

## I. GROSS INVESTMENT IN CURRENT PERIOD

In ten years of the economic reform, the gross investment in Vietnam has seen many improvements. It rose by some 8% annually in the years 1986 - 90; 29.1% in 1991-95 and some 17% in 1996-2000. The highest increase, 46.7%, took place in 1993. The increases have accounted for high growth rates in the past few years.

Appropriate policies have been adopted to encourage investment. The gross investment reached VND229,300 billion, equaling US\$20.8 billion in 1991-95; and

while the building materials industry represents 15% and the food processing one 10%.

However, there are still many shortcomings in the investment policy and structure. In spite of in-

**Table 2: Distribution of the gross investment in 1991- 2000**

Northern mountainous provinces	7.6%
Hồng Delta	26.0%
Northern provinces of Central Vietnam	9.0%
Coastal provinces of Central Vietnam	11.7%
Eastern South	27.5%
Mekong Delta	15.6%

Source: MPI

# NEW STRUCTURE OF INVESTMENT FOR THE INDUSTRIALIZATION STRATEGY

by PHẠM VĂN HÙNG

VND430,000 billion, or US\$37 billion, in 1996-2000. Besides the government investment, other sources (banking system, state-run companies, private persons and foreign investors) assumed an increasingly important role. This change in the structure of investment proved suitable to the mixed economy.

The gross investment, as a percent of the GDP, also increased. It equaled some 8% of the GDP in the late 1980s, 15.22% in 1991; 26.9% in 1995 and 27.2% in 1998.

**Table 1: Gross investment by sources (1991-2000)**

Government	21.2%
State-run banks	12.7%
Public sector	13.4%
Private sector	27.1%
Foreign sector	25.6%

Source: Strategy Research Institute (Ministry of Planning and Investment)

The Government also made policies to orient investment towards fields of high priority, especially towards key industries. For example, investment in the power industry represents 50% of the total investment in the secondary industry,

The distribution of investment was changed basically. In 1991-98, investment in distressed areas (mountainous areas in the North and Central Vietnam) represented some 13.3% of the gross investment, increasing by 26% a year; those indicators were 52.89% and 22% in developed areas (Hồng Delta and Eastern South Vietnam); and 33.82% and 12.7% in underdeveloped areas (northern and coastal provinces of Central Vietnam).

Due to these changes, the structure of industry was more reasonable: the importance of the agriculture to the GDP fell from 38.7% in 1990 to 25.43% in 1999, while those of the manufacturing sector rose from 22.7% to 34.49% and of the Service sector from 38.6% to 40.08% in the same period.

**Table 3: GDP by sectors (%)**

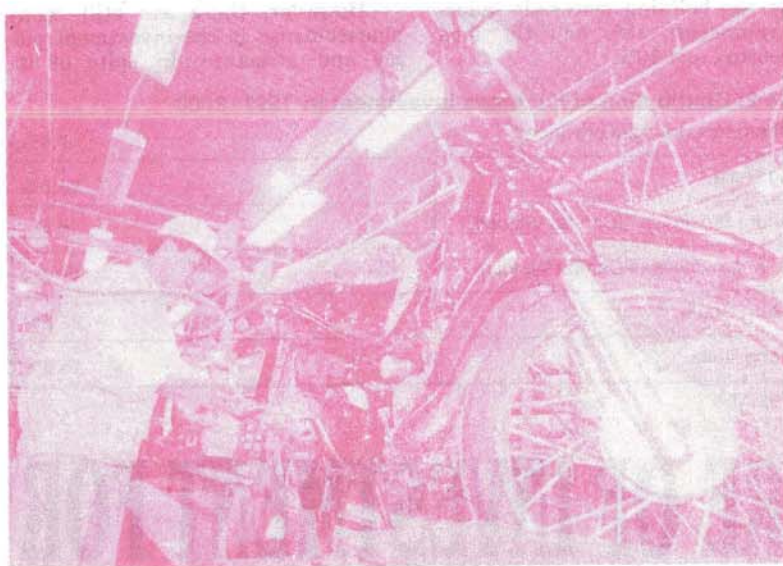
	1990	1993	1996	1999
Agriculture	38.7	29.8	27.2	25.13
Manufacturing and construction	22.7	28.9	30.7	34.49
Service	38.6	41.2	42.1	40.08

Source: Strategy Research Institute (MPI)

creases in the gross investment, the investment policy failed to adjust the structure of industry with a view to making use of Vietnam's comparative advantages, enhancing the competitiveness and preparing for the integration into the world market.

