

Relationship Between Development Investment and Economic Growth A Case Study of Vietnam

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I. SOME CONCEPTS CONCERNING DEVELOPMENT INVESTMENT

In mid 1990s there were two new terms: Investment for development and gross development investment in the country's economic management. The contents, numerical analyses and calculation scope of these indicators encountered a lot of controversial issues. What were the differences of these indicators? The figured ICORs were very divergent due to different concepts and numerical analyses. In a seminar, when evaluating the efficiency of investment capital in 2003 of a city, an attendant said the ICOR was 5.3 but the other considered it over 7. The following indicators must be distinguished to clarify this issue.

Gross development investment capital is an indicator expressed in currency of total costs paid for production (for increasing fixed capital and working capital) and other development investments. It is indicated by the following formula:

Gross development investment = investment in capital construction and costs of repairing fixed assets (1) + additional working capital (2) + other development investment capital (3)

(1) Investment in capital construction and

costs of repairing fixed assets are commonly used terms including costs of new construction, expansion or restoration of fixed assets for production in the economy. In fact, investment in capital construction comprises only costs to add value to fix assets. Therefore, it is formed by the two components: one for purchasing or building new fixed assets that is commonly called investment in capital construction and costs of repairing fixed assets.

In relation to expenditure: investment in capital construction and costs of repairing fixed assets include:

- Costs of survey, investigation and construction planning for investment.
- Costs of project designing.
- Costs of construction.
- Costs of purchasing, installing machinery and equipment and other costs in this indicator.
- Costs of repairing houses, buildings and machinery and equipments and others.

(2) Additional working capital includes investments to increase the gross working capital in the whole economy. This is a complicated indicator and it is very hard to collect information because in the private sector, these investments are not kept on record. As a result, the evaluation of annual

growth rate of investments in each province and over the country faces a lot of difficulties and certainly cannot avoid mistakes. The statistics bureau has conducted sampling investigations to make deductions to each economic sector. Nevertheless, the information gathering is very complicated and the exactness is not reached, especially in the private sector and family businesses alike.

(3) Other investment capital includes all investments for social development. In addition to increased value of fixed and working assets, investments are also used to improve other resources, for example, improving people's educational attainment, purifying social environment, protecting ecological environment, and supporting programs fighting social evils and other development programs. As such, the contents of "other development investments" are very abundant. They comprise all additional investments for:

- a. Costs of exploration, investigation, planning for industries and regions.
- b. Costs of implementing national target programs with the aim to enhance the public health including programs of vaccination, clean water for rural areas, environmental protection, fighting lep-

rosy and tuberculosis, using iodine salt.

Therefore, these above programs annually spend large funds from the Government and people's budget and their efforts for social development in the future. These investments are very diverse and related to many levels and fields. In my opinion, there is still a lot of omission in results of investigation and information collection because investments of mass organizations and families are not kept on record and included in uniform statistics. The selection of samples for deduction is very limited due to lack of budget.

II. ROLE OF THE GROSS INVESTMENT TO VIETNAM'S SOCIO-ECONOMIC DEVELOPMENT OVER THE PAST YEARS

One of extremely important conditions for sustainable development of a country is to increase investments. The reason for the five Asian dragons' fast development is their increasing investment which commonly accounts for 30% of GDP. In the whole national economy, the GDP growth is in direct proportion to additional investment and inverse proportion to the incremental capital output ratio (ICOR). Additional investment is just the gross investment implemented in the survey year.

GDP growth = additional investment: ICOR

The relationship of the two indicators of development investment and GDP growth is indicated by the following table:

Table 1: Growth rates of investment for development and GDP in recent years

	1999	2000	2001	2002	2003
GDP (VND 1,000 bil. - 1994 price)	256.3	273.7	292.5	313.2	335.87
GDP growth rate (%)		6.79	6.87	7.08	7.24
Investment for development (VND 1,000 bil.)	99.9	110.6	124.1	143.6	158.6
Growth rate of investment for development (%)		10.71	12.21	15.71	10.45

Source: The 2003 Statistics Yearbook

The development investments are implemented in various sectors; and their effective time is also different. The investment in production, for example, is effective just in the early years of investment, including funds for purchasing transport means, building hotels, restaurants and so on. However, if the investments are poured in planting rubber tree, cinnamon... it will take 7 to 10 years to get returns of investment. And if they are poured in education and training, and scientific research, the effective time will be longer.

Just because of different effective time and in-

vestment destinations, the GDP growth is not fully directly proportional to development investment by a constant.

38.3% in 1995 to 62.3% in 2001 but went down in 2002 and 2003. The private sector has been given more incentives from the Law on Domestic Investment and the Enterprise Law and a lot of barriers removed over the past years, so they grew rapidly but their size remained modest. The above table shows their investment ratio dropped significantly from 1995 to 2000 (before the promulgation of the Enterprise Law), but saw an upward trend over the past three years. The foreign investment also declined in term of ratio. To understand the cause of this event, let's consider the following table:

vestment investment accounted for 55% to 60%, but its GDP made up only 40% or lower. In the meantime, the private sector's investment ratio was lower but its GDP growth higher. Similarly, the foreign-invested sector's investment ratio experienced a fall but its GDP share is increasing.

These events may be attributed to the following causes:

First, the state sector usually has to invest its funds in the fields which do not bring significant profits or immeasurable results, for example, building schools, hospitals, and sewage works; spending on fighting social evils...

counter a lot of wastes and losses due to poor management, so its ICOR is high.

2. The trends of development investment by industry

The National Statistics Bureau also divides the economy into three sectors of industries and indicates this in statistics yearbooks of provinces and the country. These sectors include agriculture-forestry-fishery; manufacturing and construction; and service.

