



GENERAL ORIENTATIONS AND MAJOR SOLUTIONS TO RESTRUCTURING HCMC INDUSTRIAL SECTOR

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To implement the resolutions of the Party's eighth congress and the city Party unit's sixth congress, along with the whole country, HCMC is boosting the national industrialization and modernization and making great efforts to bring the country out of poverty and backwardness and to an industrialized country by 2020. To attain this target, with its position, role and available advantages, the city has to try its best to reach high economic growth rate, comprehensive evolution and fast industrialization and modernization. As a result, to accelerate the process of restructuring the city industrial sector is very significant. This work should be implemented first with the aim to generate more dynamics to fully utilize internal resources.

To fulfill the planned target, based on the analysis of facts and trends of industrial restructuring in the past time as well as to forecast the trends in the next year, to make the best use of internal resources and

improve the industrial sector's leading role, in our opinion, the HCMC industry needs development and restructuring as follows by 2010.

I. GENERAL ORIENTATIONS AND STEPS IN THE INDUSTRIAL RE- STRUCTURING

The city economic structure is a part of the national economic structure, it should be promoted following the two general orientations:

The first is to make the best use of comparative advantages of the city - the country's hub of industry, techno-science, trade and service, finance and banking of the south and the whole country as well as the bridge linking national trade with international markets, initially ASEAN's markets.

The second orientation is to establish an open economic structure to contribute to speeding up the process of shifting to the export-oriented economy. The city's products should be competitive against ASEAN's counterparts. This will create favor-

able conditions for local enterprises when Vietnam join and fulfill its commitments to the ASEAN Free Trade Area (AFTA). The industrial sector has to satisfy local consumption, and succeed in the competition with foreign imports. In the meanwhile, it needs production of import substitutes such as machinery, equipment, and materials serving the city industry and agriculture. The sector has to find how to secure the materials supply stable as well as utilize its comparative advantages.

To carry out the general orientations, the city trend of industrial restructuring is as follows:

- Giving priority to investments in industries processing agro-forestry-fishery products, consumer goods, and exports; enhancing labor-intensive industries (to reduce the current unemployment rate); promoting industries using available materials in the city and the Mekong Delta and those recovering capital soon and requiring less space, for example, food processing, textile,

leather, garment for export, electronic assembly, mechanical engineering for agriculture, forestry and fishery, precise mechanical engineering, printing packages for export, high-grade building materials and interior decoration. In the next years, the city has to innovate technologies to improve its quality of existing processed products.

- Boosting production of goods for domestic consumption and for export; and paying attention to demands in rural areas, especially in southern countryside.

- Enhancing the processing industry for export in order to create more jobs; promoting the mechanical engineering industry to manufacture equipment and machinery for agriculture, forestry, fishery, and transportation serving the agriculture in suburban areas and processing industry in southern provinces.

- Prioritizing spearhead industries such as precise mechanical engineering, electronics, information technology, biological technology, new materials production for the national modernization.

- Developing the industry manufacturing machinery and integrated assembly lines, and providing other provinces' industry with domestic materials.

- Increasing the contribution of industries of food processing, chemicals, rubber and plastics, textile, leather, garment, electronics, information technology to the city's GDP.

- Innovating technologies and equipment for industries of electricity, electronics, information technology, biological technology, producing exports, processing agroproducts, manufacturing machinery for agroforestry-fishery production.

- Increasing accumulation for re-investment with the aim to modernize technologies up to the Southeastern countries' level.

- Combining traditional technologies with modern ones; selecting medium and small scale; step by step changing industries using a lot of unskilled labor and polluting environment into those using technical workers, clean technologies and producing high quality products which are competitive and have large demand.

- Increasing the growth rate of industries having large percentage in the industrial sector such as food processing, textile, chemicals (including plastics and rubber), gar-

ments so that their output can be up from 15% to 20%.

- Making the growth rate of electronics and motorcycle assembly industries reach 20% (by the year 2005); speeding up growth rate of group-A industries as well as gradually raising the proportion of industries manufacturing machinery, and electrical equipment; and creating good conditions for the development of the oil and gas industry.

The process to restructure the HCMC industrial sector is implemented in two phases:

- Phase 1 from 2000 to 2005

In this phase, the city should focus its investments on modernizing industries producing major products such as textile, garment, and food processing to improve local goods' competitiveness and ensure that the annual growth rate of the city industrial sector reaches 14 to 14.5%. The city industry first modernizes the mechanical engineering sector, imports modern tool machine to manufacture agricultural and processing machinery and strengthen assembly industries. The software centers should be set up. The city should reorganize the whole network of manufacturing enterprises. The rural economy will be restructured in the trends of industrialization of rural areas. The city should establish hi-tech parks, and build infrastructures to attract investments to the industrial sector. The human resources should be also trained or retrained in line with new requirements.

At the end of this phase, the industrial sector structure will include processing 96%; water production and distribution 3.9%; and exploitation 0.10%. The city industrial sector proportion to GDP will reach 46% (agriculture 2%, and service 52%). The value of the sector's exports will be posted at US\$800 million.

Phase 2 from 2006 to 2010 (2006 is the year Vietnam fulfills its commitments to AFTA)

In this phase, the city will make studies and cooperation with foreign partners to manufacture tool machine for local demand and for export. In the meanwhile, the electronic industries will shift from assembling products to manufacturing accessories and spare parts. The software center then can export its products. The hi-tech parks will be firmly shaped. The industries producing major products will earn more market shares. The factories can successfully manufacture tool machine, processing lines, and farming machine. The city information technol-

ogy will keep pace with the world's level. The hi-tech parks will make positive contributions to economic development.

