

INVESTMENT CAPITAL FOR THE COUNTRY'S INDUSTRIALIZATION AND MODERNIZATION

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Industrialization, modernization is an indispensable, objective process of countries from small to mass production. The most decisive feature of industrialization is the substitution of manual labor for technical one in the whole national economy, with a view to speeding up the social labor division and goods production.

1. TARGET, CHARACTERISTIC, CONTENT OF THE COUNTRY'S INDUSTRIALIZATION, MODERNIZATION

In the country's construction, the Party specifies the industrialization, modernization targets at making our country an industrialized one with modern material and technical base, reasonable economic structure, advanced productive relation in line with the development of productive forces, high material and spiritual living, firm defense and security, rich people, strong country and equitable, civilized society.

The essence of industrialization is the techno-scientific development with the aim to affect the transformation of the entire social production (industry, agriculture, services...) from low to modern level. The working population will change in accordance with structure of industries, skill and intellectual level.

The issue of equipment, humans, information and management is of paramount importance to the industrialization. There are different views and approaches in the research of industrialization.

Industrialization, modernization is the process of economic alteration. In which, industry and services make up increasingly bigger percentages and the industry itself also changes from exploitation to processing.

Industrialization, modernization is a strategy of socio-economic and techno-scientific development.

Industrialization, modernization is the process of turning manual labor into technical one to attain high labor productivity.

In our country, the line of industrialization was determined by the third Party Congress in 1960 as central task during the transitional period to socialism. In the process of implementing its line, the Party has adjusted the contents, detailed measures suitable for Vietnam's socio-economic conditions many times.

From the domestic and overseas lessons, both successes and failures, the seventh Conference of the Party Central Committee, VIIth term, reaffirmed the absolute essential of the country's industrialization, as well as strategic changes in thoughts of industrialization, modernization. In this conference, the Party pointed out: "Industrialization, modernization is the process of changing fundamentally, comprehensively activities of production, trading, services and socio-economic management from the employment of manual labor to that of advanced technology based on industrial development and techno-scientific progress with a view to creating high productivity".

Reviewing generally ten years of implementing the overall renovation line, and 5 years of implementing the Resolution of the seventh Party Congress, the Party emphasized: "...Our country has escaped socio-economic crisis, but some aspects are not stable. The task set for the early stage of the transitional period which is to prepare preconditions for industrialization has been basically fulfilled, this permits us to shift to the new era of boosting the country's industrialization and modernization..."

From the above mentioned contents in line with Vietnam's socio-economic conditions, the country's industrialization, modernization has the following features:

Firstly, our country advances towards to socialism from a backward farming status, since it entered the transitional period until now, we have been lacking in a developed productive force to secure economic development fast, sustainable and effective. Therefore, if we do not pay

initial attention to the development of productive force, we cannot shift to socialism, and to develop productive force, we must carry out industrialization, modernization.

Secondly, we implement industrialization in the principle of maintaining independence and sovereignty, together with expanding international cooperative relationship, diversification and multilateralization of external relations, mainly depending on domestic resources and taking full advantages of foreign ones. We should build an open economy, integrate into the region and the world, boost export, substitute imports for locally-made goods. Socio-economic efficiency must be regarded as a basic standard to specify development and technology investment.

Thirdly, industrialization must be attached with modernization (as a matter of fact, industrialization have been also implemented in the direction of modernization). Due to fast techno-scientific development in recent decades, the concept of modernization have been added with new contents covering many fields from production and trading to service, management... Many techno-scientific inventions which were progressive some decades ago becomes ordinary now, even backward and should be replaced. In some next decades when our country's industrialization, modernization is boosted, techno-scientific development will be higher, hence the requirement of industrialization will be more pressing.

Fourthly, our industrialization, modernization is carried out in line with the market mechanism under the State management. The planning is mainly of orientation, the market reflects the social demand, decides on the distribution of resources for production, the establishment of economic structure and efficiency. This is wholly different from previous industrialization which is implemented by the centrally-planned and subsidized mechanism with legal directives, re-

ardless of socio-economic results. As a result, although the previous industrialization costed a lot but its efficiency was not high, it did not make active contribution to developing productive forces and it restricted the formation and alteration of economic structure in the modern direction.

Fifthly, the previous industrialization was seen as the Government's task mainly through State-run and collective sectors. Today it is determined as the people's task with the energetic participation of all economic sectors, in which the State sector plays a leading role.

Sixthly, the previous industrialization was implemented with the socialist bloc's aids. At present we realize industrialization, modernization in the condition that the world and the region have made many changes. The Party has set forth the view of building an economy open to domestic and foreign sectors, diversifying and multilateralizing external relations on the basis of maintaining independence and sovereignty, improving relations of cooperation and joint venture with the aim to attract foreign capital, new technology and advanced managerial experience. Our concept of industrialization is also made suitable for the trend of economic internationalization and integration.

