

Viewpoints on Viet Nam's Development under the Context of 21st Century

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1. Accelerating renovation process and overcoming further economic lag-behind are direct requirements for the selection of development policies.

(1) Enormous achievements of renovation under the impacts by new economic mechanism

Viet Nam has recorded numerous important achievements in the process of implementing "*the strategy for socio-economic development up to the year 2000*". The average annual economic growth rate recorded in the first five years (1991-1995) is 8.2% and in recent five years (1996 -2000) under the impacts by the regional financial and economic crisis the figures has still maintained at the rate of 7% with relatively visible economic recovering momentum. This growth rate is much higher than that in the five years of 1986-1990. Furthermore, the inflation rate is also far more different from hyper inflation then. Over the past 10 years, GDP has been doubled (at 1994 constant price) and GDP per capita (at average official exchange rate against USD) increased by 3.1 times from USD 124 in 1990 to USD 400 in the year 2000.

Economic sectoral structure has been adjusted dramatically with a rapid increase in the share of industry and service and a corresponding decline in the share of agriculture:

	1990	1995	2000
Agriculture, forestry and fishery	38%	27%	24%
Industry and construction	29%	31%	37%
Services	33%	42%	39%

If deeper analysis is done, labour productivity has been rapidly improved in all industries and in the economy as a whole.

Efficiency and competitiveness have also been improved largely attributed to the implementation of integration into regional and international economy, thus contributing to a sharp increase in export value which accounts for 45% of GDP with 50% of industrial outputs present in international markets. Foreign invested sector has made an important contribution to industrial development and occupied 35% of total industrial output nationwide and contributed 12% to GDP, becoming an integral part of the economy. Relatively high level of ODA mobilization has greatly contributed to the improvement of social and physical infrastructure, heightening management capacity and institutional reform for being adaptable to the transition to market-oriented economy in Viet Nam.

There has been vigorous changes in social aspects. Population growth rate has been controlled with the annual rate of 1.7% in 10 years (1989-1999) and 1.53% in the year 2000. While the living standards of population in general have been improved, the number of poor households have also been declined strongly from 30% in 1993 to 15% in 1998 and 11% in 2000. The achievements recorded in this field if based on international standards of poverty alleviation are also very enormous with 50% of poor households declined within 5 years from 1993 to 1998. The income gap between urban and rural areas is not very large, only 3.7 times. GINI indicator of 0.37 is at average level, better than that of some countries in South East Asia. However, unemployment in urban areas and under-employment in rural areas have still been very high. 1.4 million youth entering labour force each year have put a very big pressure on job generation.

Along with economic achievements, the legal system has been gradually improved based on 1992 Constitution. New economic mechanism, including legal framework, administrative reform and attention given to improvement of socio-economic infrastructure, is really the most important breakthrough as compared to what had been done before 1990s, creating new engine for strongly accelerating development process. Having witnessed strong impacts by policies on contracting out to households in agriculture during the renovation years, in recent years we have seen vigorous impacts by farm economy development with the formation of 45 thousand new establishments employing 700 direct employees and millions of indirect ones. And in the year 2000 we again experience strong transformation when the Enterprise Law is put in effect in stead of the Law on Private Enterprises. In the first 10 months of the year 2000 alone, over 10,000 new enterprises were born, creating ever rapid expansion of non-state industrial sector: the growth rate of this sector reaches nearly 19%, higher than that of state economic and foreign invested sector. The effectiveness of the new economic mechanism is quite clear.

If TFP analysis is undertaken, it can be seen that during 1996-1999 in spite of difficulties in regional economy with declining momentum, the impacts by new factors have contributed at least about 15% to the total growth of the economy.

Countries	GDP growth rate	Contribution by capital	Contribution by labour	Contribution by TFP
Indonesia 1968-1996	6.87	2.95	1.85	2.08
Korea 1968-1996	8.59	3.74	1.77	3.09
Malaysia 1968-1996	6.91	2.89	2.08	1.94
Philippine 1968-1996	3.50	1.61	1.97	-0.08
Thailand 1968-1996	7.35	2.96	1.82	2.57
Viet Nam 1996-1999	7.00	4.76 (Invested capital increases by 7.32%)	1.05 (Labour force increases by 3%)	1.19

Source: CP11 : Structural Changes in Asia and Growth Prospects After the Crisis, Paris, 2000, page 18

In the long run, there will be only an average annual growth rate of 2% in labour force and therefore, in addition to strengthening domestic savings capacity of the economy and mobilizing external capital sources, the acceleration of intensive factors for growth - speeding up renovation - will have the most active impacts on the acceleration of economic process towards rapid, efficiency and sustainable growth.

(2) Viet Nam's economic lag-behind in such areas as income, savings, efficiency, competitiveness is the weakness which should be improved in the future

There have still been a lot of difficulties, weaknesses and mismatching, especially in efficiency and competitiveness of the economy. People's living standards have been improved, but there have still been many unstable factors. If following new poverty criteria (1.5 times higher than the former ones), the percentage of poor households in the year 2000 will rise from 11% by the former criteria to 4 million households or 25% by the new ones.¹ This suggests that the number of people in "poverty margin" are still very large due to very low income level nationwide in general.

- Average income per capita in 2000 (in accordance with SG and ASIaweek)

	By official exchange rate		By PPP	
Viet Nam	USD 400	1 times	USD 1755	1 time
China	USD 800-1000	2-2.5 times	USD 3275	nearly 2 times
Thailand	USD 2056	7.5 times	USD 6020	3.5 times

If compared to the world average income level, Viet Nam's income equals to 8% in nominal terms (over USD 5,000) and accounts for 30% in PPP (over USD 6,000).

In order to catch up with Thailand, Viet Nam should have the growth rate ahead Thailand as follows: For catching up with Thailand in 20 years, it requires Viet Nam to have an annual growth rate of 6.5% ahead—this can not be achievable on the base on data over the past 10 years. In order to catch up with Thailand in 30 years, Viet Nam should have the growth rate of 4.2% ahead and for catching up in the coming 45 years (in 2045, on the anniversary of 100 years of the foundation of Democratic Republic of Viet Nam), the growth rate ahead must be 2.8%— not a simple task. However, if the difference in PPP and official exchange rate of 3 times and 4.4 times respectively between Thailand and Viet Nam and the assumption that in the integration process the income gap will be narrowed down are taken into account, we still have to catch up Thailand with the following growth rate ahead:

2020 (20 years): ahead 4.5%

2030 (30 years): ahead 3%

2045 (45 years): ahead 2%

¹ Average monthly income is less than VND 150-180 thousand in urban areas, less than VND 100 thousand in rural areas and less than 80 thousand in mountainous areas.

- Domestic savings capacity (according to ASEAN Information Bureau):

Viet Nam	25-27% GDP	about USD 100-110 /year
China	about 40% GDP	about USD 400 /year
Thailand	32.9-35.6% GDP	about USD 1000 /year

The concern is not only the percentage but also the size of savings. China's saving level equals to total average income per capita of Viet Nam, while that of Thailand is 2.5 times of total average income per capita of Viet Nam. This poses a very great challenge to capacity for economic development, active technology import and participation in competition.

- Investment efficiency (calculated by MPI's data):

Development policies heavily focus on big projects with slow investment recovery, thus resulting in low efficiency:

Viet Nam	Investment/GDP	GDP growth rate	ICOR
1997	30.9%	8.2%	3.8
1998	28.7%	5.8%	4.9
1999	26.0%	4.8%	5.4
2000	27.8%	6.7%	4.1

Investment efficiency affected by crisis has been sharply declined. Although since mid-1999, investment efficiency has been more or less recovered, ICOR is still high. This greatly depends on economic and investment policies which facilitate small and medium enterprises and create more jobs in the future. If we should invest into some big projects in heavy industry with more subsidies and long-term protection as necessary, but we can't use the same measures for any project due to limited budget. In the same time, the SME in industry and farmers in agriculture have more potentials for increasing efficiency and jobs creation and SOE reform also contribute to more efficiency of investment.

- Competitiveness:

+ National competition: Recent data by World Economic Forum indicate that competitiveness has been declining sharply (perhaps data of the year 2000 reflect economic situation in 1999 when economic growth rate is the lowest over the past 10 years).

Global competitiveness

	1997	1998	1999	2000	Increase, decrease
Viet Nam	49	39	48	53	-4
China	29	28	32	41	-12
India	45	50	52	49	-4
Singapore	1	1	1	2	-1
Thailand	18	21	30	31	-13
Malaysia	9	17	16	25	-16
Indonesia	15	31	37	44	-29
Philippines	34	33	33	37	-3
Hong Kong	2	2	3	8	-6

Source: World Economic Forum in 1977 - 2000

+ Product competition

Product competition has been in an upward tendency, but still at low level especially compared to neighbouring countries. Export level currently is although high, its efficiency is not in proportion. As a result, if timely adjustment is not made which will lead to the risk of "bubble growth"; i.e. total output goes up quickly but added value by domestic economy rises slowly due to too large volume of imported materials. Under the conditions that other countries in the region are in the process of economic recovery, product competition will become fiercer. Export value of electronics and telecommunication products by other countries in the region is very high, while that of Viet Nam reaches only about USD 700-800 million.

Service sector has not yet developed in an appropriate manner. Prices of many services like telecommunications, electricity, Internet are very high (especially when our income accounts for only 40% of China and 12% of Thailand). ASIaweek indicates that Internet users per 10 thousand people in Viet Nam are only 12.5 while the figures in China and Thailand are 69.8 and 159.7 respectively. Although labour costs are relatively low, if labour productivity is taken into account, labour costs per each product and per each added value unit have been sharply decreasing. The quality of banking system has not yet kept pace with development requirements, the access to credit by small and medium enterprises is very poor.

(3) Requirements for rapid and sustainable development

Viet Nam has given great focus on poverty alleviation and recorded remarkable achievements. However, under the context of poor conditions in the whole country, the foremost priority objective is to accelerate growth. The last natural disasters show that the number of hunger and poor and nearly hunger and poor households are very large. Only rapid growth can create conditions for implementing hunger eradication and poverty reduction, therefore, step by step can improving living standards of people.

Along with rapid growth for realizing hunger eradication and poverty reduction, comprehensive sustainability (including economic, social, environment and political) must be ensured. Recent experience by ASEAN countries suggests that all political instability causes enormously negative impacts on economic development indicators—Indonesia is a typical example.

As such, Viet Nam's path to rapid development must go hand in hand with sustainable development and stability. To achieve it, it is necessary to create new quality of development, improve efficiency and competitiveness. With this connection, recommendations by Japanese and international are evidently still valid.

2. Requirements and capacity for rapid growth with new quality in development

(1) Rapid growth must go hand in hand with new quality in growth, economic structural adjustment, efficiency and competitiveness improvement

To escape from poverty and backwardness, it requires rapid growth. The mankind has been entering the 21st century under the context of rapid progress in technology and science. As a result, Viet Nam can not repeat what had been done by other countries. It must select development directions for bringing into full play its comparative advantages and figure out its "dynamic" comparative advantages for actively searching for the comparative advantages in the new international context. For example, labour will continue act as a comparative advantage if it is technically skilled labour and if it is good manager adaptable to integration conditions.

The quality of growth and economic structure is an issue of concern. The economy has been recovered since mid-1999 and gained its growth momentum with the annual growth rate of 6.7% (agricultural growth rate has still maintained at high speed while industry recorded its highest growth rate since 1992, especially private sector under the conditions of implementing new policies). However, the added value in the above-mentioned growth rate is low due to the fact that in processing industry (accounting for 80% of industrial output) there are numerous products rely on a great proportion of imported materials (such as textiles, garments, leather footwear, electronics). The service sector has not yet restored its growth momentum.

There have been additionally objective and favourable conditions such as crude oil price, remittance... at macro-economic level. However, they may be immediate factors while actually implemented FDI is subject to slow growth rate. Consequently, if attention is not immediately given to quality of growth, there will be the danger of declining growth rate in general.

While deadline for completing agreements on AFTA still has five years more, ASEAN-6 countries have agreed to accomplish them by the year 2002. Countries in the regions not only rapidly focus on economic recovery but also accelerating integration process and opening the economy. This puts stronger

competition pressure on Viet Nam.

(2) New requirements are also new capability under the context of entering the new economy, the knowledge-based economy by the mankind

The industrialization and modernization of the country must be undertaken by new thinking suitable to the period when the mankind enters the 21st century. When the line defined at the 8th Party Congress, it is clearly identified that industrialization must be tied to modernization, selection of economic and industrial development directions must be consistent with scientific and technological progress by the mankind, thus contributing to improving efficiency and competitiveness of the economy.

As such, we will not only simply speed up rapid development based on expanding in scale, but also focus on quality when the market economy has been in the process of formation and development with a relatively high level of openness by the economy. When industrial products account for 50% of exports, in order to promote exports, application of new technology with an aim of improving both product volume and quality for meeting the market demands is a must. If new technology and knowledge are not included in development, it will be not only difficult for accelerating export capacity, but also a danger of failing to maintain achievements made in exporting industrial processed products due to the fact that their quantity and quality fail to catch up with international market's demand.

Nowadays, when the mankind enters the 21st century, scientific and technological advances, especially information and telecommunication technology, bio-technology, new material technology, have contributed to improving labour productivity and business efficiency. These advances will deeply change the appearance of the civilized economy in the future. Viet Nam can make use of its comparative advantages in human resource development and actively create the dynamic advantages in the process of international integration for reaching higher development level in the region and the world. The achievements recorded by Viet Nam over the past 10 years, rapid expansion of export, strong development of agriculture and rural economy, structure adjustment of industry and service, macro-economic stability, the development of financial and banking system and many other changes in Viet Nam as well as the contributions by over 2 million overseas Vietnamese in other countries (accounting for 3% of total domestic population and have the opportunity to access to international market and new science and technology), in Silicon Valley and in other industrial centres all over the world show that Vietnamese is capable of contributing to the new economy of the mankind and of working out the way for narrowing down development gap.

