

Vietnam's Economic Restructuring in Process of Industrialization and Modernization by 2010

by Dr. NGUYỄN MINH TUẤN

1. Facts of economic restructuring in the 1990-2003 period

With respect to the manufacturing sector: In the 1991-2002 period, the manufacturing sector's growth rate was 14% per year on average. In 2002, it grew 14.5% as compared to 2001. In the last months of 2002, its growth was rather high, 15.3% in November, and 15.9% in December. The state manufacturing sector faced high growth in provinces including Hà Tây 35.9%; Hải Phòng 30.3%, and Hải Dương 31.5%. Non-state manufacturing sector had an average rise of 19.2% in 2002. The provinces having much higher growth comprise Phú Thọ 36.7%, Vĩnh Phúc 54.5%, Khánh Hoà 33.1%, Bình Dương 36.2% and Đồng Nai 38.3%. These good performance show non-state industrial sector, especially private enterprises, limited liability companies, joint stock companies have speeded up the process of national industrialization and modernization. The foreign-invested sector's industrial production value saw an increase of 14.5% in 2002, with leading provinces such as Hà Nội up 40.1%, Hải Dương 57%, Khánh Hoà 56.1%, Bình Dương 43.2%, and HCMC 20.4%.

According to the National Statistics Bureau, until July 2002 the country's manufacturing sector included 1,565 state-owned enterprises; 1,328 cooperatives; 5,009 private businesses; 4,120 limited companies; 590 joint stock companies; 1,137 wholly foreign-invested companies; 284 joint venture enterprises between state and foreign partners and 118 other joint venture businesses. The number of workers in the manufacturing sector amounted to 2,164,423. These facts indicated a decline in the number of state manufacturing businesses. This is in accordance with the objective of rearranging state enterprises and improving their performance. The rapid development of private, limited and 100% foreign-invested companies has proved favorable investment climate and better policies to encouraging foreign and domestic investment.

The construction sector plays an important role in creating production

inputs, fixed assets and national socio-economic infrastructures. It is also a channel consuming a large quantity of products, thus increasing income and spending power. In 2002, the construction sector accounted for only 5.9% of GDP, a modest ratio as compared to its potentials. The processing industry has huge potentials, especially processing agro products, aqua products, perennials, fruits, crude oil, etc. If this sector accepts more investments for expansion, it will boost up export and consume products of the agriculture and fishery sectors.

However, the manufacturing sector also encounters limitations. The growth rate of several industries remains low, including the mechanical engineering, processing and producing consumer goods. The strategic products such as machinery, technologies, and materials are still imported. The manufacturing sector's value added is always lower than the growth in industrial production value. The difference is increasingly widened because high costs of electricity, petroleum, water, land, and factory. In addition, as for some assembled products including autos, motorcycles, electronic appliances, their total value is large but their value added small because their components must be imported.

On the other hand, although the manufacturing sector's growth is high but in which its capital represents 70% and labor 20% only. In its expansion, the processing industry grows slowly, its structure is not proportional, technological level low and competitiveness poor. The survival of many industries depends on the state protectionism. This is really a great challenge to its integration in the world market.

The agriculture-forestry-fishery: In the 1991-2002 period, the sector's average growth stood at 6.2%. It rose 5.4% in 2002 as compared to 2001, higher than the planned target of 4.2%. Food output reached 36 million tonnes, the rice growing area fell but the productivity climbed. The breeding of poultry increased 9.9%, and aquaculture up 7.3%. A great volume of aqua products such as shrimps and fish have been exported to foreign

markets, including American market. Along with increased output, the value of agro-forestry-fishery products also went up. Furthermore, the price difference between industrial and agro-forestry-fishery products tends to narrow. This has good effects on improving farmers' living conditions and promoting spending power for manufactured products, thus helping the manufacturing sector expand. Better performance in the agro-forestry-fishery sector is resulted from the Party and the Government's policies on rural industrialization and modernization, economic restructuring, application of new technological advances to the agriculture, export promotion and market expansion.

Nevertheless, in the agro-forestry-fishery sector, the forestry share steadily dropped, from 6.6% in 1990 to 3.9% in 2002. This decline is due to deforestation, fire, and ineffective policies on forestry development and protection. The sector's reorganization remains unplanned operations, for example, growing coffee, pepper, sugarcane, and breeding shrimp and fish. Also, it faces low efficiency in economic restructuring, lack of investment capital and habits of small production.

