INVESTMENT IN THE PERIOD OF INDUSTRIALIZATION

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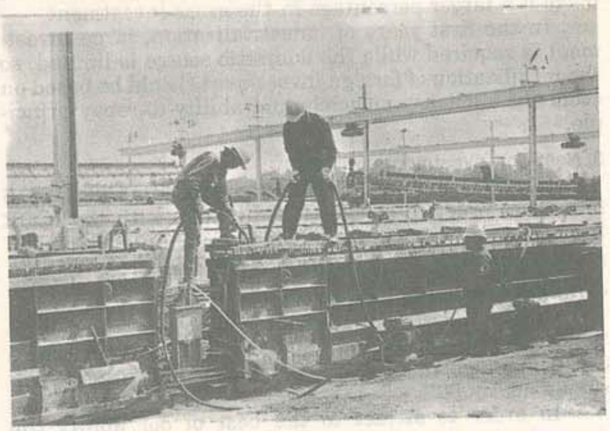
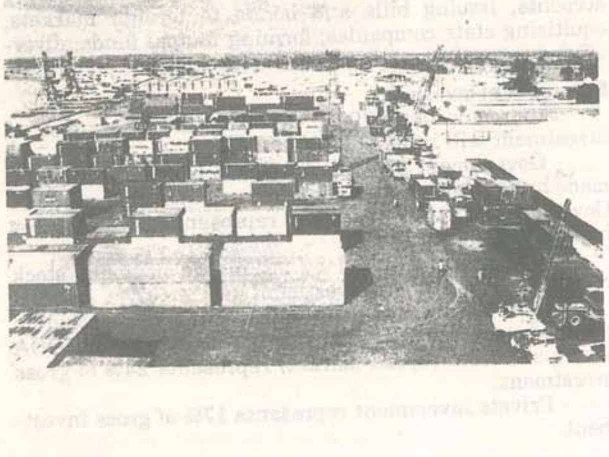




1. Objectives of investment

The utmost objective of investment is economic development. The political report made by the 7th term VCP Central Committee at the 8th VCP National Congress pointed out:

"The period from now until 2000 is the critical stage of development in which the industrialization must be accelerated. The task of our people is to concentrate all resources, make the best use of all chances, overcome all challenges, carry out the renovation policy more completely, keep on developing the multi-sector economy in the market mechanism under the government management, and try to achieve and pass the targets set forth by the Strategy for Socio-economic Stabilization and Development up to 2000: achieving high and stable growth rate, solving urgent social problems, maintaining law and order, increasing capital accumulation, and preparing conditions for development in the next century".

a. Investment as a guarantee of economic growth

An important achievement in the past 10 years which was appreciated by the public and international opinion is the high and stable growth rate of Vietnam as the leading developer of the region (see Table 1).

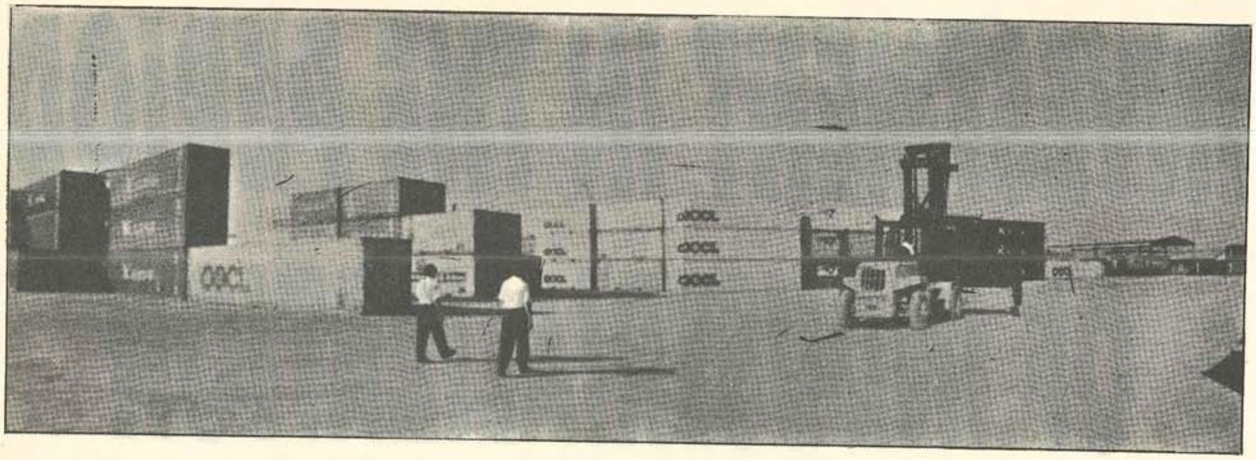
In the period 1991-1995, Vietnam GDP increased annually by 8.2% on average. In certain big cities, the growth rate was even higher.