The basic issue of present industrialization is not to self-invent technologies we need, it is only to grasp the world's invented technologies suited to the country's condition, sometimes they are not top ones but they bring about high economic efficiency and can be transferred. The Party's renovation line is to attach industrialization with modernization including the application of the world's techno-scientific achievements. This feature will open shortcuts for us, allow the implementation in a very short time as compared with the previous longlasting classic industrialization. In the remaining years of 1990s, the major contents of our country's industrialization, modernization include:

- Paying full attention to industrialization, modernization of agriculture and rural areas: developing overall farming, forestry, fishery; building specialized areas with logical structure of plants and animals, producing numerous goods of high quality, securing food safety, meeting the requirement of the processing industry, home and overseas markets.

- Developing the industry, giving priorities to the industries of processing food and foodstuff, producing consumer goods, exports, electronics and information; developing selectively some heavy industries (power, fuel, building materials, mechanical engineering, ship building and repair, metallurgy, chemicals), raising the productivity compatible with the requirement of economic growth, strengthening the maintenance of independence and sovereignty in economy and defense.

- Building infrastructure: Overcoming the downgrading of current transport system, restoring and upgrading some important transport lines, combining transport with irrigation, making the best use of waterways, opening roads to remote areas; improving communication system in big cities, upgrading some sea, river ports, airports, building deep water ports.

- Developing and modernizing the national communication networks; developing power sources; expanding electricity grids and securing stable supply of electricity; improving urban water supply and sewage, providing clean water for rural areas; making investments in social infrastructures (education, health care, culture-information, sports...).

- Developing fast tourism, services of aviation, navigation, post, telecommunications, trade, transport, finance, banking, auditing, insurance, technology transfer, legislature, information...and other services and step by step making our country a well-known tourist, commercial and service center in the region.

- Developing reasonably territories: altering territorial economic structure based on exploiting full advantages, potentials of each area, boosting the cooperation and development of these areas.

- Expanding and enhancing the efficiency of external economic relations: speeding up export, giving priorities to export, producing more major exports, raising the competitiveness of exports, reducing the proportion of raw and semi-finished products, increasing the value of exports and the export of services.

To reach the said targets, the implementation of industrialization in our country should satisfy many factors, but in this article, we mention only the capital issue-the essential factor for every development process.

2. DEVELOPMENT OF CAPITAL

SOURCES FOR THE REALIZATION OF INDUSTRIALIZATION, MODERNIZATION.

At present, the economy is entering a new development stage - stage of industrialization, modernization which targets at doubling national income in the period 1991-2000, the issue of investment on the whole and foreign capital in particular are arising as the most severe challenge. The country's prospect of fast growth is promising, but there are not a few obstacles to its development. If we do not make solutions on time, we cannot fulfill the planned targets and even previously attained achievements can be in danger of destruction.

When analyzing the strategy and measures to create capital, we can see clearly three basic models of inward, outward and mixed orientation.

In the world's economic, political background, both advantageous and difficult at present, the suitable model for Vietnam's capital creating strategy is to attract foreign capital together with mobilizing all local sources.

If based on only domestic capital source, we have the advantage of self-reliance and stability, it is also a rather large potential. However, time does not permit us to be late since the gap of backwardness will be larger as compared with other regional nations.

If foreign sources are used ineffectively, it will cause financial burden to the country and the next generations will have to pay these debts (Argentina, Brazil, for example, have fallen to serious unrest and depression even dropped to a level lower than starting one in case of Nigeria).

Just because of this, the most effective solution is to combine the mobilization of all local capital sources with foreign ones. Applying this model will take the initiative in the implementation of socio-economic development strategy...

Domestic investment capital for production derives from enterprises, savings of the people and other sources, it is used in the process of business and production, socio-economic activities.

In the subsidization period, capital sources flowed into Vietnam mainly from socialist nations, especially former USSR, Sweden's ODA due to the US embargo against our country. This stage was in the centrally-planned mechanism, so it was totally different from the stage of *đổi mới*: foreign capital sources

came mainly from the socialist bloc. This showed a close economic feature in the bloc, separation from the world market, so Vietnam economic exchange was extremely limited. As a result, the country's selection of economic model was restricted due to lack of conditions to compete in the world market. The State is a unique entity mobilizing and managing foreign capital sources. This reflected the nature of public ownership and centrally-planned mechanism. The mobilization and usage of capital hence depended on the State plan. This led to low capital utility. The structure of loans was irrational, until 1993 loans for import surplus made up 50.1%, for cooperative projects and importing equipment 25.1%. This structure revealed the deficit of budget and consumption. Foreign capital for development investment represented a small percentage (25%), showing no full attention to investment in production for export. Therefore, the country's insolvency, budget shortfall, heaps of debts took place for many years.

