

In the market economy, small State-run enterprises are not so as effective as private ones. In agriculture, for example, farmers work hard and overwork in the seasonal days, while in State-run farms, employees work eight hours a day, so they cannot compete with farmers who take initiatives on their small fields. Just because of this, farms currently sign contracts with workers, some farms decide on the planning, buying, and processing only. In commerce, small private shops open all day long whereas State-owned ones operate in working hours. In handicraft sector, laborers are mainly members of the owner's family: when getting orders, they all work day and night. The owners and their families' interests and incomes stick in those of their enterprises, everyone works at full stretch when they have jobs, if not, they apply for jobs in other businesses or trade to survive. This will make their enterprises overcome economic crises. Just because of the above reasons, State-run companies cannot compete with farmers, small traders, households, and handicraft producers. Even in the field of medium-size enterprises, State-run enterprises can compete difficultly with private ones. The reason is: private businesses work at full stretch, their directors are very energetic, finding every opportunity to raise incomes. On the contrary, directors of State enterprises are limited by regulations, even when he/she makes more efforts, their salaries are still not improved, not to mention their innovations (if any) must be submitted to the higher-level agencies for approval and these agencies could neglect these innovations.

On the contrary, large-scale State enterprises have too many advantages. The enterprise can be established immediately after the Government's decision. Its capital will be easily advanced through the State budget, banks, loans from international institutions, aids from the world's donors. Its techno-scientific level is extremely high since the Government can invite domestic and overseas experts to help the enterprise. It is obvious that private businesses cannot have these advantages: in Vietnam today, private enterprises can hardly obtain US\$50 million to build an auto tyre making factory, while the Government easily concentrated above US\$200 million to erecting the North-South high voltage line. This transmission line was particularly completed for two years instead of four years, planned by Viet-

namese experts (with foreign experts' assistance), funded by the State budget and banks. If the Government had not implemented this project, then there would have been no such line so far. Vietnamese private businesses certainly do not have enough capital to realize such a project. Even though they possess enough capital, they could not meet techno-scientific and power requirements to deal with requisition and compensation for site clearance...

## STRATEGY ON INDUSTRIALIZATION, MODERNIZATION AND ECONOMIC SECTORS

by Dr. LÊ KHOA

As a result, it is suggested State-run enterprises should be focused on the large-size models, and small- and medium-size businesses should be managed by the private sector.

### I. THE PUBLIC SECTOR AND STRATEGY ON INDUSTRIALIZATION, MODERNIZATION

#### 1. The backwardness of Vietnam industry and losses in buying foreign goods

At present, our science and equipment are obsolescent by 2-3 generations as compared with overseas ones. In recent years, we have made some progress in production, but most of the progress is centered

on the fields of agriculture such as rice, rubber, cotton, seaproducts, minerals (crude oil), of housing, tourism, transportation, materials such as steel, cement, fertilizer... but Vietnam cannot yet manufacture hi-tech products such as auto, Honda motor-bike, computer, television, air-conditioner (only assembled from imported components) or capital goods. This causes our losses in trading with foreign partners since the price of manufactured goods is high and stable, and the prices of agro-products and minerals are low and in frequent fluctuations. In recent years, prices of coffee and sugarcane were rather high, farmers rushed into growing coffee trees. But in 1996-1997 these prices dropped sharply, causing great losses to farmers. The farmers growing coffee trees are worried about whether their coffee beans can sell VNĐ11,000-12,000/kg or not. Farmers, workers have to work hard to produce agro-products and minerals for export and earn foreign currency. These earnings are used for buying computers, Hondas, autos, air-conditioners, industrial machines at expensive prices. After these machines are used for some years, they go out of date and billions of dollars will vanish into thin air. For example, a personal computer (PC) 286 valued at US\$1,000 installed with a hard disk 40M was considered rather modern and bought by many agencies and families three years ago. By 1977, a PC 286-40M is backward and is no longer produced by industrial countries because it cannot run Windows, FoxPro 25... Customers request to buy PC 486 or 586 (Pentium), even PC with Pentium is unfashionable because PC 686 has come into being. Therefore a PC 286 bought three years ago will be sold cheaply or discarded. And millions of US dollars Vietnam has spent on buying PCs 286-386 will be lost. Similarly, billions of US dollars used for importing industrial machines, autos, Hondas, air-conditioners will be wasted since they are broken or backward and cannot meet the requirements of competition in the market economy.

That does not mention second-hand auto tyres, auto, photocopy machines which were refurbished and sold to Vietnam with cheap prices. Vietnamese like to buy them due to low prices. In overseas countries, labor prices are too high, so they do not repair old machines because payment for reparation of an old machine is higher than that for obtaining a new machine. That Vietnam buys these discarded goods means Vietnam helps foreign nations sell their



industrial gabbages with extremely high prices, save funds from spendings in destruction of gabbages, and always produce new products.

To prevent the above-mentioned losses, the only measure is Vietnam has to manufacture capital goods, hi-tech machinery.