One question is raised: What are the benefits and harmfulness to Viet Nam when it participates in the globalization and integration process? It can be seen that any factor has its two sided impacts, including positive and negative ones. However, they should not be seen with a static view. Benefits and harmfulness to Viet Nam depend on its policies. As a result, the plan for "active integration" is completely correct:

Accept challenges, define integration process and steps in such a way that they can strongly bring into full play the existing comparative advantages as well as those created in the dynamic relations with other countries in the regions and the world. For instance, Viet Nam participated in AFTA and signed trade agreement with the United States. If Viet Nam speeds up renovation and accelerates enterprise reform based on efficiency, it will have more opportunities to access to new markets and cheaper imported products and materials, thus having positive impacts on living standards by domestic population.

(3) More rapid advance can be done in international comparison if good coordination undertaken in macro-policies

Under the conditions of developing countries, the gaps calculated on the base of official exchange rate or PPP to a certain extent have not yet fully been reflected. Expanding rapidly often leads to "hot" economy which is not usually a bad thing. It is attributed to the fact that industrialization goes hand in hand with urbanization, gradually resulting in a common price level. As a result, together with real growth rate by constant price (1994 price for Viet Nam), there is also nominal growth rate less off the depreciation of VND against USD. The result is relatively rapid increase in USD calculated growth rate in nominal terms. In 1999, GDP per capita in USD is only USD 124, in 1995: USD 287 and in 2000: USD 400, increasing by 3 times as compared to 1990 (while total GDP at constant price only doubles!). The similar phenomenon also occurs in Korea: in 30 years, GDP at constant price increases by only 30 times, while nominal GDP per capita goes up by 100 times (from USD 80 in early 1960s to USD 8,000 in early 1999s).

As such, rapid growth can be attributed to:

- real growth, on the one hand, i.e. growth in economic scale by constant price. This is the most significant determinant. If real scale of the economy is not expanded with new quality in its growth, there can not be any conditions for narrowing down development gaps;
- adjustment relations of price level, on the other hand, under the conditions of integration, gradually reducing development gaps thanks to exchange rate relations. In other words, exchange rate adjustment process is further carried out towards more flexibility and close following market signals, but the devaluation of VND should be lower than the inflation rate in general. This will enable to reduce the gap between nominal GDP at official exchange rate and GDP at PPP. Experience in other countries shows that the gap between the two will narrow down in the process of integration.

These two relations can assure economic growth in the process of integration, gradually adjusting price level within the country in the period long enough for not creating "shocks" in the advancement toward reducing the gap between domestic and international price level. Here we would like to refer to long term future because many international consultants want prices of some basic materials in Viet Nam to be close to international price level right way. This can do harm to Viet Nam's competitiveness.

China, after 20 years of open the door to outside, the gap has been still 4 folds with very high level of price subsidies in this country. In Thailand, the gap is 3 times and in Korea it is nearly balanced, equals to 1. The integration process and implementation of commitments on tax reduction will have positive impacts on this. Very high and long time protectionism will have numerous negative impacts on long term interests by enterprises and more importantly on the interests by consumers.

In addition, challenges will become greater, when the mankind enters the new economy—knowledge based economy (KBE). If Viet Nam again missed the opportunities, the risk of being lagged behind in economic aspect will be more dangerous. And this will be able to result in difficulties in social development. However, if opportunities can be made use of for making dramatic changes, especially attention given to strongly renovation of economic mechanism and management quality, the opening advantages can be better employed.

(4) Preconditions for rapid and sustainable advancement

To ensure rapid and sustainable development, it requires important preconditions as follows:

- There should be political and socio-economic stability. Crisis as taken place in the regions must be avoided for creating stable business environment. The political and social stability over the past time is the very solid insurance for important achievements recorded by the renovation.
- An institutional environment should be completely established, including legal environment, administrative reforms and preconditions of infrastructure, that facilitate production and business activities as well as ensure that domestic and foreign businessmen can predict their business prospect in Viet Nam. An appropriately economic mechanism has also promised to attract more rural labour into farming production, that is considered as a solution to the rural unemployment. In some opinions, "software" reforms, including legal environment and administrative reforms, should be paid attention to, while the requirement for socio-economic infrastructure upgrading should be slowed down. In my opinion, this is a wrong point of view, harming the socio-economic development. Without the investment in upgrading the transportation system, supplies of electricity and clean water, the economic development in poor areas cannot come true. Without a system of good transporting roads leading to residential areas, the transition to market economy in poor areas cannot be implemented. Without a firm telecommunication infrastructure, the approach to a New Economy through Internet will not be available for us as it has been available for China for the past few years. Generally speaking, a huge demand for investment in socio-economic infrastructure in the next 10 years is evident and can be considered as an important precondition as stated in the 8th Communist Party of Viet Nam's (CPV) Congress Resolution.
- An available and qualified human resource should be built up, especially skilled labour, capable of receiving technology transfers as well as management team, competent for absorbing new

management techniques. Viet Nam holds advantages in the literacy percentage, medical and health care system. However such advantages are not enough for maintaining a high growth rate on the threshold of international integration. A young labour force is a comparative advantage if it is utilized in economic activities. However, it can also be an obstacle to the development if accompanied by unemployment, under-employment, or lack of skilled workers. Moreover, labour for administrative and business management activities is also in shortage, failing to meet the requirements of the integration process.

- Scientific and technological potentials should be strengthened so as to receive technology transfers as well as to adapt to, apply, transform and disseminate them into the economy. The high growth rate of over 10 - 12% and the high exporting percentage of our industrial products over the past time result from our absorption of technology transfers in many industries, both in FDI and state-owned sectors. In order to penetrate into the world market as well as to improve the competitiveness in the domestic market of 80 million consumers, it is essential to improve the capability in receiving, adapting, popularizing and widely applying technology transfers in the economy. High technology requires large laboratories of regional level as well as an implementation network in practice. Viet Nam's agricultural achievements have not reached the peak but still have many potentials, for example the application of new farming process and biotechnology (according to the farming experience in Cuu Long River Delta as summarized by the O Mon's Rice Institute, 2-crop rice cultivation allows to avoid spates while "relaxing" the soil, leading to bigger harvests).
- Investment capital should be sufficiently provided, while ensuring to mobilize and efficiently utilize investments in all areas of the economy, including public investment, domestic and foreign private investment. Capital is a direct determinant to creating new production capacity. The higher percentage of internal savings to GDP of nearly 27% in 2000 is an optimistic signal, but still at a lower level as compared with China and ASEAN-5 countries. Thanks to experience gained in overcoming the crisis's negative impacts and reducing the external capital inflow into Viet Nam, reforms have been conducted and thus, the domestic capital percentage is raised from the planned 50% to the average figure of 60% in the period 1996 - 2000, which is a right direction to further step up. Concurrently, the mobilization of external capital sources, including the Official Development Assistance (ODA), Foreign Direct Investment (FDI) and indirect investment capital, also plays an important role, not only in terms of the investment size, but also in terms of technology transfers, human resource training (including both skilled workers and modern business managers), expansion of market access.

In comparison with the past 10 years' practices and the prospect for the coming time, it can be said that the aforementioned conditions have generally been met. However further detailed analyses are as follows:

- The political and social stability is undeniable. The CPV's leadership is recognized in the Constitution as well as broadly in the society. Achievements in hunger eradication and poverty reduction (HEPR) ensure the stability, whatever criteria the calculation is based on. The income gap of 3.7/1 between the urban and rural area is relatively low, while the urban population is increasing and representing 24% of the total population. The rich - poor gap has been taken into consideration since the beginning so as to avoid a huge gap as occurring between the East and the West of China.
- Political determination in accelerating the comprehensive renovation process in economic and administrative areas is an important condition for development. Legal environment has been gradually improved in the basis of the 1992's new Constitution. Administrative reforms are being conducted and have gained some achievements. Investment in upgrading socio-economic infrastructure has achieved outcomes. The information and communication system in Viet Nam has been equipped with the most modern technology and being opened for many partners to participate, fostering the competitiveness in this area.
- The labour force is added by 1.4 million workers, or 2%, each year. Concurrently, the education and vocational training system has been strengthened so as to increase the percentage of trained labour. However, the urban unemployment and rural under-employment are serious problems to be solved. Higher budget expenditure in education and training, together with the socialization of education in many forms, has helped to meet the population's education demands.
- Scientific research and application have been fostered, while the budget expenditure in these activities reaches 2% of the total budget. In fact, our rapid growth over the past years is attributed to the application of new technology in production and daily life. Although we still lag behind many countries, it should be noted that there are few countries with the average income of USD 400 that record as large number of Internet access and computer users as in Viet Nam.
- Capital is of high importance. Many policies on mobilization and efficient utilization of domestic capital sources have been issued, while the potential of capital mobilization is still considerable. Although the domestic saving level is relatively high, only 70% of this amount is ploughed into development investment. In addition to official sources, the annual transfer of over USD 1 billion from Vietnamese working abroad flows into Viet Nam, not yet taking into account the "hidden" investment by some foreign investors into Viet Nam. If the business environment continues to be improved, the mobilization of many domestic and foreign capital sources will be of huge potential. Concurrently, the strict control of short-term credit over the past time is a sound policy, helping to avoid such collapse as in Thailand. The mechanism issue plays a determinant role in mobilizing the capital. Let's take an example of the coal mining industry with huge investments, but still heavily indebted, suffering from serious unemployment and the poor export value of less than USD 100 million. Conversely, households in Central Highlands and South East region invest into pepper

production by themselves and gain the export value of as twice as that of the coal mining industry in 2000.

3. Some development orientation to be confirmed:

- (1) Policies on fostering the capital mobilization should be issued, among which the policy on saving encouragement for the purpose of the country's development is especially focused on. Concurrently, the efficient capital utilization should be considered of great importance

The issue of capital for development should be reaffirmed. The lack of capital will hamper the growth rate. Concurrently, inefficient utilization of capital will also lead to unstable development. The increase of ICOR ratio to 4 - 5 over the past years is considered too much, while the likeliness of an improvement is not very probable as it requires huge investment into infrastructure and many industrial projects with long paid-back period.

As for domestic capital, the focus should be paid to policies encouraging domestic savings, together with appropriate and flexible measures to utilize such savings for the purpose of development investment in potential regions, as well as supporting policies for difficult regions.

As for foreign capital, the policy on ODA mobilization for development investment, including both socio-economic infrastructure upgrading, administrative capacity improvement and institutional reform, should be clarified. Concurrently, the mechanism should be reformed and the administrative capacity should be improved so as to absorb FDI and other indirect investment sources in a quick and efficient manner.

- (2) The diversified development strategy should be further emphasized while the rural and agricultural sectors should be gradually modernized.

The focus should be paid on the diversified development of agricultural and rural economies, gradual modernization of these sectors through fostering local savings and making best use of local potentials (such as attracting labour at their leisure as the percentage of working time in rural areas stands at only 70%, lower than the Japanese standards).

It is necessary to improve the interaction between industry and agriculture, urban and rural areas, as well as to draw up a sound urbanization policy.

- (3) Regarding the policy on enterprise reform in general, the establishment of market elements should be focused on in order to improve the efficiency.

The establishment of market elements, particularly the labour, capital and land markets, play an important role in developing the enterprises' activities, including state-owned (SOE) and non state-

owned enterprises.

The SOE' subsidization and inefficient performance, though less serious, are still popular and reflected in a more implicit manner. Therefore, it is necessary to issue decisive policies on transforming small-size SOEs into new business forms, with the participation of the enterprises' workers as well as domestic and foreign investors in terms of capital and business initiatives.

Private enterprises which are heavily indebted for a long time should no longer be "saved", while there has not been any state or private large-size enterprises to be included.

4. Some priority policies

(1) Well-oriented development policy in the process of industrialization and modernization

The selection of a sound policy is really of top importance. The CPV's 8th Congress has emphasized the role of agricultural and rural development and put the rural and agricultural industrialization on the top priority. The policy's soundness has been proved in practice. The rural industry has gained a rapid growth rate and contributed 17% of GDP in rural areas.

However, some development policies have not been consistently implemented, even sometimes got into troubles, and should be insisted on the followings:

- The *export-oriented* development policy has been actively implemented, however still lacks compatible solutions. The preparation for market access and investment into new areas have still been spontaneously conducted. Non-state economic sector has little access to capital and hits against some other barriers such as land policies... The *import-substitution* industrialization policy is of great importance to a vast market, however the mental habit of relying and depending on "the protection", even in FDI enterprises, is also a big obstacle. Normally, whatever industrialization policy should be based on criteria of long-term economic, financial and social efficiency in order to determine an appropriate implementing step. Only by improving the competitiveness in domestic and foreign markets, the sustainable development can be ensured. However, as agreed by Vietnamese and Japanese specialists in a research, it should not draw up across-the-board policies. Efficiency and competitiveness can vary from products to products. If the import substitution is well conducted, the potential of expanding gradually into the international market will be come true. On the other hand, exports can help to meet domestic demands. Therefore, in the future, the emphasis should be further paid on improving efficiency and competitiveness.
- The policy on developing *some key heavy industries* should be taken into careful consideration, essentially in terms of overall efficiency. We should not firstly set a target, then focus on discussing implementation measures, but make a more comprehensive analysis in the long-term in order to find out an appropriate schedule as discussed by Vietnamese and Japanese specialists in Hanoi

during the past time. It is necessary to avoid the "disguised efficiency" resulting from the reception of price subsidies (e.g. reduced electricity price for bauxite production), lower interest rates (of loans for factory construction and reconstruction),... which in turn will lead to lower "nominal cost price" but leave a burden of losses for the country. Certainly, the areas that play a very important role and directly involve with security and national defense will be mentioned in a special theme. Therefore, the progress of the Oil Refinery Factory No.2's construction in another place can lead to capital strain. Instead, the new development of gas industry tied with electricity, fertilizer and chemicals production in the South West region, if it was stepped up in practice, would bring about much greater socio-economic efficiency.

