



# INVESTMENT FOR DEVELOPMENT OF CEMENT INDUSTRY IN VIETNAM

by NGUYỄN ĐỨC HOÀN

In recent years of economic innovation, the need for cement is on the increase. According to experts' estimate, the need for from 1993 on will increase by 20% per year. In 1993, Vietnam cement output was 4.5 million tonnes. The estimated need for cement in 1994 will be 6.5 million tonnes, in 1995: 8 million tonnes, in 1996: 9.6 million tonnes and in 2000: 20 million tonnes, that means a threefold increase from now till 2000.

Considering per capita cement output, we have got under 100 kg per year. In 2000, if we can produce said 20 million tonnes, then we have got only 250 kg per per capita whereas this index in 1990 in Taiwan was 887kg, in South Korea: 722 kg, in Thailand: 330kg, in Malaysia: 321kg. Obviously, cement production and consumption in Vietnam nowadays are very low compared with other countries.

Just because demand for cement exceeded supply, its price was pushed up two times in 1993. This year, there was a rise in the South in March, and in the North in April. It reached VNĐ 720,000 per tonne (June 1994) from 600,000 per tone (early 1993). Another rise in its price by late 1994 was anticipated.

So in future, what is the course of the development of cement industry in Vietnam, where is the investment needed to develop it?

There are five big-sized cement factories (Hoàng Thạch, Bim Sơn, Hải

Phòng, Hà Tiên I and Hà Tiên II) with total output of 4.1 million tonnes in 1993 and it was estimated at 4.5 million tonnes in 1994. Besides them, Văn Sa cement factory (Thừa Thiên-Huế) will come into operation in 1996 in order to raise their total output to 4.9 million tonnes in 1996. As for small and medium - sized factories, there are 56 ones with total capacity of 1.3 million tonnes per year. So, Vietnam cement total output in 1996 could be 6.2 million tonnes, satisfy 65% of market demand and there will be a shortage of 3.4 million tonnes, and cement price will be rise continuously.

In order to meet the market demand for cement, Vietnam Cement General Company has made a plan to develop cement industry in Vietnam from now till 2000. Twelve big-sized factories will be built: Trảng Kênh (Hải Phòng) is a joint venture with Ching Phong group (Taiwan) with investment capital of USD 286 million; Hòn Chông (Kiên Giang) is a joint venture with Holder Bank (Switzerland) with investment capital of US\$ 255 million; Nghi Sơn (Thanh Hóa) and Hoàng Bồ (Quảng Ninh) are joint ventures with Japanese investors. Besides, there are many other projects such as Tam Điệp, Bút Sơn (Ninh Bình), Làng Bàng (Quảng Ninh) or expanding Hoàng Thạch and Bim Sơn factories... Each factory has designed capacity of 1.2 to 1.4 million tonnes per year and requires VNĐ 2000 to 2500 billion of

investment capital. In addition, we have to increase number of small and medium - sized factories from 53 to 80 in 2000 in order to secure our cement output of 20.8 million tonnes.

If everything goes according to the plan, in 2000, the supply of cement will equal the demand. But in realizing the plan, we need the capital of VNĐ 20,000 billion. Where can we get it? This is the difficult problem of Ministry of Finance, Ministry of Construction and leaders of Vietnam Cement General Company.

Vietnam Cement General Company has petitioned the government for a plan to accumulate capital:

- The said projects will be granted loans of preferential rate of interest (7% per year).

- The government invests in building infrastructure necessary for the operation of these newly-built factories, especially roads, water and electric ity supply,... which represent 20 to 25% of investment capital.

- The amortization of fixed assets will be kept by Vietnam Cement General Company instead of transferring to the national budget.

- The government uses the ODA capital to invest in cement industry and allows cement factories to use rent of land leasing as capital contribution to joint venture with foreign partners.

However, this plan has been difficult to be approved.

Recently, Vietnam Cement General Company has been given permission to carry out the pilot scheme of issuing bonds in order to mobilize around VNĐ 100 billion for expanding Hoàng Thạch cement factory. But because of low interest rate (15% per year), this pilot scheme is difficult to succeed. Could these projects afford to make the interest rate equal to that of Treasury or commercial bank bonds?

In our opinion, the best way to solve this problem is to issue foreign currency bonds at an interest rate equal to that of commercial banks and have them issued by commercial banks ('issue by tender' method). The commercial banks can borrow capital from foreign banks, or Vietnam Cement General Company does this under guarantee of Vietnam commercial banks. Besides, we have to create conditions favorable for investing of foreign investors in cement industry.

To accumulate capital for development of cement industry is a matter of great urgency in our effort to improve the infrastructure and develop our economy. This problem needs financial and monetary measures, and help from domestic commercial banks ♣