ON POSSIBLE CHANGES IN THE VIETNAMESE ECONOMIC STRUCTURE

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The economic structure, in comparison with economic opportunity, is slow to change. A sudden increase in oil price from US$10 to over 30 per barrel allows oil exporters, including Vietnam, earned great amounts of foreign exchange in the past few months. It is an unpredictable opportunity.

The economic structure consists of many factors that can change in different directions and at different speeds. Economists can predict these changes based on current trends of the economy, and various regulatory instruments could be used for adjusting these changes to planned targets.

1. Current economic structure in Vietnam

Vietnam has some 7 million hectares of farming land, diverse natural conditions and various natural resources, a long coastal line with wide fishing grounds. These conditions allow development of commercial farming, mining, fishing and power industries.

To industrialize and modernize the economy, Vietnam can rely on its own potentials to develop deep water ports and heavy industrial centers by the sea according to the Japanese or South Korean models.

After being unified in 1975, Vietnam faced great shortage of food and poor industrial production. It had to import almost everything: food, iron, fertilizer, machinery, fuel, etc. Personal income and saving was very low. Balance of payments remained unfavorable for years. Big governmental expenditures on administration and national defense led to high inflation rates and budget deficit.

From 1976 to the late 1980s, most people lived below the poverty line. During these years, the USSR and East European bloc provided Vietnam with some Rub1 billion worth of loan and aid. Vietnam didn't overcome its crisis until 1990 when its trade gap and budget deficit were reduced and the hyperinflation curbed.

In the 1990s, Vietnam received aid and loans from international financial institutions, foreign investment and immigrant remittance thereby reducing the shortage of capital. Its export and import started to increase. The export value rose from US$2 billion in 1990 to some 12 billion in 2000. During this period, the living standard was improved remarkably due to high growth rates, better industrial and agricultural output and increase in import of high- quality goods. According to a rough estimate, the GDP in 2000 was worth US$30 billion and import value was some US$10 billion, then the aggregate supply amounted to US$40 billion in comparison with some US$5 billion in 1976. Due to the growing trade gap, foreign debt is on the increase, equaling some US$15 billion, plus some US$15 billion of foreign investment. This is a big sum to a country with the GDP of US$30 billion.

As for monetary and financial mechanism, there are two urgent problems: exchange control and money supply control. Regarding flows of foreign exchange, the trade balance in 1999- 2000 seemed favorable: both export and import values reached somewhere between US$11 and 12 billion.

Comparing the capital inflow (export value, immigrant remittance, tourist receipts, foreign aid and investment, etc.) with the capital outflow, Vietnam has a surplus of US$3 or 4 billion a year. The better part of this surplus is held by private persons and used by smugglers to buy contraband goods from border towns. The problem is how to purchase this sum of foreign exchange and use it to import capital goods or repay foreign debts.

Banks are glutted with deposits while companies can't get bank loans, especially medium- and long-term ones. Government expenditure isn't high enough. The Government refuses to increase the money supply to finance large-scale development projects. That is why the inflation rate is too well under control, the price index makes no increase (it even falls sometimes). Lê Khả Phiêu, the VCP Secretary- General thought that the banking authorities had no strategy to serve the industrialization and modernization program.

Vietnam, under the direction of the VCP, enjoys political order. Its foreign relations have been improved considerably in the 1990s and Vietnam is trying to integrate into the world community and develop its economy based on its own strengths.

2. Changes in the Vietnamese economic structure in the period from now until 2020

Of the above-mentioned factors, factors relating to banking, monetary, foreign trade, planning and financial businesses are easy to change. As everybody knows, the economic reform introduced in the late 1980s has geared Vietnam towards the market economy under the government control and higher growth rates. The economic development, however, led to new problems and difficulties:

- Natural resources that constitute one of Vietnam's advantages can't last forever. The overexploitation can exhaust these resources within three or four decades and cause great damage to the environment.