- Policies focusing on modern technology, *linking the industrialization with the modernization* during the first 10 years of the XXI century should be clarified. The development of modern industries such as "software industry" is in the right direction, but not enough as it is missing many opportunities, if the OKINAWA statement just released by powerful countries is taken into account. Therefore, we completely agree with the Political Bureau's sound policies on comprehensively fostering such industries as electronics, information technology and telecommunications (ITC) in all areas, from research, application, popularization to export, with very clear regulations and mechanism.
- Policies should be clear and in accordance with the common planning of the economic transition in the context of globalization and active integration.

(2) Economic mechanism should alter in accordance with the development requirement and pave the way for production development

Political determination in conducting the comprehensive and profound renovation process in Viet Nam is evident. However, some investors and international donors still sometimes misunderstand the issue. Therefore, the determination should be reaffirmed as well as the reform and integration schedules should be clearly specified.

Over the past years, there have been bold moves in contracting out to households in agriculture sector, 3-component plan in state-owned industry sector, the development of farming economy in agriculture having left positive effects, and notably the Enterprise Law coming into effect since the early 2000.

The growth rate of private industry sector in 2000 amounts to 18.8%, much higher than that of previous years (In 1996: 11.5%; 1997: 9.5%; 1998:7.5% and 1999: 8.8%) and also higher than that of other economic sectors. The rapid development of the farming economy, with over 45,000 farms as estimated in 1999, covers many sectors from agriculture, forestry, fishery, breeding to miscellaneous business. Such farming enterprises have attracted more than 700,000 workers and used the land area of 270,000 ha, on average each enterprise uses the land area of 6 ha and 15 workers, 70% of whom are seasonal workers.

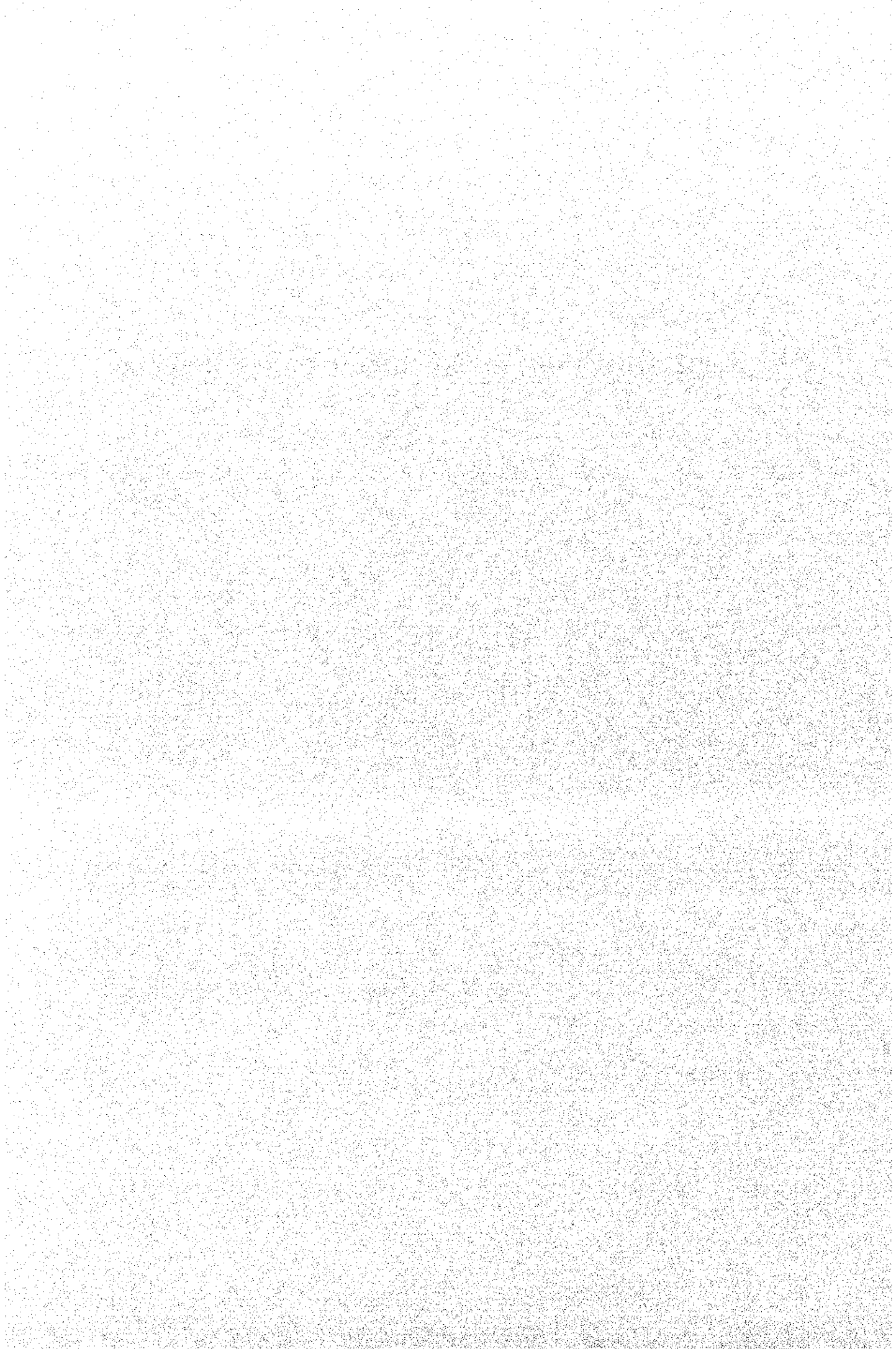
New legal regulations on mobilizing domestic and foreign investment capital have created incentives for development. The signing of bilateral and multilateral trade agreements provide new opportunities for development, as well as pose challenges if there are no strong changes in improving the legal framework and thorough administrative reforms. More active and better preparation should be made even for enterprises so that they not only follow international commitments but also contribute to building policies relating to integration schedule and solutions.

- (3) Human resource development and Science and Technology application should be improved so as to meet the current demands

Once an appropriate economic mechanism has been established, the human resource development and science and technology application play the role as an important precondition to achieve the target of the country's development. More broadly, we should base on knowledge to gradually approach the economy, take initiative in utilizing knowledge elements to contribute to the development process in all areas including industry, agriculture, service, state administration...

However, commitments on improving education and science and technology as stated in the CPV's documents have not been yet fully implemented. There is still a big gap between practice and the current demands and our potential. For example, weak vocational training activities require new and more appropriate policies. The science and technology development also requires high-tech zones which however are in shortage in practice. Therefore, in the future, this should play the role as an engine in contributing much more to the development through TFP factors (with the target of an increase from the current 1.6 - 2% to over 3% as the South Korea has achieved for the past years).

Chapter 2 Directions for Economic Policy Reforms



Directions for Economic Policy Reforms

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Since 1986, basic reforms have been made in our economic policies—the transition from the centrally-planned and subsidized economic policy to the market-oriented economic policy. The renovation course has gained outstanding achievements, yet facing some complex problems that demand an examination in details so as to further foster the economic policy reform process in the coming time. This report focuses the analysis on our current economic performance in an attempt to draw the directions for the economic policy reform in the coming time. The report will not refer to the external situations, however it will make analyses based on the assumption that the overall economic performance worldwide will continue to develop in a positive direction, and the globalisation process together with the Information Technology (IT) will be increasingly broadened.

1. Current Economic Performance in our Country

Since 1986, the renovation process in our country has achieved considerable outcomes reflected in the following aspects: a high growth rate has been recorded in 1990s, especially during the period from 1991 to 1996; the inflation has been in control, down from 600 - 700% to a single-digit level; the food output has increased strongly, moving from the position of a food importing country to the second or third largest food exporting country in the world; exports have been boosted up at a rate of more than 20% over several years; a considerable amount of external capital sources, especially the foreign direct investment (FDI) has been mobilised; a market-oriented mechanism has been basically established, with the diversified development of various economic sectors; the population's material and cultural lives have been gradually improved; the national security and defense have been stabilised...However, since 1987, some worrying signals have been registered in our economic performance, such as: a slowdown in economic growth; a decline in efficiency, quality and competitiveness of the economy; a decline in FDI and stagnation in domestic investment; social problems, particularly unemployment and social evils, going more serious...The economic performance in our country over the past years have the following main features:

Firstly, the period of high growth at the annual rate of 8 to 9%, low inflation and high efficiency (the ICOR index reaching roughly over 3) only lasted for 6 years, from 1992 to 1997. In 1998, the growth rate dropped to 5.8%, in 1999 - to only 4.8% and in 2000 - expected up to 6%, i.e. the economic growth has generally decreased by 20% to 37%. While in China, where the regional crisis has also left its negative impacts, the growth rate only decreased from 9 or 10% down to 7 or 8%, equivalent to a falling rate of only more than

10%. South Korea—the country most seriously damaged by the crisis—has recorded a recovery in its growth rate of 10% in 1999. The annual growth rate of only 4 - 5% is as low as that recorded in our country before 1990s, when our economy was still in crisis. Therefore, the slowdown in the economic growth rate since 1997 is a worrying and abnormal signal.

Secondly, the market-oriented economic mechanism which was basically established has proved effective, but still restricted by many basic shortcomings. The most prominent one is that the market mechanism has influenced the pricing of most goods and services, yet failed to affect exchange rates, interest rates, allocation of capital, property, labour resources... while these latter elements are considered basic components of a market. Exchange rates have not yet determined by the market, leading to the problem of frozen rates and over-evaluated Viet Nam Dong (VND) as compared with its real value, that in turn has lowered the competitiveness of Vietnamese commodities both in international and domestic markets. The same situation has happened to interest rates, where the demand for capital cannot be met, even at a high interest rate, due to the imposed limit of ceiling interest rate. The allocation of capital sources has been determined mainly by subjective commands, but not by the market mechanism. The newly born capital market is still in weak operation, leading to the fact that capital generally flows through the state channel under the state commands. The weak circulation of property can be attributed to troublesome administrative procedures. There are still many shortcomings in household registration, emigration, training and employing regimes, causing difficulties for redundant labour to move even domestically, let alone abroad. The state monopoly is still common, particularly state corporations in many branches have gradually gone monopoly, restricted the competition and imposed unreasonably high monopoly prices, leading to increasing costs of production and services as well as hampering the investment environment...The aforementioned shortcomings in our market mechanism has limited its positive role as an engine for economic growth.

Thirdly, our markets, both external and domestic, have considerably expanded, however still blocked with some restrictions. The first restriction is that our import-substitution policies have focused our production, either in domestic enterprises or in joint-ventures, on the domestic market with a limited capacity. Therefore, the production in many industries, particularly the agricultural production, has registered an excessive supply over domestic demand. On the other hand, as the production is concentrated mainly on serving domestic demands, our imported technologies and equipment are still generally backward, leading to higher cost prices, lower quality and weaker competitiveness against imported goods. As for external markets, we have managed to penetrate mainly into the regional market (which accounts for up to 70% of our trade value), while the world's largest market—the US market—is still blocked and European and Japanese markets have been partially unblocked...Hence, it can be concluded that the shortcomings in our economic policies have led to the low competitiveness of Vietnamese commodities, and the failure in maintaining our share even in the domestic market, let alone the extension to external markets. On the other hand, as we have not managed to negotiate the entry into WTO and sign a trade agreement with the US, the tariff barrier on our goods at the

penetration into such markets is still very high, dampening our competitiveness in such markets. Other causes can be taken into consideration such as the lower import demands of regional countries due to the negative impact of the 1997 crisis; accompanied by their currency depreciation by up to 40 - 50% together with strong reform measures in an effort to considerably reduce their export prices and compete with our export goods. The failure in expanding the market plays a significant role in glooming our investment and business environments, burdening the inventories and lowering the enterprises' profits...

Fourthly, non state-owned economic sectors in our country have been provided stimulus for their development, however towards increasingly lower share in the economy. While in 1991, the ratio of the contribution in GDP by the state-owned sector to that by the non state-owned sectors was 3/7, it reached 4/5 in 1998 (excluding the foreign sector), i.e. the percentage of contribution by the non state-owned sectors rose from 30% to 40%. Following the trend, investment by the private sector, including FDI, has decreased considerably from 64% in 1994 down to 38% in 1999. Economic activities in the state-owned sector have been much reformed and the decision-making has been to some extent left to enterprises, however the sector is still inefficient with only about 2% of enterprises making profits while as much as 80% of enterprises making no profits or falling into losses. The paradox here is that the inefficient state-owned sector can have access to 70 - 80% of the banks' lendings, subsidies from the state budget, business monopoly in many fields, especially the most favourable conditions for imports and exports, the most significant resources, the most elite human resource... and is increasingly bulging, while the more efficient non state-owned sectors are ever shrinking. This is also an important reason for the gradually worse economic performance.

