

Forms of international cooperation are diverse: aid, loaning, investment, trade, supply of capital through stock and money markets. All of them involve both advantages and disadvantages and researchers differ widely in their estimation of inter-

debts or pay for goods and services received. However, many others argue that in the second Vietnam war, the total aid given by the U.S. to Vietnam in the years 1954-1975 amounted to US\$23.9 billion, some 7.8 billion of which were used for

maintained its presence in Vietnam, and helped American companies sell their surplus goods, including weapons.

However, the Vietnam war is a particular case. In the peacetime, foreign aid is of great service to recipient countries, for ex-

centage is low in the case of Japanese aid to Vietnam for example) so the aid is only a small expense in comparison with profits earned from the rise in export of the donor country and the fall in prices of raw materials bought from recipient countries.

TO MAKE THE BEST USE OF INTERNATIONAL ECONOMIC COOPERATION

by Dr. LÊ KHOA



national cooperation. In my opinion, the role of international cooperation is determined by macroeconomic policies of a nation. A right policy can turn disadvantages into advantages and a wrong one can cause tremendous damage.

I. FORMS OF INTERNATIONAL COOPERATION

1. Aid

Many people are of the opinion that aid is only of benefit to recipient countries that are under no obligation to repay

buying goods (rice, wheat flour and many consumer goods) from America and 16.1 billion for weapon. As a result, South Vietnam, from being an exporter of rice in the years 1954-63, became a consumer of some 1 million tonnes American food and the war prolonged for twenty years (It's worth reminding that without American aid, the French army wouldn't have been able to maintain their presence in Vietnam until 1954). In other words, the American aid helped the U.S. Government

ample, the Mỹ Thuận Bridge is financed by the Australian government and the Phú Mỹ Power Plant by the Japanese government.

Another opinion is that the donor country makes some sacrifice but companies in the donor country gain some profit because the recipient country is required to buy goods from these companies. In addition, foreign aid isn't totally free. The recipient country must repay a percentage of them to the donor country (this per-

2. Foreign loan

This is an important source of capital for developing countries. Foreign loans could be of high or low interest rates and long or short terms. Companies in the donor country can profit from these loans because the borrower countries are usually required to use these loans to buy from the lender country capital goods or consumer goods which are usually at high prices. The most harmful are short-term commercial loans badly needed by borrowers to



repay due debts or import consumer goods. That is why most developing countries have tried their best to attract long-term soft loans from developed countries.

3. International trade

Generally, comparative advantages possessed by different countries will encourage them to specialize in production of certain goods that allow them to make the best use of these advantages, and then the international trade will be beneficial to all countries. However, many developing countries are forced to specialize in production of low-profit goods because of their lack of technology, capital or skilled workers (for example, Vietnam has to be content to produce and export clothes though this business isn't as profitable as others, because it has nothing else to do.)

Another opinion is that most developed countries are trying to limit import of agricultural products from developing countries and promote export of manufactured goods, so the market for agricultural products tends to narrow over time and their prices are unstable. That is why many economists came to the conclusion that the specialization, and international trade as well, is

always of benefit to developed countries exporting manufacturing goods, not to developing ones that have to depend on export of agricultural products for their industrialization and modernization. To deal with this disadvantage, developing countries should industrialize and modernize their economies in order to increase the value added to their exports and reduce import of manufactured goods.

4. International investment

It's generally accepted that foreign investment is beneficial to the recipient country on condition that no discriminatory policy is applied to foreign investment, that is, foreign investors are equal to domestic counterparts before law. In fact, many countries, including Vietnam, are giving preferential treatment to foreign investors as best they could (in Vietnam for example, the Foreign Investment Law had been promulgated before the Domestic Investment Law was passed by the National Assembly). Most developing countries aim at attracting as much foreign investment as possible on the principle that foreign investors should bear full responsibility for their business performance (bringing in capital and

know-how, marketing their products, observing laws, etc.)

Recipient countries also offer many advantages and favorable conditions to foreign investors: best locations at low rental, cheap labor, preferential tax rates, mild local competition, etc. However, many foreign investors have suffered losses because of various reasons which are hard to describe in detail or make them publicized. In Vietnam, beside certain TV and computer assemblers and producers who make good profit and control big market shares, there are some 10 auto assemblers who suffered great losses because local demand for autos in Vietnam is small; and many companies investing in office buildings or hotels had to witness their businesses running down.

5. Stock market open to foreign buyers

One of great disadvantages in making direct investment in developing countries is that the investors should come and work (or sent representatives to work) in these countries. In addition, the size of investment should be big enough to ensure successful competition or preferential treatment. However,

many small savers (that is, small investors) who want to make investment in these countries choose to make financial investment by buying stocks and shares from stock markets or companies in developing countries because these stocks and shares are usually cheaper and promise higher dividends. That is why main buyers in stock markets in developing countries are foreigners while most important stocks traded in these countries are issued by foreign-invested companies. This situation leads to cycles of economic booms and slumps: booms happen when everybody buys stocks and shares and slumps when all shareholders want to withdraw their capital.

