

There is an abnormal fact that Vietnamese economy is running down when Asian economies show signs of recovery after the financial crisis, and with a closer look, we can see that this recession seems long-lasting and re-achieving a growth rate of 6% very difficult.

#### I. AN OVERVIEW OF ECONOMIC SITUATION IN THE FIRST SIX MONTHS OF 1999

deficit equaled 2.8% of the GDP. Price index rose by 1.6% as compared with last December. Gold price fell by 2.4%. Exchange rate stayed almost unchanged.

Generally, many results didn't come up to expectations (growth rate, export value, gross investment, spending power, etc.) while failures tended to accumulate (budget deficit, unemployment rate, foreign debt, high production cost, social evil, etc.)

out, because of many reasons. That is why it's difficult to identify its nature.

#### II. MAIN CAUSES OF THE RECESSION

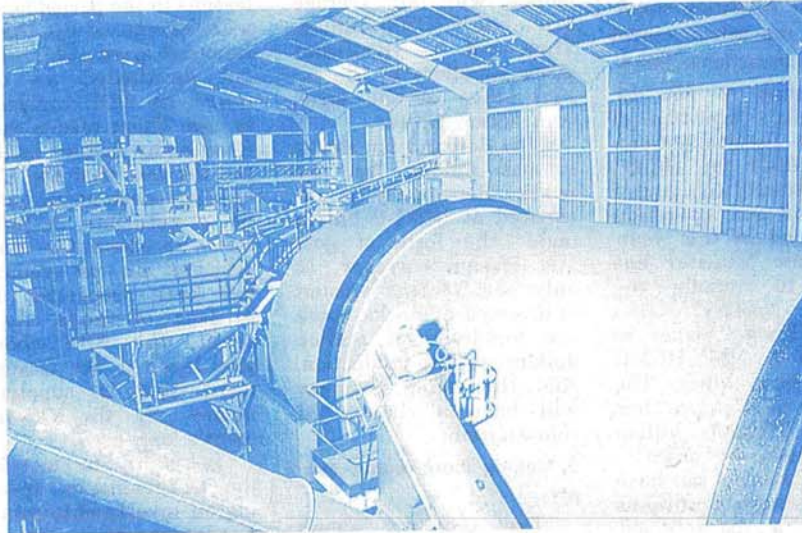
There are many causes of the recession in Vietnam but we want to concentrate on internal ones.

##### 1. Poor competitiveness

In HCMC, the export value realized by centrally-run state companies decreased by 13.2%, locally-run state companies by 3.7% and private companies by 9.0% while foreign-invested companies could increase their export by 31.6%. This means that local companies are less competitive than foreign-invested ones, therefore they failed to find a foothold in foreign markets.

On the domestic market, prices of imported goods, including contraband ones, are all more competitive than locally-made goods. Prices of local goods, such as steel, iron and sugar, are still high even if local industries are exempt from all taxes. And up to now, we find no exact answer to questions of why Chinese goods are so cheap and why local ones so dear.

Many experts have agreed on two groups of causes that made



# ECONOMIC AND FINANCIAL MEASURES TO RECOVER ECONOMIC GROWTH

by TRẦN TÔ TỬ

The growth rate was 4.3%, rather low in comparison with the same periods of previous years. Harvests were good and supply exceeded demand. Industrial output increased by 10.3%, lower than previous years. Total retail sales rose by 1.5%. A decrease in spending power was registered. There were gluts of cement, steel, iron, sugar, electric fan, and tile. Flows of contraband goods increased. Export rose by 7.7%. Import fell by 12%. Trade gap was 4.6%. Gross investment was VND42,000 billion equaling 37.5% of the planned target. The FDI amounted to US\$601 million equaling 45% of the amount realized in the same period last year. Budget

Some experts wonder whether Vietnam is coming to another crisis. This crisis, with many symptoms came into existence in 1996, worsened during the Asian financial crisis, but the main causes are internal ones.

This crisis is caused by the excess of supply over demand, the recession and deflation made their appearance when the full employment hasn't been achieved and the living standard is still low. It is different from the crisis caused by excess of demand over supply or the crisis in developed countries where the living standard is high.

However, the crisis in Vietnam is smoldering, instead of flaming

prices and production cost of local goods excessively high:

##### a. From companies

- Obsolete machine leads to a waste of raw materials.

- After making big fixed investments, many companies want to make profit as quick as possible with the result that both amortization and production cost are high.