Fifthly, though our economy is in the transition to the market economy, the economic structure has still been determined by the state, or in other words, the market has not been played its role as the economic structure regulator. Economic branches have been so far established under the state's plans. What factories, of what size, in what location, with what technologies... - all the questions are decided by the state ministries and branches. Cement blast furnace factories, sugar factories... with backward technologies have been constructed under such type of plans. According to lots of calculation and evaluation, most of branches, factories... established under the state planning are generally inefficient. Only in some sectors such as agriculture or service..., the market can play its regulating role quite clearly. However, even in such sectors, the state is limiting the regulating role of the market in such important fields as land transfer and dealing, import and export state monopolies in agricultural, forestry and fishery products... Economic branches established under the state planning have shown many shortcomings: On the contrary to various and daily changed market demands, rigid state's economic plans cannot make accurate pre-estimates as well as prove not flexible enough, resulting in many economic plans that are too far from practice and fail to meet the market demands. Due to this limited nature of the state, in almost all developed market economies, the state only assumes the planning function in non-market industries that are little regulated by the market. This situation has resulted in a consequence in which economic branches established by the state over the past years such as cement, steel,

fertilizer, sugar... fall into inefficiency, low competitiveness and need the state protection. This is also a determinant to the sluggish economic performance.

Sixthly, although the monetary and banking system in our country has been much reformed over the past years, it has still failed to integrate into the market-oriented operation environment of the international system. Vietnamese currency is still limited by many disadvantages: not yet recognised as an internationally convertible currency, low face value (the highest face value of VND 50,000 is equivalent to only USD 3.3) that cannot assume the functions of means of payment and reserve, but only the function of value measuring and means of circulation; no coins for small transactions. This has led to an increasing "dollarised" currency, big transactions as well as large reserves are often calculated in USD, the circulation of the USD is limited by regulations on foreign exchange accounting that controls over 80% of foreign exchange in the past, and 50% at present. Although the renovation course has been undertaken in our country for 15 years, our monetary tool is still incomplete, causing much inconvenience and negatively affecting the monetary circulation. The exchange rate of VND against USD also faces many shortcomings: in spite of the regulation by the inter-bank market, the market is still basically planned by the state and notably, the VND is still over-evaluated as compared with its real value, lowering the competitiveness of Vietnamese goods both in international and domestic markets. Interest rates have not yet decided by the market, particularly regulations on the ceiling interest rate have imposed a restriction on efficient lendings that have a higher interest rate than the ceiling rate. The allocation of capital sources has been determined mainly by subjective commands, but not upon the market demands, thus many efficient projects that meet the market demands have not been financed with adequate funds. On the other hand, the newly born capital market is still in weak operation, resulting in a stagnation in the circulation of capital flows. An efficiently operated enterprise, not allowed to sell bonds for additional funds for the purpose of business expansion, will have no choice rather than to accept troublesome procedures in order to borrow money, though it is not always easy to borrow. Thousands of ailing enterprises that bear great losses over long time while cannot go bankrupt have made the stagnation of capital even more serious.

The system of commercial banks comprise of 4 state-owned banks representing an overwhelming share, dozens of small and ailing joint-stock banks and some licensed foreign banks. It should be noted that the 4 state-owned commercial banks mainly extended loans to state-owned enterprises, however most of these enterprises failed to pay their debts and had to ask for debt rescheduling, debt "freezing" or a new loan for paying the old debt. This has pushed the state-owned banks into a very difficult situation. The rate of the bank's solvency to its total due debts is about 25 - 60%, in particular only the agricultural bank records a higher rate. The returns on capital rate also stands at a very low level of 5 - 13% (this rate in Malaysia is 17.6%). The commercial banks' weakness reflects in the fact that these banks have not yet fully implemented the function as a monetary trading agency but only as an allocating agency of capital resources to projects that have been approved by authorities at all levels; and the triangle relationship among authorities at all levels, enterprises and banks often lacks transparency, leading to the capital bleeding out of the banks.

Although money and banks can be considered the blood vessel of the market economy, they have so many weaknesses that the market economy cannot develop in a healthy way.

Seventhly, our external economic relations have been broadened in many aspects, however there have been still many weaknesses, failing to meet the national economic development requirements. The growth in foreign trade and foreign investment in our country has recorded a relatively high rate over the past years. We have also normalised our economic relations with almost all the countries and international economic organisations, as well as joined the ASEAN, APEC and are in negotiations to enter the WTO. However, in general, our policy system still face many shortcomings as follows:

- Our tariff and non-tariff barriers are relatively high. Our current average import duty is 15 - 17%, however if non-tariff measures are also converted to import duties, the average rate can amount to over 30%. Our strict trade protectionism has adversely affected the economy because it only protects the benefits of a small group of producers while raises consumer prices and harms the benefits of other producers due to higher input prices (e.g. higher sugar price will lead to higher prices of inputs for candy production), as well as prop up ailing enterprises who have high production costs and backward technologies...
- Since 1998, enterprises of all non state-owned economic sectors have been allowed to participate directly in import and export activities, however the result is still limited by many regulations, particularly on food and foodstuff imports and exports as well as on FDI mobilisation.
- Administrative procedures, though have been reformed, are still complex, time costly and trouble external trade activities. The regime of specialised licenses are still imposed on import and export goods. The procedure for granting investment licenses, though more simplified and decentralised to localities, still so complex that local authorities can trouble investors (in many localities, investors often complain not only about no improvements but even about worse situation).
- Our economic legal system is still limited by many shortcomings, such as the lack of many important economic laws, outdated contents of the existing laws, and particularly, the legal regulations' instability that has caused losses for investors... Since the end of the regional crisis, the legal system in other regional countries have been much reformed towards a market-oriented, more opened and internationally integrated system, leaving our legal system far behind. For example, our law on foreign investment issued in December 1987, once considered among the most open laws in the region, is now criticised as a rigid law as compared to other regional laws.

Eighthly, the economic thinking about the market economy and international integration has been formed in our country, however a large gap from practice is still existing.

The market economy requires the development of the private economic sector. K. Marx considered it as one of the two essential conditions for a commodity economy. However, in our country, the private economic sector, though existing, shows a poor growth due to bias and discrimination. Forms of capitalist business,

though allowed to exist, are still looked at with cautions, joint-ventures with foreigners are restricted. Since the 8th Congress of the Communist Party of Viet Nam (CPV), although new changes in transforming the state-owned economic sector to the state economic sector have been introduced in paper, the share of the state-owned sector has not actually been reduced.

The market economy requires that the competition should be more opened and considered an engine leading the economic growth. However, in our country, the state holds monopoly in many fields, therefore afraid of competition and tries to restrict competition.

The market economy requires the existence of all markets, especially the capital, property and labour markets. But in our country such markets have not existed yet.

The market economy requires business owners are equal in terms of business rights, but in our country, this requirement has not been met yet. In order to get allowance on their business, they have to accept time- and money-costly procedures, and even the discrimination in granting business rights. State-owned enterprises are often given priority in applying for business rights.

The market economy requires that domestic markets should be connected to the international market, however in our country, domestic markets are always isolated from the international market by tariff barriers, restriction measures...

In any aspects of the market economy, shortcomings and differences between our economic thinking and the market economy practice can be easily noted. Such differences arose from our wish to search for another model of the market economy that is different from the modern market economy model.

The modern market economy model is based on the private sector, with the competition playing the role as an engine for economic growth and all business owners having full business rights, in which all prices are determined by the market and domestic markets are integrated into the international market...

Meanwhile, the market economy model in our country is mainly based on the state-owned sector with prevailing state monopoly, in which only some limited markets are established, business owners are granted with limited business rights, prices are determined partially by the market and domestic markets are opened to the international market only at a limited extent...

Such differences have lowered the competitive advantages of our market economy as compared with other market economies. The differences and shortcomings in our market economy thinking can be considered a main cause resulting in our weak and declining competitive advantages.

2. Directions for Macroeconomic Policy Reforms

(1) Policy on economic branch structure adjustment

The aforementioned economic structure formation process in our country bears the following features:

- a) Basically, the economic structure formation process in our country has been so far influenced by the state regulations, rather than by the market.
- b) Efficient and highly competitive branches, industries, elements have not been taken advantages of, while inefficient and ailing ones have been maintained and subsidized.
- c) The economic structure is still deeply inward and import substitutional.

The three aforementioned features have hampered our economy to actively integrate into the international economy.

In order to overcome such obstacles and boost up our efficient international integration, in the next decade, our economic structure policies should move in the following directions:

Firstly, the economic structure transformation should be a self-transformation, mainly regulated by domestic and international markets, with the state's intervention in correcting any deviation or in providing favourable conditions for the market's regulation. Moving from the economic structure transformation directed by the state to the self-transition regulated by the market can be considered a basic step towards respecting a basic market's principle that is *the supply must be conformed to and decided by the demand*. Obviously, the state still plays a very important role in identifying and developing the industries that are little influenced by the market such as infrastructure, public services, hi-tech industries... It can be summarised that branches and industries which are much influenced by the market will be decided by the market, while the state will decide those which are little influenced by the market.

Secondly, the state will provide assistance, stimulus and incentives for export-oriented industries and the international integration, giving up the import-substitution policies. In order to ensure that the economic structure transformation will be carried out in this direction, macroeconomic policies should be reformed, e.g.: actively remove the protection barriers, adjust exchange rates in line with market rates, improve state investment in infrastructure for exports, encourage exports, attract foreign investment... Such macroeconomic policy reforms play the most important role in moving the branch structure towards international integration. The industries that can move towards outward and export-oriented ones are concurrently those that can substitute imports most efficiently. These industries, obviously, will have to undergo a cycle from importing technologies, producing for domestic markets to exporting. At the very first, this outward cycle has taken exports as its target, while the function of meeting domestic demands is only considered a stage. This is absolutely different from the inward cycle in which technologies are imported only to produce goods for domestic demands. Many industries can begin with the exporting production, then will move to the production for domestic markets. The sport shoe producer - NIKE is

an example: As soon as the project is established, 100% of NIKE products are exported and it is expected that in the near future, the state will allow NIKE to leave aside a part of its products for domestic markets.

Thirdly, the state should invest in developing infrastructure and hi-tech industries. The infrastructure industry requires a lot of capital, has a long pay-back period with no or low profits and cannot attract private investment, however it is of great importance and plays the role as the foundation for all economic branches. Therefore, it is the state who can spend the tax revenue in constructing and developing this industry. If the traffic, transportation, communication, electricity and water supplies... are provided by the state at low costs and high quality, it will form a very important ground for other economic branches to develop. At present, in our country, the transportation, communication, electricity and water supplies are of low quality but at a very high costs, resulting in lower efficiency for economic branches. The state investment in developing the infrastructure within the next 10 years will be a primary task. If necessary, investment capital can be drawn from other branches in order to focus on the infrastructure, especially on transportation, communication, electricity and water...

The top priority should be given to the construction of deep-water ports, international airports, and the road systems in domestic and international economic centres. The two economic centres in the North Hanoi - Haiphong - Ha Long and in the South Hochiminh city - Bien Hoa - Ba Ria Vung Tau need the investment in developing infrastructure. The infrastructure development in the Centre should be focused on tourism services and Dung Quat industrial zone. The investment will also be ploughed in linking trans-Asian routes to major economic centres and ports. Infrastructure should be developed outwards, *i.e.* it will be linked with international navigation routes and international airports. The costs of transportation, communication, electricity, water... should be reduced to the same or even lower level in comparison with the international level. This requirement is of great importance as our current cost level is relatively higher than the international level, limiting the competitiveness of our goods and services.

Hi-tech industries play an ever important role in our national economic development process. These industries cannot grow without the adequate state investment and attention. The state should establish policies on giving priorities to developing hi-tech industries in the following directions: to invest in constructing and developing some hi-tech zones, firstly in the infrastructure; encourage hi-tech and patent imports; foster the investment in hi-tech research and application...

Fourthly, the state should encourage the development of labour-intensive industries, especially export processing industries. We have an affluent and cheap labour force, with a large number of redundant labour. Therefore, a primary strategic task within the next 10 years is to develop labour-intensive industries. Those include firstly, processing industries for exports of agricultural, forestry and aquatic products, garment and textile industries, consumption goods manufacturing industries, tourism and services... The priority given to such industries should be reflected in the state assistance of the institution, information,

opening of domestic and external markets, infrastructure development and human training... instead of the state investment in establishing state-owned enterprises in such industries. Non state-owned economic sectors, including foreign companies, will establish and develop these industries by themselves with the state assistance. The state may gradually draw the capital out of these industries and leave the gap for other economic sectors to fill in, and will concentrate instead on developing infrastructure and public services.

In addition, the state can take economic measures and use the market's competition pressure to eliminate backward, uncompetitive and inefficient industries.

(2) Financial and monetary development policy

Based on basic objectives of the economic development strategy, we can outline some features of major tasks for Viet Nam's financial and monetary development policy by the year 2010 as follows:

1. Reform the banking system in accordance with the market mechanism and international standards in order to establish a safe, healthy and highly competitive banking sector, aiming at maintaining the macroeconomic stability, introducing the financial discipline and supporting the international integration

Although the banking system in our country has moved to a two-level system, including the Central bank as a regulator and commercial banks operating as a business, the performance of Viet Nam's banking system still shows many shortcomings and weaknesses:

- Weak financial capability, small size of registered and self-generated capital
- Overdue debts at high level, too risky operation, low-quality credit
- Accounting system not in accordance with international common practices
- Commercial banks' weak capability in project evaluation
- Weak management system, staff's limited capacity, inappropriate supervision and control mechanism, incompatible legal environment.

Meanwhile, financial and monetary crises in the region as well as in the world told us that an ailing banking system will make the economy more vulnerable to crisis once affected by domestic as well as external shocks. Therefore, the banking system reform and upgrade is of primary task in our financial-monetary development policy during the period from 2001 to 2010.

In terms of quantity: We should neither restrict nor float the number of banks as what we have done over the past time. Instead, stricter requirements should be imposed on the banking system so as to ensure its ever higher performance quality.