6. Money market

This is a market where foreigners can make investment for profit. To attract investment in foreign exchange, many developing countries allow deposits in foreign exchange to enjoy higher interest rates than deposits in domestic currency do. This practice encourages small savers in developed countries to deposit their savings with banks in developing countries causing economic booms to alternate with slumps.

II. INTERNATIONAL COOPERATION IN VIETNAM

The above analyses show that the international cooperation could be both beneficial and unbeneficial to developing countries. The problem to them is to find out macroeconomic policies to make the best use of opportunities brought about by international cooperation to industrialize and modernize their economies.

1. International aid and credit

Being available to the government and central bank only, so all international aid and credit has been used for improving the infrastructure (power plants, road networks, ports, etc.) and contributed a lot to the economic development, however, these funds are usually released slowly. In comparison with such neighboring countries as Thailand and Indonesia, Vietnam received smaller aid and credit. Necessary measures must be taken to mobilize more international aid and have it released quickly. Development projects financed by international aid agencies have produced intended results because all of them are oriented towards industrialization and modernization.

It's worth noting that besides state-run companies, many private ones also received foreign credits by means of opening LCs under deferred payment terms, and some companies got deeply into debt by this way and caused great damage to state-run banks when they became insolvent. After a series of bankruptcies (Tamexco, Minh Phung, Epco, etc.), the banking authorities started to pay full attention to the bank guarantee business in an effort to reform the control of national foreign exchange reserves in 1998.

2. International trade

Generally, the international trade isn't beneficial to developing countries because prices of agricultural products aren't as stable and high as those of manufactured goods. Since July 1997 when the Southeast Asian financial crisis broke out and forced many countries in the region to devalue their currencies, prices of agricultural products have fallen down dramatically. In the oil business alone, Vietnam suffered a loss of some US\$600 million because of falls in the price of crude oil in 1998. Besides the price of rice that enjoys some rises due to bad harvest caused by El Niño to many countries, prices of most of other agricultural products, along with some labor-intensive goods, fell. In Vietnam's foreign trade, the exports increased in quantity but decreased in their value. One of worrying facts is that consumer goods represented a high percentage in Vietnam's imports and competed fiercely against local counterparts. Fortunately, the government succeeded in tackling this tendency in 1998. Generally, the task of controlling export and import made some progress in 1998 but many measures must be taken to prevent flows of contraband goods and protect local industries, especially after Vietnam joined APEC.

3. Foreign investment

From 1991 to 1997, the total foreign investment was worth US\$11,193.4 million (it amounted to US\$4,717.6 million in 1997 alone). In 1998, just because of the crisis in the region, many investors decided to postpone their projects. To obtain the same growth rate as previous years, Vietnam should develop its heavy industry and local sources of capital instead of depending on foreign investment.

4. Stock market

Speaking of the growth rate of 6% of Vietnam in 1998, some economists are of the opinion that the Vietnamese economy is stable because stocks and shares haven't been freely traded here, therefore, there is no sudden changes in flows of capital as seen in Thailand and Indonesia. In the coming years when a stock exchange comes into operation, the government had better limit the amount of shares sold to foreigners (no more than 51% of issued shares for example) in order to keep local stock markets from fluctuating according to changes in foreign markets.

5. Money market

Like the stock market, the Vietnamese money market was stable in 1998 because the government was cautious about foreign loans, especially ones secured by companies. After bankruptcies of Tamexco, Epco and Minh Phung, the banking authorities took a look at LCs under deferred payment terms and short-term foreign loans before the Asian financial crisis broke out in July 1997. The total foreign debt at that time was estimated at some US\$3 billion which wasn't big enough to cause damage to the banking system. Moreover, these debts could be paid in instalments.

III. DEVELOPMENT STRATEGY BASED ON INTERNAL POTENTIALITY

From above-mentioned analyses, we come to the conclusion that the internal potentiality should be considered as the principal basis for the economic development while international cooperation a supporting factor. In other words, we appreciate the international cooperation but the main stress is always put on local potentialities. It's the banking system where local sources of finance could be found. According to

Keynes, the government can use inflation to increase public investment and obtain full employment. In current conditions where the supply exceeds the demand, the more inflation for investment, the higher the multiplier effect. As for market, there are many ways to expand the domestic market: for example, the government can assign infrastructure works to local companies and forces them to use locally-made materials and employ local labor force. By doing so, the government can create more jobs, increase the demand for local products and laborers, and regulate the distribution of income.

As for foreign trade, limit on import can help expand the domestic market and reduce the trade gap. It's right to adopt the policy to force the use of domestic currency as the only legal tender in Vietnam and foreign exchange is used only for making payments to foreign parties. Succeeding in doing so, the banking system could collect all foreign exchange from the black market, increase the foreign exchange reserves and the strength of the banking system itself, and prevent contraband goods from flowing into Vietnam. The new situation, in its turn, will encourage local industries to increase their output, thereby producing a new economic boom. By then, foreign companies will increase their investment or look for chances to cooperate with Vietnamese partners, instead of waiting for Vietnam to give them the red-carpet treatment.

Thinking through, we see that the famous saying of Hồ Chí Minh "Nothing is more precious than freedom and independence" is always right for everything, from political, economic, financial, international cooperation and foreign trade aspects as well. ■