In the first years of the economic reform, the private investment represented a big percent of the gross investment (46.9% in 1986-1990) but it showed a downward tendency after 1994 (27.5% in the years 1996-1998). This means that the investment policy and climate didn't make private investors feel sure of their businesses and trust in policies on the private sector. Realities show that the demand for capital is great while the banking system is glutted with idle money.





As for the government investment, it usually represents a big percent of the gross investment, but the use of this source isn't effective as expected because it is distributed among too many projects and isn't based on exact plans and forecasts. The work of making investment plans and adjusting the structure of investment is still affected by the voluntarism and subjective decisions while the investment projects and plans are carried out carelessly causing a lot of waste [According to a report in *Diễn Đàn Doanh Nghiệp* (Business Forum) (issue 56, Oct. 15, 2000), a survey of 40 investment projects in Hải Phòng revealed that the average waste equaled 8% of the capital invested].

The gross investment isn't distributed evenly among zones; high priority is given to certain developed areas (Hong Delta and Eastern South Vietnam) while investment in infrastructure in distressed areas and community investment are small. Investment in agriculture in 1991-1998 for example, represented only 7.94% of the gross investment.

Such a structure of investment, indeed, failed to make the best use of comparative advantages of each zone and province. Many provincial governments and ministries couldn't work out feasible investment programs and failed to combine production with market demand with the result that some industries developed unreasonably and became less competitive.

This situation requires great efforts to change the structure of investment in the coming years, thereby changing the structure of in-

dustry, ensuring high growth rates, carrying out the industrialization strategy and preparing for the international integration.

## II. VIEWPOINTS ON CHANGES IN THE STRUCTURE OF INVESTMENT

1. Investment plans should aim at both the industrialization and the development of knowledge-based economy. Objectives of the industrialization strategy in the current period forces the structure of investment to be suitable, and useful, to three processes: changing from the centrally planned to the market economy; changing from an agriculture-

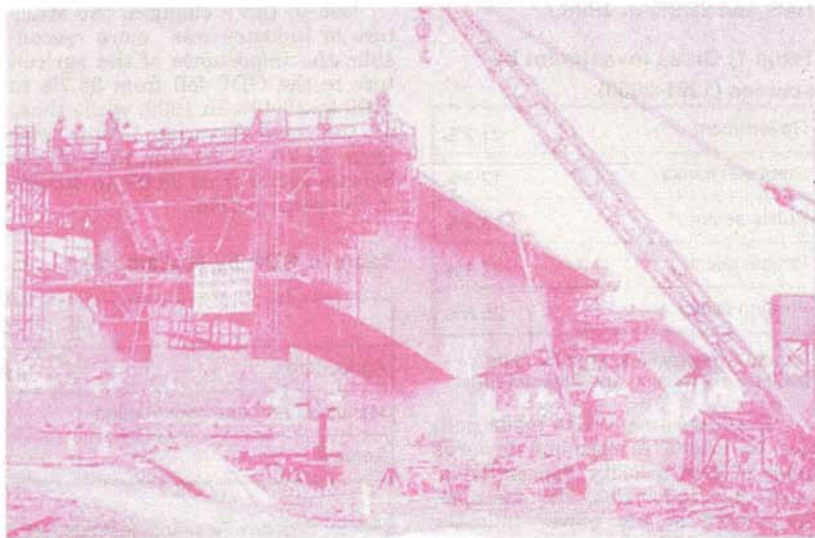
based to an industrialized society; and securing necessary facilities for a knowledge-based economy.

Thus, the new structure of investment should give top priority to the agriculture and rural areas, namely, to programs to reduce poverty in rural areas; industrialize the agricultural production; improve the spending power of rural residents and reduce gaps between different zones.

In industrializing the agricultural production, main targets are to develop the commercial and export-oriented farming by making the best use of comparative advantages found in each province and zone; link the agricultural production and agro-industries; and reduce export of unprocessed farm products.

To find a short cut to develop a knowledge-based economy, investment in high technologies is much needed while investment in industries whose products are flooding the market is undesirable.

2. Changes in the structure of investment should aim at enhancing the competitiveness and encouraging cooperation with foreign partners. For the time being, priority could be given to industries that enjoy advantages of good natural resources and conditions, and of favorable geographical positions (such as production of coffee, tea, aquatic products, etc.) in order to supply cheap and good products to the world market. In the long run, however, full attention should be given to changes in comparative advantages in the world economy. Recent developments show that cheap natural resources and la-





bor haven't been considered as favorable factor inputs for developing economies, and priorities are shifting to other inputs, such as technology and human resource.