In terms of size: We should diversify types and sizes of commercial banks. However, a requirement that should be met is each bank must be of similar size to a medium or large enterprise in the same period.

In terms of performance quality: Firstly, the payment technologies via commercial banks should be

modernised and internationalised so as to catch up with international commercial banks. The banks' credit activities should focus on credit rating and precise project evaluation rather than concentrate on customers' solvency guarantee measures (in the form of mortgages).

Finally, it should be noted that: the banking system reforms should be conducted in parallel and in conformity with the reforms in other economic sectors, especially the state-owned enterprise reforms.

2. Diversify financial institutions in order to create a healthy competition environment in national financial markets

In conjunction with developing the network of commercial banks, financial institutions should be diversified into multi- and specialised-sector financial companies, multi- and specialised-sector hire-purchase companies, investment funds, investment trust management companies, multi- and specialised-sector insurance companies, electronic card issuing companies, monetary or stock clearing centres...

In order to fulfil this task, the following necessary measures should be taken:

- The state assumes the role of the project owner in establishing such types of enterprises and mobilise the capital from the population and businessmen via joint-stock companies.
- A promotion programme for the investment in financial - monetary sector should be designed and put into implementation, helping domestic and foreign businessmen and population be aware of the investment opportunities waiting for them.
- The equitization process in state-owned corporations should be accelerated, the attracted capital will be ploughed back in establishing or joining such financial institutions.
- The Government should provide tax preferences for such newly-born financial institutions during a certain time span in order to encourage the investment.

3. Establish a complete, compatible, unified, stable and clear financial legal system, accompanied by an independent, objective and transparent financial supervision mechanism

At present, a legal framework for the development of Viet Nam's financial - monetary system has been quite completely established through the issuance of the two laws: Banking Law and Law on Credit Organisations. However, in the framework, there are still some irrational points to be corrected.

Firstly, the Law on Intermediate Financial Institutions should be shortly issued in order to provide complete, broad and compatible regulations on all activities of all types of financial institutions, instead of limited regulations on some certain types of institutions as stipulated in the Law on Credit Organisations.

Secondly, there is a need to establish and maintain a mechanism to prevent the collapse of the financial market, such as credit limits imposed on some certain debtors, restriction on too big lendings, prohibition against extending loans internally among the board of directors.

Thirdly, policies on attracting foreign financial institutions into Viet Nam should be adjusted towards more simplified administrative procedures, higher equality and improved attractiveness as compared

with other regional countries who are also aiming at attracting the foreign capital.

Fourthly, an inspection and supervision mechanism over the financial institution system should be established in the following directions:

All intermediate financial institutions are required to announce publicly their quarterly financial information with the certification by independent auditing agencies to the public, from a small extent to a large extent.

Financial criteria, indexes should be established, forcing all intermediate financial institutions to report weekly, or even daily in necessary circumstances, so that all violations will be timely dealt with.

It is necessary to establish a mechanism prepared to provide assistance for intermediate financial institutions in difficult situations. Concurrently, there is a need for legal regulations on allowing intermediate financial institutions to go bankrupt.

4. Establish a flexible financial regulating mechanism in accordance with the market mechanism, especially the interest rate and exchange rate regulating mechanism.

Regarding interest rates: Interest rates should be freely determined by the fluctuation of supply and demand in the monetary market, with the state regulation through two main tools: Basic interest rates (including discount rate, re-discount rate and lending rate in the inter-bank monetary market) and open operation.

Regarding exchange rates: Similar to interest rates, during the period 2001 - 2010, exchange rates should be freely determined in the foreign exchange market, with the state regulation, based on basic economic conditions such as: Interest rates, inflation, balance of payments position, reserves, supply and demand... In the short run, the value of VND should be determined based on not only the value of a hard currency (USD), but also the value of a basket of hard currencies, especially USD, Japanese Yen (JPY), and the European Union's EURO. This is completely in line with the current trend of diversifying the main currency in the international financial - monetary system, which developed with the introduction of EURO.

5. In addition to the serious implementation of the Law on State Bank and the Law on Credit Organisations which have been approved by the National Assembly, the banking system reform should be conducted in the following directions:

- Establish and seriously implement the regulations on loan classification and establishment of contingency funds as well as a regulations on returns in accordance with international standards. Particularly, bank auditing should be carried out annually by independent auditing agencies.
- Establish a serious and strict policy on eliminating ailing banks from the banking system, as well as saving recoverable banks through such measures as providing assistance, merger and acquisition...

- Publicise all information related to returns, costs and leakage, asset quality, non-profitable assets...
- Restructure the banks' performance by upgrading the management team, improving procedures for credit evaluation, mortgage evaluation, risk management and evaluation...
- Abolish restrictions on the mobilisation of VND denominated capital by joint-venture and foreign banks; Allow foreign banks to establish joint-ventures with Vietnamese state-owned commercial banks.
- Separate the banks operating for policy purposes from the system of commercial banks; The credit extension by commercial banks should no longer be decided by administrative commands.
- Absolutely settle the commercial banks' overdue debts through established debt acquisition companies.

In addition to the aforementioned reformative measures, other measures should also be taken in order to improve the development of the commercial bank system in terms of quantity, size and performance quality.

6. Create a healthy national financial system

During the period 2001 - 2010, the budget deficit should be minimized. The state budget should meet the demands for development investment and aim at implementing social development policies. It is necessary to gradually make healthy the financial system, restructure the state budget, foster the expenditures for economic development investment, education, training, science and technology, concurrently to socialize such fields as education, health care, culture... The budget spending should be focused on socio-economic infrastructural projects that play a key role in the economy. In order to fulfil the aforementioned tasks, we should:

- Continue to reform the tax system so as to ensure the equality of tax obligations. The existing taxes such as VAT, corporate income tax, individual income tax... should be amended. Regulations on tax management such as the system of bills, receipts, enumeration... should be basically changed.
 - The national borrowing/debt service balance should be in line with the growth and efficiency of the economy, the debt service obligations should be tied with borrowers and credit users.
 - Implement the saving policy: The system of standards and norms for state budget spending should be checked, newly built up or amended. It is necessary to boost up the propagandisation, education and mobilisation for the movement on saving implementation, restriction of waste in production, consumption and public fund spending.
 - Implement the financial publicisation regime.
7. Integrate into the global financial - monetary system in a careful and stable way

During the period 2001 - 2010, the main directions for our integration into the global financial and monetary system will be as follows:

- The VND will be freely convertible in current account transactions. Foundations and conditions should be gradually established for VND to become freely convertible to a full extent by the year 2010.
- Allow the stock trading in order to freely mobilise the capital in the international market. Concurrently, it should allow the issuance of shares and bonds to foreigners, not only in international stock markets but also in domestic stock markets.
- Gradually open the Vietnamese financial market to international investors, especially in such fields as insurance, accounting, auditing..., accompanied by the completion of legal framework (insurance law, accounting law...); improve the service quality in the aforementioned fields; restructure the operation and roles of the state and professional organisations.
- Strictly control the borrowing and repaying of foreign debts, encourage all types of direct and indirect investment, however the indirect investment should be strictly monitored by regulations (but this should not be understood as the prohibition).

Viet Nam should continue to participate actively in the monetary cooperation within the ASEAN (and within the East Asian region afterwards). Such cooperation will aim firstly at coordinating financial-monetary and macroeconomic policies, then at establishing a mechanism of exchange rates within the ASEAN and finally, at creating a common currency for the ASEAN as well as for the East Asia. The gap in development level as well as differences in the politico-ideological systems will create difficulties and obstacles to the financial - monetary cooperation in ASEAN as well as in the East Asia, especially to the establishment of a common currency. However, if such cooperation is successful, Viet Nam will be gradually freed from the dependence on hard currencies and provided with a preventive and timely remedial mechanism in case of crisis.

(3) Science and technology development policy

Our science and technology have gone considerable growing steps with a team of around one million staff at university or college level, 10,000 staff at post-graduate level, around a third million staff at intermediate level and 2.8 million technical workers. We have also established over 100 universities and colleges, more than 500 research and application organisations. Such science force has contributed considerably to the national development course. Science and technology management policies and systems have taken important reform steps in order to adapt to the market mechanism.

However, so far, our scientific and technological level is still lagging behind other regional countries by 2 - 3 generations; although the team of science and technology staff has grown, its rate to the population is still lower than in other countries and the quality is still limited; scientific and technological infrastructure

and services are still backward; science and technology have failed to tie with the market. Scientific and technological policies and management apparatus still show many shortcomings...

The science and technology development policy within the next 10 years should be go in the following directions:

1. Sharply focus on developing application sciences, applying imported technologies, doing research on imported patents' applications.

Presently, our country still lacks money, human resource, infrastructure to develop basic sciences or source sciences that generate new technologies. At present, many technologies that have gone backward and cannot be efficiently used in some certain countries still, however, prove modern and can be efficiently used in the others. Every year, a huge number of patents is created in developed countries, however only a small part of which is put in use. Therefore, we can import such technologies and patents. Japan and other Asian countries have gone this way, which is confirmed by the practice as a short, economical and promising development path. Costs for importing technologies and patents are much lower than costs, otherwise, paid to basic research and application in order to create new technologies and patents. Research time will also be shorter.

2. Develop basic sciences towards serving for the use of imported technologies and patents.

In order to use imported technologies and patents in an efficient manner, basic sciences should be developed as a ground. Such sciences include both social and natural sciences. Any imported technology or patent requires a certain ground of basic sciences to be efficiently used, concurrently these new technologies will lead to social effects that need to be examined and resolved.

3. Establish the infrastructure and services for the application of imported technologies. The infrastructure includes: hi-tech zones; laboratories; cross-breeding farms; the system of measuring, standards and quality... Without such infrastructure, the research and application of new technologies can hardly be implemented in our country.

4. Develop some selected high technologies that are appropriate to our conditions.

- IT should be of top priority for being developed in the following directions: establish the infrastructure necessary for the IT application; apply broadly the IT in the state administration and business management activities; develop the software industry for domestic demands and exports...
- Processing industry should be developed in the following directions: apply and develop technologies for processing agricultural, forestry and aquatic products; apply and develop textile technologies; do research and partially manufacture equipment and machinery components...
- Apply the biotechnology in agricultural, forestry and fishery production, health care and environment protection.
- Some other technologies such as material technology, energy technology, automatic technology...

should be taken into consideration to select an appropriate development direction within the next 10 years.

5. Develop social sciences to catch up with the age level

Our social sciences, though have grown considerably over the past years, are still lagging behind the age level, as well as outdated as compared with the domestic and international practice. The lagging social sciences have failed to resolve prominent problems in the real life. Some issues of great importance has not been clarified yet: e.g., what is the socialist orientation in our country?; how should be the ownership regime and economic sectors in a socialist-oriented market economy?; how to resolve such social problems as corruption, social evils...?; in what direction will our political system be renovated so as to match with the market economy and follow the socialist orientation?; how will our country to integrate into the international community...?

Social sciences should not only have a right research orientation, but also be adequately invested and more importantly, should establish a democratic institutional environment, appropriate enough for social scientists to take advantage of their creativeness in resolving essential problems of the development.

In order to ensure that the science and technology will develop rightly in the aforementioned directions, the government should take appropriate measures as follows:

- Increase the investment in science and technology up to 2 - 4% of GDP.
- Make best use of and esteem elite scientists by offering high salaries and conferring noble title to top scientists who have contributed many scientific works.
- Remove the regime of ban and restrictions on technology imports, issue policies on encouraging new technology and patent imports.
- Offer preferences to senior foreign experts working in our country.
- Complete the system of scientific research institutes, combine the scientific research and training, research and application, tie technologies with the market, tie research institutes with enterprises.
- Renovate the scientific staff training system, the system of granting university teacher's rank and university education diploma.

(4) Human resource development policy

The current situation of our human resource is as follows:

Firstly, our labour force is available, hard working, dynamic with increasingly improved education and skill level.

Presently, our labour force include about 42 million labour, nearly 5 million of which are skillful. The literacy rate reaches as much as 94%, the rate of workers graduating from high schools increased to over 55% in 1999. Our population is quite young, with the population at the age from 16 to 34 account for 60% of the total population. Our HDI index was 0.56 in 1998, ranked among 97 countries

that have a better HDI rank than the GDP per capita rank. Only 50% of the labour potential have been utilised, together with the cheap labour costs, that is one of our advantages in developing efficiently labour-intensive industries.

Secondly, our labour force is still of low quality, inappropriate structure and limited in terms of health.

In general, the education level in our country is still low, with only 51.74% of the population are at primary educational level downwards, of which the majority are at low skill level - only 1/3 of total workers having grade 4 of skill or less while number of workers at grade 7 are only 400. Ratio between university graduates, high school graduates and technicians in developed countries are 1-4-15, but in our country this ratio is 1-1.75-1.3, which is irrational. In addition, working labour only concentrates on industrial sector in several big cities. There are more than 2.4 million poverty households, of which 300,000 households usually suffer from chronic food shortage.

Thirdly, there remain many shortcomings in the national education and training system, including curriculum, training type, professional level of teachers. Many negative phenomena still exist in examination and certificate granting system.

The curriculum have been considerably improved but still lack of creativeness and ability of putting into practice and not updated based on scientific and technological advanced as well as requirements of globalization process. Training type has been diversified but still heavily depended on state subsidies, public initiative in diversifying of education and training types has not been developed. The quality of teachers at all levels is still low, many negative phenomena have been found in examination and certificate granting, resulting in lower training quality.

Fourthly, labour market has not been developed properly. Inappropriate policies on utilization and treatment of working people, including recruitment, promotion and wage raising... still exist. Policies on residence and migration are not open enough to allow effective movement and utilization of labour force. Policies on labour contracts and insurance have not been implemented widely. Many enterprises could not dismiss old employees to recruit new workers, resulting in no improvement in labour force.

