



# MAINTAINING THE ECONOMIC GROWTH BY ADJUSTING THE STRUCTURE OF INVESTMENT

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I. The economic reform launched in 1985 by the Government and the Party brought Vietnam to a new stage of development and the period 1991-1995 was considered as a stage of stable and encouraging development. The average growth rate in the years 1990-95 was 8.2%, and in HCMC it was 12.6%. However, from 1996 on, the national economy, and in HCMC as well, started to show unusual signs that made many economists worry:

- + The growth rate was still high but it tended to slow down in 1996-97 (Growth rate of the national economy varied from 9.5% in 1995 to 9.3% in 1996 and 9.0% in 1997 while this rate of the HCMC economy reduced from 15.3% to 14.7% and 12.1% those years).

- + The spending power is getting smaller. This situation shows itself in gluts of many commodities and low capital turnover.

- + There were signs of disinflation during many months of the years 1996-97 while the economy kept on growing. Prices of many consumer goods fell while prices of factor inputs and taxes didn't change.

- + The industrial growth rate tended to reduce (the

national industrial growth reduced from 14.5% in 1995 to 14.1% in 1996 and 13.2% in 1997 while the HCMC industrial growth rates were 17.7%, 17.3% and 13.7% respectively).

These unusual signs are unfavorable to a highly developing economy. Can they be signs of an unstable economy and its internal contradictions?

This situation has been studied carefully by many researchers with a view to finding out measures to maintain the economic growth. In this article, we want to look at the economic growth in recent years from the investment aspect under the effects of multiplier and accelerator forces.

II. To estimate the impact of investment on the economic growth in recent years, especially in HCMC economy, we must answer the following questions:

## 1. Does the supply exceed the demand?

The answer to this question can be found out after we study carefully the following facts:

a. In recent years, the economic growth rate has been higher than the birth rate. This is one of conditions that help to increase the supply of goods and services. The following table shows us a comparison between those two rates.

	1990	1991	1992	1993	1994	1995	1996	1997
Growth rate	5.1	6.0	8.6	8.1	8.8	9.5	9.34	9.0
Birth rate	2.3	2.3	2.4	2.3	2.1	2.0	1.9	1.8
Difference	2.8	3.9	6.2	5.8	6.7	7.5	7.44	7.2

Statistics show that the GDP increased rather fast, especially between 1992 and 1997, while the birth rate started to decrease. The increasing difference between them led to increases in personal income and improvement in living standard, that is, the people were supplied with more goods and services.

b. In the first half of 1997, statistics show that the supply exceeded the demand, or the people's buying power: the aggregate supply increased by 8.7% while the aggregate demand rose by 6.8%. That is why the buying power decreased and prices didn't rise last year.

c. Statistics supplied by the HCMC Statistics Department show that the buying power in HCMC started to decrease in the last two years: government and personal expenditures decreased year after year. If changes in market prices aren't taken into consideration, the real income rose by 5.5% only in 1997, compared with 8% in 1996 and 10% in 1995.

## Government and Personal Expenditure (VNĐ bil.)

	1994	1995	1996	1997
Total expenditure	19,488	25,066	30,003	32,917
Rising rate	141.3%	129%	119.7%	109.7%
Personal expenditure	17,562	22,579	27,019	29,335
Rising rate		128.9%	119.6%	108.6%
Government expenditure	1,962	2,468	2,983	3,582
Rising rate		125.8%	120.1%	120%

Source: Report on HCMC Socio-economic Life in December 1997 made by the HCMC Statistics Department.