- The Vietnamese population may reach 100 million by 2020 and become a burden to the economy, instead of an advantage.

- Poor technological and scientific development made Vietnam unable to export manufactured goods and processed farm products with the result that Vietnam falls far behind other countries. In the coming years when Vietnam integrates more fully into the world economy, poor competitiveness may cause Vietnam to run into larger foreign debts and trade gap.

Economists also agree that the superstructure could affect greatly the infrastructure; and adjustments made to the superstructure could help adjust the infrastructure. The following are our suggestions about necessary adjustments to the superstructure:

- The banking system should work out a strategy to serve the industrialization and modernization program by exerting stricter control over the movement of foreign exchange, especially immigrant remittance and tourist receipts and by increasing the money supply, according to the Keynesian economics, to finance major investment projects with a view to raising the gross investment to some 30% of the GDP.

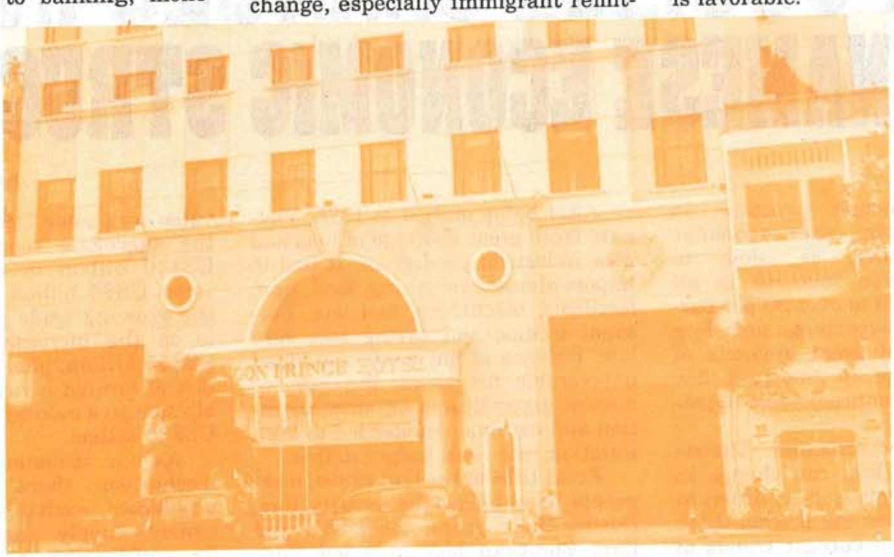
When the banking system can control all sources of foreign exchange, it can supply from US$3 to 5 billion a year to major investment projects (building new factories and developing the heavy industry) in order to make the manufacturing sector represent a big percent of the GDP.

- The customs and police forces should reform their organization and working methods to prevent flows of contraband goods that cause waste of foreign exchange.

- The Ministry of Trade should limit import of high- quality and expensive consumer goods, thereby helping local companies control the domestic market. Higher sales and profit from this market can encourage domestic investment and local production, especially of capital goods.

- The Ministry of Planning and Investment, in cooperation with other ministries and investors, can orient flows of investment towards hi-tech industries with a view to changing the structure of exports and imports.

Of major investment projects, there should be one to build deep-water ports (in Vũng Tàu for example) and industrial estates near these ports to produce high-quality exports. After Vũng Tàu, port could be built in Cam Ranh, Dung Quất and Chân Mây where the infrastructure is favorable.



When the sources of finance is well under control, big companies with a starting capital of some US$1 billion could be formed to produce hi-tech goods and compete successfully in the regional market.

To change the economic structure, we need a lot of time and mustn't miss any chance. At present, the price of oil is on the increase, export of crude oil brought us in some US$1 billion in the first half of the year. This income provides us with an opportunity to build an oil refinery that costs around US$1 billion. In short, the economic structure, as part of the infrastructure, could change under impact of adjustments to the superstructure. What we need now are government's determination and well-thought-out policies.■