STIMULATION OF MARKET DEMAND AND FAST AND SUSTAINABLE DEVELOPMENT

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Since 1996, the Vietnam's economic growth rate has decreased year after year, from 9.5% in 1996 to some 5% in the first half of 1999. Even in 1996 when the growth rate was at the highest level (9.5%) many people were of the opinion that a 9.5% increase in a personal income of some US$200 meant only an extra income of some US$20 a year, and this increase couldn't stand comparison with a 2% rise in a personal income of US$30,000 a year in such economic powers as Japan. The gap between Vietnam and developed countries is increasingly wide. After 1997 when the Asian financial crisis broke out, many people were very relieved to hear Vietnam gained a growth rate of 5% while some crisis-stricken countries (such as Thailand, Malaysia and Indonesia) suffered negative growth rates. However, contrary to all predictions, many Asian countries have started to recover while Vietnam fell into a recession in the first half of 1999 and the situation tends to go from bad to worse. Two main causes of this situation are decreases in foreign investment in Vietnam and falls in prices of Vietnam's staple exports (most of them are agricultural products and manufactured goods from labor-intensive industries) on foreign markets. Those two facts become great difficulties to Vietnam.

The knotty problem arising from this situation is how to stimulate the spending power and secure fast and sustainable development when we are facing the two above-mentioned difficulties. This effort should be aimed at the domestic market, not at markets for Vietnam's exports, and this effort is certainly no easy task in such a situation.

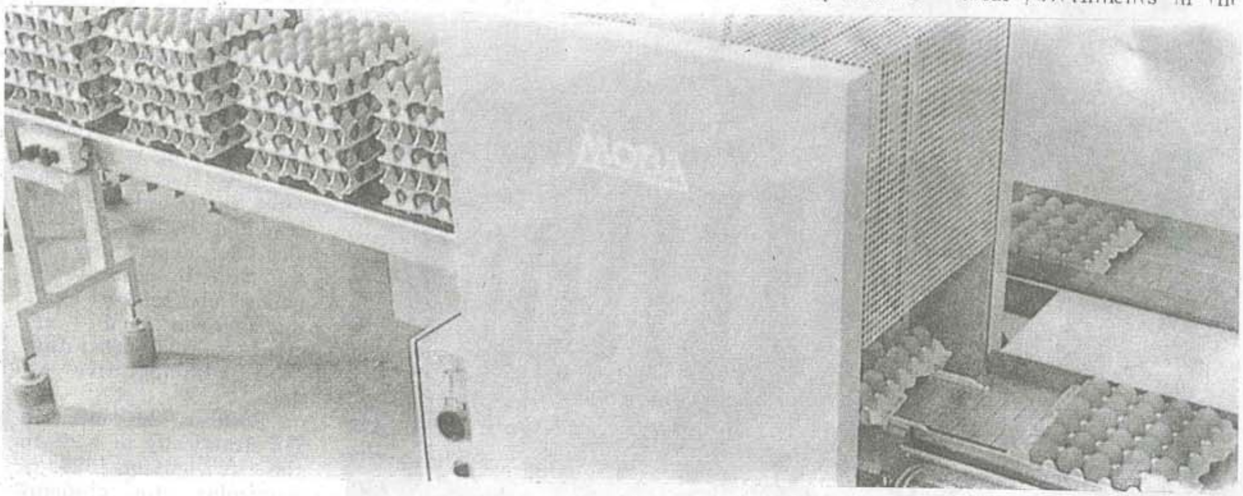
1. Stimulating the spending power: a knotty problem

There are two kinds of demand: for consumer goods and for capital goods. In developed countries where both the heavy and light industries are well- established, when the government takes measures to stimulate the spending power; these industries will develop better. In Vietnam, however, both those two industries are badly developed and Vietnam has to import all capital goods needed for production development and most high-quality consumer goods, therefore when the spending power is stimulated, demand for imported goods, instead of local ones, will increase and only foreign industries benefit from this measure. There has been no solution to this difficulty so far.

Keynesian economists argue that the central bank had better lower the interest rate and increase the money supply with a view to making low-interest rate loans available for all economic concerns because the central bank can increase the money supply at will with no fear of going bankrupt. Moreover, businesspersons are ready to get bank loans when they realize that the lending rate is lower than the average profit margin.