The Party and Government's economic development strategy is to restructure three sectors of industries in accordance with the country's eco-

Table 2: Investment ratio by sector (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
I. State sector, including:	38.3	45.2	48.1	54.0	62.1	61.9	62.3	55.01	55.99
1. Treasury:	19.9	20.8	21.3	22.9	26.0	23.2	24.71	23.56	21.17
- Central	11.5	11.3	10.2	10.4	12.1	10.8			
- Local	8.4	9.5	11.1	12.5	13.9	12.4			
2. Credit	4.5	10.4	13.1	10.4	18.1	20.5	17.12	17.22	20.48
3. State-owned enterprises	13.9	14.0	13.7	20.7	18.1	18.2	10.40	8.02	7.97
II. Private sector	29.4	26.2	20.6	21.0	20.0	19.5	21.2	26.99	26.45
III. Foreign-owned sector	32.3	28.6	31.3	25.0	18.0	18.6	16.6	18.00	17.55

Source: The 2003 Statistics Yearbook

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1. The trends of development investment by economic sector

According to international practice, the economy of a country is commonly divided into the state and private sectors. The private sector also includes foreign-invested enterprises. However, in Vietnam, the National Statistics Bureau divided the economy into three sectors: state, private and foreign-invested.

The growth rates of investment in these sectors are very different over year and this leads to changes in their investment ratio. The state sector's development investment increased fast from

The state sector's development investment soared rapidly in the last years of the 20th century due to robust growth in credit, which took a lion share. In 1995, this source accounted for only 4.5% but this ratio rocketed to 20.48% and represented one-third of state investment. The foreign direct investment (FDI) capital also saw a downward trend from 32.3% in 1995 to 17.5% in 2003.

The GDP growth of three sectors was not in proportion to the changes in the ratio of development investment. In respect of the state sector, its devel-

Second, the Government's budget is invested in areas which bring benefits to other sectors including infrastructure; and programs of hunger eradication and poverty alleviation, overcoming malnutrition, resettlement of farming and living... In spite of state investment, the production performance is included in the private sector.

Third, the state finance must be invested in huge projects in national programs with long construction, so their effects are slower.

Fourth, the state-invested projects also en-

conomic, political and social conditions as well as changes in the world economy. To restructure the economy, there must be rectifications of investment of three sectors. In fact, their investment ratio saw a few changes.

The restructuring of development investment of three sectors has been carried out very slowly. The investment saw an increase in agriculture-forestry-fishery; slow growth in manufacturing and construction and slight fall in services. Their investments have resulted to GDP growth as

Table 3: GDP share by sector

	1995	1997	1998	1999	2000	2001	2002	2003
State sector	40.18	40.48	40.00	38.74	38.55	38.20	38.38	39.08
Private sector	53.52	50.45	49.97	49.02	48.17	48.10	47.86	46.45
Foreign-invested sector	6.3	9.07	10.03	12.24	13.28	13.70	13.76	14.47

Source: The 2003 Statistics Yearbook

Table 4: Investment by sector of industries

	Total (VND bil.1994 price)	Including:			Ratio (%)		
		Agriculture, forestry, fishery	Manufacturing and construction	Service	Agriculture, forestry, fishery	Manufacturing and construction	Service
1995	68,048	5,209	25,319	37,520	7.7	37.2	55.1
1996	79,367	5,723	32,082	41,562	7.2	40.4	52.4
1997	96,870	7,084	35,287	54,499	7.3	36.4	56.3
1998	97,336	7,629	39,924	49,783	7.8	41.0	51.1
1999	103,772	7,733	42,488	53,551	7.5	40.9	51.6
2000	120,600	8,536	48,358	63,706	7.1	40.1	52.8
2001	124,143	12,256.2	49,578.1	62,308.4	9.9	40.0	50.2
2002	143,600	12,975.6	58,220.1	72,404.3	9.0	40.5	50.4
2003	158,606	14,295.7	64,258.5	80,052.2	9.0	40.5	50.5

Source: The 2003 Statistics Yearbook

indicated by the following table:

Over the past years, there were huge funds invested in agriculture and service but their GDP growth was not directly proportional to their investment. Just because of

this, the ICOR of the whole economy is increasing: from 3 in mid 1990s to 5 in 2003. Formerly, investments scarcely flowed to the agriculture-forestry-fishery due to exploitation of available natural resources. Nevertheless, this

resource is now exhausted, this sector must make large investments for production, therefore, its investment growth rate is 13.47% on average in this period while its GDP growth reaches only 4.13%.

The above-mentioned facts reveal these sectors are required to use their investment more effectively and at the same time increase their additional investment for their sustainable GDP growth. ■

Table 5: Investment and GDP growth by sector (%)

Year	Growth rate of investment for development			GDP growth rate by sector		
	Agriculture, forestry, fishery	Manufacturing and construction	Service	Agriculture, forestry, fishery	Manufacturing and construction	Service
1995				4.8	13.6	9.83
1996	9.9	26.7	10.8	4.4	14.46	8.8
1997	23.8	10.0	31.1	4.33	12.62	7.14
1998	7.7	13.1	- 8.7	3.53	8.33	5.08
1999	1.4	6.4	7.6	5.23	7.68	2.52
2000	10.4	13.8	19.0	4.53	10.07	5.32
2001	43.6	2.5	- 2.2	2.98	10.39	6.10
2002	5.9	17.4	16.2	4.16	9.84	6.54
2003	10.2	10.4	10.6	3.25	10.35	6.57
Average	13.47	12.33	9.94	4.13	10.79	6.41

Source: The 2003 Statistics Yearbook

Photo by Hoàng Tuấn