- Bad management and poor labor productivity make unit cost high although workers' income is still low.

- Many companies want high profit-to-sales ratio with the result that their products become expensive and less competitive.

##### b. From government policies



- Policies to encourage internal capital accumulation and maintain trade barriers lead to high taxes and surcharges.

- Companies have to pay high unofficial fees for certain administrative services with the result that their overheads sky-rocket.

- Due to the policy to stabilize the exchange rate, the price of domestic currency is fixed at a level higher than its real value, and this policy makes local goods dearer than their foreign counterparts.

- The bank lending rate is higher than the profit ratio, and thus the price paid for the use of capital is too high.

- The small size of domestic market makes production capacity small and production cost high.

Thus, can we come to the conclusion that there are two basic causes of high selling prices of

duce only short-lived effects and fail to ensure sustainable economic growth while some adjusting measures seem extreme and tend to restrict the economic growth. That is why the high development stage didn't last long.

- Old mechanisms, or old ways of doing things, keep on existing: when the Government stimulates spending on local goods, such as steel, iron and cement, by starting many public works, this policy will provide loss making and less competitive industries with a stable source of subsidies.

- In the management machinery at macro-economic level, lack of cooperation between governing and executing bodies (that is, between decision-makers and doers), and of a clear delegation becomes common. Policies introduced by the central government are really carried out by local governments at the

- Policy-makers, when working out necessary measures, usually pay little attention to their consistency and domino effects caused by these policies: Could the issue of government bonds at present destroy efforts to stimulate the spending? Because government bonds encourage saving and at the same time, reduce the spending power. In the long run, mobilizing low-interest capital to finance infrastructure projects will be a burden to the national budget. In addition, it's a paradox that important buyers of government bonds are state-run corporations which still have to depend on banks for capital.

- Behind all these causes, is there any personal calculation? Could the corruption and red tape neutralize all good measures? Are all good measures infeasible because they aren't suitable to vested interests?

### 3. What are good measures?

To get rid of the recession and prevent the coming crisis, we want to suggest here the following measures.

#### a. Cheap money policy

The economic growth usually goes in parallel with inflation caused by increases in investment. The government can influence the growth rate by adopting an inflationary finance policy (increasing national debt and budget deficit). It's worth noting that not all budget deficits are harmful to the economy. The government can use budget deficit as a tool for stimulating spending and this policy could be even applied during the whole industrialization stage in order to make a domestic market big enough for local industrialists to feel sure about their intensive investments.

The problem is how to use national debt and budget deficit to ensure better economic growth and save next generations from the burden of debts. The solutions are to put borrowings in major and productive investments instead of in regular expenditures and to overcome the corruption and embezzlement.

#### b. Preference for local goods

Besides the policy on budget deficit, there should be a strict regulation giving priority to consumption of local goods when using budget expenditures. Thus the budget deficit will be of great benefit to local industries and laborers. It's regrettable that the government expenditure hasn't been taken as part of the domestic market and there



local goods: corruption of the administrative machinery, and short-coming in business strategies? If that is the case, measures to reduce the selling prices, and thereby enhancing the international competitiveness, will have to come from both sides: companies and the Government.

### 2. Poorly-devised macro-economic policies

- Short-sighted strategies lead to dogmatic approaches to economic problems. For example, too much stress is put on the task of keeping the inflation rate under two-digit level while the inflation could be used as a tool for stimulating economic growth.

- Many reformist measures pro-

lowest level, intermediary bodies only undertake the tasks of transmitting these policies to subordinate bodies. On the other hand, local governments at the lowest level, for fear of bearing full responsibility, tend to wait for decisions and detailed instructions from above. For example, no state-run companies dare decide whether to cut selling prices of unsaleable goods or not, and no state-run commercial bank whether to supply a fiduciary loan. All of them always wait for instructions.

- Gluts of certain manufactured goods, such as steel, iron, cement and sugar, mainly originated from badly-devised investment plans by local governments and lack of advice from the central government.



is no such regulation.

We petition the Government to take this measure and consider it as a non-tariff barrier in the strategy to join the AFTA which can help local companies compete against foreign rivals and this measure should be brought into effect before local companies come to the brink of bankruptcy.

*c. Government expenditure on investment projects*

- Giving priority to intensive investments instead of new ones: From both theoretical and practical aspects, intensive investments always prove more effective and productive than new investments. Therefore new investments are only allowed when the project aims at producing a product that has never been made in Vietnam.

