

CHANGES IN GIA LAI ECONOMIC STRUCTURE

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1. Changes in the Gia Lai economic structure

After a long period, from 1995 to 2003, the Gia Lai economic structure hasn't changed in a positive manner. Comparative advantages have been made use to a certain extent but they didn't reach their full potential. There have been no remarkable changes in the structure of economy: the share of agriculture reduced only from 55.58% in 1995 to 53.09% in 2003 while the manufacturing sector's rose from 17.94% to 20.25% and the service sector's from 26.48% to 26.66%.

Table 1: Changes in the Gia Lai structure of industry (%)

	1995	2001	2002	2003
Agricultural sector	55.58	56.43	55.59	53.09
Manufacturing and construction sector	17.94	17.04	17.74	20.25
Service sector	26.48	26.53	26.57	26.66

As for the share of classes in the gross product, the public sector has undergone rearrangement and reform and it started to operate better. Its share in the gross product fell from 40% in 1995 to 36% in 2002 but its value rose from VND569,754 million to 1,185,374 million in the same period. It seems that the public sector has become stronger and better organized. The collective sector was reorganized according to the Cooperatives Law and started to produce good results. Some models of cooperation between agricultural cooperatives and processing factories have come into

being and created more jobs in both rural and urban areas. The private and foreign sectors have made good progress in recent years and contributed considerably to the local economic growth.

However, recent changes in the economic structure failed to produce breakthroughs in product quality and business performance. The following are our remarks on the situation.

(1) Structure of farm products is slow to change and improve in terms of production cost and quality. The share of animal husbandry in the agricul-

tentials. The trading activity represents 50% of the total value while transport and telecommunications accounted for only 7% and tourism 1%. Banking and

Table 2: Changes in shares of economic sector (%)

	1995	2002
Public sector	41.87	36.30
Collective sector	0.45	2.54
Private sector	2.98	3.87
Personal sector	53.00	54.59
Corporate sector	1.33	1.48
Foreign sector	0.37	1.22

financial service had only a very small share.

(4) The structure of sectors is unreasonable. The public one controls the better part of resources and enjoys preferential treatment from the State but its performance is poor. Personal and corporate sectors are slow to develop. Discrimination against

non-public sectors caused by economic policies leads to slow growth rates of the gross investment.

(5) The region policy failed to tap comparative advantages of each zone, which leads to poor connection and cooperation between them. Potential zones, such as Pleiku, An Khê and Aun Pa, are not developed enough to stimulate surrounding zones.

(6) Technical advances have been applied to production. Results of many

researches proved to be useful and applicable. The mechanism for controlling and encouraging scientific research and application is slow to reform and relies too much on public fund, which leads to the lack of cooperation between research institutions and manufacturing and trading concerns.



The main cause of this situation is shortcomings in planning that is carried out without scientific grounds. In addition, the development plan has only a little legal effect and it is not observed even by local authorities. And as a result, the provincial government finds it difficult to determine the structures of farm products and policies to encourage economic development. Resources for changes in the economic structure are limited and used incorrectly. There is no policy to attract sources of capital and make the best use of local potentials.

2. Measures to accelerate changes in the economic structure

a. Beefing up the planning task:

- District authorities must revise their development plans, update examinations and predictions about local potentials that serve as a basis for the future economic structure.

- Master plan for the whole province must be complete and publicized as general direction for local authorities. Tax and financial incentives could be used for encouraging investment in fields included in the plan to change the economic structure.

- Competent officials must be recruited and they must be equipped with modern facilities. They will carry out the planning task for next period. Their plan must be made into a guideline the local authorities must observe.

- Local authorities must try their best to orient companies and new investment towards fields included in the plan in order to link local economy to the provincial development.

b. More sources of capital:

- Gia Lai is an underdeveloped province. Statistics show that its ICOR index is rather high: 4.61 in 2001; 4.95 in 2002 and



Table 3: Future demand for capital (VND billion)

Indicator	2004	2005	2006	2007	2008
Gross output	4,470.5	5,074.0	5,759.0	6,536.5	7,418.9
Gross investment	2,682.3	3,044.4	3,455.4	3,921.9	4,451.3
Investment from companies	1,072.9	1,217.7	1,382.1	1,568.7	1,780.5
Investment from public fund	268.2	304.4	345.5	392.1	445.1
Investment from other sources	804.7	913.3	1,036.6	1,176.5	1,335.4

6.55 in 2003. So we can predict that the ICOR index in the coming years is about 5.0, compared with the national average of 4.0 or lower.

In 2003, the gross output in Gia Lai was worth VND3,939.8 billion. The growth rate set for the years 2001-2005 is 12% a year. The following table shows the demand for capital in the coming years based on the ICOR index of 5.0, the growth rate of 12%. The public investment will account for some 25% of the gross investment.

We estimate that in the years 2006-2010 the ICOR index could be lower because the economy is in a higher stage of development and the gross output is much bigger. So the capital needed will vary between VND1,500 and 2,000 billion a year.

- The public fund could only cover from 25% to 30% of the gross investment. The effective use of this source, however, could bring about positive changes in the economic structure and help mobilize other sources of finance. So the provincial government should be very careful when employing this fund.

- Capital borrowed from foreign financial institutions must be used only for changing the economic structure. For example, the ODA source could be used only for infrastructure projects, especially in depressed areas. Loan capital could also be used for production of exports and new machines.

c. Tax policy and credits from the State:

Tax incentives are an effective measure to attract capital to prioritized

fields and encourage non-public sectors to take part in major development projects. Provincial government could issue investment bonds to raise fund needed for these projects. Credits from central institutions must be concentrated in projects that could generate high growth rates, making the structure of industry change positively.

d. The role of scientific research:

The mechanism for controlling scientific researches must be reformed with a view to connecting researchers with productive forces. The provincial government could place orders to research centers and encourage companies to do the same. This practice could save a lot of money because it helps avoid waste of time and money when research results are not applicable. ■