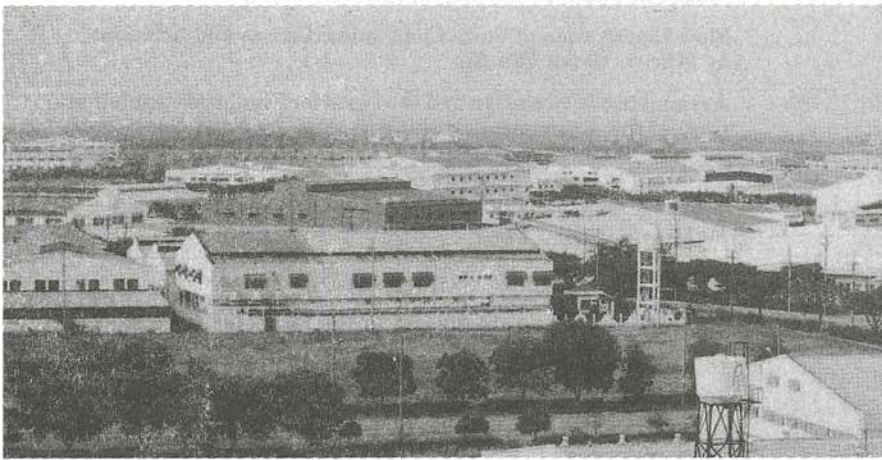


A PATTERN OF INDUSTRIALIZATION FOR VIETNAM FROM NOW TILL 2020

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1. Objectives of the Vietnamese industrialization

At present, Vietnam is carrying out the industrialization with a view to changing basically its socioeconomic structure. This means that Vietnam has to realize a double reform: replacing the centrally-planned economy with a market one and changing from a traditionally agricultural society to an industrialized one. This reform is expected to be finished by 2020.

The industrialization process aims at removing poverty and hunger, improving the living standard, overcoming imbalances between cities and rural areas, gaining high and sustainable growth rate and making Vietnam an industrial nation like neighboring countries. It's worth noting that this process is carried out when the economic globalization takes place and therefore Vietnam is facing many external challenges:

- Limits on the market for Vietnam's exports.
- Limits on source of foreign investment.
- Competition from foreign companies and multinationals.

In spite of these challenges, Vietnam couldn't avoid the integration process because it is the best way to get access to sources of finance and modern technology needed for its industrialization and modernization. In the past ten years, Vietnam has cultivated good foreign relations and become a member of many international and regional organizations. But what pattern of industrialization should Vietnam choose when its economy has just started to develop and its personal income is so low? The recent Asian financial crisis gave Vietnam a warning about the industrialization based on external forces. When the development is based on external forces, the economy will fall prey to external fluctuations and become vulnerable. That is why, in our opinion, Vietnam should industrialize its economy by making the best use of its internal strengths. We call it the pattern of internal strength-based industrialization and it has many similarities with the export-oriented industrialization. This pattern aims at combining external with internal forces, and sustainable development with social equality. Moreover, this pattern allows Vietnam to avoid the consumerism which can lead to heavy external debts and unfavorable trade balance.

To make full use of internal strengths, Vietnam should:

- develop the domestic market based on increase in the spending power: a well-developed domestic market will provide a basis for the struggle against foreign competition and unfavorable fluctuations in the world market.

- improve the international competitiveness: the Government should take strong measures to help companies to enhance their competitiveness in both domestic and foreign markets, especially when Vietnam, as an AFTA member, is about to remove non-tariff barriers and reduce duty rates. The economic strength of a nation should be based on an army of well-run companies that could compete successfully in the world market.

