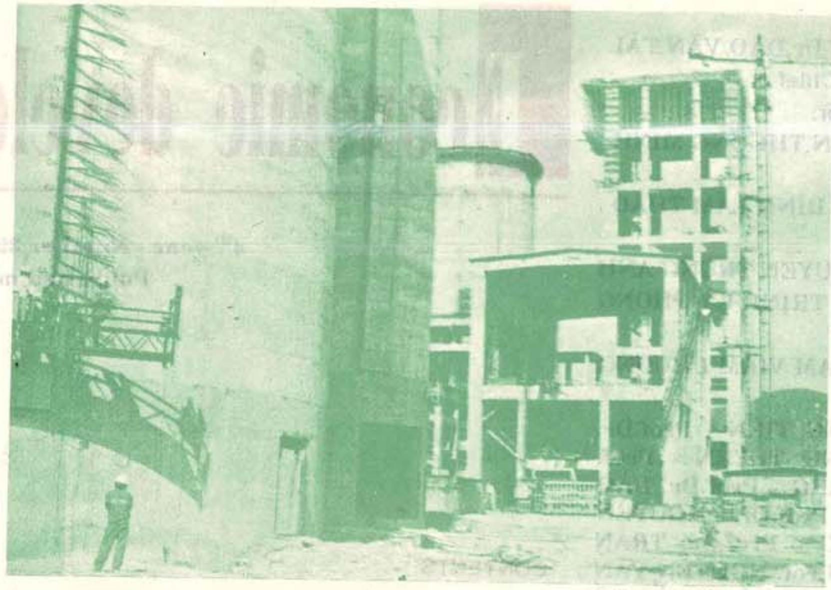
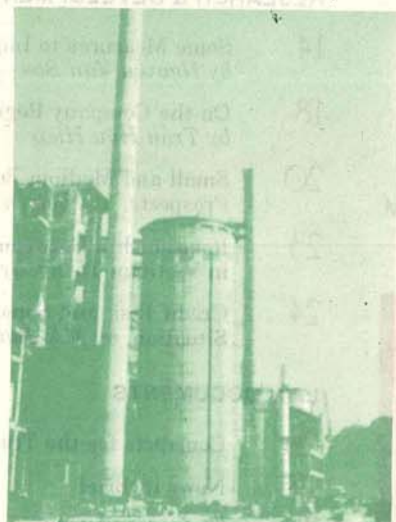


ECONOMIC GROWTH AND FULL EMPLOYMENT

by Dr. LÊ KHOA

The strategy for economic development is industrialization, modernization, and measures such as controlling inflation, maintaining low or high exchange rates must be adjusted in accordance with changes in domestic markets, those suited for thriving times should not be applied to the slump cycle.

Since 1991, due to high inflation, the Government implemented the policy on curbing inflation and boosting export by maintaining low exchange rates and high interest rates. The Treasury limited investment and advance of the State Bank. State money was concentrated on capital construction, transport and communications. Most of high-quality consumer goods were produced by foreign-invested enterprises. The Government put limits on allocating capital to state-run enterprises. The said policy scored good achievements due to the requirement for inflation control at that time: GDP rose by 9.5% in 1995, but less in 1996, only 9.3% and first months of this year, 9.1% and estimated at 9% in 1998. The target of curbing inflation was surpassed: price indexes from June 1996 became negative in several months or increased just slightly. The spending power dropped drastically. State-run enterprises faced tough times, fell to 6,000 in number, half of the 1990 figure and less in future. Most of businesses, state or private, had too high leverage, even twenty in an enterprise and a majority of turnover was used for paying interests to banks while under the socialist orientation, it is used for paying wages and expanding production. In the region, Thailand, Singapore, Malaysia and Indonesia has devaluated their currencies due to currency



turmoil. So Vietnam should take measures to prevent that widespread crisis.

Before harmful changes, we would like to propose some measures concerning full employment and economic development as below:

I. INITIATING GREAT INVESTMENT PROJECTS

The Government's policies should shift from fighting inflation to curbing inflation within the range from 10% to 15% set by the National Assembly. Instruments of the uniform policy can be listed as follows:

In the approved limit of inflation, the State Bank can inflate money and use it for the national budget. This will create good outcomes: firstly price hike will help firms increase their turnover and profits. Secondly, state enterprises' working capital and funds for capital construction will be settled. With the central bank's advance, the Government can provide money to capital contruction, inject extra funds to state firms. Thirdly, the Government has adequate capital to carry out its policy on great investment with the aim to cause full employment and make the GDP up by 12-15% in stead of 9% as forecast for 1998.