According to Keynes, the inflation rate should be high enough, and the interest rate low enough to stimulate the economic growth. Could the SBV inject a volume of bank notes equivalent to US$10 billion into circulation and reduce the interest rate to some 2% a year? We think that only on this condition could the economy recover its growth rate. This is no easy task because up to now, the central bank, in one of its prioritized projects, could only supply some VND400 billion at such a low interest rate as 9% a year to the deep- sea fishing business. It's worth noting that when falls in prices are causing damage to business profit, the inflation could be used as an instrument for raising prices, stimulating the spending, creating new jobs and improving corporate profit and sales. That is why many economists considered inflation as necessary in a period of recession.

To stimulate the market demand, also after Keynes, means providing companies with loans because in recession, all companies show a tendency towards disinvestment. So Keynes argues that the government should carry out major investment projects to create jobs and stimulate the spending power. Many developing and socialist countries have approved this opinion. It is also suitable to Vietnam where the public sector plays a leading role. However, this sector has shown many shortcomings in recent years. Could the central banks agree to supply some US$10- billion credit to newly formed state-owned and private companies at low interest rate?



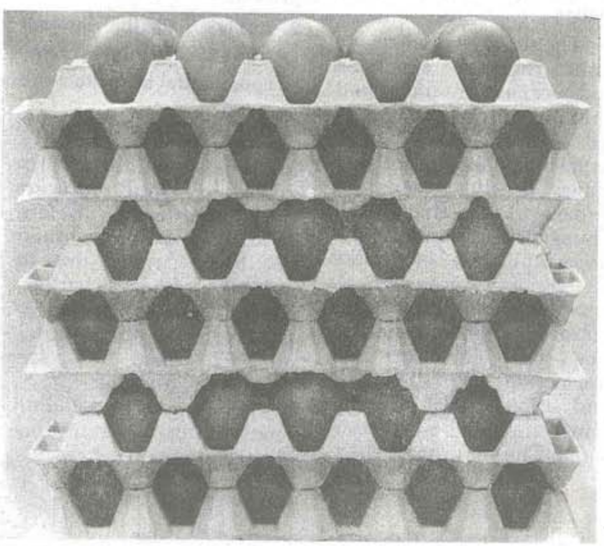
These analyses show that the problem of demand stimulation could be solved theoretically. In reality, the question is whether authorized government bodies devote themselves to the economic reform or not.

2. Measures to stimulate the market demand

As was stated above, the demand stimulation should be aimed at the domestic market and this is also a policy adopted by the Government. According to the principle of self-criticism and criticism advocated by the VCP, rational ideas should be approved and wrong decisions be removed. In our opinion, Keynesian arguments about economic development and experience from the USSR in 1929-41, Japan in 1945-73 and South Korea in 1964-84 could be of great benefit to Vietnam during this recession, therefore we want to suggest here some measures to stimulate the market demand.

- The macro-economic policies should be based on scientific grounds and worked out by scientists. In carrying out these policies, the Government had better take boldest measures providing that they prove to be scientific and feasible, in order to finish the industrialization and modernization process within 10 or 15 years.

- The central bank had better inject an amount of bank notes equivalent to some US$10 billion into circulation and reduce the lending rate to somewhere between 2% and 4% a year because this measure should be so strong as to stimulate the economic activities and help the economy recover its growth rate.



- The Government should carry out some major investment projects to create jobs and stimulate the spending power. This measure is easy to realize in Vietnam because the Government has control over the economy and the public sector is predominant.

- The heavy industry is of great importance to the economic development and it could serve as a basis for the industrialization and modernization. This industry, however, is poorly developed in Vietnam. To solve this problem, the Government should make more investments in this industry and encourage the private sector to take part in this effort by giving appropriate incentives. All development projects should be based on the capacity of the local heavy industry. For example, the program to develop the deep-sea fishing should utilize ships supplied by local shipyards. And one of wrong decisions made by local governments in the past few years was to build sugar refineries from second-hand machines imported from China.

- Earnings from export of agricultural products should be used for importing capital goods only, especially ones that couldn't be made in Vietnam and are needed for building high-tech factories.

Vietnam spends some US$12 billion a year on imports. If the Government could use some 40% of this sum for importing capital goods, Vietnam could develop its own heavy industry within 10 or 15 years. Experience from Japan and South Korea justifies this argument.

Bold ideas can lead to bold development plans. The Government and ruling party should be also bold enough to accept new ideas that could put forward scientific approaches to current knotty problems■