In the face of requirement of national modernization and industrialization and international integration process, national policy on human resource development for the next 10 years should base on a basic view that national strength and wealth depend on spiritual, moral and physical development level of people, on the people liberalization empowerment, especially in the emerging knowledge-based economy. Based on this point of view, human resource development policy of our country should be directed toward following guidelines:

1. Innovating national education and training system to meet requirements of the new age.

Firstly, it is necessary to have virtuous and talented leadership and manager for education and training system. To achieve this goal, recruitment regime must be democratic and allow to discover

talented people. These leaders and managers will play an important role in human resource development. Moreover, teacher training schools should be given priority in investment and treatment of teachers. General education and vocational training, especially half study- half work type, must be focused to enable youth people to enter the life with both knowledge and professional skills. Private owned schools at all levels should be developed to meet public demand and at the same time reduce the burden of subsidy bore by the government. In addition, teaching and study methods, as well as school's curriculum must be improve to cover modern knowledge, suitable for all ages and based on specific conditions. Teaching method should focus developing creativeness, independence and initiative of the learners instead of clog up learners with knowledge. Examination, certificate and academic title granting system should also be improve to ensure seriousness, objectivity and quality of all kinds of certificates.

2. Increasing state investment for education and training as a part of development investment.

Increasing investment for education and training by 2010 to about 7% of GDP, which is equivalent to 20% of state budget. Moreover, Encouraging public participation into this noble cause in various forms, such as developing private owned funds for learning extension and schools. Government will focus on investment for general education and teacher training schools as well as building new schools and establishing vocational training centers...

3. Preferential policy on training, recruitment, utilization and treatment of talented people.

Talented people are life-sustaining element of the country. We need talented people for all sectors, especially in politics, economics, science and technology, culture and art, sports... In every country, talented people are scarce, thus governments should implement policy on discovering, training and fostering talent from primary schools. In order to enable all people to study and compete to each other, democratic regime for learning and working is badly needed. Abilities of all people should be developed either in public sector or private sector, in economics, politics or science and technology, domestically or abroad. We have to make great efforts to have many more talented politicians, billionaires, Nobel prize winners, international champions in sport...

At the same time, foreign talented people should be attracted to stay in our country by allowing them reside and work for a long time in our country, reducing income tax for them and allowing them to buy houses and use of land....

4. Establish and develop labour market.

In order to establish and develop labour market, the following policies must be adopted:

- Labour contract must become a common form of relationship between employers and employees.
- Compensation of employees must be changes as follows: high payment for proficient workers in all sectors, especially for talented people; raising wages for civil servants to average level of

the society, which is equivalent to those of private sector, at the same time imposing responsibility of them; ensuring market based wages for business sector.

- Organize insurance and social welfare network to ensure stable income for retirements, to provide unemployment benefit for between the job people and to assist homeless and helpless people...
 - To enable labour force to move freely between regions and between sectors by open migration, household and business registration systems.
 - Developing various employment advisory centers and disseminating information employment.
5. Reducing population growth rate to 1.1% and improving public health-care service.

Low population growth rate is one of the most important conditions for economic development in general and for human resource development in particular. In all developed countries around the world, growth rate of population is usually about 1% per year. The fact has shown that all successfully industrialized countries enjoyed a population growth rate of less than 1.5%. Therefore, in order to reduce population growth rate in our country to average 1.1% annually in the next 10 years, more investment must be provided for the work of population.

People physical fitness depends on living standard, working condition, physical education and health-care service. Improving living standard for all people is the most important condition for improving physical fitness, thus economic growth should provide proportional increase to the people's wage and income. Appropriate regulations on working safety and hygiene must be implemented. Moreover, drinking water supply system and transport and communication network should be further developed, especially in populated areas. Sport movement should be expanded. Attention should be paid not only to professional sport, but also to sports of mass nature. Health-care activities must be changed, focusing on preventive measures, providing free of charge medical treatment for the poor, expanding medical insurance services and developing private clinics and hospitals.

6. Improving cultural and spiritual life for all people, focusing on moral education, cultivating in each person a healthy way of life, sense of respect for law, patriotism, common spirit and consciousness of rich people, strong nation and democratic, equal and civilized society.

Market-oriented economy may lead to several distortions such as selfishness, individualism... Therefore, adequate investment should be implemented to improve cultural and spiritual life for the people. Cultural and spiritual life can also be improved through mass media such as broadcasting, newspapers, increasing consciousness against social evils. In order to achieve this goal, the government should increase financial investment on one hand and encourage public contributions under various forms on the other hand. Democracy in cultural and spiritual activities should be respected by establishing a legal framework for creative and free working of journalists and cultural activists in accordance with the view of building a healthy, progressive and civilized spiritual life.

The core of human resource development policy lies in human liberalizing and empowering, especially right of doing business.

(5) Agricultural and rural development policy.

Agricultural and rural development is a fundamental factor for food security and social stability as well as stable development of the country. Therefore, our party and government always pay special attention to the course of rural and agricultural development.

During 15 years of renovation since 1986, rural area and agricultural sector in our country have been obtained considerable achievements:

1. Agricultural production, including fishery and industrial crops, has enjoyed continuously high growth rate with average rate of 4.3% per year over last ten years (from 1987 to 1997). During past 10 years, production of coffee grew by 20 times, production of rubber, tea and cashew nut grew by 3.5 times, 1.8 times and 104 times respectively... Agricultural production has been increased sharply in terms of scale, diversity and intensive farming. Commercial and market-oriented nature of agriculture has clearly emerged: in 1998, 20% of rice production was exported. This rate of coffee, rubber and tea was 95%, 85% and 60% respectively... Remarkable progress has been gain in forest protection, restoration and development. Rural infrastructure, namely power network, road system, schools and medical clinics, has been improved. Rural health-care, education and culture have also been improved, increasing general living standard. Market-oriented economy has been developed as an initial achievement. Rural households and private sector have participated actively into agricultural production and business.

2. However, rural area and agriculture are facing great challenges:

- The most difficult problem in agricultural production is market. By now, supply of most agricultural product has exceeded demand. Only few products have to be imported with large amount, including cotton (import of 90%),; milk (92%); medicine (30%); cooking oil (70%); paper material and timber . It will be difficult to further develop agricultural production if both domestic and foreign market for agricultural products can not be expanded.
- Agriculture is still underdeveloped in terns of productivity, product's quality and competitiveness. This backwardness is reflected in small-scale farming; poor infrastructure in rural area; low productivity of rice, which is only equal to 65% of that in China; processed products only account for 60% of tea production; 30% of sugar cane; % of fruit and vegetable; 1% of meat and 25% of marine production. Ability of coping with natural disaster is also limited.
- Three are still many shortcomings in agricultural and rural development policy by the government such as: policy on land is not appropriate enough to allow farmers to expand farming production; land market does not exist, resulting in ineffective land distribution; inadequate

investment for agricultural; policy on technological import for agricultural development is not open enough; policy on agricultural product export has been changed but still subject to many restriction.

- Corruption and violation of democracy have occurred in many regions, resulting in increases of complaints and disputes between farmers and local authorities and causing steady erosion of party and government credibility.
- Huge potential in agriculture and rural area has not been exploited effectively. About 10 million ha of cultivable bare hill and land are still not developed. Returns on investment of 8.1 ha of new farming land is only USD 1,000 per ha annually. Only a small part of 226,000 km² of territorial waters and internal sea has been utilized for aqua-culture. Rural unemployment rate is still high...

In the next 10 years, to meet the requirements of agriculture and rural industrialization and modernization, national development policy should determined as follows:

1. Developing market for agricultural, forest and marine products; encouraging import of necessary technology.

Domestic market should be further expanded by removing restrictive measures and all circulation taxes imposed on agricultural, forest and marine products. Product processing and reservation industry must be stimulated in order to meet various kind of demand. All economic sectors, including private sector, must be encouraged to involved in exploring market for exports; export procedures should be simplified and foreign investors taking part in processing and exporting agricultural, forest and marine products should be given preferential treatment.

It is important to renovate technology to increase product's competitiveness and expand the market. Therefore, top priority should be given to import of new varieties and processing and reservation industry.

2. Continuously reforming macro-economic policy on rural and agricultural development.

- Land market should be established and developed to ensure effective distribution and use of land. At the same time, policy on land should be changed to enable people to get access to actual use of land. Including land transfer, inheritance and leasing.
- Stimulating development of joint-stock collectives, particularly in sectors of services for agriculture.
- State enterprises will grow in some sectors, such as: management of specified-type forest protection; provision of a number of breeds and technologies; management of some important irrigation works; assistance to ethnic minorities in boundary regions...
- State's credit policy should be revised towards developing commercial credit for farmers and ensuring commercial banks' benefits.
- State's investment policy should focus on the following sectors: infrastructure; protection and

growth of specified-type forests, anti-act of God works; scientific research and technology transfer; social patronage, hunger eradication and poverty alleviation; development of public health, education, culture... The investment in production and business will be done by the citizens and based on their capital. On preliminary estimate, it costs more than USD 6 billion only to invest in building primary infrastructure for some 8,850 communes under urban standards on road, electricity, school, clinic, culture centre... With the present budget expenditure, it will take 30 years more to have USD 6 billion for rural infrastructure. Consequently, it will be hard to improve if the State does not concentrate investment on this sector.

- Rural urbanization is an unavoidable development trend. It should be planned and defined in the way of developing district's towns and districts' urban areas. Note also to predict the tendency that farmers will leave rural areas for cities. In order to meet this tendency, it is essential to have plans of expanding cities and policies to help those who newly immigrate to cities.

3. For farmers, hunger eradication and poverty alleviation are very urgent. To do that, at first, more jobs should be given to farmers using many ways, for example: increasing investment, expanding rural infrastructure, developing vocational training, opening markets, breaking fresh lands, strongly pushing up labour exportation... This means to bring conditions and opportunities of better income to the poor.

Implementing preferential credit policy to the poor. The preference here is not interest rates (they are still market rates) but lending provisions like lending without mortgage, preferential lending to projects which employ a lot of workers...

Implementing subsidy policy to help those who are in hunger and homeless, and the areas that are damaged by the act of God...

Establishing social insurance fund for farmers on the basis of voluntary contribution.

(6) Policies of commerce and external relations

Our Party's direction of economic reform towards opening and joining the international economy during the past years has achieved big success. In the first decade of XXI century, although continuing to open and join the international economy, our direction will get in depth with more active spirit in realizing and expanding international commitments. Our new direction of reform will mainly be:

1. Strengthening the economy's competitiveness:

Our economy's competitive position is now still weaker than that of many countries in the region regarding price floor, costs, administrative procedures, quality of goods and services... To overcome these weaknesses, Viet Nam should firstly strengthen competitiveness of socio-economic institutions and make them more open and consistent with international practices so as to compete with those of other countries in the region. Simultaneously, state policies should stimulate development of goods

and business lines, which have high competitive advantages domestically. These goods and business lines can be already available in Viet Nam such as rice, coffee, cashew, grocery, seafood, pottery, glass, construction materials, tourism... They can also be not available but can be imported from other countries like software manufacturing, e-commerce... The State should control monopoly to enhance fair competition in the markets, force enterprises to extend to trans-national activity and eliminate weak enterprises.

Pushing up liberalization of domestic market, ensuring implementation of market principles and enterprises' business right in all unprohibited sectors, diminishing "request and give" mechanism and replacing it with regulations and inspecting their implementation.

Making basic changes in the structure of exported goods in the way of increasing share of manufactured goods and service.

Viet Nam's main exports such as crude oil, coffee, rice... though base on the country's present advantage can not be a shoulder for a developed economy. Therefore, strongly turning to manufactured goods is the strategic objective needed to reach in the next 10 years. The issue is which manufactured goods will be given priority to develop. In principle, they are those which have immediate and long-term competitive advantage in the global market. For instance, in the short term, Viet Nam has advantages in labour-based industries such as garment, processing of agricultural, forestry and seafood, electronic assembly. However, some high-tech industries like software, biotechnology and service, which will produce new competitiveness, should be noticed.

- Connecting product policy in international commerce with policy of industrial development by basing on volume of regional and global markets to select industries with priority of development of to draw foreign investment.
- Policies supporting exportation including tariffs, credit preferences, market approach should give priorities to manufacturing sector. For instance, cutting import tax imposed on materials used for export manufacturing sector while taking measures of increasing tax on primary exports.
- Market orientation is specially significant to create changes in exportation of manufactured goods because it is relative to prospects of foreign direct investment flows - the most important factor to produce and improve competitiveness of manufactured goods in the world market.

2. Expanding partners:

Originating from the policy of multilateral and diversified external economic relations, Viet Nam's development strategy in the next decade should continue comprehensive cooperation with other neighbourhoods such as ASEAN, China, Japan, South Korea... on one hand. On the other hand, it should expand the economic relation with EU, clearing path to commercial relation with the United States, appreciating exploitation of US market, keeping expansion of economic relations with other countries like OECD, Russia and CIS nations, Eastern European region, India, Latin Americas and

Middle East countries... Of which our key partners in the next 10 years are: ASEAN, China, Japan, United States and EU.

Global economic organizations, which are at first WTO, IMF and WB, will also be our important partners. It is essential to take advantage of negotiation to join WTO early, and this will be a big breakthrough into markets of 134 country members. Preserving the good cooperation with IMF and WB to guarantee our reliability in the international monetary and financial market, and making use of ODA flows from these two organizations for the country's growth.

Viet Nam's strategic partners could also be small and big trans-national companies. They will cooperate with Viet Nam in a number of certain sectors and places.

