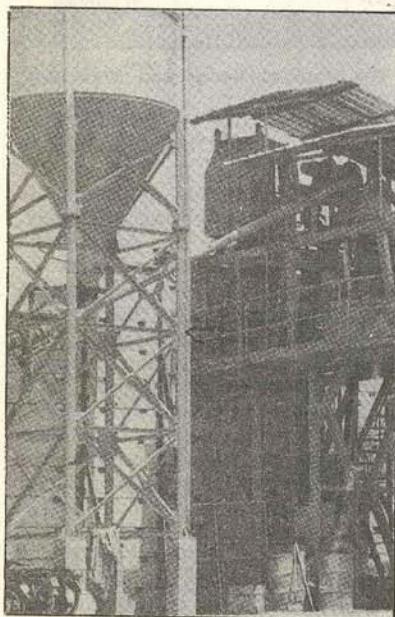




# FINANCIAL REFORM AND INDUSTRIALIZATION

by AN NHU HÀI



**I**n our process of industrialization, until recently, our finance has revealed the following problems:

- The role of finance hasn't been highly regarded and there is no appropriate mechanism for mobilizing, distributing and employing sources of capital.

- The finance hasn't really served as a tool for the government to control the economy and direct it toward the industrialization. Just because of this, our equipment and technology still lag far behind the world and surrounding countries although the industrialization program was

and abroad) is a matter of great urgency to the industrialization. In order to achieve this goal, we should:

a. Renovating and perfecting financial intermediaries: This system (including investment banks, commercial banks, finance companies, credit unions, insurance companies, pension funds...) should be developed evenly and introduced into activities of all economic sectors all over the country.

- The mobilization of capital should be diversified in order to secure both long- and medium and short-term loans.

- Means of payment should be diversified with a view to supplying safe, convenient and secret services to users.

- Money could be exchange as freely as other goods according to laws of the market economy. Conditions necessary for formation and development of the capital market (especially the stock exchange) should be prepared.

An effective reformation of the system of financial intermediaries should result in not only raising the level of savings compared with GDP (this level represented only 4% of GDP last year, whereas this level in surrounding countries reaches 30% of GDP), but also in getting the people to give up the habit of hoarding gold and foreign exchange instead of making them an investment (according to reliable estimation, the amount of gold held by the people is worth of US\$7 to 12 billion).

b. Improving the capability to attract foreign capital: Although domestic source of capital is the decisive factor, but when this source is very limited, the foreign one plays an important role in triggering off the industrialization process. So we should perfect our policies and mechanism for attracting foreign aid and direct investment (including investment under BOT form); and encouraging exportation of goods and services with a view to securing enough foreign exchange necessary for technology transfer and importation new equipment.

In the past years, especially in 1994, we have successfully negotiated with foreign countries about settlement of overdue debts and receipt of new loans and aid (we will receive US\$2 billion for 1994 along with some US\$2 billion for 1993). This aid provided a favorable condition for renovating the finance.

2. Distribution and employment of capital

From experience of NICs we learn that distributing and employing

launched since the 1960s.

Recently, along with the renovation process, financial reform is carried out step by step, but the finance is still influenced by the subsidized mechanism, budget deficit is serious. If there is no successful escape from this situation, the finance can't meet the requirements of the industrialization process.

Basing on the viewpoint of the Government and the Party, and aiming at industrializing our country in the market economy, the financial reform should achieve two goals: finding ways of mobilizing and employing effectively all available sources of capital; and perfecting financial institutions for directing the industrialization process. The following are some suggested measures:

## I. INTENSIFYING THE ROLE OF THE FINANCE IN MOBILIZING, DISTRIBUTING AND EMPLOYING ALL AVAILABLE SOURCES OF CAPITAL

### 1. Mobilization of capital

Unlike in the subsidized mechanism, the finance in the market economy includes all assets of the country having some money value (including cash and everything marketable). Mobilizing all sources of capital from all economic sectors (both at home

capital effectively means making all sources of capital dynamic of the economic development. This is a decisive factor in extending the capability of mobilizing more capital. The main problem in distribution and employment of capital in Vietnam today is to choose right orientation of investment and priority projects, and to affirm right investor in an appropriate mechanism.

a. Selecting right orientation of investment and priority projects: In Vietnam today, the efficiency of investment reflects in the speed of the industrialization, that is the distribution and employment of capital should be attached to industrialization and modernization. In the immediate future, capital should be invested in upgrading and building infrastructure with a view to creating conditions favorable for circulation of goods and services; in labor-intensive projects (modernizing rural areas, developing labor-intensive manufacturing industries, etc) and in hi-tech projects which could help us accelerate the industrialization process.

b. Affirming the right investor: The government had better stay away from businesses which could be done by the people, and keep these businesses away from foreign investment and competition, thereby affirming areas of government investment, private investment and foreign investment.

The distribution and employment of capital in the market mechanism should be connected with the government's management, particularly in such a late-industrialized country as Vietnam.

## II. ENHANCING THE ROLE OF THE FINANCE IN ORDER TO ORIENTATE THE ECONOMY TOWARDS INDUSTRIALIZATION

Finance has a decisive role in controlling the economy and influencing the industrialization process. In order to enhance the role of the finance in Vietnam, we have to deal with three following problems: the national budget, tax and management of business finance.

### 1. Renovating the national budget

In recent years, although many reformations have been made in the national budget which were considered as "surprising achievements", but in realities the national budget is still under the influence of the subsidized mechanism and a budget deficit has been a common event for many years. This situation has bad effects on the industrialization process. Solutions to this situation are as follows:

- Taking strong measures to exploit all sources of budget income; to

struggle against tax evasion, avoidance and doubtful debts or arrears of tax; and to secure foreign loans according to international practices (issuing government bond and treasury bond to the international markets, etc).

- Settling state enterprises' debt (total sum of debt reached VND16,500 billion now).

- Summarizing the pilot scheme and going on equitizing state enterprises if keeping them under government's ownership isn't necessary.

- Orientating the national budget towards regulating the economy and accelerating the industrialization process: Industrialization is central to the national budget, so the economy should be directed toward it.

### 2. Reforming tax system

Tax take is the main income of the national budget (representing 91.2% of the budget in 1994). Taxation is also a way of directing the economy toward the industrialization. The taxation should be based on a certain percentage of GDP and the tax system should cover all sources of income generated in the market economy. Priority projects necessary for industrialization could be exempted from tax or given a tax holiday.

### 3. Renovating the management of business finance

All economic projects are carried out in businesses. The efficiency of the industrialization is attached to activities of business. So the management of business finance should be renovated:

- Taking measures to encourage businesses to invest in projects of industrialization (giving tax holiday for example).

- Financing businesses that realize the priority projects if need be.

- Creating conditions favorable for capital formation in businesses.

- Dividing state enterprises into two kinds: (1) those have the ability to compete and develop in the market economy, and (2) those are loss-makers but necessary for the economy and need an appropriate mechanism for financial management.

- Controlling financial activities of businesses by law with a view to carrying out the industrialization effectively.

The above-mentioned measures could be only realized if there is the socio-economic stability; the perfection of accounting, auditing and statistic businesses; the presence of an army of qualified financial experts; and above all, the intensification of the government's role in economic management ■