1997 made by the HCMC Statistics Department.  
d. Decrease in spending power also reflects in total

#### Changes in Sales (VNĐ bil.)

	1992	1993	1994	1995	1996	1997
Total whole-sale and retail	34,768	46,511	63,395	90,904	111,725	119,211
Rising rate	-	133.8%	136.3%	143.4%	122.9%	106.7%
Retail sales	13,176	17,909	24,656	34,842	41,337	44,246
Rising rate	-	135.9%	137.7%	141.3%	118.6%	107%

Source: HCMC Statistics Yearbooks 1995, 1996 and 1997.  
sales:

The table shows that the rising rates of total sales and retail sales decreased in 1996 and 1997. This decrease becomes more apparent when we look at the sup-

#### Sales by sectors and supplies (VNĐ bil.)

	1992	1993	1994	1995	1996	1997
Total sales	34,768	46,511	63,395	90,904	111,725	119,211
+ Domestic sector	34,377	46,177	62,947	90,107	110,878	118,306
(1) Commodity	26,743	39,446	53,841	78,090	96,985	102,503
Rising rate	-	147.5%	136%	145%	124%	105.7%
(2) Food	1,274	2,083	3,208	4,603	5,714	6,180
Rising rate	-	163%	154%	143%	124%	108.1%
(3) Service	493	973	1,639	2,034	2,254	2,775
Rising rate	-	192%	174%	124%	111%	136.4%
(4) Retail sales by producers	5,837	3,675	4,259	5,380	5,925	6,848
Rising rate	-	63%	116%	126%	110%	115.5%
+ Foreign-invested sector	391	334	448	797	847	905
Rising rate	-	-	134%	178%	106%	96%

Source: Statistics Yearbook 1997

ply of different goods and services to sectors:

Statistics show that the rising rate of sales made by commerce business decreased remarkably in the years 1996-97 and these decreases really reflected the spending power of the public, that is the spending power has stopped rising, and more exactly, started falling.

These analyses verify that the supply of certain consumer goods has exceeded the demand although the spending power of working classes is still low, or more exactly, constant gluts of many consumer goods in the market are big enough to meet any demand whenever it rises.

#### 2. What are effects of multiplier and accelerator forces when the supply exceeds the demand?

Talking of effects of multiplier and accelerator forces, we want to refer to changes caused by those two forces to the relation between investment and GDP.

In the HCMC economy, the above-mentioned analyses show that the rising rate of total sales and the growth rate have started to decrease since 1996. Theoretically, it is the time when the rate of increase in investment starts declining because of the effect of the accelerator force. This is what has happened in recent years in HCMC.

Although the rate of increase in GDP started declining since 1996, the rate of increase in investment didn't

#### Gross Investment (VNĐbil.)

	1994	1995	1996	
Gross investment	9,557	12,713	18,645	22,969
Growth rate	131%	133%	147%	123%

Source: Statistics Yearbook 1997

start declining before 1997. This is understandable because changes in total sales (or consumption) and GDP will lead to changes in investment, and in HCMC, rate of increase in investment started declining one year after falls in consumption and growth rate.

However, it's worth noting that the relative decrease in investment was, perhaps, due to the introduction of the Decree 42/CP on "Regulations on Fixed Investment" and the Decree 43/CP on "Bidding Regulations" in July 1997. However, it's apparent that main causes of changes in investment have produced their effects, not to mention the fact that a lot of retained profit hasn't been turned into investment. According to a report made by the HCMC Service of Planning and Investment, the total capital accumulation in 1997 was 19,958 billion while the gross investment was 22,969 billion. If we put aside the investment made by foreign parties (8,748 billion), then only 75.25% of the accumulated capital was turned into investment and some 25% of it (or 5,537 billion) still stayed idle.

In addition, a large amount of capital was held by banks (up to the end of 1996, this amount was estimated at 2,000 billion). This situation was improved in 1997 but overdue debt wasn't reduced. Because of low return on capital (it was even lower than the bank deposit rate at times), many companies were reluctant to make investment. That is why they deposited most of retained profit with banks (in HCMC companies accounted for 50% of total bank deposit by the end of the year 1997).