Sander Pruijs, Director-General of ABN AMBRO NV Bank, has made the following remark about Vietnam economy in the first 10 months of 1996: "... Vietnam is on the way to development, it has achieved or passed most targets planned for 1996. Its growth rate was estimated at 9.5% in this year and HCMC is considered as one of cities with the highest growth rate: around 15% a year..."

Table 1: Vietnam Growth Rate

Years	Growth Rate	Years	Growth Rate
1986	6.5	1991	6.0
1987	3.4	1992	8.6
1988	4.6	1993	8.1
1989	2.7	1994	9.0
1990	2.3	1995	9.5

From now until 2000, we have to secure enough investment to obtain a growth rate of 9% or 10% a year (the growth rate is estimated at 4.5% or 5% in agriculture,



14%-15% in industry and construction, and 12%-13% in service sector, 28% in export and 24% in import)

b. Investment as a means of changing the economic structure

Vietnam's structure of industry, being left unchanged for decades, has started to change in a tendency towards industrialization (see Table 2).

Table 2: Changes in Vietnam's structure of industry (1990-1995)

Years	Percentage of GDP		
	Agriculture	Manufacturing and construction	Service
1990	38.7	22.7	38.6
1991	38.0	23.5	37.7
1992	37.5	24.2	37.1
1993	36.0	25.4	37.5
1994	34.4	26.6	38.0
1995	29.0	29.1	41.9

Table 2 shows that the manufacturing and construction industry made continuous increases, from 22.7% in 1990 to 29.1% in 1995; service sector medium increases, from 38.6% in 1990 to 41.9% in 1995; whereas agriculture decreased by degree, from 38.7% in 1990 to 29.0% in 1995 although its absolute value was on the increase.

The target for the year 2000 is to get the following structure of industry:

Agriculture represents around 19% or 20% of GDP, manufacturing and construction industry 34% or 35% and service industry some 45% or 46%.

That is, by 2000, service and manufacturing and construction industries will represent some 80% of GDP and keep on increasing in the following years.

c. Proportion of investment to GDP

Making investment is the only way to development, therefore to increase investment is an important measure. Our target for 2000 is to raise investment to some 50% of GDP by making the best use of domestic sources of capital and attract foreign investment as best we can.

2. Some views on the mobilization of capital

In securing capital, we had better mobilize both foreign and local investment. The domestic source of finance is considered as decisive and the foreign one important.

The long- term strategic approach is to attract domestic investment to the best of our ability in order to make it a larger percentage in the gross investment.

In the first years of industrialization, large investment is required while the domestic source is limited, so the mobilization of foreign investment should be based on economic-efficiency principle and ability-to-repay principle.

3. Need for investment until 2000

In 1995, Vietnam's GDP was estimated at US$16 billion. In order to double GDP by 2000 with the ICOR from 2.5 to 3, we need from US$41 to 43 billion worth of gross investment for the period 1996-2000.

4. How to accumulate such an amount of capital?

Of such investment needed for the period, the domestic source will supply over 50%; and the foreign source (including investment from ODA, FDI and others) will supply nearly 50%.

In order to attract to the best of our ability the domestic source of finance, the Government will adopt different policies to encourage domestic investment and develop the capital market by opening long- term saving accounts, issuing bills and bonds to foreign markets, equitizing state companies, forming mutual funds, diversifying ways of attracting dead money from the public, etc.

5. Sources of investment

From now until 2000, the structure of sources of investment will be as follows:

- Government investment: comes from contributions made by provinces, loans secured from ODA source by the Government. This investment represents 21% of gross investment.

- Investment secured by issuing government stock represents 7% of gross investment.

- Investment made by state-run companies (including retained amortization, after-tax profit, loans from ODA source and from capital market) represents 24% of gross investment.

