MAKING THE BEST USE OF THE INTERNAL ECONOMIC STRENGTH

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In our opinion, there are three approaches to accelerate the industrialization and modernization process: (1) making the best use of our internal strength, (2) using foreign aid and investment, and (3) coupling the two above-mentioned approaches to develop the economy at top speed. In this article, we want to present and compare these approaches.

I.MAKING THE BEST USE OF THE INTERNAL STRENGTH

1.Developing the heavy industry

This industry includes power, steel and iron, petrochemical and cement industries but its core is the engineering industry that produces machine tools and other capital goods. According to Marxism-Leninism, the heavy industry plays the most important role in the industrialization and modernization process and we think that the government had better give top priority to developing this industry instead of looking for new theories.

A well-developed heavy industry could provide us with great benefits: (a) we can produce capital goods and their spare parts by ourselves; (b) we can produce new machines by improving imported ones and making them suitable to local conditions; (c) we need not pay for patents because made-in-Vietnam machines are different from imported ones; (d) locally-made machines will be much cheaper than imported ones, thereby allowing us to save foreign exchange; (e) the trade balance will become favorable because import of both capital and consumer goods will be reduced; (f) the economic independence will be maintained; and (g) Vietnam can get access to the most modern technologies of the world without passing intermediate stages.

2.Saving sources of foreign exchange for import of capital goods, high technologies and patents

On *Nhân Dân* Daily (Jan. 11, 1995), Đỗ Mười wrote: "Recently, we have spent too much money on luxury consumer goods. Why don't we use the money to industrialize rural areas and agriculture, and fight against poverty and hunger? Current expenditures are unacceptable and far beyond our means. Leadership of all levels must discuss this problem. We can't let our country become a consumer society". At present, Vietnam keeps on importing a lot of consumer goods that could be made locally, such as motorbikes, bicycles, spirits, paper, cement, etc., along with many luxury goods. If we can prevent this waste of foreign exchange, we can secure enough capital for investment projects.

Suppose that we can spend US$4-6 billion on import of capital goods, produce some US$4 billion worth of locally-made capital goods (this value will increase in the coming years when local heavy industry develops) and local investment is worth some US$2-3 billion, the annual gross investment will reach some US$10 billion, or 38.46% of the GDP which is about US$26 billion now. Most economists believe that a gross investment equaling 30% of the GDP can help an economy take off. Thus, the expected gross investment of 38.46% of the GDP can certainly enable Vietnam to take off by its own strength.

3.Relying on foreign loans

This approach was taken by Japan in the period between 1945 and 1964, and it could stop borrowing from foreign lenders when its economy developed well. Thus, using foreign loans to produce goods for export is a right thing to do. It could be considered as a way to increase investment depending on our internal strength: because when we make goods for export, we can use many local factor inputs, such as labor and raw materials. The problem is whether export earnings are big enough to repay principal and interest or not. Vietnam can carry out big investment projects of this kind and after a length of time, if we can make enough export earnings to repay principal and interest to foreign lenders, these projects realized by foreign loans will be under our ownership.

4.Expected efficiency of some investment projects

To industrialize the economy, it's essential to increase the investment. We can do it by developing the heavy industry, making the best use of local factor inputs and securing foreign loans. In short:

Gross Investment = Local Factor Inputs + Imported Equipment

To work out the value of the gross investment, we must find out values of factor inputs and imported equipment used for new investment projects. The gross investment can be expressed either as a figure, or as a part of the GDP. In 1997, the Vietnam's GDP was estimated at US$26 billion and the gross investment at US$5.2 billion, or some 20% of the GDP. Suppose that we can increase the gross investment by applying the above-mentioned methods, the value of gross investment can be as follows:

GDP (US$ billion)	Gross investment/GDP	Value of gross investment
26	20%	5.2
26	25%	6.5
26	30%	7.8
26	35%	9.1

Instead of comparing the gross investment with the GDP, we can compare it with the GDP plus import value (or aggregate supply). The import value is estimated at US$12 billion and the aggregate supply is US$38 billion (26+12).

Comparing Gross Investment With Aggregate Supply

Aggregate supply	Gross investment	Gross investment/Aggregate supply
38	6.5	17.10%
38	7.8	20.52%
38	9.1	23.94%

We have supposed that the Vietnam's GDP in 1997 was US$26 billion and as we know, ΔGDP = k . Money supply. This equation means that if the central bank increase the money supply correctly, the GDP will increase. For example, in 1997, the installed capacity of all cement factories was over 10 million tonnes, of steelworks was 1.7 million tonnes but these plants could only produce some two-thirds of this amount. In 1998, many other cement factories will come into operation, the total installed capacity will reach 13 million tonnes a year and some 5 million tonnes of their produce won't be consumed. The only thing for these factories to do is to reduce their output. If the bank finances projects to build new schools, hospitals, bridges and apartment blocks, the total output of these factories will be used up. Thus, the increase in money supply will raise the GDP when all factories are fully used.

Besides increasing the money supply, we can reduce import of goods that could be made locally to raise the GDP, because when the source of imported good is limited, local factories will increase their output to meet the market demand. If both of these measures are taken, we can project different increases in the GDP:

Initial Aggregate Supply	Growth caused by increases in money supply	Growth caused by export-import control	Aggregate supply after increasing the money supply and controlling the foreign trade	Domestic investment	Investment/Aggregate supply
Case 1: 38 US$bil.			38	5.2	13.21%
Case 2: 38 US$bil.	2	2	42	6.5	15.47%
Case 3: 38 US$bil.	3	3	44	7.8	17.72%
Case 4: 38 US$bil.	5	4	47	9.1	19.36%

In these cases, the GDP increases because of flexible macro-economic policies (increasing the money supply to finance investment projects, reducing the import of consumer goods, encouraging the import of capital goods, etc.). The aggregate supply can make no increase (case 1) or increase from 38 billion to 42 billion (case 2), 44 billion (case 3), 47 billion (case 4) and the ratio of gross investment to the GDP will increase accordingly (varying between 13.21% and 19.36%). Right monetary policies can help to increase the GDP without resorting to forced saving.

