

Capital, in its narrow sense, is the financial asset of an individual, a company or a nation, but in its broader sense, capital is accumulated property used in production of further wealth and includes labor, money and other real assets, both tangible and intangible ones. Of these assets, the money capital is of great importance because it could be turned into other factors of production. In the market economy, all economic activities are expressed or measured in units of money, so all businesses, at family or national levels, need money



## ROLE OF DOMESTIC SOURCES OF FINANCE IN INDUSTRIALIZATION AND MODERNIZATION

by Dr. NGUYỄN NGỌC HÙNG



capital, along with natural resources, wealth accumulated by previous generations, and other intangible assets.

Experience from developed countries shows that capital accumulation is the decisive precondition for industrialization and modernization, and the speed of this process is determined by accumulated capital. There is a close relation between the capital accumulation rate and economic growth: the latter is both the result and origin of the former. In addition, high personal and corporate saving rate could only be realized through improvements in economic management and social reforms which



help to raise personal and company income.

The capital for development could be accumulated by attracting domestic savings and foreign investment. Experience shows that foreign capital plays an important role in the economic development, especially in its first stages in developing countries where the domestic saving rate is low, so the foreign capital is considered as a lever to break through the poverty and help the economy to take off.

Foreign capital could be direct or indirect investment.

Foreign indirect investment is made by foreign governments, NGOs and international financial institutions in form of aid, long-term soft loan, commercial loan or investment in bonds and securities in the recipient countries. Foreign indirect investment is usually of large size, therefore it produces great effects on the economic development, however it often leads to political commitments or dependence on foreign capital if this financial source isn't employed effectively.

Foreign direct investment comes from foreign individuals and companies who can take part in project management and require the right to repatriate their profits. Foreign direct investment is usually of smaller size but it helps to bring new technology and modern managerial skills to recipient countries, thereby developing new industries and helping local businesspersons to engage in international trade.

Although the foreign capital is important, it's the domestic sources of capital that play the decisive role because the foreign investment, however large it is, couldn't be employed effectively without its local counterpart. Moreover, the use of domestic sources of finance

ensures stable and sustainable development and helps to avoid dependence on foreign capital. Developing the economy by its own has become experience and pride for all Japanese. So we must pay full attention to the accumulation of domestic capital.

After ten years of economic reform, although Vietnam has made good progress and obtained many great achievements but it's still a poor country with low living standard, the capital accumulation takes place slowly and the proportion of saving to GDP is low in comparison with neighboring countries.

mining, cement, engineering, electronics, steel, fertilizer and chemicals ones) increases by 14 - 15% a year. Full attention would be paid to industries producing consumer goods and exports.

+ Gross investment, including both foreign and domestic capital, equals 30% of GDP.

Based on foreign experience and local potentials, economic experts have calculated that the gross investment in the period from now to 2020 should equal 20 - 35% of GDP if the target growth rate is 8 - 10% a year. To achieve such growth rate, the industrialization and modernization program

of laws with a view to creating better legal infrastructure needed for operation and development of economic concerns.

- Speeding up the process of restructuring the system of state companies.

- Identifying objectives and financial resources that can be tapped based on requirements posed by the development process and emphasizing technology replacement, key industries, new markets and new economic fields.

- Forming strong groups that can compete effectively in the world market and help with regulating the economy.

- Perfecting the banking system.

- Diversifying financial institutions.

- Creating and perfecting conditions needed for the formation and development of stock market.

- Diversifying ways of mobilizing domestic sources of finance.

- Making policies to encourage saving and protecting personal savings.

- Combining foreign and domestic investment, making the best use of all forms of investment and using domestic investment to attract foreign one.

- Enhancing the efficiency of capital employment.

- Making the best use of other resources such as natural and human resources, geographical position, climatic conditions, land, etc.

In short, in both long and short run, the capital accumulation is the decisive factor in the national industrialization and modernization. It is much needed to develop key industries, especially export-oriented ones. The capital accumulation will be of greater urgency if the Government wants to develop depressed areas in order to reduce imbalances between regions and ensure the socialist orientation. ■

Table 1: Saving In some Asian economies

Country	Saving as % of GDP
Vietnam	7
Cambodia	8
Laos	4
Philippines	15
Japan	34
Indonesia	38
Hong Kong	30
Malaysia	34
South Korea	35
Thailand	37
Singapore	48
China	36
Taiwan	27

Source: *Asiaweek* Dec. 15, 1995

Resolution of the 8<sup>th</sup> VCP National Congress planned that Vietnam would complete the industrialization and become an industrialized nation by 2020 and the following targets would be achieved by 2000:

+ Average growth rate: 9-10%

+ Per capita GDP: twice as much as GDP in 1990.

+ Agricultural output, along with agro-industry, increase by 4 - 5% a year.

+ Manufacturing industry (especially oil, coal

must be carried out quicker. The development of manufacturing industry will certainly lead to changes in the structure of industry in which the importance of agriculture will decline while manufacturing and service industries will become larger. This development will require better capital accumulation. To accelerate the capital accumulation, the Government had better take the following measures:

- Perfecting the system