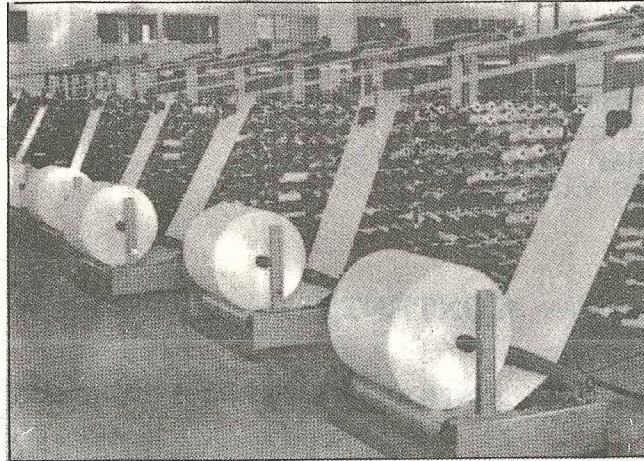


CHANGING THE ECONOMIC STRUCTURE IN THE DIRECTION OF INDUSTRIALIZATION AND MODERNIZATION

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I. THE ECONOMIC STRUCTURE AND PRESENT ECONOMIC STRUCTURE OF VIETNAM

The economic structure is all relations between components of an economy. So the economic structure should be studied in the interactive relations between its components: structure of industry, structure of regions, structure of economic sectors, structure of domestic and foreign economies, relations between economic and non-economic activities, etc.

In tapping resources, creating new dynamic for the economic growth, a strategy for changing the economic structure has an important role. The change in the economic structure, basically, reflects the development of an economy which could be recognized by the following indicators:

- Both absolute value and relative importance of industrial production in GDP make increases; while absolute value of agricultural production increases but its relative importance in GDP decreases. Thus, the growth rate of industrial production is bigger than that of agricultural production.

- There is an increase in labor force of manufacturing and service industries, and a decrease in labor force of primary industry, especially in farming business.

- The production is mechanized. Machines have replaced human labor in many industries. Existing equip-

ment is innovated and new techniques are applied to the production.

- The economic structure should make the best use of country's resources and comparative advantages, and on the other hand, it can adapt itself effectively to changes of domestic and international economies (changes in supply and demand, technology, price, competition environment, etc).

- Components of the economic structure always operate in interactive relations and produce domino effects, therefore many factors (usual and reverse relations; international, regional and national co-operation and division of labor, etc) should be taken into consideration when we decide on our economic structure.

In the past four years, from 1991 to 1994, Vietnam's GDP has grown rather well (7.8 per cent per year on average), but the economic structure is still "hard". It has characteristics of a traditional agricultural economy as could be recognized by the following features:

- The relative importance of each sector of the structure of industry in GDP is slow to change. Agricultural production still takes a high percentage. In 1994, value of agricultural production represented 35 per cent of GDP, industrial production: 22 per cent and service: 39 per cent.

- There was no remarkable change in structure of labor force in the past three decades. Nearly 70 per cent of

Vietnam's labor force are working in agricultural sector. If human resource is one of our comparative advantages, then this advantage isn't exploited profitably because in agricultural production the labor efficiency is low and hidden unemployment is common.

- According to unofficial estimation, only 35 per cent of GDP came from mechanized production; 10 per cent of labor force worked with machines; technology added only from 10 to 20 per cent of value to manufacturing products; of existing equipment and machines, 10 per cent were modern, 38 per cent rather old and 52 per cent obsolescent; rate of equipment renovation in recent years was of 7 per cent per year. On the whole, we are slow to apply modern technology and techniques to the production, so no major change in the economic structure is realized.

- The market mechanism hasn't worked well: Vietnam's industry depends on foreign raw materials; its exports are cheap and its imports are dear; a large part of Vietnam's exports is sold to middlepersons; Vietnam's companies transport only 10 per cent of total volume of exports and imports; unprocessed or semi-finished products represent a large percentage in export turnover.

- There is no "development polars" (or *leading sectors* as W.W. Rostow put it) to accelerate the growth rate.



Thus, changing the economic structure to strengthen the inner dynamic of the economy has become a matter of great urgency.

II. WHAT INDUSTRY SHOULD BE GIVEN PRIORITY?

1. The secondary industry

Operation in this industry is limited by space but its products can substitute for one another easily so supply and demand tend to be equal because of their high elasticity. To accelerate the growth rate of this industry and increase its percentage in GDP, we should determine a list of priorities. In my opinion, this list can be as follows:

- Export-oriented factories: their machines and technology should be innovated speedily. This enables them to mass-produce high-quality goods and to compete successfully in foreign markets.

- Capital goods and consumer goods factories: from now until 2000, their existing equipment and machines only need to be renovated or upgraded. The government should take measures to encourage producing and using local raw materials.

- Strategy for development of ship-building, power, oil refinery and petrochemical businesses should be made.

- Rural economy could be developed by producing high-quality farm machinery of various kinds.

2. The tertiary industry

This industry has a wide range of activities, requires small starting capital, gets a high growth rate and capital

turnover, employs numerous laborers, etc. Therefore, in developed countries, this industry tends to increase rapidly. The development of this industry has strong effects on the primary and secondary industries.

However, we should realize that in a short period of time, this industry in Vietnam can't catch up with those in developed countries because:

- Firstly, agricultural and manufacturing businesses in Vietnam haven't fully developed yet. They have still employed and needed a large labor force because of low mechanization.

- Secondly, Vietnam's per capita GDP is low, so is the spending power of the people.

3. The primary industry

This industry is affected heavily by natural conditions. The importance of its products to human life can't be substituted. Vietnam is a tropical agricultural country, but the per capita area of farming land is small compared with foreign nations. Thus, this industry should be developed basing on its comparative advantages. On the other hand, the legal infrastructure should be reformed in order to encourage formation and development of large farms and ranches and improve output of animal husbandry business.

III. SOME MEASURES TO ACCELERATE THE CHANGE OF THE ECONOMIC STRUCTURE

1. Investigating all of our resources: these resources include labor force, capital, natural resources (their quantities, quality, structure, etc). Basing on this, a strategy for changing

the economic structure could be formed.

2. The development of the primary, secondary and tertiary industries, and various businesses of each industry, always have their own importance and rate. This matter should be studied over time with a view to adjusting them flexibly.

3. Forming a close relation between agriculture and manufacturing business. The latter's development could help the former made good progress.

4. Making development plans for each industry and region; encouraging formation of small farms and ranches; giving price support to main agricultural products for export; improving network of roads in rural areas.

5. Paying full attention to development of agricultural economy by selecting new seeds, introducing new techniques, supplying enough fertilizers, insecticide, weed-killers to peasants, diversifying crops and livestock.

6. Improving productivity of the soil instead of increasing labor intensity.

7. Giving top priority to building infrastructure in export processing zones, industrial estates, hi-tech industrial parks or vital economic zones with a view to attracting more investment.

In short, combined measures should be taken speedily in order to direct Vietnam's economic structure towards the path to industrialization and modernization ♣