

# FINANCIAL LEASING

# A USEFUL FINANCING PRACTICE TO ACCELERATE INDUSTRIALIZATION

by Dr. NGUYỄN HỒNG HẢI

The Party and the Government, in their Strategy for Economic Development have decided on increasing the per capita income from US\$220 in 1994 to US\$400 by 2000.

In order to achieve this aim, according to experts, the capital for the period 1996-2000 must be somewhere between US\$20 and 30 billion, half of it will come from domestic sources, and the other half (including investment, aid, loans, etc.) from foreign banks and international financial organizations.

However, at present, the industrial production of our country was obsolete. According to HCMC Statistics Agency, the technological level of machines and equipment in HCMC is as follows:

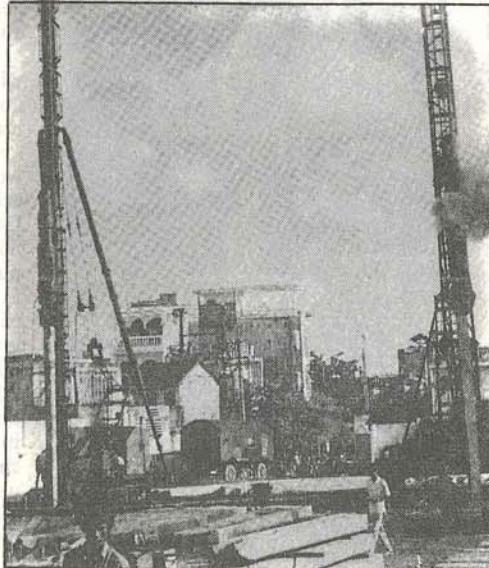


Table 1: Machines and equipment in HCMC

SECTOR	Technological level of machines compared with their counterparts in the world		
	Modern	Medium	Obsolete
1. Public sector	11.4%	53.1%	35.5%
-Central	10.6%	60.6%	28.8%
-Local	11.9%	48.6%	39.5%
2. Non-public sector	6.7%	27.0%	66.3%
-Joint stock and Ltd Co.	19.4%	54.8%	25.8%
-Private businesses	30.0%	30.0%	40.0%
-Cooperatives	16.7%	33.3%	50.0%
-One-man companies	3.6%	22.8%	73.6%
3. Foreign invested companies	44.4%	55.6%	0.0%
Total	10.0%	38%	52.0%

Although these data were gathered from HCMC businesses, but they could reflect backwardness of Vietnam's industrial production, because

HCMC has been considered as the most modern and biggest industrial center of the country. The survey showed that many machines and

equipment were produced in the 1950s. Technological level of machines used in Vietnam is separated from those of their counterparts in the world by 6-8 generations. Moreover, the degree of wear and tear of machines is high (over 70%, or even 100%).

In other countries, machines and equipment depreciated by 70% will be replaced, whereas in Vietnam only small investment is put in machine and equipment replacement. In 1993, fixed assets increased by 9.11% on average, while basic amortization was of 11% or 12%, that is, the value of assets didn't increase but decreased.

This situation affected badly the product quality and economic development. At present, only 15% of goods made in Vietnam reached the standards of exports, 70% could be sold in domestic markets, the rest were of low standard. This reflects in Vietnam's low export turnover in comparison with regional countries.

Table 2: ASEAN countries' export turnover in 1994

Nation	Turnover (US\$ bil.)	Per capita export earning
Brunei	2.6	8,600
Indonesia	40.1	206
Malaysia	58.1	2,964
Philippines	13.4	200
Singapore	96.5	31,130
Thailand	43.5	720
Vietnam	3.9	52

Source: *Asiaweek*, June 30, 1995.  
The obsolescence of machines

has also affected the stability of the production, especially when Vietnam became an AFTA member (Vietnam must reduce tariff in order to integrate into this bloc by 2000). At present, we can't use tariff barriers to protect our industries, that is Vietnam's products must compete against goods from ASEAN countries in the domestic market when protectionist measures can produce only slight effects (AFTA tariff varies from 0% to 5% at most).

Realizing the danger of falling behind of the economy, the plenary Mid-term session of the VCP 8th Central Committee has decided on carrying out the policy on industrializing and modernizing the economy and considered "industrialization and modernization as the best way to escape from the danger of falling farther behind regional countries, and protect political stability, independence, sovereignty and socialist orientation".

Industrialization is an overall process in which the replacement of backward machines is the most urgent and basic matter in the task of realizing the strategy for socio-economic development and preparing for equal competition with regional countries in the next century.

According to experts, to reach the aim of modernizing the manufacturing industry, 15% of machines should be replaced every year. In order to achieve this target, we must take measures to mobilize capital from both foreign and domestic

sources. Using methods of financing is a way to attract investment.

As we know, in the last few years, domestic sources of capital haven't been employed effectively, even bank deposits; many banks holding large amounts of dead capital had to supply personal loans only while the manufacturing industry and the economy were badly in need of long-term capital for the renovation of machines and equipment.

In short, the demand for investment, and capital investment to be precise, is very urgent and forces us to take measures to mobilize capital and apply methods of financing in order to realize needed investment.

One of methods of financing is financial leasing. According to financial experts, the financial lease is a form of supplying credit which is more favorable than other traditional ways of supplying credit.

Financial lease can meet demands of both manufacturing industry and agriculture, both large corporations and small and medium companies. It can provide leasees with all kinds of machinery, from those used in manufacturing industry, construction to in agro-industry and transportation of agricultural products.

- This is also an appropriate way to mobilize domestic sources of capital and change dead money into investment. At present, long- and medium-term loans are usually supplied in cash. This method involves a high degree of risk and loans can be supplied only to trustworthy companies.

By offering financial leasing agreements, banks could supply more long- and medium-term loans to companies in current conditions of the economy, or in other words, banks could offset risk of customers against risk in financing service, that is, banks could run their business more effectively. Thus, the financial leasing enables us to employ domestic sources of capital more effectively.

- Financial leasing is a way to attract more foreign investment. In the past few years, although foreign investment in Vietnam has increased remarkably, but the source of capital from foreign financial organization hasn't been tapped. Financial leasing could help us to tap this source more successfully.

At present conditions, although Vietnam's law system isn't perfected, but basic laws needed for financial leasing such as Ordinance on banking, Ordinance on economic agreement, Land Law, Ordinance on civil agreement... and law documents relating to financial leasing such as Decision 149/QD-NH5 issued by the Governor of the State Bank, Decision 1205-TC/QD by the Ministry of Finance, Decree 64/CP by the Prime Minister, and Circular 03/TT-NH5 by the Governor of the State Bank have been issued and created conditions for applying financial leasing to the Vietnam economy, and thereby, accelerating the industrialization and modernization of our economy ■