In the era of *đổi mới* with the policy of open economy, the attraction of foreign capital source for development is an objective law to Vietnam's economy.

Foreign capital is formed from three following sources:

- ODA capital from nations of OECD and OPEC and other bilateral and multilateral sources.

In the world, this is the largest source, representing 50%-70% of foreign capital. Certainly, there are different changes to each nation in a specific period.

ODA capital includes non-refundable aid, soft loans. ODA donors are developed capitalist nations (Japan, EC, America,...), so based on the relation between Vietnam and these countries, the capital source can go up or down. ODA also comprises technical assistance, normally used for creating favorable environment for economic development and attraction of foreign direct investment. With its feature of low interest rate, long maturity, and extended time of payment, ODA is used for projects with long-term capital redemption.

The ODA utility rate is attached with the project feasibility, if there is no careful calculation, due to non-feasible projects, ODA capital and preferential loans will cause debts. So when luring ODA capital, effective utility should be paid attention to.

Financial sources from international institution such as IMF, WB, ADB and other organizations' funds...have the same advantages as ODA, but the scale and right of use are wider. This source meets the requirement for capital assistance, on the other hand opens an opportunity for Vietnam to integrate into the international finance. We have joined WB's organizations such as: IBRD, IDA, IFC, MIGA...

The initial outcome of Vietnam's debt settlement is encouraging, we have reduced part of debts, otherwise restored our prestige before creditors for borrowing more.

It is noteworthy that the borrowing is only approved in accordance with projects whose feasibility is carefully evaluated by the creditors' experts and the project implementation is regularly checked. Consequently, if there is no investment strategy for effective utility of loans, then more debts and interests will be increasingly heaping, and moreover the ability of mobilizing foreign loans will be restricted.

Foreign economic organizations and individuals' FDI is stimulated under the forms of doing business independently, forming joint ventures along with training local workers in skill and management.

However, more or less foreign capital flowing into the country depends upon many factors in which the investor's benefit must be guaranteed by law.

FDI has made significant contributions to the Treasury, creating jobs, producing goods and causing vital development of the economy.

At present, the developing nations' FDI attraction tends to aim at high technique, and eastern Asian NICs are concerned about luring foreign capital for export. This is also experience that Vietnam can consider to make the strategy for FDI attraction to implement its industrialization, modernization.

- Domestic capital:

Prior to *đổi mới*, there was no financial market in Vietnam, all capital sources were concentrated on the State budget and allocated to projects, enterprises as planned. Since the *đổi mới* policy was introduced, along with the policy on developing multisectoral economy, hidden capital sources have been released and mobilized at most for investments in all fields. If in 1988 the investment ratio accounted for 8.9% of GDP, but in 1991 it jumped to 15% and the ratio of saving represented 0.1%, and in 1994 these figures

were 16.7% and 24% respectively.

Both in public and private sector, investments and savings increased sharply, the country's investment capital for development reached US\$ billion 15 to 16 in the period 1991-1995, of which the State accounted for 43%, foreign investment 37% and the public 20%. The State has shifted strongly from investment by the budget capital in subsidized enterprises to investment credit for the expansion of joint venture domestically and overseas. Thereby the Government has focused more budget capital on the development of socio-economic infrastructure, the public investment resulted in the establishment of private small- and medium-size companies, some private large-size enterprises attracted many workers and had good business performance.

If compared with eastern Asian NICs, Vietnam's proportion of accumulation and investment is still low. As a result, although the capital attraction for development has attained initial achievements, it is still a hot and challenging area to Vietnam in its industrialization, modernization.

Investment capital sources of enterprises are mainly used for orienting intensive investment, innovating technology, diversifying products, expanding the enterprise scale as well as forming new enterprises for domestic and overseas markets.

In addition we also have the people's idle capital and capital source from the State budget.

Investment capital can be attracted at home and abroad. In the condition that the economic internationalization is boosted, foreign capital becomes essential and prevalent. Nevertheless, don't forget no matter how important foreign capital is, it is only a component of total sources in the country's development strategy. To attain high growth rate, domestic and foreign should be harmonized.

Capital is one of the most important factors securing the success in the country's industrialization, modernization. With the *đổi mới* policy and achievements initially attained, Vietnam can attract necessary capital sources for socio-economic development in the next stage.

References:

1. The Resolution of the VIIIth Party Congress.
2. The Resolution of the VIIIth Party Congress.