Viet Nam's strategy is to respect relations with important partners, to actively use partners' resources for the country's development, and to be willing to protect our benefits in cooperation and limit passive effects from partners.

3. Implementing equality right in operation to all economic components:

During 10 past years of reform, the deregulation of state monopoly on foreign trade allowing enterprises to directly import and export has created strong pushing force for exports. The next breakthrough is to allow enterprises of all economic components to directly operate commercial activities. The State regulates only through tariffs or decides areas limited for export and import.

This does not prevent the State from actively setting up big and reliable enterprises in the world market. They can be some state firms enjoying some preferences but can not be monopoly firms or institutions like some present corporations. In other words, it is necessary to form really strong and reliable enterprises in the world market through competition.

To assist small and medium firms approaching the world market, it is important to encourage the formation of general commercial companies which play an intermediary role in marketing and selling goods for such producers without enough ability of doing overseas business independently.

4. Stimulating export, increasing attraction to foreign resources:

The following polices should be implemented consistently:

- Allow foreign companies to have the right of doing business in such sectors as banking, insurance, tourism with a suitable routine.
- Amend and merge foreign investment law and domestic investment law into one law suitable to the context of XXI century.
- Put into effect the one price and cost regime to domestic and foreign enterprises, reducing costs of land tax, cable, telephone, income tax... applied for foreign investors to a rate competitive to other neighbourhoods.
- Implement market exchange rates and interest rates, shift Vietnamese currency into a convertible currency.

- Control monopoly, encourage fair competition, fight against corruption and traffick efficiently.
- Protect copyright and intellectual property right in order to take advantage of new technologies.
- Construct some special economic zones with open economic and administrative regulations suitable to international practices, develop diversified and open economic zones, particularly in areas near international commercial border. Study the ability of using Cam Ranh port and Cam Ranh's special economic zone as open as Subic in the Philippines.
- Simplify procedure of immigration and emigration to facilitate our citizens to work overseas and foreign businessmen to operate their activities in Viet Nam.

5. Liberalizing and protecting: establish a transparent and foreseeable policy environment

Lifting trade barriers is objective to reach commercial reforms. This process should be carried out compatibly to requirements of WTO, AFTA and APEC. During the process, protection measures can still be used but the most important thing is the agenda and measures of liberalization and protection should be clear to open a transparent and foreseeable policy environment. Such environment is not only required by international determined regimes but also helps Viet Nam's enterprises be able to adapt themselves to immediate and future changes. This means to reduce costs of liberalization process.

Firstly, protection is a policy measure used by any country in different formats and levels. The issue is only the concept of protection, i.e. what purpose protection aims at. Except for sectors concerning non-economic objectives such as environment, culture, society, defence which the State can announce officially, other types of protection should derive from economic concept. This means protection aims at developing immediate and future competitive industries in the world markets, which have big effects on the community.

For strong competitive industries, level of protection is not high. Such industries without immediate and future competitiveness need no protection measure. Such industries that are not immediately competitive but are likely to become strongly competitive should be protected and the goal of doing that is to generate competitiveness. Nevertheless, in what format, protection must have conditions and expiry stated clearly according to international practices and helping enterprises foresee the future business environment.

Protection under such concept is implemented simultaneously and attached closely to liberalization.

Agenda of trade liberalization should be defined in a uniform manner, including:

- Change non-tariff measures with economic objectives into tariff measures. The tariff rates do not surpass the present tax ceiling and reduce to rational rates. Before AFTA agreement, these measures should be implemented.
- Simplify customs system and cut tariff rates in the same time as above.
- Diminish tariff to meet requirements of bilateral and multilateral agreements.

Joining WTO will require us to give commitment on tariffs, mainly on tariff ceiling. The

important thing is to ensure the foreseeability of tariff adjusting measures under the framework of announced tariff ceiling. Thus, it is necessary to take the initiative in bring certain tariff ceiling applied for different sectors into negotiation content of bilateral and multilateral agreements towards the country's economic development strategy. For instance, for industries need stimulating to develop at present and in the future, the committed tariff ceiling should be wide enough to adjust actively.

6. Developing infrastructure for international integration

- Build and modernize early deep-water ports, international transit ports that are able to receive transoceanic ships in order to overcome the problem that our exports and imports have to go through regional transit ports.
- Modernize Noibai and Tan Son Nhat airports, sign agreements of cooperation and association with foreign airlines early so as to prolong flying routines to Viet Nam.
- Build and modernize roads connecting ports, especially deep-water ports, with economic centres, enhance construction of cross-ASIA roads.
- Concentrate investment capital on building infrastructure for some international special economic zones in places with the highest economic advantage, enough attraction and convergence of international growth resources; diversify open economic zones...
- Concentrate investment capital in different forms to build international and regional-size tourist zones like Ha Long, Hue, Hoi An...
- Renew the system of training and education; pay more attention to training high skilled technical workers, creating new jobs demanded in the world market, training foreign languages.
- Construct high-tech parks; prepare to set up high-tech market.
- Develop world economy research, raise investment for institutes of international research to learn, assess and forecast the world market situation.
- Expand economic information activity in service of all objects; ensure fast and real supply of international and domestic news.

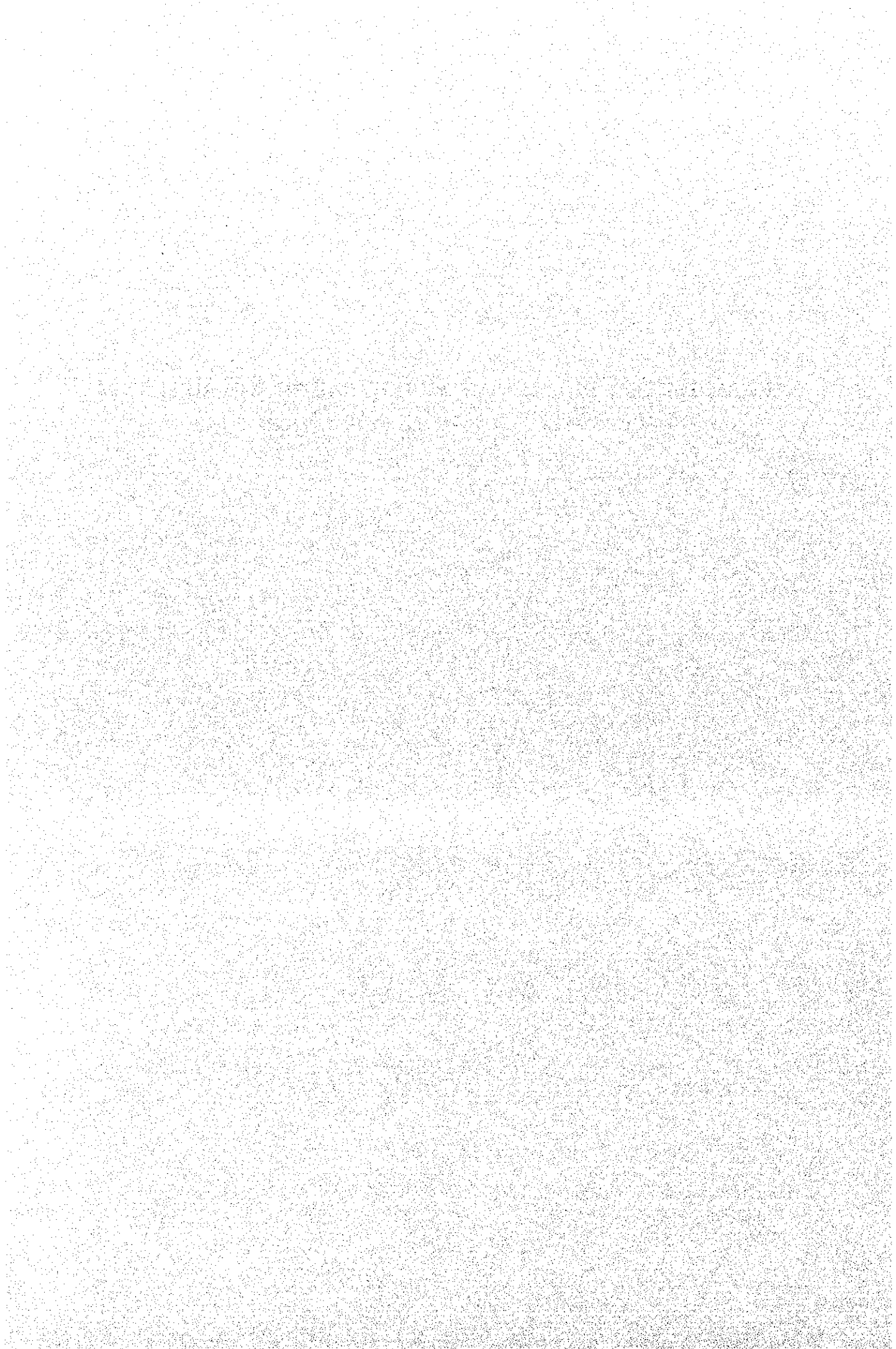
7. Strengthen security forces:

- Modernize security forces to quickly find and prevent damage activities.
- Cooperate with international security forces to prevent opposing activities from outside.
- Reinforce and develop the system of economic and technical intelligence.

Conclusion

Economic development policy is attached so closely to political, cultural and social issues that no economic matter does not have political, cultural and social features. Consequently, planning and implementing economic development policy can only show results if political, cultural and social system has consistent changes. If economic development policy differs from political, cultural and social system, then obstacles will occur, diminishing and eliminating development motives. An economic development policy can be very rational but can not be realized effectively just because the political, cultural and social system prevents it. Marxist theory of the consistence between infrastructure and superstructure is very suitable in this case.

Chapter 3 Policy Issues Concerning Foreign Direct Investment in Viet Nam



Policy Issues Concerning Foreign Direct Investment in Viet Nam

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Introduction

Foreign direct investment (FDI) is one of the major factors that have propelled economic growth in Viet Nam during the 1990s, particularly since 1993. From 1991 to 1995, FDI accounted for 25% of gross fixed capital formation. After increasing to over 30% from 1995 to 1997, this share has since declined (to 25% in 1998, and 18% in 1999 and 2000)¹ but remained at strong position.

Judging from these rates, FDI has reached a high level in Viet Nam. However, the first point that should be made is that, because Viet Nam's economy is characterized by labor-surplus and low levels of savings, and rapid economic development must be achieved to increase employment, it is necessary to continue to aggressively introduce FDI. Secondly, as economic globalization is progressing rapidly and competition in domestic and foreign markets is intensifying, in order to enable industrialization in Viet Nam, where managerial resources are even scarcer than physical capital, FDI is absolutely essential. Thirdly, although the level of FDI has been high so far, much of it has been targeted at business infrastructure such as construction, hotels, transport, and communication, and thus industrial FDI is still low (as of June 2000, industrial FDI accounted for 30% of the cumulative total). Now that business infrastructure creation has reached a hiatus, industrial FDI has become the focus of attention, and the recent drastic decline in assessments of Viet Nam's investment environment should be taken into account because it may affect future industrialization strategy.

Using this awareness as a starting point, in the present paper, after first considering the experiences and current situations of various Asian countries regarding the relationship between FDI and industrialization, I assess the recent FDI environment in Viet Nam, and consider policy issues with regard to FDI expansion.

1. Industrialization and foreign direct investment: Past experience and present situation in Asian countries

As historical background up until the 1970s, after the Second World War, national and ethnic consciousness strengthened in developing countries that had gained political independence, and multinational corporations, which were seen as means of economic domination by developed countries, were subject to intense suspicion. At the same time, it was also recognized that technology transfer and capital from developed nations were necessary in order to achieve industrialization. To resolve the dilemma, in fields where they had developed

¹ CIEM (2001), p.28

their own management expertise to some extent, developing countries introduced from multinational corporations technology alone, and procured funds via different routes—a pattern of "unpackaged introductions of managerial resources." On the other hand, in fields where such expertise was still lacking, reliance on FDI (packaged introduction of managerial resources) was unavoidable, but restrictions were imposed on the activities of multinationals through limits on equity ownership and the like. Among Asian countries, South Korea and Taiwan employed mainly the unpackaged introduction pattern, while ASEAN nations such as Thailand relied heavily on FDI.

However, in the mid 1980s, three trends and developments strongly affected direct investment in Asia. The first was that, in addition to the extension of the long-term global economic recession—following the two "oil shocks" in the 1970s—to the developing countries of Asia, regulation of the activities of foreign-affiliated companies led to a reduction in the flow of FDI, raising the prospect of prolonged recession, and resulting in reviews of the role of multinationals in Asian countries. The multinationals of industrialized countries, which until the 1970s had been viewed as the agents of domination and exploitation of developing countries, now became expected to serve as engines of development. The second factor was the sudden rise of the yen associated with the Plaza Accord (Sept. 1985), resulting in a new wave of Japanese direct investment in Asia and a dramatic increase in industrial relocation and technology transfer. The third factor was that NIEs, particularly South Korea and Taiwan, fundamentally changed from importers of capital and technology to exporters, providing late comers such as ASEAN nations with a wider range of technology options.

