ON THE PLAN FOR 1995 AND THE COMING YEARS

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In 1994, the Vietnam's economy grew by 8.5 per cent, a rate has never been seen before. The industry grew by 13 per cent and the agriculture 4 per cent. The price index increased by 10 per cent (compared with 582 per cent in 1986, 337 per cent in 1987, 294 per cent in 1988), whereas the average salary increased by 40 per cent. That means the people's living standard was improved. Besides these achievements, however, many weaknesses have arisen:

I. THE GROWTH RATE ISN'T HIGH ENOUGH

For nations like Vietnam where annual per capita income barely tops US$200, if the growth rate is 10 per cent, the per capita income will increase less than US$20 (because a part of GDP will be devoted to increasing investment), whereas a developed economy with annual per capital income of US$20,000 can only grow by 2 per cent, its per capital income will increase US$400. Thus the gap between Vietnam and developed countries is becoming wider. Chinese economy is growing by 12 or 13 per cent per year, some of its provinces reached the annual growth rate of 20 per cent. So our growth rate should be speedier. At the beginning of development process, if we know how to make the best use of foreign investment and apply modern technology to industries, we can reach the annual growth rate of 15 or 20 per cent and slow down later. For developed countries such as Japan or the US, an annual growth rate of 4 per cent is considered as extremely high.

II. OUR WEAKNESSES

1. Reporting to the National Assembly in November 1994, Prime Minister Võ Văn Kiệt said that finance and banking system have showed a lot of weaknesses instead of updating in line with our economic development. A good few state enterprises suffered losses, ran into debt and became defaulters. PM Deputy Phan Văn Khải revealed that total debt borrowed by state enterprises up till now was VNĐ18,800 billion and only VNĐ1,337 billion were settled, and VNĐ3,658 billion of which were doubtful debts borrowed by dissolved state enterprises or co-operatives. General Inspector Nguyễn Kỳ Cẩm reported that smuggling has become more and more complicated, and corruption is still serious.

2. In foreign trade, we had to export rice, crude oil at low prices, only a few Vietnam products could be sold at high prices such as coffee, garment, sea products... whereas imported goods are very expensive. This situation has bad effects on local factories. For example, maricultural enterprises can make big profits because crab and shrimp can sell like hot cake whereas exporters of rice have to ask for support from the price stabilization fund because the rice price goes down. In 1994, although Vietnam produced over seven million tonnes of oil but total sales was low because the price of oil went down.

3. The exchange rate still needs to be solved. The exchange rate in Đại Nam Ngân Hàng (Đại Nam Bank) on Dec 31,1993 was VNĐ 10,850 to the US dollar. On November 1,1994, when the price index increased by 9.4 per cent, the exchange rate was VNĐ 11,015 to the USdollar. Thus, USdollar price made less increase than the price index did and this caused a lot of export processing factories to suffer losses. This also encouraged importation. According to reports presented to the National Assembly, export turnover in 1992 was US$2,580 million while we imported only US$2,400 million of goods (export surplus over import was US$180 million). But in 1993, import surplus was US$424 million, in 1994: US$900 million, and in 1995, it is estimated at US$1,300 million.

4. Gross investment was low: For example, investment in capital construction was only VNĐ10,880, equivalent to the public debt. Interest rate of loans supplied to business is still calculated on a monthly basis and too high in comparison with interest rate of other countries in Southest Asia and Western Pacific. Vietnam corporation tax is higher than that in neighboring countries whereas our protective duty is lower than theirs.

III. SOLUTIONS TO THESE PROBLEMS

1. Importation

Annually, we have got around US$4 million by exporting our products, US$1 billion from Vietnamese expatriates, US$1 billion from foreign investment, and US$2 billion from foreign aid and loans. The total will be around US$7 or 8 billion. We should maximize the benefits of imports, because GDP = k x Import. That means GDP is in direct ratio to imports. But we can only make GDP increase strongly if we import machines, materials or equipment instead of consumer goods. Thus, we have to make plan to attract foreign currency to the bank and use it to import capital goods. We shouldn't import consumer goods, especially what Vietnamese factories can produce. For example, up to October 1994, Vietnam produced only 190,000 tonnes of iron, although steel and iron factories have renovated most of their equipment and invest more money in their business in recent years and although we have got electricity from newly-built Hoà Bình Power Plant. The cause of low iron output is a lot of steel and iron has been imported and sold in Vietnam. This amount of imported steel and iron can hardly be used up before third quarter of 1995. We have thrown away our foreign currency on imported steel, and at the same time, made difficulties to Vietnam steel industry. A plan to struggle against smuggling is also a matter of great urgency. These two plans should be given top priority.

It's very easy to carry out a reasonable import plan: We need only maximize importation of capital goods and punish smugglers severely.

2. Financing investment projects

Along with importation plan, we should make plan to use money supply to finance investment projects. When machines are imported, there have been new companies already and they should have enough money to build plants, buy raw materials, install equipment and machines and pay wage to workers. The simplest measure is that the state bank increases the money supply in order to finance investment projects, and then issues shares and bonds in the stock exchange in order to withdraw money surplus from circulation.

3. Macro-economic measures to stimulate economic growth

Besides plans to regulate importation and finance investment projects, we also need macro-economic measures to stimulate the economic growth. The most effective measure is to manipulate the exchange rate. By early 1994, China devaluated its currency (renminbi yuan) and made its trade balance change from unfavorable to favorable position, and helped the Chinese economy grow by 12 or 13 per cent per year.

Next, we should take policy of protectionism, that is, we should impose heavy taxes on imported goods instead of locally-made goods, and develop heavy industry by giving the government's orders to this industry. These orders could require this industry to carry out some big investment projects, renovate technology and equipment (giving top priority to projects which can be realized with Vietnam currency, experts, laborers, raw materials, equipment...). These projects could create jobs, bring big profits to many enterprises.

Thirdly, interest rate could be reduced and import substitution policy could be taken in order to establish manufacturing industries that initially can be expanded to supply the domestic market and later to develop an export trade. According to foreign experience, the central bank supply loans of preferential rate of interest by allowing commercial and investment banks to mortgage their loaning documents to the central bank (if these loaning documents meet the requirements of the central banks, for example, loans were supplied to export-oriented factories or businesses of high technology, perfect accounting and good economic performance...).

We should punish fast and severely smugglers, defaulters, false goods makers or cases of false pretences. The legal system should be strict and treat everybody equally, then the economic machinery could work well.

IV. CONCLUSION

The above-mentioned measures originated from experience of fast development of Japan, South Korea and China. However, application of these measure is a controversial problem because of the fear about inflation. Some think that devaluating the VNĐ is a good measure because it encourages exportation and reduces imports, but the prices of gold and USdollar have made less increase than the price index. The government wants to use money supply to finance investment programs but fears that this will cause inflation. PM Võ Văn Kiệt insisted that we should struggle against smuggling strongly and effectively, but this struggle produced little result.

In order to settle this argument, I think that we have to decide what our priorities are. The most important target should be the economic growth rate. If this rate is between 15 and 20 per cent, the living standard of the people will be improved even if the inflation rate reaches 20 or 30 per cent. On the contrary, if the inflation rate is kept below 10 per cent, but the growth rate is only 7 or 8 per cent, the average income per capita can only increase by 4 or 5 per cent at most, because a part of national income should be saved for investment and supplying food to one million newborn people every year. If we agree that the principal target is the economic growth rate, the above-mentioned measures will receive a lot of support from the public ♣