II.DEVELOPMENT WITH FOREIGN INVESTMENT

As we know, without foreign investment and technologies, many underdeveloped countries, such as Arabic bloc, couldn't exploit their natural resources and develop their economies, however, because of their dependence on foreign capital, technology and market, these developing countries could only get 50-60% of what they produced and exported. Nevertheless, without foreign help, there wouldn't have been oil wells in West Asia, Indonesia and Vietnam.

Since 1987, Vietnam has tried to attract foreign investors and there have been US$12 billion invested in Vietnam, so Vietnam could develop its oil, tourism and manufacturing industries. However, certain foreign-invested companies are competing strongly against local ones with the result that they control an increasing market share. The government had better find measures to regulate flows of foreign investment with a view to protecting local industries and orienting foreign investment towards the national socio-economic development targets. One of these measures is to prevent foreign companies from becoming rivals to local companies by encouraging them to produce goods for export or invest in technology-intensive industries.

III.COUPLING TWO SAID APPROACHES

When foreign parties realize investment projects in Vietnam, either with aid or with private investment, a lot of foreign exchange will be spent in Vietnam (on buying local materials, paying local workers, paying for land rental or land clearance, or buying other goods and services), thus, Vietnam can earn some foreign exchange by exporting goods and services on the spot.

IV.COMPARING THESE APPROACHES

We have presented different approaches to the economic development:

(1)Using internal economic strength to develop the economy by building the heavy industry, employing local labor force and capital in domestic currency, saving foreign exchange for import of capital goods, and putting foreign loans in profitable investment projects.

(2)Using foreign aid and investment for developing the economy.

(3)Coupling two said approaches: besides putting part of the GDP in investment projects, we can use foreign investment and earnings from export on the spot to increase the gross investment. In present conditions, we can work out possible increases in the gross investment:(see next page)

The smallest figure 5.2 billion is supposed to be composed of 4 billion worth of imported capital goods and 1.2 billion worth of output of local heavy industry. Other figures in the same column express increases in both import of capital goods and output of heavy industry.

Figures in the third column represent foreign investment received in the year.

Figures in the fourth column represent earnings from the export on the spot.

If we can make the best use of all these sources of capital, we will secure big sums of capital to carry out many major investment projects (such as the project to build Vũng Tàu Port needs only one billion or an oil refinery: 1.5 billion), thereby industrializing the economy at high speed. However, these figures are only on paper. Their feasibility depends on the determination of the government.

It's worth noting that Vietnam, in a year, can attract from 3 to 6 billion of foreign investment at the maximum while the foreign investment includes many unpredictable results: prices of equipment needed for investment projects are marked up excessively, interest is payable to foreign parties, local companies lose their market shares to foreign rivals, the economic independence is under threat. Meanwhile, we can increase the gross investment from US$5.2 to 9.1 billion by developing the heavy industry and controlling strictly the foreign trade. Thus the best way to develop the economy is to make the best use of internal strength instead of relying on foreign aid and investment.

V.SOME OPINIONS ABOUT FOREIGN LOAN REPAYMENTS

At present, Vietnam's foreign loan, not including debts to the former USSR, is estimated at US$13 billion. According to an optimistic view, developing countries had better use foreign loans to increase the gross investment and promote export, and then, repay these loans when the balance of trade is favorable. South Korea, Japan, Taiwan and Singapore have taken this measure to develop their economies and they have made great success.

However, many other economists think that developing countries are unable to repay foreign loans because:

-International trade will work to their disadvantage because they can only export cheap agricultural products and have to import expensive manufactured goods.

-They suffer losses when buying or receiving foreign equipment: most of the capital goods brought or sold to developing countries are obsolete or marked up excessively.

-Local companies can't compete against powerful foreign rivals who eventually take control of the domestic markets.

-Foreign loans tend to accumulate over time when the accrued interest is added to the principal with the result that after a length of time, many developing countries are unable to repay foreign loans.

Therefore, these economists advise taking certain precautions when engaging in international trade and investment:

+ Allowing import of essential capital goods only: because when we import too many materials that could be made locally, we not only waste foreign exchange but also fail to supply jobs to local laborers and deprive local companies of business opportunities.

+ Importing only capital goods that couldn't be made locally or couldn't be supplied sufficiently by the local heavy industry: Imported capital goods must be modern and brand-new, and be sold at reasonable prices.

+ Orienting foreign investment towards projects to produce goods for export: if foreign-invested projects are to produce goods for local consumption, these goods must be beyond local production ability. If these goods could be made locally, the government had better help local companies avoid foreign competition.

With these precautions taken, we think that Vietnam can couple the internal economic strength with foreign investment in order to develop the economy to the best of its ability■

Comparing These Approaches To Economic Development

	Using internal strength (1) Value of domestic investment	Using foreign aid and investment (2) Value of foreign investment	Investment from export on the spot	Gross investment
Case 1	5.2 bil.	3 bil.	1.5 bil.	9.7 bil.
Case 2	6.5bil.	4 bil.	2 bil.	12.5 bil.
Case 3	7.8 bil.	5 bil.	2.5 bil.	15.3 bil.
Case 4	9.1 bil.	6 bil.	3 bil.	18.1 bil.