CAPITAL MOBILIZATION AND INVESTMENT

WEICH IS THE TOP PRIORITY ?

by Dr. LÊ KHOA

Most of the authors, studying capital mobilization and investment, estimated needed capital first, and then suggested measures necessary for mobilizing it such as encouraging saving, devaluating the VNĐ, struggling against corruption and smuggling... and finally, raised the problem of investment. I think that we could do it in reverse order, that means we can invest first, and savings will be encouraged and capital will be accumulated later.

1. In theoretical aspect

The equation of investment with saving can be ex post (posterior) or ex ante (anterior) one, and saving could be much bigger than investment. For example, before the fall of credit cooperatives and some companies such as Xacogiva, Thanh Hương, the personal savings of HCMC people reached some hundred billion đồngs. This amount is ex ante savings, and after the fall of credit cooperatives, it be came nearly worthless ex post savings. Contrarily, if their savings, instead of depositing in credit cooperatives, Xacogiva, Thanh Hương..., were invested in real estate, buildings, hotels, factories which operated effectively, the gained profits would be enormous, and the ex post investment (which has been realized) has surpassed starting capital.

The reason is that the capital could be turned over many times creating multiplier effect. For example, HCMC authorities spends one thousand billion in building roads, bridges, factories... This initial spending will become wages, profits, payment for building materials... the workers, constructors, building materials sellers will pay taxes, bank charges; buy goods and services from peasants or tailors... In each round of spending increase, a proportion of additional income was created. Thus, a proportion of one thousand billion initially spent by HCMC authorities will come back to state owned banks or HCMC budget and it could be spent another time and so on.

On the other hand, at present, our investment is lower than our potentiality. In the 1980s, if our investment is expressed in foreign currency, Vietnam imports was 2,500 million of US$ or ruble and the better part of it was spent on foodstuff (1 million tonnes), fertilizer, steel and iron, tyres, and some consumer goods. Today, Vietnam imports is around US$ 3 or 4 billion (including contraband goods) whereas we have annually produced enough food, 4 million tonnes of cement, over 100,000 tonnes of urea and many consumer goods. And now, if Ministry of Commerce limits the importation of consumer goods, we can have a surplus of over US$ 1 billion to invest in usefull works (such as having gas pipeline from Bạch Hổ oilfield to Bà Rịa built by a South Korean company). In addition, we can have considerable amount of foreign currency from expatriates, from 400,000 tourists visiting Vietnam annually, from foreign loans and aids... Generally, we can have around US$ 2 or 3 billion every year for investment.

Besides mobilizing capital in foreign currency, we can accumulating capital in VNĐ. This source of capital- considered as a decisive one by the government-is fairly elastic because it was used and re-used continuously. If the domestic investment is calculated by our potentialities instead of by money, we still have 13 million ha of open land, some hundred thousand ha of water surface which can be changed into maricultural farms, many rivers favorable for hydro-electric power plants, many untapped mines; millions of laborers are without work; many products were exported at a low price because we can't make them into finished goods...

Basing on these potentialities and domestic investment, we can make our capital turn over many times and multiply. Contrary to investment in foreign currency, when we have Bạch Hổ-Bà Rịa gas pipeline done by the South Korean company, we have to pay around US$ 100 million, this amount will never return to Vietnam, whereas any amount of VNĐ invested in building roads, ports, houses, maricultural farms, in buying local building materials, or paying wages to laborers... will remain in Vietnam: it will change hands continuously and increase the national income.

Therefore, domestic investment is the main force of fast-developed countries; while foreign investment or investing by hard currency is of minor forces.

2. How to accelerate investment

Thus, we can invest first and mobilize the capital later. Investment is considered as the main variable in making fast progress, creating jobs, defeating poverty and increasing country's prosperity. However, as we know, one can't invest without money. A lot of plans have been made but haven't been realized because of lack of money. Therefore, planning means how to get enough money for investment.

In the period of fast development (1950-1973), Japanese government adopted a bold policy: any high-profit project would be financed generously by the banks or the government. These allocated funds were newly-issued money or substitute money. In many cases, Japanese banks could finance 90% of needed capital of project, or bought up shares of a certain factory.