To integrate successfully into the world economy, the competitiveness of Vietnamese products should be enhanced. In the past period, the government's protectionist policies have led to monopolistic practices that caused bad effects on the economic development through increases in production cost and decrease in competitiveness.

The government should be determined to remove subsidization and encourage specialization and development of the private sector. These measures could help exploit local comparative advantages, expand both domestic and foreign markets for locally-made goods and promote export.

3. Reasonable development for all zones and formation of pivotal zones: Those two objectives seem incompatible but realities show that depressed areas deserve more favorable treatment while pivotal zones will serve as dynamic force for the fast development.

Past experience shows that it is not wise to form too many pivotal zones because this means all resources will be divided into very small parts. Cooperation between zones is necessary to allow local resources to be exploited reasonably. Abundant labor force, or big population, has ceased to be an advantage when an economy is integrated into the world economy and it has become a burden to developing countries. The reasonable development for all zones is thus the best way to provide laborers with jobs and facilitate the capital accumulation.

In making plan to distribute government investment, full attention should be given to natural and socioeconomic conditions of each zone. At present, big cities are still industrial centers where some 14% of the population live and 70% of the private investment is employed. In the next period, these big cities should be linked with surrounding provinces to form pivotal zones that enjoy enough comparative advantages to compete in foreign markets. Pivotal zones will play important roles in the economic development of others.

The ultimate aim is to form cooperation between zones and combine their efforts to realize the national development programs.

4. Making the best use of government investment and combining do-

mestic and foreign sources of finance: The government investment should be directed towards key industries. Theoretically, investment from the national treasury should be put in industries with low ICOR indexes because this limited source of finance, when being put in these labor-intensive industries, could help enhance competitiveness.

The use of government investment should aim at three targets: better supply of goods and services, higher sales and better economic efficiency. For this purpose, the task of making investment plan should be reformed. Other regulating instruments could be employed to orient investment flows from non-state sectors towards industries of high priority.

In the coming years, Vietnam should integrate into the world economy and at the same time, ensure its independence and sovereignty. Therefore, great efforts should be made to put in use all possible sources of finance, including foreign investment. It's planned that the domestic source of finance in the years 2001-2005 would represent from 61% to 79% of the gross investment. Effective plans to employ sources of finance will allow us to achieve two aims simultaneously: economic growth and social equality.

5. Observing the law of supply and demand: In our opinion, investment projects will be based on the market demand and capacity of economic concerns rather than administrative decisions by the Government. Before carrying out these projects, it's necessary to make researches on potential supply and demand in order to avoid imbalances between those two forces that could cause bad effects on the economic growth. Investment authorities had better focus attention on tasks of providing forecasts, business information and investment orientation instead of intervening too much in the decision making process by economic concerns.

### III. MEASURES TO CHANGE THE STRUCTURE OF INVESTMENT IN THE NEXT PERIOD

1. Improving the task of working out the master investment plan: A reasonable structure of investment should be based on comparative advantages of the country and of each province as well, and combined with development plans for each zone and industry.

The master investment plan should be based on market re-

searches and forecasts, estimates of necessary resources; opportunities and risks, and possible advances in technology. The master investment plan should be combined with supporting policies and measures to carry out the plan.

To ensure good results for the master investment plan in changeable condition of technological advances, the structure of investment could be adjusted from time to time in order to facilitate the realization of the plan. One of causes of poor economic growth in recent years was the lack of flexibility of the structure of investment.

In the long run, it is wise to work out large-scale investment plans for industries and zones that play key roles in the economic development.

2. Employing sources of finance effectively: According to a rough estimate, the gross investment in the coming years will increase while the government investment will be reduced and concentrated in infrastructure building projects. That is why encouragement to private and foreign investment has an important meaning to the work of making a reasonable structure of investment.

3. Perfecting investment policies: For the time being, it's necessary to increase investment in rural areas and agriculture (agro-industry, rural infrastructure, irrigation system, etc.). In big cities, appropriate investment should be put in hi-tech industries and in replacement of technology for key industries (oil, information, textile, etc.). New attempts to introduce modern technology to certain industries (telecommunications, biotechnology, new materials, software, etc.) are needed to provide a basis for the knowledge-based economy.

In adjusting the structure of investment to changeable conditions, the Government had better use macroeconomic regulating instruments instead of administrative orders or political decisions.

In short, estimates and analyses of the gross investment in recent years allow us to conclude that a new structure of investment is needed for liberalizing productive forces, mobilizing all possible sources of finance, exploiting comparative advantages, enhancing the competitiveness and integrating the Vietnamese economy into the world market. This structure of investment not only serve the industrialization strategy but also prepare for the development of a knowledge-based economy. ■