## 2. Vietnam has to produce capital goods, hi-tech machinery

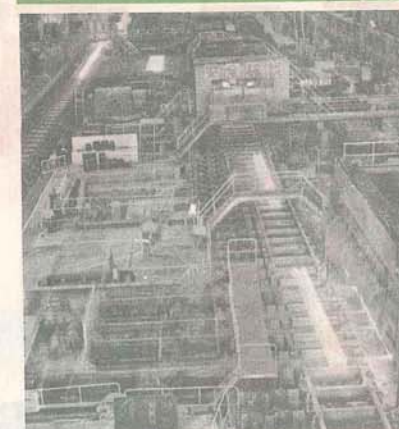
As we know, Vietnam has entered into JVs with many partners to assemble autos, TVs... These JVs have turned out high quality autos and TVs for domestic consumption and for export. But in fact, these high-grade goods are assembled from imported components whose prices are too high. An ink cartridge sells VNĐ251,000 while production price is only some tens of thousand đồng. Foreign companies have policies on selling finished goods cheaply, but their spare parts expensively. The factories assembling autos, Hondas, color TVs in Vietnam are really enterprises importing spare parts. As a result, industrialization can be seen as "turning screw" while spending precious US dollars to import spare parts is considered as "importing materials for production".

To industrialize, modernize, we have to manufacture spare parts to substitute imports such as auto accessories: tyres, frames, batteries, lamps, domes, seats; PC covers and power supply sets (transformers reducing 110-220-230 V to 5-12 V). The parts which Vietnam cannot yet manufacture include mainboard, I/O card, CPU, coprocessor, hard drive, floppy diskettes, monitor, keyboard... Every foreign company produces only one kind of above components. Every nation manufactures some kinds of spare parts, for example, Taiwan makes mainboards for computers, Singapore specializes in hard disks. French Michelin is famous for producing auto tyres. Therefore, when industrializing, modernizing we cannot manufacture the whole auto, PC, but only some components of these products. We should start from the easily-made parts and import the rest... In 1970, for example, in the South, there was a kind of car named La Đà Lạt. 40% of its accessories were made in Saigon, and its engine was imported from France. Consequently, it is as durable as French cars. Similarly, the manufacture of PCs can begin from PC covers or power supply sets, then to complicated parts... Thus, Vietnam must have tremendous investments, US\$ 50 to 100 million for each factory. Their technology must be modern and the Government should spare market shares for newly-built

factories by giving no permission to importing what these factories can make, or imposing high taxes on these goods, launching campaigns to stimulate Vietnamese to buy home made goods...

## 3. State-run enterprises and policy on industrialization, modernization

If the policy on industrialization, modernization is implemented as above, then Vietnam can set up yearly target of building hi-tech factories producing parts of a high-grade item that Vietnam cannot yet manufacture



it totally. For instance, 1997: manufacturing PC covers, power supply sets, 1998: floppy and hard disks, 1999: keyboards, 2000: mainboards... Their quality must be equal to (or higher than) that of foreign products so that they can be exported. Vietnam can exchange home made PC covers and power supply sets with foreign factories when importing components yet made in the country such as CPUs, mainboards, monitors... A factory producing covers, power supply sets with output of 100,000 units/year (50,000 for domestic consumption; 50,000 for export)

requires great capital. The proposals about promulgation of taxes or setting quotas for importing PC covers, the negotiation with foreign corporations and the exchange of goods are beyond capacity of private enterprises. The State-run enterprises with supports of Ministries of Commerce, of Planning and Investment, and banks could meet maximum conditions to fulfil these tasks. Therefore, the public sector should establish some leading enterprises specialized in producing some items or components of hi-tech goods. Other sectors such as private capitalists, individuals, households are not able to carry out these heavy tasks.

## II. THE ROLE OF OTHER SECTORS IN THE POLICY ON INDUSTRIALIZATION, MODERNIZATION

1. In the current multi-sector economic policy, if a private enterprise is willing to build a factory producing PC covers and power supply sets since they think Vietnam can make transformers reducing 220 V to 5-12 V and do not require high technology, their investment will be welcome. State-run companies will focus on manufacturing other complicated parts such as floppy and hard disks. The Vietnam Government advocates a fair playground for every sector and the private sector can be supported as the public one. In the coming years, Vietnamese private capitalists will have more capital, higher skill level, then their construction of hi-tech factories will come true.

2. The main point of industrialization, modernization is to establish new enterprises, who are the owners of the enterprise's shares is relatively important. After the factory's construction is completed, the State can sell some shares to private enterprises. The Government holding only 50% of total shares can be dominant in the Management. Selling shares of State-run enterprises produces many benefits: the State can recover its capital to build other new factories, the enterprise's director can be assigned to the person holding lion shares; he/she will be responsible according to the value of his/her shares if the enterprise make losses; the enterprise's staff will be streamlined.

By the cooperation of the public and private sectors, the industrialization, modernization will be faster than that done by only one. This policy is not new, it is only a shift from the military and political strategy of combining all forces, spiritual and material, to defeat enemies in the wartime to the current economic strategy for every success in competition on the world market.