- Private investment represents 17% of gross investment.

- Foreign direct investment represents 31% of gross investment.

Considering the domestic source of finance, the structure will be as follows:

- Government investment: 25%
- Investment from government stock: 14%
- Investment made by state-run companies: 28%
- Private investment: 33%

These data show that private investment is big, representing the largest percentage of the domestic investment, therefore attracting private investment is a measure of great importance.

6. Investment distribution

In order to change the structure of industry in the tendency towards industrialization, the gross investment will be distributed to different industries as follows:

- 20% in projects to develop agriculture.
- 43% in manufacturing and construction industry.
- 14% in social infrastructure projects (health care, education, cultural, scientific, technological and environmental services).
- 5% in other projects.

Thus, to accelerate the industrialization, large percentage of the gross investment (43%) will be put in manufacturing and construction industry.

Closer analyses of the investment in manufacturing industry show that:

- 70% of investment in the manufacturing industry (or 30% of the gross investment) will be put in heavy industry in order to carry out some urgent projects which serve as a basis for developing other industries. They are projects producing power, oil and gas, cement, iron and steel... which are feasible with regard to investment, market and economic efficiency.
- Other 30% (or 13% of the gross investment) will be put in light industry, and factories producing consumer goods for local market and export.

Thus, in the process of industrializing the economy, proper attention is given to the development of basic industries producing capital goods providing a basis for the development of other industries, and the economy as a whole.

Performing the regulating role in the economic development, government investment, including capital from the Treasury, government stock and state-run companies, represents 52% of the gross investment and will be invested in selective projects.

In the period 1996-2000, investment from the Treasury will be put in the following industries:

- 22% in agriculture.
- 35% in economic infrastructure.
- 35% in social infrastructure.
- 8% in other projects.

These data show that a large percentage of the government investment (70%) will be spent on development of socio-economic infrastructure. A reasonable investment will be put in agriculture and rural development because 80% of the population and 70% of working polulation live in rural areas.

Investment from companies will be concentrated on technological innovation.

Private and foreign investment will be regulated by different policies in order that these sources of finance are employed according to the plan and strategy for national socio-economic development.

7. Development of the structure of location for investment

In Vietnam, there are three vital economic zones:

- Hà Nội, Hải Phòng and Quảng Ninh in the North.
- HCMC, Đồng Nai, Sông Bé, and Bà Rịa-Vũng Tàu in the South.
- Quảng Trị, Huế, Đà Nẵng and Quảng Ngãi in the Central Vietnam.

We had better attract both domestic and foreign investment to these zones in order to develop them into economic, cultural, scientific and technological centers which have ability to come into international cooperation and help other zones develop. In these vital zones, special administrative status will be granted with a view to favoring investment, production of goods for export and foreign trade (industrial estates, EPZs, high-tech industrial parks...)

Mountainous areas, border provinces, island and coastal provinces, former revolutionary bases, areas with ethnic minority residents... will receive preferential treatment from the Government. Appropriate policies will be adopted to encourage investment in these localities.

Other provinces of the country will receive reasonable investment needed for their socio-economic development.

The Government will make policies to help Vietnam companies invest in foreign countries, and new opportunities will be open to investors.

In the period 1996-2000, investment will be distributed to different zones according to the following plan:

- Investment from the Treasury and ODA source controlled by the central Government will be divided equally among zones and used for building socio-economic infrastructure.
- Investment from the Treasury controlled by local authorities will be divided as follows: 30% in three vital economic zones and 70% in other zones.
- As for investment from companies, private and foreign investment: a percentage higher than 30% of these sources of finance could be invested in three vital economic zones.

8. Conclusion

Our country is coming to a new stage of development. Investment and development are two sides of the problem. To work out the necessary amount of capital, mobilize possible sources of finance and distribute reasonably these sources to different zones and industries are main contents of the investment strategy aiming at targets set forth by the 8th VCP National Congress: "Targets of the industrialization and modernization are to change our country into an industrialized nation with modern technical infrastructure, reasonable structure of industry, progressive relations of production which are suited to the development of productive forces, high quality of life, strong national defence, law and order, rich people, and equal and civilized society".

From now until 2020, we must try our best to industrialize our nation basically■

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