2. Investment in the pattern of internal strength-based industrialization

In our opinion, the gross investment should be put in the following fields:

- Education and human resource development:

In the globalization and regionalization, competition along with co-operation are essential to survival and development of a nation. Besides static comparative advantages (natural resources, cheap labor, etc.), gray matter is becoming a decisive factor in the international competition. Intellectual capacity will create a dynamic comparative advantage that helps a country succeed in the world market. The Japanese case justifies this argument. As Amartya Sen puts it, Japan did something contrary to what are usually done by other countries: investment in education only increases when the economy makes good progress. The Japanese literacy rate in 1868, in Meiji times, was higher than the rate in many developed countries today and in some European nations in the late 19th century. The investment in education from the national budget in Japan were 7.8% in the 1980s and 7.2% in the early 1990s in comparison with 1.9% and 1.8% in the U.S., 2.7% and 4.2% in England in the same periods. This policy adopted by many Asian countries led to their economic miracle in the early 1990s. In Vietnam, although the educational development has been considered as one of pivotal strategies, the public investment in education is still small and it failed to catch up with increases in

the number of students. According to a UN report on human resource development in 1997, Vietnam ranked 121 among 174 countries, equaling Hong Kong in 1960, South Korea in 1970 and Thailand in 1980.

In the coming years, Vietnam should increase the public investment in the education service if it wants to have a well-trained labor force. It's worth noting that even developed countries couldn't realize all objectives of the education strategy. That is why Vietnam should make a major breakthrough in the education development as soon as possible.

- Industrialization of the agriculture

The internal strength-based industrialization in Vietnam requires full attention to both manufacturing industry and agriculture. As a backward agricultural country where 70% of the population live in rural areas, Vietnam should give priority to the agriculture when carrying out the industrialization. The agriculture is a long-lasting resource that serves as a basis for the industrial development. The agricultural development ensures food safety, improves farmers' living standard, ensures supply of raw materials for agro-industries and enhances the competitiveness of Vietnam's farm products on the world market. Moreover, it could help farmers cope with the market economy and globalization.

By 2010, Vietnam should complete the infrastructure for rural development: road and waterway networks, schools, hospitals, irrigation, telecommunications, etc. Besides agro-industries needed for adding more value to farm products, other industries and technology transfer activities should be developed with a view to improving the yield and quality of farm products. The industrialization should be oriented towards exploitation of existing resources and expansion of agricultural production. Thus, the Government should adopt policies to develop small and medium enterprises in rural areas. The development of these enterprises is a good measure to diversify the agriculture, urbanize rural areas and reduce population and employment pressure in big cities.

- More reasonable regional policy

This policy should aim at making the best use of comparative advantages in prosperous areas and spreading industrial activities to depressed ones. Vietnam could be di-

vided into three main zones based on their socioeconomic features:

- + Big cities (Hà Nội, Hải Phòng, Quảng Nam, Đà Nẵng, HCMC and Bà Rịa-Vũng Tàu).

- + Lowland (Hồng Delta, Mekong Delta and Eastern South Vietnam).

- + Coastal plains and mountainous areas (Northern mountainous region, north Central Vietnam, Central coastal provinces and Central Highlands).

At present, big cities are contributing a lot to the economic development. They house some 14% of the population and attract over 70% of investment from the private and foreign sectors. Hence, industrial activity will be spread to surrounding provinces. The poorest zone includes coastal plains and mountainous areas where some 50% of the population live and the infrastructure and human resource are underdeveloped. The poverty here leads to unruly exploitation of natural resources, and then, to natural disasters.

The Government had better make big investment in this zone and encourage new firms and industries to locate and invest there in order to reduce flows of migrants, unemployment rate and other social problems.

- Changes in structure of investment

At the present stage of development, top priority should be paid to investment in labor-intensive industries (agro-industry, clothing, engineering and consumer goods) and in certain hi-tech ones (electronic, power, new materials, etc.). In other words, investment in industries that Vietnam has no comparative advantages or fails to find markets for their output should be limited. Hi-tech industries require a lot of gray matter and long-term investment but they have a bright future when the economic globalization prevails. That is why the Government should work out a strategy to develop these industries.

In short, the pattern of internal strength-based industrialization for the period from now till 2020 requires big investments in four fields: human resource, infrastructure, science and technology, and industrial production. Each field has great influence on others but investment in the first three fields should be big enough to make a breakthrough in the last one. Success of this pattern depends on the way the Government employs financial instruments to control flows of capital and investments. ■