The program of great investment is implemented in accordance with the Keynes theory on overcoming stagnation and tough times: When the stagnation took place, the economist Keynes suggested that budget deficit (or the central bank's advance) should be used for implementing a series of great projects. Keynes also proposed banks to offer soft loans to firms, but this practice is not effective as in the stagnation times, enterprises tend to repay debts to banks rather than borrowing banks' money for production while their products are unsalable. In capitalism, the government cannot force private firms to increase their investment. But in socialism, the government decides on establishing firms to raise living standard. This policy will face difficulties due to lack of capital in inflation stages because the central bank cannot inflate money when the inflation rate exceeds the target set by the National Assembly. But currently, prices go up slightly, sometimes go down, therefore the Government should seize the opportunity to apply the budget deficit so as to implement great projects.

As a matter of fact, the money policy should be changed: from 1990 to 1997 the Government did not use the central bank's advance to make great investments, but now it should do to pump extra capital to enterprises for their expanding production.

1. The investment scale recommended by Keynes must be adequate to create full employment and economic growth. In the current stage of excessive steel, cement and food and high underemployment, US$4-8 billion is needed to realize a series of projects, raising the GDP by 12-15% in 1998. These projects may be:

- In the Mekong Delta, building draining networks to lower the flood peak from 4.5 m to 2.5 m, thereby An Giang and Đồng Tháp provinces can grow the third crop in the flood times, if Hậu River 2 is made for the flood flowing through U Minh Thượng and U Minh Hạ, the Cà Mau peninsula can help remove alum from 400,000 ha of land and increase the rice (or other farming products) output here by 6 million tonnes. The Government should build Cần Thơ Bridge, a pipeline bringing gas ashore, and an industrial complex producing electricity, nitrogenous fertilizer, steel and mechanical engineering products.

- In the central provinces, developing deep water Cam Ranh Port, building ports, highways and industrial parks from Cam Ranh to Vũng Tàu, giving priorities in development investment to this area because it is on the international shipping routes; setting up urgently a 6,000,000-tonne oil refinery here to sell oil to the south and international vessels passing Cam Ranh, Phú Mỹ and Vũng Tàu ports. The Dung Quất oil refinery will supply oil to the northern and central Vietnam.

- Erecting a series of plants manufacturing computers, motorbikes, air conditioners, components of autos and motorbikes. We have not had policies on building these factories before, so we suffer trade deficit because we export raw materials of farming products and minerals but import high-class and costly commodities. The establishment of these plants should thus be considered as a key program of the country's industrialization and modenization and should be provided with foreign currency, materials and senior experts.

- Constructing houses and selling them to workers in installment mode.

2. The effect of the program using budget deficit to make great investments:

The said great investment program will require from US$4 to 8 billion for 1998. The program will lead to price hike and use up stockpiled steel and cement and cause an ever economic thriving in Vietnam. In 1998, due to money supply, pressure of price hike will take shape but until 1999-2000, many plants come into production and help stabilize prices, making favorable conditions for Vietnam to increase its annual GDP by 13-15% due to current too low starting point.

The program should employ Vietnamese experts, locally made machinery and materials at most. As such, the development multiplier will be made and economic independence secured.

II. POLICIES FOR VIETNAMESE ENTERPRISES

From 1990 until now, although the economy grows but the success is due to foreign enterprises and investment, not to local firms. As the Prime Minister noted in 1994: "Most of local firms have to borrow money from banks, their profits cannot be enough to pay banks' interests and taxes. Therefore they have no accumulation and no ability to expand production. In fact, our firms are undergoing big difficulties. If they do not make progress, do not renovate their technique and do not modernize their production, they will have no competitiveness and cannot avoid lagging behind other foreign partners." (Thời Báo Ngân Hàng - Banking Times - March 1994). As a matter of fact, the situation was tougher as in addition to high interest rates and taxes, local enterprises still suffered shrinking market share due to low purchasing power from June 1996 till now, fierce competition with foreign commodities due to low exchange rate policy and ineffective anti-smuggling measures. While it was said that 600,000 bikes had been illegally imported per year, and foreign alcohol worth US$100 million alike - not to mention other items - customs offices' performance was still ineffective in stopping the flows of these goods. The value of illegal imported goods reached over US$1 billion per annum.

As a result, we propose some measures to strengthen Vietnamese firms' competitiveness as below:

- Because Vietnamese companies and banks are owned by the State, we can apply the compensation method to clear debts, for example, the State Bank assumes to assign VNĐ50,000 billion to the Ministry of Finance, this ministry will reallocate this amount to good enterprises and they will use it to repay debts to lower banks, these banks retain a part to deal with deposits and pay or send the remainder to the State Bank for the compulsory reserve with low interest. The state enterprises' debts will be cleared and their financial position becomes healthier.