- Giving soft loans to projects that are producing exports and controlling a large share of the domestic market: To carry out this measure properly, the Government should have a new mechanism which is free from corruption.

- Keeping on financing major investment projects: In this measure, the Government should take socio-economic effects of these projects, along with other consequences, into consideration, and avoid investing in too many projects and leaving next generations burdened with debts.

- Increasing foreign exchange reserve: The central bank can buy foreign exchange at high prices to increase the reserve, and then depreciate the domestic currency step by step (from 0.5% to 1.0% a quarter for example) in order to reduce difference between real and nominal exchange rates and help local companies enhance their competitiveness.

*d. Reform in wage system*

This reform can help to stimulate the spending and could go in parallel with the extension of consumer credit to wage earners in order to deal with gluts of certain goods, promote social welfare and develop production.

*e. Adjustment to the VAT Law*

For the time being, a tax reimbursement mechanism should be worked out in order to make companies trust in the tax system and keep on expanding their business. In the long run, necessary adjustments should be made to the VAT Law.

*f. Promotion of non-cash payments*

This measure should be carried out in parallel with above-mentioned

ones to achieve the three following targets:

+ Curbing the inflation rate by controlling the volume of bank notes.

+ Helping realize the VAT Law by inspecting payment documents sent to banks.

+ Increasing bank current deposits which are of low interest rate in order to allow banks to ensure their profit ratio and supply loans at a reasonable interest rate to companies.

*g. International competition and marketing strategies*

Three parties, governmental bodies; research institutes and companies, had better cooperate in working out a strategy to market local goods to foreign countries and help Vietnam take part in international specialization and cooperation. For the time being, the following measures could be taken:

- Organizing a "Vietnam Day", on September 2 every year for example, to advertise Vietnam's goods.

- Developing relations with, and then, joining international professional associations.

- Getting access to Commodities Exchange Center in Chicago in order to penetrate into the American market and establishing centers of the same kind in HCMC and Hà Nội open to both foreign and local traders.

- Selecting some company managers and having them work as commercial counselors in Vietnamese embassies.

- Giving export subsidies and incentives to local companies producing exports.

*h. Macro-economic management*

- Making exact and clear delegation of authority and assignments in order to prevent duplication of functions and recrimination among governmental bodies at different levels.

- Getting and studying feedback from the public and companies in order to review policies and mechanism if need be.

- Necessary studies should be made and working plans should be prepared before introducing any policies and mechanisms in order to avoid unnecessary and time-consuming adjustments.

Finally, the overall measure is to mobilize everybody to take part in the struggle against corruption and red tape in order to make other measures produce intended results.

Our banking system has ran into bad conditions, with high overdue debts, losses via criminal cases due to poor performance. Another reason is a lack of scientific credit policy.

In the subsidization period, commercial credit was banned and only state banks were allowed to offer credit. This is an erroneous will to abolish the capital market. But in the *đổi mới* period, there is no new credit policy to replace the old one. In fact, commercial credit has been floated, both domestically and overseas. It included deferred payment L/Cs carelessly opened in 1995 and early 1996, leading to the Epco-Minh Phụng case with losses of US\$100 million (VND 1,300 billion). Commercial credit was widespread across local marketplaces. Small and medium-sized enterprises had to sell their goods to private traders (owning kiosks in the marketplaces) with deferred payment and an interest rate equivalent to 150%-200% of the bank rate.

Enterprises, especially state-owned ones, have taken over others' capital, even though the public arrears of VND10,000 billion were cleared in 1998, but the current figure requiring clearance amounts to 134,000 billion. How many bank loans need buyers and become overdue ones? Theoretically, commercial credit will transfer bank credit from one enterprise to another, one industry to another and diverge the bank capital distribution from key industries. There are no agencies responsible for the management of this kind of commercial credit. These debts sold on credit have no debt certification because there are only 4 articles of the Trade Law concerning commercial bills and no guidelines for the implementation.

The state credit is now on the move due to demand stimulation. The open market almost stops operation because the Treasury bonds are not adequately injected into or attracted from circulation. There are almost no commercial banks taking part in the interbank market since the lending bank still requests the borrowing bank's treasury bonds as collateral. In France, the interbank market uses non-transferable treasury bonds (in the money market) to make the borrowing and lending among commercial banks the simple and convenient deals in treasury bonds. As a result, the lending contracts complex and hard to be far conducted can be avoided.