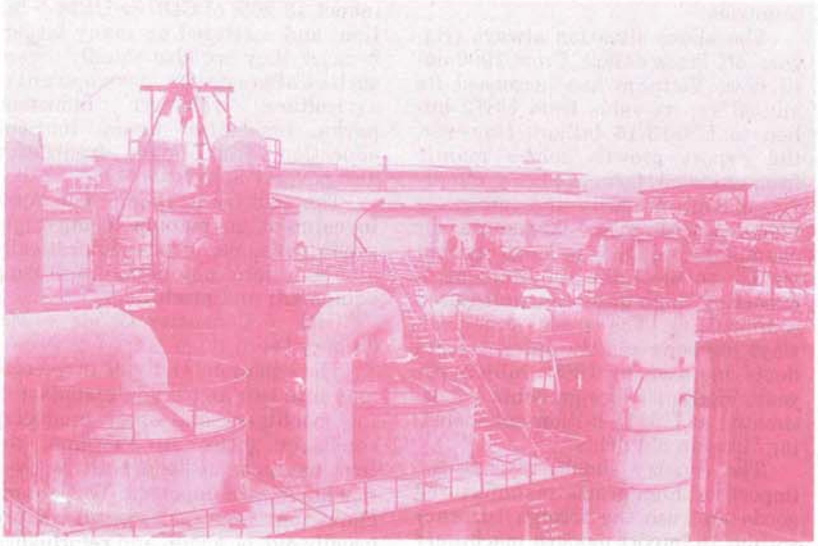

METHOD OF INDUSTRIALIZATION AND MODERNIZATION IN PRESENT STAGE

by Dr. LÊ KHOA

In wartime, Vietnam won because it fully utilized its national forces in the fight against the enemy. In the period of industrialization and modernization, Vietnam can be also successful if it gives priority to and focus all its resources on the implementation of the target. This is also the selection theory in economics.

I. METHOD OF USING NATIONAL RESOURCES

The method of using national resources is based on balances in the national accounting:

Aggregate Supply = GDP + Import = Export + Expenditure + Investment (1)

The balance in the equation (1) is compulsory because it is obvious that the aggregate supply in the fiscal year is equal to the total value of goods locally produced plus the value of imports. This volume can be used only for export, consumption, and investment.

In case where there is no or little difference between export and import, the revenue and expenditure of foreign currency are equivalent, so the equation (1) can be simplified as follows:

GDP = Expenditure + Investment (2)

The above equation shows GDP can be used only for expenditure or investment, and no other alternative.

In the short term of one year, GDP growth cannot exceed the range from 5 to 12%. Therefore, we can increase investment only by slashing consumption, or increase expenditure by reducing investment. To implement industrialization, we are required to maximize possible investment by reducing consumption.

We discompose expenditure into following components:

Expenditure = Defense Expenditure + Administration Expenditure + Minimum Social Expenditure + Luxury Expenditure (3)

In wartime, the country's defense expenditure was estimated at 30-40% of GDP. Because of concentrating the national resources on defense, Vietnam could defeat foreign invaders. However, due to this too high defense expenditure (compared with 1% of GDP in Japan, 7% in the U.S., and 4-5% in the U.K. and France), Vietnam could earmark only a small percentage of GDP for investment and improvement of the people's living standard.

At present, Vietnam lives in peace with other countries in the world. Moreover, the Vietnamese armed forces have only the task of defending the country and do not invade or interfere in others' internal affairs. The organization of the military for national defense does not cost much more than that for interference in other country's affairs. As a result, the current situation allows a moderate expenditure on defense.

The number of civil servants can indicate the government administration expenditure. We have said the Japanese defense expenditure is only 1% of GDP. The Japanese Government also has the lowest fraction of civil servants to population in comparison with the U.S., France and the U.K. Former Prime Minister Võ Văn Kiệt paid special attention to the reduction of the government employees. However, there are above 5,000,000 state-paid persons. As a result, the problem is how to curtail the number of government employees and streamline the national administration at the same time.

The defense or administration expenditure represents a not too high percentage of GDP; the most interesting are minimum social and luxury expenditures.

The Vietnamese current minimum social expenditure is very low because its per capital income is poor, not exceeding US$300 per year. Nevertheless, the most concerned is the national production structure including mainly agro-products and minerals or low-grade manufactured goods while consumers prefer high-grade goods which cannot yet be manufactured locally. This pushes Vietnam into foreign debts and a part of these debts is used for importing consumer goods instead of investment. According statistics, in the years of building Hòa Bình and Tri An Hydropower plants, the whole country imported goods worth 2,500 million U.S. dollar and ruble per year. Of which 600-700 million were spent on buying equipment (or 23% of import value), and the rest for importing petroleum, fertilizer, and more than 1 million tonnes of food. At present, the country spends US$13-14 billion on annual imports, but 15% of which (US$2 billion) are used for buying equipment and machinery, and the remainder (85% or US$11 billion) for importing consumer goods while we are now not required to buy food as in the 1980s. In short, autos, motorcycles and color televisions were luxuries in the 1980s but most of households now have motorcycles and color TVs.