In other words, the banks and national budget used inflation as a way of financing good projects. After financing, the banks could retrieve their money by selling shares, stocks or banker's bills...

Naturally, there is a degree of risk in doing this: the banks can go bankrupt if the factory can't repay debts. Therefore, the banks are very careful in choosing projects and they like granting short-term loans to high-profit and well-managed businesses.

Simultaneously, the banks and the government applied a lot of macro-

economic measures to help factories make profits, such as:

- The banks bought US$ at a high price. In the period between 1950 and 1973, the banks bought a US$ at ¥ 360. Nowadays, Japanese exchange rate is US$ to around ¥ 100.

- Japanese Ministry of Commerce allowed importation of food for domestic animals, farm and mineral products, oil and some machines used as sample. From these imports, Japanese factories made into finished goods for domestic and foreign markets. Japanese factories had a large domestic market for their products because importation of machines and consumer goods were banned.

- Japanese banks charged an interest rate of loans lower than that of foreign banks, the taxes on industries and wages for workers were also lower compared with Western countries, so Japanese products were cheaper than Western ones.

- The Japanese government favored scientists, helped them go abroad to study foreign industries and buy new technology. These scientists imitated and improved imported technology and produced goods of smaller size and high capacity with nicer design.

In 1950-1973, Japanese banks supplied capital to factories and have collected debts (both principal and interest). And now, Japan becomes the second economic power and Japanese banking system is of the strongest ones in the world.

Japanese lessons can be applied to Vietnam carefully and we have to pay full attention to risk of inflation, low-profit projects, badly-managed factories and smuggling activities. In order to avoid these risks, we can practice auditing and force businesses to make annual financial statements. The Japanese case showed that we could invest first and mobilize capital later ♣

ON IMPORT SUBSTITUTION POLICY

by Dr. BÙI THỊ MINH HẰNG & MA. BÙI NGUYÊN HÙNG

Recently, in Vietnam, a lot of economic reforms have been carried out in order to change from a self - sufficient economy to open economy. The development in foreign trade has contributed remarkably to the process of stabilizing and developing Vietnam economy.

In our plan of development from now until 2000, the policy on "import substitution" and "developing production of goods for export" was mentioned a lot of times. But how can we do it? Which industries will we develop to export and substitute import?

In our opinion, we haven't enough strength (capital, skilled labor force, technology...) to increase exportation of all of our products and substitute importation of all products. If we allocate funds to every industry, it is unlikely to innovate technology of that industry.

The problems are which products can be exported profitably and which products we will keep importing.

The theory of comparative advantage can help us solve these problems. This theory could be expressed as follows:

$$\text{If } \frac{C_{AX}}{C_{AW}} < \frac{C_{BX}}{C_{BW}} \qquad (1)$$

Where: C_{AX}: Production cost of goods A in country X
C_{BX}: Production cost of goods B in country X
C_{AW}: Production cost on average of goods A in the world
C_{BW}: Production cost on average of goods B in the world

Country X had better specialize in production of the goods A and the world in production of B. The foreign trade of the country A (exports A and imports B) could increase its economic welfare beyond its capacity of production.

Recently, we have conducted a survey of three goods: sugar, rice and cabbage.

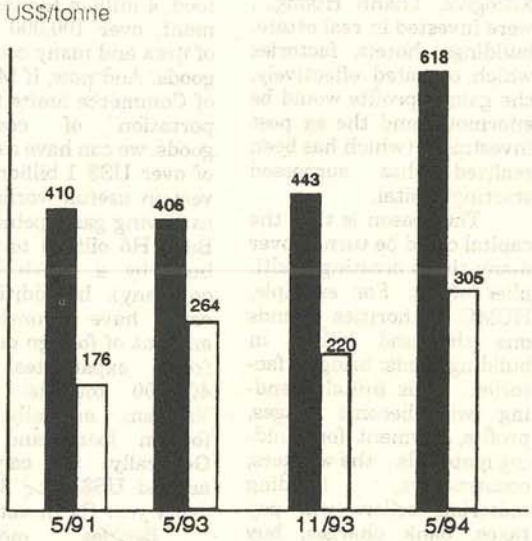

Fig 1: Comparison of Vietnam and world's prices of sugar