ON THE WAY TO INTERNATIONAL INTEGRATION

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1. High economic growth

To bridge the development gap, a high and stable growth rate is needed. Vietnam mustn't be content with a growth rate lower than 7% that China has gained in the past few years. For years, only a few countries gained a growth rate of as high as 9% or 10%. Most Southeast Asian nations has a growth rate of some 7%. In the years 1996-2000, the Vietnamese growth rate was 6.7%, lower than the Chinese one. Vietnam is planned to gain a growth rate of 7.2% for the years 2001- 2010. If it fails, it won't be able to bridge the gap because other countries always try to go farther.

2. A new economic structure

To become an industrialized country, Vietnam has tried to change its structure of industry. In 2000, the manufacturing sector represented 34.5% of the GDP while the service one accounted for 40.5%. It plans to increase shares of those two sectors to 40% and 42% respectively by 2010 reducing that of the agricultural sector to some 10%.

3. Development of industries

In both domestic and foreign markets, Vietnam has to compete against more developed countries in the region and especially China because they produce similar products.

Cement made in Vietnam is sold at some US$50 per tonne while Thai counterpart is sold at US$20 plus US$8 for transport cost and US$8 in import duty (at a tax rate of 40%) and sold at only US$36 at Vietnamese ports. If the import duty reduces by 50% as required by trade agreements, it will be sold at US$32, or 56% cheaper than Vietnamese cement.

Vietnamese steel mills depend on Russia for raw materials. Their steel is some US$20 per tonne dearer than steel from ASEAN countries, US$10 higher than South Korean one and US$30 higher than Russian one. At present, an import duty of 40% is used for protecting this industry.

Vietnamese rice is very cheap, its production cost equal from 60% to 70% of FOB price. A 10% duty is imposed on imported rice now and it will be reduced to 5% by 2006 according to the CEPT. The Vietnamese rice, although its quality is lower than Thai rice, is exported in large quantities.

Frozen shrimp is cheap due to low labor cost and its export rises over years.

The clothing industry makes the best use of cheap and skilled labor to promote its exports to the EU and the U.S. However, imported raw materials account for 75%-80% of the value added. That is why it is less profitable than handicraft business that uses local raw materials and enjoys some 95% of the value added. This means that exporting US$1 million worth of handicrafts equals exporting US$4.7 million worth of clothing.

Leather industry enjoys medium production cost, employs technology of medium level and cheap labor and faces pollution problems. Imported raw materials account for some 85% of the production cost so the value added is low.

The international integration and admission to regional and international trade organizations force Vietnam to improve its competition and cooperation with foreign partners.

Many people are of the opinion that Vietnam had better develop labor-intensive industries because they are suitable to the high unemployment rate and shortage of capital in Vietnam. Moreover, many foreign experts have warned against the Vietnam's tendency to develop heavy and capital-intensive industries. The 1997 WB report said that Vietnam in had shown a tendency to develop heavy and capital-intensive industries. In the years 1990-95, the share of heavy industries, including the oil industry, in the GDP rose from 42% to 49%, which also caused the unemployment rate to rise.

It will be better to pay proper attention to both labor-intensive and heavy industries. Experience from NICs that have pursued the export-oriented industrialization for three decades shows that they exported goods from labor-intensive industries in the first decade and then shifted to capital- and technology- intensive products in the later decades

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when labor-intensive goods became less competitive. The development of technology- and capital- intensive industries thus provides a basis for higher growth of labor-intensive ones and the economy as a whole.

Globalization offers both challenges and opportunities. Powerful multinationals control 40% of the industrial output from the capitalist world, 80% of foreign direct investment and 90% of R&D results. They now shape the global development strategy and international division of labor in which the most developed countries control technology-intensive industries and leave labor-intensive ones to less developed countries.

The appearance of the knowledge-based economy opens new opportunities for economic development that depends not only on natural resources but also on human one. As for Vietnam, it must develop a new structure of industry that includes both labor- and technology-intensive industries, both heavy and light industries, in order to ensure high growth rates and successful integration into the world economy.

4. A mixed economy

The Vietnamese government pays a lot of attention to the ownership of means of production considering it as the origin of labor exploitation. It has adopted the policy to

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develop a mixed economy with a view to encouraging all classes to engage in the economic development. In Vietnam today, there are three forms of ownership: public, collective and private ownership. This leads to existence of six economic sectors: state-run, collective, personal, private, state capitalist and foreign ones. Economic concerns run by these sectors are divided into the following kinds: state-owned companies, personal or family businesses, limited companies, cooperatives, joint stock companies and economic groups.

The Government is determined to encourage the development of the private sector (that is, all non-public sectors) but ensure the leading role for the public one. Most natural resources and sources of finance are under control of the public sector while the domestic private sector lacks capital and technology and engages mainly in the service industry but the share of the private sector in the GDP is on the increase.

In 2000, some 10 million family businesses and 92,850 private companies had their businesses registered and the private sector accounted for 42% of the GDP as compared with 39% contributed by state-owned companies. In 2001, the private sector accounted for 14.8% of the national budget income. However, all private companies are of the small size (only 1% of them have the registered capital of VND10 billion or more), over 70% of them have to depend on their own capital (with no loan capital from formal sources) and obsolete technology and have poor access to information.

They are facing many difficulties: expensive input factors, high indirect cost, obsolete technology, poor business experience and performance, clumsy management and lack of work ethics.

Generally, the private sector has great untapped potentials for development. It receives every year some US$2.4 billion in immigrant remittances and part of this money could be turned into investments. Moreover, some 200 private companies capitalized at some US$300 million run by Vietnamese expatriates are operational now. Privatization is an effective way to develop the private sector which allows mobilization of all possible sources of finance needed for replacement of obsolete technology thereby improving the competitiveness of the economy.■

Technology transfer and technical information will help the industrial and scientific revolution take higher speed and larger scale producing great effects on every nation. Developed countries will experience great changes caused by developments in information, biological and new material technologies and transfer obsolete and polluting technologies to developing countries. That is what South Korea, Japan, Germany and the U.S. are doing in Southeast Asia. If Vietnam has no strategy to develop its structure of industry, it will suffer damage caused by the globalization.

In the 21st century, the general tendency is to shift from the machine-based production to the knowledge-based economy. Intellectual property becomes more and more important and its share in the world output is on the increase.