam will have comparison superiority in the fixed time in the labour-intensive industry. Vietnam had good starting steps in the open direction, but it should be reformed better when the economy changes to the stage of diversifying exportation

IV. GROWTH AND DEVELOPMENT PROSPECT

Vietnam's economic growth was rather all-sided in agriculture and industry, export reached and exceeded the plan target. Growth tempo proceeding in successive years was not a temporary event. The feature of the new development stage is to reach the GDP growth rate of 8% up in many consecutive years, so Vietnam can double per capita income by the year 2000. In order to attain this, the growth must be sustained. This means Vietnam economy itself has to plant seeds for the growth process in the years to come. That is combining increasing aids, loans, and foreign investment with revenues from export and home investment. Thus foreign loans, natural resources essential to production should be paid close attention.

Growth prospect of Vietnam economy is promising because Vietnam keeps on strong renewal policy and has increasing foreign capital. In the past years, the noteworthy thing is growth rate of 8.3% in 1992 and 7.5% in 1993 whereas total investment is only 11-12% of GDP. Relation between investment and growth is reflected by the ICOR index, Vietnam's ICOR is below 2. Total investment is low as compared with the average growth rate of 7.2% in the past three years. Low index ICOR is a good sign proving that investment has caused great increase in productivity. Vietnam has substituted saving from foreign source for domestic ones and invested effectively in the past years.

So as to maintain and reach GDP growth rate of 8% up, Vietnam needs more investment than even the time having effective investment. Once there is adjustment for more investment to sustain achieved growth rate, Vietnam can keep the growth rate of 7-8% if ICOR index is kept at 3.0, thus, it increases much higher than that of 1992, 1993.

The approach to the fast growth of Vietnam economy with estimations of macro-economic variables in the next five years is as follows:

MACRO-ECONOMIC INDEX AND ESTIMATION

	REALITY				ESTIMATION				
	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP growth rate (%)	5.1	6.0	8.3	7.5	8.0	8.2	8.4	8.4	8.4
Total investment (% of GDP)	11.4	11.6	12.0	13.8	16.7	20.0	22.0	24.8	26.8
National saving (% of GDP)	6.8	9.5	11.2	7.2	9.8	12.7	14.4	17.2	19.0
Periodical deficit (% of GDP)	4.6	2.1	0.8	6.6	6.8	7.2	7.6	7.6	7.8
Export (% of GDP)	25.1	28.2	33.5	30.8	31.1	31.8	32.5	32.9	33.0
Import (% of GDP)	14.9	26.9	30.9	33.8	34.8	36.5	38.0	38.8	38.8

Source: The State Estimation

From the above table we see that the ICOR index goes up and the GDP growth rate is kept at 8%. The investment rate in 1997 of this estimation increases by 14.8% of GDP. Herein investment efficiency is still high but more investment should be increased. Need for capital supplied by foreign aids of this estimation is US$ 500-600 million per year in 1994-1995, up to US$ one billion in 1997. At first, Vietnam needs pledges of funding US$ 1 to 2 billion for development investment.

The basic thing is where to attract capital to supply to such development investment. Certainly, domestic saving plays a leading role, thus it is important that domestic saving has to increase sharply to support investment. In Vietnam there are now four potential sources to build saving so as to give fund to investment as follows:

+ Home private saving, it can be mobilized over the present rate with proper encouraging policy.

+ The State saving is too low, it should be raised.

+ Overseas private saving is possibly on the fast increase.

+ Official development aids from multilateral organizations and funding countries ♣