Looking more carefully at the structure of investment in recent years, we saw that investment in real estate rose sharply, in both relative and absolute values (in 1997, it doubled in comparison with 1996 and represented 15% of the gross investment). When the structure of investment isn't reasonable, new investment won't be able to produce good result in spite of increases

#### Investment in real estate (VNĐ bil.)

	1995	1996	1997
Gross investment	12,713	18,645	22,969
Investment in real estate	1,202	1,611	3,446
Rate of increase	-	134%	213.9%
Ratio of investment in real estate to gross investment	9.5%	8.6%	15%

Source: Statistics Yearbook 1997



These analyses show that the growth rate started declining because of decreases in net investment under the combined effect of accelerator and multiplier forces. The Government always plays a decisive role in developing the economy constantly. Economic policies made by the Government will produce great effects on cyclic changes.

III. To develop the economy stably and constantly in the coming years, we must take strong measures to mobilize all sources of capital, and at the same time, solve the following matters:

#### 1. A reasonable structure of investment and a reliable supply of capital to development projects

What is a reasonable structure of investment? This question is difficult to answer because it depends on various factors. In our opinion, a reasonable structure of investment must be based on the master plan for development of all sectors and industries of the economy. When the source of capital is limited, we must give top priority to well-chosen projects instead of dividing the limited investment among too many projects. Therefore, we must work out criteria for choosing the most feasible projects. The following are our suggestions:

- + If the source of finance is limited, top priority can be given to the least capital-intensive projects on condition that they could produce profit within a possibly short period. This means that we must pay full attention to projects that can make as much output as possible with the least amount of capital.

- + We had better concentrate capital on projects with the highest return on investment and feasibility if most of projects under consideration require the same investment.

After the choice is made, capital must be supplied fully and on time, thereby avoiding waste of time and money.

These criteria could be applied to short- and medium-term investment projects. As for long-term projects, there must be plan to make large-scale investment concentrating on industries and regions that can help to change the structure of industry, modernize the production and employ many workers.

Major programs approved by the 10<sup>th</sup> term NA at its first session and ten major programs set forth by the HCMC government are right measures that had been adopted by many governments to fight against economic recession. Of these programs, ones that develop the infrastructure are of the greatest importance because it has been the biggest obstacle to both foreign and local investors. The central bank had better increase the money supply with a view to financing these programs.

When making investment in large-scale program, we had better give top priority to programs that develop the heavy industry because it not only provides other industries with capital goods but also allows us to accumulate enough capital to increase the gross investment.

#### 2. Flexibility of the structure of investment

We can say that one of the causes of recent decreases in the growth rate is a lack of joint efforts to adjust the structure of investment. If it had been done on time, we would have limited damage caused by the accelerator force and helped both multiplier and accelerator forces produce good effects.

Just because of this reason, PM Phan Văn Khải, at a meeting with the HCMC leadership in October 1997, said that it's necessary to adjust the structure of investment and concentrate investment in major program in order to obtain high economic efficiency and competitive

strength. He considered it as one of the urgent measures to maintain the growth rate of HCMC economy. This is also the governing idea of the development plan for the year 1998.

#### 3. Effective use of capital

To a certain extent, using effectively the source of capital means increasing the possible investment and at the same time, ensuring successful mobilization of idle money and high return on investment. Therefore, improving the way of using capital is of great importance to the investment strategy in Vietnam today.

To achieve this aim, we had better pay attention to the following problems:

- a. A proportional structure of capital: it's necessary for companies to increase the working capital (at present, in most companies, the fixed capital represents some 80% of total capital, while the working capital accounts for 20% only; and the better part of the fixed capital is in factory buildings). For the time being, practising thrift and reducing unnecessary expenditures are good measures to increase the working capital.

- b. Improving the ability to absorb foreign investment: to absorb and use effectively the foreign investment, we need an abundant source of domestic capital. In Vietnam, the ratio of foreign to domestic investment can be one to one in present stage of development.

- c. To improve the way of using capital, we must identify criteria for estimating investment efficiency. We can use ICOR index as one of these criteria. This index reflects both the size of investment and the investment efficiency, so to make use of this index, we must work out standard ICOR indexes for different fields of the economy before using them to estimate investment projects. Projects that obtain the smallest value of the coefficient  $k$  and meet requirements posed by standard ICOR indexes will be approved.

