

Modernizing Technology of Government Monopolies According to the WTO Track of Liberation of Services

A New Solution to Economic Growth

by Ass. Prof. Dr. TRẦN NGỌC THO

1. Reasons for protecting monopolies

At present, we have become familiar to objections to the globalization and liberation of trade on services. Some others support the process but display worries about negative effects by the liberation. They have enough reasons for worrying. Besides short-sighted opinions that are not worth discussing, the most worrying is the fact that the trade on services is different from the trade on goods in terms of their complexity. This feature originates from the high development of many services along with perfection of laws regulating the service sector in many countries.

The international integration within the WTO framework involves internationalization of trade on services. WTO laws and rules allow a government, when negotiating for the membership, to exclude certain services in order to maintain the control over transport, aviation, air traffic control and other rights directly relating to the exercise of these rights when engaging in the liberation. This practice is what has been exploited by some monopolies in Vietnam to protect their interests claiming they are observing international regulations.

2. Modernizing technology by raising prices

Recently, the Vietnam Electricity Corporation (EVN) has decided to increase the selling price of

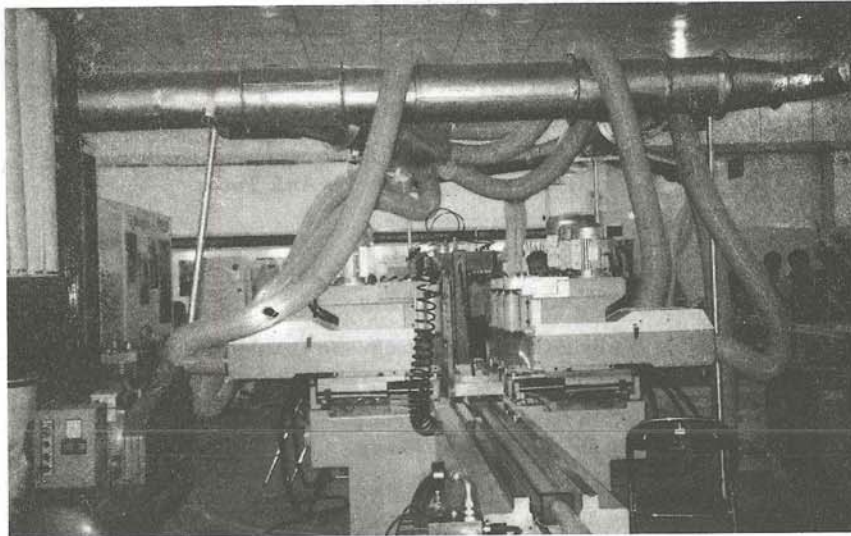


Photo by Hoàng Tuấn

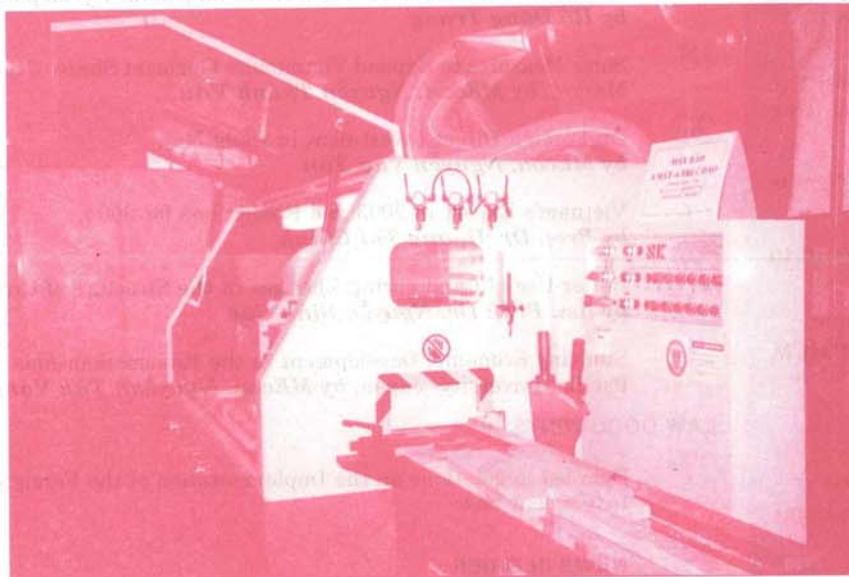


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electricity in 2004 for the reason that it wanted to modernize the equipment, which forced it to borrow some US\$3 billion from foreign financial institutions. It planned to make a total investment of VND30,000 billion although they could secure only VND23,000 billion. This means that it has to borrow the difference. What does it have to say about its plan?