Services: in the market economy, the service sector implements an important role. It helps boost production output, connect production with consumption and is able to reach high growth. Since the shift to the market economy in 1986, the service sector has increased rapidly and accounted for 40% of GDP in 1995. New services took shape, helping boost up production and improve the people's living conditions. However, the sector's share in GDP decreased from 44.3% in 1995 to 38% in 2002. It remains features of primary service and not really secondary and high-level one. Some important services still hold low ratio, including finance-credit-banking, science and technology, and services for production. Service operations are not professional. Many businesses both produce goods and provide services, so their activities are not specialized, thus reducing their performance.

2. Orientations of economic restructuring by the year 2010

To attain the strategic targets of developing the country into an industrial one, the sectors of manufacturing, service and agriculture must be intensified, in which, the shares of manufacturing and services sectors must increase and that of farming must drop, at the same time, these three sectors' quality and efficiency should be promoted. First, from now to 2010, the manufacturing sector will try to contribute 40-41% of GDP, service 42-43% of GDP and agriculture 16-17%. To do this, each industry and each locality must specify its advantages to make the best use of them. Furthermore, there should be coordination between localities, between localities with industries and between localities and industries with the Government with the aim to fully utilize resources in the economy, attract external resources, implement great balances, seek and expand market for industries. To fulfill the above targets of economic restructuring, the following orientations should be realized:

- Economic restructuring must be combined with advantages of each industry, each region and in accordance with the trend of integration and globalization.

To do this, advantages of each industry must be specified for restructuring. All regions and localities need not invest in the manufacturing sector. They must depend their own resources and advantages for appropriate transformation with a view to tapping their potentials for local consumption and export. Economic restructuring in the trend of integration and partnership requires promotion of labor division and international cooperation. The Government is required to speed up exporting industries including oil and gas, rubber, aquaculture, textile and garment, leather footwear, and handicrafts. The country should attract foreign investment into industries producing electronic components, information technology, assembly of auto and motorcycle, and hi-tech industries.

- The sectors' competitive edges must be sharpened step by step.

In the process of economic integration and partnership, economic restructuring must be combined with enhancement of the sectors' competitiveness. To implement this objective, comparative advantages of each industry have to be determined, the research and application of new technological advances promoted in ac-

cordance with the sector's practical condition and capacity. Businesses should improve their management level, streamline their personnel, reduce costs to lower product price and enhance their competitiveness. The Government has to build a favorable environment for fair and healthy competition and avoid bad effects in competition.

- Each industry should pay attention to re-organization.

With respect to the manufacturing sector, priorities should be given to labor intensive industries, engineering mechanical industries manufacturing machinery for farm and processing, hi-tech industries of electronics, information technology, auto and machinery manufacturing, petrochemical and basic chemicals industries. Big cities and industrial centers should develop hi-tech industries and move labor and material intensive industries to rural and material producing areas.

Regarding the agro-forestry-fishery sector: the agriculture must be developed into mass production and specialized farm areas should be established. In addition, new technical achievements should be studied and used to increase productivity and output. The agro-forestry-fishery must be restructured for bumper harvests, assuring food security, establishing areas specialized in growing perennials, increasing herds of poultry and cattle, forming protective forests, and expanding the breeding and processing of aqua products for export.

As for the service sector: This is a potential sector needed for economic growth. The sector is required to improve its quality, reduce primary

services and improve secondary and high quality services, especially services of finance-credit-banking. Services must be professional. Development should be focused on services including post and telecommunications, tourism, aviation, advertisement, information technology, and so on.

- Economic restructuring should be combined with labor division and mobility.

At present, the working population in the farm sector still accounts for more than 70%. The industrialization and modernization require labor movement from agriculture to manufacturing and service. At the same time, handicraft and services in rural areas must be expanded to generate jobs for local labor and ease pressure of immigration to big cities. To attain this objective, laborers in rural areas should be trained in general knowledge and professional skill, potentials and advantages of rural areas fully tapped, careers and occupations diversified, farm production specialized, infrastructure built and rural industrialization and modernization implemented.■

REFERENCE

1. *The Strategy of National Industrialization and Modernization and Technology Revolution*, Chính Trị Quốc Gia Publisher, 1996.
2. Michael E. Porter, *Competition Strategy*, Vietnamese version, Khoa Học Kỹ Thuật Publisher.
3. *Thời báo kinh tế Sài Gòn* (Saigon Economic Times), No. 42, 2002.
4. Economic Performance of Vietnam and the World in 2002-2003, *Vietnam Economic Times*.