- Devaluating step by step Vietnamese đồng so that home made goods can be competitive. According to some estimates, the exchange rate which must be adjusted at least from VNĐ13,000 to 14,000/US$1 can help Vietnamese firms win against foreign counterparts. In addition, to prevent the trend of making payments in US dollar as the Prime Minister warned. Foreign countries usually apply two exchange rates: an official one for importing machines, materials and a higher one for purchasing US dollars floating on the market. Those importing high-class consumer goods or those transferring interests overseas will be subject to the second rate. Thus, US dollars may be attracted into banks.

- Reducing lending interest rates equivalent to those applied in neighboring nations (i.e. 5% for short-term loans and 2% for preferential long-term projects in Japan) and cutting taxes on Vietnamese businesses to those on foreign-invested ones.

- Applying the policy on protecting local goods: giving no permission to the import of commodities which have been locally produced or allowing the import of these goods but they must be subject to high exchange rate and high import duty. The anti-smuggling measures should be more effective.

III. THE POLICY ON SELF-HELP GROWTH

When the World War II ended in 1945, total capacity of Japanese factories remained only 1 million tonnes (in 1997 Vietnamese mills' total capacity is 1.7 million tonnes). In 1950, Japan turned out 5 million tonnes of steel and 100 million tonnes in 1965, at the same time it became the world's second power just within 15 years (1946: 1 million tonnes of steel; 1965: 100 million tonnes of steel). Like Vietnam, Japan almost has no significant resources of iron deposits. So it has to import iron deposits and coke as well.

In recent years, Vietnam has decided to intensify the production of steel and cement. The capacity of local stell mills amounts to 1.7 million tonnes, of cement plants 10 million tonnes in 1997. However the output may be only 0.8 million tonnes of steel and 6 million tonnes of cement. This will reduce the Vietnamese growth rate. The target of 5 million tonnes of steel and 20 million tonnes of cement by the year 2000, and 50 million tonnes of steel and 40 million tonnes of cement by 2005 may be not practical because investments in these sectors come to a standstill. Consequently, the national aspiration for industrialization and modernization may encounter hurdles.

Why did the Japanese steel and cement industries develop so fast in 1946-1965 whileas the Vietnamese modest production came to a standstill? Because Vietnam is though a socialist country, but it does not apply Marxist-Leninist policies to focusing on the industry manufacturing machinery and capital goods. Vietnamese equipment and machinery as well as products made of steel such as motorcycles, air conditioners, autos, power geneartor...all have to be imported while Japan did not import what can be locally manufactured and did not depend on foreign investment. They only bought several foreign items and took them to pieces with the aim to study and make their own products. As a result, their production of steel and cement, though extremely large, cannot supply adequately to the construction of deep water ports, industrial parks whileas our country, by contrast, imports 400,000 motorbikes annually, numerous autos and aircons, so our steel and cement are mostly used for building houses and , hotels. Most of our graduates cannot find jobs at the plants manufacturing motorbikes, autos, aircons and

oil refineries. So, we have to depend on foreign investment. Vietnam has studied and made many kinds of machines such as transformer, granite cutting machine, rice polishing machines, diesel engines,etc. Therefore, we suggest the Government should protect locally made goods suitably, and make the best use of Vietnamese grey matters and skills to boost our embryonic industry.

IV. RESTRAINING FOREIGN INVESTMENT WITHIN EPZs AND PROJECTS OUT OF VIETNAMESE EXPERTS AND BUSINESSES' REACH

In recent years, although foreign investment bring in many benefits such as factories put up in Vietnam, increasing GDP, rising exports, but there are also bad signs in this sector, such as machines overvalued three to five times, foreign counterparts' competition causing local firms to face tough times. As a result, we propose the Government should nod to foreign investment just in EPZs or in projects that Vietnamese firms are incapable of implementing. To encourage investment in this trend, the Government should center investment on building deep-water ports and EPZs at these ports, especially from Vũng Tàu to Cam Ranh.

V. FIGHTING AGAINST SOCIAL EVILS RESOLUTELY

The Government should launch many campaigns to attack social evils such as corruption, embezzlement, prostitution, smuggling, drug trafficking and addiction and prevent AIDS. If we have no effective measures to curb this fatal epidemic, we will spend huge funds curing its patients and thus have not enough money for industrialization.

In the wartime, many financial and statistical indicators were deemed as top secret, such as enterprises' profits and losses, state revenues and expenditures, and so on. Under this financial secret, many firms mobilized capital while they are insolvent. The people could not really have basic rights because they could not know statistics while they are widely revealed overseas. As a result, we propose the Government, the National Assembly should enlarge the range of information about finance, export-import, state revenues and expenditures so that the people can know and give opinions to the Party and the Government■