EVN says a healthier financial situation could allow it to secure more borrowings, and it plans to improve its financial situation by simply increasing the selling price of its products. The easiest solution has been adopted by the EVN and other government monopolies so far. We don't discuss whether their practices are right or wrong because these practices aren't against international ways of doing business. It's just because of complexity of services, the General Agreement on Trade in Service (GATS) allows WTO members to decide their own services, ways of supplying them, and legal conditions associated with commitment to liberate the trade in services. This is why WTO experts considered the GATS was the most development-friendly among agreements passed by the Uruguay Round. The GATS stressed the permission for members to integrate their services into the international trade at a speed of their choosing and appropriate to national objectives and priorities.

The problem with the EVN decision is whether any other solution than increases in the selling price exist when the EVN wants to improve its financial strength. In fact, there are too many other solutions to mention in an article. Beside the measure monopolies always adopt as a talisman to justify their decisions to increase the selling price, there are many measures to cut production cost. Supplying

and subsidizing services to remote and depressed areas is an excuse for high production costs for monopolies and they are content with this solution and never think of other measures. Modernizing the production lines by increasing the selling price is unacceptable. Needless to say, we mean that, by 'unacceptable,' there are many other solutions private companies will take when facing the same problem.

3. Waste in using public funds to modernize the production line

We could take the plan to develop high technologies as an example of how public funds are wasted. The information technology has developed to a point where we hardly accept conferences that consume a lot of time and money. The press has talked about numerous conferences held every year in Hà Nội or HCMC. To take part in these conferences, officials spent a lot of money traveling to and fro. The practice goes against the modernization process. After spending a lot of public fund on developing the information technology, officials failed to use the Internet to exchange information or holding conferences. This paradox is unacceptable but it is only an example. This makes me feel that the more we spend on the modernization, the more we lag behind.

4. Modernization with interest-free borrowings

Another way to modernize the technology is to secure financial support from banks. When state-owned companies need more capital, local and central governments can exert pressure on banks, directly or indirectly, to force them to satisfy the demand from companies. In 2003, for the first time, the banks refused to supply loans as requested by the government. Four leading state-owned com-

mercial banks, with approval from the SBV Vice-Governor, sent the Official Letter 1329/NHNN-TD to the PM to inform that they didn't supply loans to the Cà Mau Fertilizer Plant as required by the Government. This is only one case observers noticed last year and we think it is just the tip of the iceberg.

5. A need to change our view on the modernization of technology

In my opinion, the modernization of the service sector is important and could produce a domino effect on other industries. Services account for a large part of the production cost of most goods. When modernization of technology, in my opinion, high priority must be given to the service sector, especially when Vietnam is integrating into the world economy, because many leading services are government monopolies. To prepare for the WTO, the Government should change its old view that considers the liberation of the trade in services as a concession to foreign countries. We must take a fairer view considering it as a prerequisite for encouraging developments in other industries, thereby modernizing the technology with a view to dealing with the danger of falling behind other countries.

Annoyances we feel everyday when consuming services of monopolies show that a badly managed service could be seen as a tax that prevents new players. It isn't different from inflation when more money is injected into the economy in order to cover budget deficit. The money used for subsidizing a service of poor performance produces greater effects than the protectionism in the trade in goods does. Application of a liberal mechanism for investment and trading, along with a regulatory mechanism that ensure fair competition in supplying basic

services, such as transport, telecommunications, banking, power and water supply, is a breakthrough in modernization process because it helps make the best use of opportunities offered by the globalization of the trade in services. The quality of life could be only improved by the liberation of trade in services, not by current practices in Vietnam.

Recent data from all industries show that the protectionism, at any extent, will lead to further backwardness. The cost of this protectionism is much higher than the profit it brings in. In Vietnam, the cost includes not only expenses on new technologies, but also more investment in training and reforming old ways of doing business. The investment in reforming could produce no results because old ways of doing business had been firmly rooted in the workforce of monopolies. If the workforce is to be fired and new personnel replace them, the cost is even bigger.

The cost also includes the cost of financial distress that occurs when ones couldn't run a business effectively because they have to deal with demand for creditors, wrong and untimely directions from governing bodies and bad practices rooted in the past.

The most urgent task for Vietnam today is to carry out profound and realistic reforms in order to make leading services more competitive. The Government should take a progressive view on the liberation of the service sector and adopt a new mechanism for its development. The reform in the service sector will affect greatly other sectors. Removing monopolies and liberating the service sector according to an appropriate track will be the best way to modernize the technology of the economy under current conditions. ■