According to the demand stimulus theory, if luxuries are locally manufactured, they will boost the national GDP and income. This is the case in developed countries, because consumption of high-grade manufactured goods occurs only when these items are locally made. As a result, appearance of these new products stimulates demand strongly and boosts the country's GDP. In the 1950s, per capital GDP of developed countries was not higher than that of current developing countries, some thousands of U.S. dollar. Just because of emergence of such new products as color TVs, air-conditioned cars, computers, antibiotics strongly stimulating demand, the developed countries' GDP skyrockets to US$20,000-30,000 per capital as at present. In contrast, in Vietnam as well as most of developing countries, consumption of high-grade manufactured goods is in advance of production of these items. They become the people's common consumer goods. Therefore, the pressure of importing these items is very high. The developing countries, instead of manufacturing these items, choose the easy way of buying them from developed countries which are wishing to sell out in order to produce new items with better designs. These developed countries also want to sell out obsolete machinery and equipment. Just because of this, developed countries have suggested to offer soft loans to developing countries with a view to importing their manufactured goods and out-dated plants. In addition, if approved, they will make direct investment by re-assembling their old-fashioned plants in the developing countries.

The above situation always triggers off trade deficit. From 1990 until now, Vietnam has increased its annual export value from US$2 billion to US$13-14 billion. However, the export growth comes mainly from crude oil, farm products, minerals, marine products and low-grade manufactured goods (garments for example) and the revenue is not enough to meet the requirement of exporting high-grade manufactured commodities. The trade deficit always happens and the international debts increase by US$2 billion per year. Vietnam's foreign debts are estimated at US$15 billion not including Russian old debts.

The country should restrict the import of high-grade manufactured goods and use the foreign currency surplus to import modern machinery in order to produce import substitutes. If this work is done, the national industrialization and modernization can be realized in less difficulty. Nevertheless, this work is very hard because the consumption pressure is very strong and in the market economy those having money can buy high-grade and the importers are willing sell goods to customers with deferred payment terms.

The extremities of banning imports of high-grade manufactured goods are not practical. The solution of "continuing the market economy" and "freely importing high-grade goods" is not also reasonable because it leads to foreign currency bleeding, nullifies the national industrialization and modernization, and increases foreign debts. If these bad effects are prolonged, they will trigger off financial crisis as in Thailand previously. The intermediate solution is to accept some high-grade imports with restrictions, and these items must be subject to so high tax rates to promote the state budget revenue and protect local goods. By this solution, the trade balance will be maintained and the country will save US$2-4 billion per year to raise the import value of equipment and machinery to US$4-6 billion instead of 2 billion as at present. As a result, the consumption of high-grade goods is still satisfied while the country has enough foreign currency to carry out its industrialization and modernization program.

II. METHOD OF FOCUSING INVESTMENT ON INDUSTRIALIZATION AND MODERNIZATION

Our gross investment is both low (about 18-20% of GDP or US$4-5 billion) and scattered on many targets because they are also equally urgent such as afforestation, development of agriculture, transport, industrial parks, residential areas, tourism, education, and hunger eradication and poverty alleviation.

The country is required to focus investment on manufacturing high-grade consumer goods domestically and build local plants manufacturing equipment and machinery.

GDP = Consumer Goods + Machinery (4)

The equation (4) divides the economy into two areas: one manufacturing machinery and other producing consumer goods. In Vietnam, the first has not yet been built so most machinery are imported. The lessons show that imported machinery are usually old, obsolete, and refurbished because they were made 20-30 years ago. Consequently, the industrialization is not effective since the products are out-dated and cannot compete with foreign counterparts. In addition, if the country increases investment to 30-40% of GDP, the market of machinery will be potential and estimated at US$5-7 billion and increasing fast. To reach the GDP growth rate of 12%, the country has to manufacture machinery and equipment on its own. It thus has to concentrate investment on manufacturing machinery.

The country should make annual plans of producing import substitutes such as motorcycle and computer accessories. The export and import turnover structure will change, instead of exporting cheap raw agro-products and minerals and importing expensive manufactured goods, the country will become the exporter of high-price manufactured goods. And the trade deficit will be terminated and Vietnam is able to clear its foreign debts and secure its economic security.

The national industrialization and modernization is to build high-grade manufacturing plants. Only by doing so, the country can settle the current dilemma, for example, deflation prolongs, farmers enjoy bumper crops but they are not happy because food prices are very low. The market faces slowdown because the public income is poor. Once the high-grade products can be exported, the workers' wages will rise; and they become willing to buy food for high prices.■