The industrial sector's growth rate is between 13% and 14%. Its share in the city GDP reaches 45.5% (agriculture 1%, service 53.5%). The value of industrial exports will gross US\$1,200-1,300 million. As many as 30% of the total industrial products are used for export and 60% of manufacturing enterprises having equipment and technology as modern as southeastern countries.

The sector's structure will be changed: processing 95.5% (down 0.5%); production, water and electricity supply 4.4% (up 0.5%), and exploitation 0.10% (unchanged).

II. MAJOR SOLUTIONS

1. Market solution:

At present, local and foreign markets are one of crucial factors, as well as the biggest challenge to the HCMC industry. The shift to export-oriented industry and improvement of the city comparative advantages requires all enterprises to promote their competitiveness and expand their market shares.

Although the city industry is oriented towards export, the city has to enhance the purchasing power and meet local demand, especially in rural areas with a view to expanding production. To increase the purchasing power in rural areas, the Government is required to renovate policies on agriculture and rural areas, strengthen rural economic restructuring, and give market supports. The Government not only finds how to protect locally-made products but also secures its commitments to open policies and integration into the regional economy.

The HCMC industry has to affirm its role as a hub manufacturing goods for southern provinces and the southern Central Highlands. The two-way relationship between HCMC and southern provinces is an important factor to stabilize and develop markets for the city industry in terms of input and output, at the same time accelerate industrialization of southern rural areas and utilize the city comparative advantages.

2. Capital solution

In HCMC, domestic capital now accounts for some 60%, foreign funds make up 15% and will increase to 35%. The evidence shows capital invested in production remains modest and capital invested in services is

not effective to boost economic development.

If the capital demand is not met in the economy on the whole and in the industrial sector's restructuring in particular, the rearrangement of industrial enterprises and relocation of those causing pollution to suburban areas cannot be realized. As a result, the following solutions to capital mobilization should be speeded up.

Mobilization of domestic capital:

The Government is required to set up a savings mechanism for investments in production and give incentives to economic sectors to promote production. The authorities must perfect detailed plans so that investors feel ensured to do business in the long run. The Government should map out support policies for small-and medium-sized enterprises in the fields of credit, marketing, training and information.

Meanwhile, it has to diversify various forms to create capital; and accelerate equitization of state-owned enterprises. It should designate those enterprises which must go public. State-owned enterprises are encouraged to set up new joint stock companies for capital mobilization. The Government issues bonds for infrastructure construction. It also promotes forms of finance leasing, step by step sets up the capital market, and financial intermediary institutions such as stock companies, finance companies, insurance funds, investment funds for urban development. The authorities will allow purchasing or leasing its assets that are being used ineffectively;

Mobilization of foreign capital:

The Government should expand forms of joint ventures in accordance with the Law on Foreign Investment in Vietnam, especially BOT (Build-Operate-Transfer) contracts. It also makes pilot issuance of bonds, shares abroad and borrow capital from international financial institutions; improves investment climate, simplifies procedures of project evaluation with a view to creating favorable conditions for foreign investors; and well formulates development projects to attract foreign credits, official development assistance, and low-interest loans from IMF, WB, ADB...

3. Technology solution

The industry sector has to implement technology transfer, and import suitable technologies in combination with scientific research and development domestically. The enterprises should avoid importing

outdated technologies as well as expensive ones. The Government is required to remove obstacles in the income tax and the Law on Domestic Investment to promote technological innovation. Relevant authorities should focus investments on projects of renewing technologies of the city.

The local enterprises pay attention to technologies requiring low investment, recovering capital soon, and creating more jobs.

The Government should also develop human resources for technological projects; invest in the development of state-of-the-art technologies; encourage enterprises to innovate technologies by deduction of their income (from 5 to 10%) which is free of tax; and establish technological development funds...

In addition, the Government should give tax relief to enterprises that apply techno-scientific achievements to production and innovate their technologies. A part of capital in projects will be invested in the R&D activities for technological innovation. The Government will supply medium-and long-term investment credit to establish techno-scientific funds and renovate technologies.

In addition, relevant authorities are required to attract foreign aids to techno-scientific projects and seriously execute the Law on Technology and Science and the national policy on technology and science. The Government stimulates import of high technology, limits import of low technology and prohibits import of obsolete technologies.

4. Manpower solution

Human being is both motivation and target of development. Among solutions to restructuring the HCMC industrial sector, the training and employing of the technical workers (amounting to 500,000) can not be absent. However, their educational level remains low as compared with other areas such as service, education, and health care. Those with high school level account for 3.24%, with college and university level 5.81% and master 0.08% only. Most of the directors of state-owned enterprises are university graduates, while most of the directors of non-state enterprises are not. This is really an obstacle to the industrial restructuring from low technical areas with unskilled labor to hi-tech areas with modern machinery.

The task of developing human resources for the city industry includes

training and retraining technological workers. The city should pay attention to train engineers, high-level engineers, young scientists, talent entrepreneurs, and skilled workers. The Government is required to make incentives to attract good students to technical schools and universities. It should also allow foreign cooperation in opening technical schools in the city to train engineers and skilled workers.

The enterprises should be encouraged to train and retrain their staff in cooperation with local schools. The city should set up vocational training centers and grant work permit to workers and establish occupational associations.

The businesses should study to organize refresh courses to improve their workers' skill and have reasonable wage policies for highly skilled workers. The plan of training and employing the human resource should be devised in line with the plan of industrial development.

In short, the industrial restructuring is one of important contents in the process of national industrialization and modernization, international integration and participation in the knowledge-based economy. To accelerate the process of industrial restructuring in HCMC is just one of basic measures to fully utilize internal resources and comparative advantages of the HCMC economy. The specification of restructuring orientations and feasible solutions will be extremely important in terms of theory and practice and need additional studies and analyses. ■

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