Since the mid-1980s, the increase in FDI in Asia was remarkable. First of all, Japanese corporations made strong advances. Differences in currency values make simple comparisons impossible, but during the period 1986-1989, the amount of Japanese direct investment in Asia exceeded the cumulative total up until 1985 (total for 1951-1980 and 1981-1985), and direct investment during the first eight years of the 1990s was five times that for 1986-1989. Furthermore, not only Japan, but also NIEs such as Taiwan and South Korea made major direct investments in Asia. For example, Taiwan's total direct investment in ASEAN up until the end of 1987 amounted to USD86 million, but six years later, at the end of 1993, the corresponding figure was 27 times higher (USD2.3 billion). The contribution made by such direct investment to Asia's capital formation was significant, but more importantly, technology transfer was promoted through FDI, resulting in expansion of existing and new investment, strengthening of international competitiveness, and increase in exports, and the Asian economy grew dramatically. During this period, the Asian economy, particularly ASEAN, was characterized by "direct-investment-led growth."²

Table 1 summarizes global direct investment in developing countries since 1988. This Table shows that prior to the currency crisis (1997), Asia accounted for around 60% of the amount directly invested in developing countries. The increase in direct investment strengthened the international competitiveness of industrial products

² For details of changes in FDI in Asia from the immediate post-war period to the present, and background factors, see Tran (2001).

from Asian countries, and the industrial export ratio (proportion of total export value accounted for by industrial products) increased dramatically. For example, Thailand's industrial export ratio in the early 1980s was around 35%, but by the mid 1990s, it already exceeded 70%.

Since the mid 1980s, the target industries of direct investment in Asia have changed. Unlike the stage before the early 1980s, which was characterized by investment in traditional labor-intensive industries such as textiles, and industries with high capital and resource intensity, the FDI mainstream since the late 1980s has been machinery industries. For example, on the basis of reported figures, machinery industries have accounted for more than half of Japan's FDI in Asian manufacturing industries in the period after the mid-1980s. Electrical machinery and appliances manufacturing is the major sector, and the proportion of investment accounted for by this industry in the whole manufacturing sector has increased from 10% to 27% in the two periods before and after 1985. Taiwanese FDI in ASEAN has shown a similar pattern, with the electrical goods share of cumulative FDI in manufacturing industries being 11% until the end of 1987, and 26% at the end of 1993. Through such increases in direct investment, the consumer appliance industry in Malaysia and the auto parts industry in Thailand have been steadily developed.³

Table 1 shows two other things. One is that since the mid 1990s, Asia's share of FDI to developing countries has tended to decrease. This is a result of FDI being extended to other regions under the rapid progress of globalization, and indicates how the competition for FDI has widened correspondingly. The second point is that there is competition for FDI between China and ASEAN. Between 1988 and 1993, levels of FDI in China and eight ASEAN nations were almost the same, but recently FDI in China has been 3-4 times that in ASEAN. Since the mid 1980s, China's exports have grown, and the industrial export ratio has risen sharply, but the contribution made by foreign-affiliated corporations has been extremely large. (Table 2)

In this way, Asian countries have promoted industrialization through aggressive introduction of FDI, and at present are competing with each other to attract foreign capital.

2. Assessment of Viet Nam's record of FDI introduction

Recently, FDI in Viet Nam has exhibited the following characteristics.

Firstly, a peak in the amount of approved direct investment was recorded in 1996, and since then, FDI has rapidly declined. In particular, in 1999 approved investment was only 40% of that in the previous year, marking a return to the 1991 level. Approved investment in 2000 was around USD1.9 billion, a 21% increase from the previous year, and on paper, the continuous decline since 1997 appears to have been halted. However, approved projects for 2000 include the South Con Son gas development project, which alone accounts for over half of all approved investment (USD1.1 billion). Accordingly, it may be said that FDI in Viet Nam has not yet recovered.

³ For details of the relationship between industrialization in Asia and direct investment, see Tran (1999).

FDI in Viet Nam began to decline even before the Asian currency crisis, and the decline has continued despite the Asian economic recovery. According to Table 1, which shows FDI on an implementation basis, FDI in Viet Nam has not shown a major decrease even in recent years, but this is because the approved amount increased up until 1996. If the recent change in approved amount continues, the implementation figure is also likely to show a continued major decrease. In Viet Nam's 7th Five-Year Plan (2001-2005), average annual FDI of USD2 billion - USD2.2 billion (in prices for 2000), accounting for 18-19% of total investment, is expected, this share being almost the same as in recent years. This plan is a conservative one that reflects the recent decrease in FDI, but if the current trend in approval-based figure continues, it is possible that the plan cannot be realized.

Secondly, as mentioned at the beginning, FDI in the industrial sector is still low. As of June 2000, the cumulative total share of industrial FDI was only 30%. Moreover, most of this FDI has targeted heavy and chemical manufacturing industries (around 64% of total industrial FDI). Heavy and chemical industries such as cement and fertilizer manufacture are capital-intensive, with each project accounting for a large share on a value basis, and because in some cases the long-term development of those industries is also necessary, it is not always reasonable to claim that this type of industry accounts for a high share of overall FDI. However, despite relatively high growth through the 1990s, Viet Nam's labor structure has hardly changed, with about 70% of the labor force still employed in the low-productivity agriculture sector, and looking at Viet Nam's current situation in this way, it appears that FDI in labor-intensive industries is insufficient.

A third characteristic is the rapid decrease in FDI from Japan. FDI in Viet Nam from Japan, a promising source of investment in global terms, has showed a continuous sharp decline since 1998. The amount approved in 1999 was only USD62 million, 5% of the 1995 peak value (USD1.13 billion). According to JETRO's Hanoi office, one factor behind the slump in Japanese investment is that the advances by general electric appliance manufacturers and auto assembly manufacturers have run their course, and these manufacturers are facing difficulty due to a slump in demand within Viet Nam, with consequent effects on parts manufacturers. Another factor is an oversupply of hotels, office buildings, and apartments in the real estate development market. In addition, it may be pointed out that the investment environment for foreign businesses has deteriorated, with unfavorable taxation systems and complicated administrative procedures.

Japan is not only an important supplier of FDI in Asia, but also plays a major role in increasing industrial exports from Asian countries and up-grading the industrial structure through investment activities. Particularly since the late 1980s, FDI by Japanese corporations in Asia has strengthened the desire to increase exports, and the trend of expanding production aimed at serving the Japanese market has become pronounced. According to Table 3, most exports by Japanese-affiliated companies in ASEAN and China are for the Japanese market and other areas of Asia. As shown by Table 4, the Japanese market is steadily increasing in importance with regard to the activities of Japanese-affiliated companies in Asia. This situation is in marked contrast to that of Japanese-affiliated companies in the US and Europe (Table 4). The Japanese economy is experiencing a

long-term recession, but the scale of this economy is large and its import structure is changing rapidly, with industrial products now accounting for 62% of total imports (2000 figures).

Viewed in these terms, the sudden decrease in FDI in Viet Nam by Japanese companies is detrimental to the industrialization of Viet Nam, and implies that Viet Nam's participation in the Asian production network and dynamic division of labor will be delayed. Table 5 summarizes trends in Japanese FDI in Viet Nam in terms of comparisons with other Asian countries based on data from the Japanese side. It can be easily understood from the total amount up until the end of March 2000 that Viet Nam, as a late comer in this regard, received very little FDI from Japan in comparison with other Asian countries. However, what should be noted is the recent trend. It should be emphasized that in 1998-1999, the gap between Viet Nam and other Asian countries was greater than the total amount up to the end of March 2000.

The fourth characteristic of FDI in Viet Nam is a marked increase in the number of investment projects with 100% foreign ownership. Table 6 shows data for three separate periods. During the first period, 100% foreign-owned projects accounted for only around 12% of approved projects overall, but in the second period, the figure rose to 38%, and in the recent third period, to 64%. Between 1997 and 2000, the number of 100% foreign-owned projects was more than double that of joint ventures. Looking at the figures for 2000 alone, there were 4.5 times more 100% foreign-owned projects than joint ventures. Since 1998, there has been a tendency for foreign companies to view joint ventures as undesirable. Not only have completely foreign-owned projects come to account for an overwhelming majority of new investment projects, but some joint ventures have also been switched to 100% foreign ownership. According to materials from the Ministry for Planning and Investment (MPI), the demand for conversion from joint ventures to 100% foreign ownership began in 1997, and between then and April 1999, approval was granted for 39 ventures to become 100% foreign-owned.

This phenomenon is probably due to a desire on the part of foreign companies to switch to 100% ownership in order to avoid inefficiency and risk resulting from the many management problems that have emerged among partners on the Vietnamese side.

3. Policy issues concerning direct investment in Viet Nam

Confronted by difficult conditions in the form of a continued decline in FDI, the Vietnamese government began to propose improvement policies in 1999, and since the start of 2000, preparations have been made for revision of the law on foreign investment. In March 1999, a Prime Ministerial directive stipulated the implementation, from July 1999, of a series of policies aimed at improving the investment environment. These reform policies included reductions in electricity and telephone charges and office opening approval fees for foreign-affiliated businesses. Reductions in individual income tax for foreign residents were also implemented.

The revised law on foreign investment was approved by the national assembly in May 2000, and has been in force since September 2000. The factors behind the revision of foreign investment law by the authorities are as follows. Firstly, the currency crisis prompted other Asian countries to significantly increase their efforts to attract direct investment by foreign companies, introducing many preferential policies, and Viet Nam's previous foreign investment policy placed the country at a relative disadvantage. Secondly, since 1996 when the last revision to the existing law on foreign investment was made, various laws on land, value-added tax, and labor were enacted, many of which affected the activities of foreign-affiliated companies, necessitating revision of foreign investment law to prevent adverse effects on such companies. Thirdly, since the effects of the Asian currency crisis started to spread to Viet Nam at the beginning of 1998, various government directives and notifications had been issued with the aim of mitigating or preventing the effects of the crisis. There was growing opinion that many of those directives and notifications should be given legal status, and such demands were increasingly made by concerned parties.

The revised foreign investment law contained the following new aspects. Firstly, to facilitate the establishment of joint ventures by foreign companies, all domestic companies (including small family-owned businesses, etc.) became eligible to participate as the Vietnamese partner in joint ventures. Secondly, the activities of foreign-affiliated companies became more advantageous with regard to value-added tax, foreign currency procurement, etc. For example, exemptions from value-added tax, which had formerly applied only to imported goods that could not be produced domestically, became applicable to other items. Also, the requirement for letters of recommendation from the central bank for foreign currency bank loans or exchange was eliminated. Thirdly, the investment registration regulations applied to existing domestic companies also became applicable to foreign companies. In other words, investment fields were divided into areas for which inspection of applications was necessary, and those for which it was not, and in the latter, a certificate of approval was promptly issued after registration. Fourthly, whereas previously the collateral used by foreign-affiliated companies for bank loans was limited to construction real estate (such as structures), under the revised law, land usage rights could also be used as collateral. Fifthly, the scope of application of the principle of unanimity in joint venture decision-making was reduced, from four items to two (appointment of president and vice president, changes in venture's internal regulations).

In this way, various efforts have been made to improve the FDI environment. However, as is clear from the above-mentioned recent FDI record, the reaction from foreign investors has been muted. With the above reasons in mind, I make some policy proposals as follows.

(1) Priority to allocate human resources well-versed in international businesses to FDI field

Although it is recognized that the Government is making improvements to the investment environment such as legal reforms, in practice there are many problems with regard to operation of the law, and government officials "near the front lines," with little expertise regarding international affairs, have a very free hand. Consequently, not only does business development by investors take

too long, but also disputes frequently arise. One example is the problem of land expropriation. Under the current law, in cases where a joint venture starting business is given land usage rights by the Vietnamese side, compensation and land expropriation procedures are the responsibility of the Vietnamese side, while in cases where a foreign investor leases land, they are the responsibility of local authorities (People's Committee). However, in practice, foreign investors must bear compensation expenses and become involved in expropriation procedures. Payments for land usage frequently occur after the transfer of land.⁴ Many similar problems occur, and have reduced the desire of foreign businesses to invest.

As an effective solution policy, in addition to the priority of allocation to the FDI field of staff and officials with good international expertise, it should be strengthening of monitoring by central government of compliance with the law and contract enforcement, and prompt resolution of any problems revealed.

With regard to effective administrative structures for introducing direct investment, in terms of rapid response to the new global environment, Thailand's experience has been favorably assessed by overseas investors and researchers. Firstly, industrial fields that should have priority to be developed are clearly designated, and domestic and foreign companies investing in these fields (promoted industries) are called "promoted firms" and given preferential treatment. Inspection and approval regarding investment in promoted fields is the responsibility of the Board of Investment (BOI), which possesses capable staff well-versed in international affairs. Also, to improve the efficiency and promptness of inspection and approval procedures, since the end of the 1970s the Thai Prime Minister has also served as director of the BOI. An even more notable point is that during the mid 1980s, when a new wave of direct investment began to extend to the Asian region, the Thai Government realized that the mainstream of that wave consisted of Japanese companies, which faced a steep rise in the yen, and made particular efforts to introduce FDI from Japan. As a specific policy, the BOI established a Japan Section, appointed staff with a good understanding of Japanese language and culture to attract investment by Japanese companies.

(2) Rapidly create a series of successes by joint ventures and foreign-affiliated companies

The next point, which is also related to Proposal 1 above, is the importance of considering the personnel on the Vietnamese side who participate in joint ventures. So far, the main Vietnamese partners in joint ventures have been state-owned enterprises (SOEs), and the managers assigned to the ventures have been executives of SOEs or administrative bodies by which the SOEs related are controlled. With a few exceptions, these people have little aptitude for management, and rather than

⁴ This point was also raised at the Private Sector Forum held in Hanoi in Dec. 2000 (held in conjunction with Consultative Group, a forum for discussion among international organizations, donors from various countries, and the Vietnamese government)

participating as managers, there is a tendency for them to serve as bureaucrats and officials who monitor foreign-affiliated companies. Moreover, despite gradual deregulation, the principle of unanimity remains, and without the consent of these low-aptitude managers on the Vietnamese side, important management decisions cannot be made.

Viet Nam needs to drastically remedy these points, abandon the unanimity principle, which is at odds with international practices, find personnel with management aptitude, and assign these personnel to joint ventures. FDI with 100% foreign ownership should also be encouraged for the purpose of promoting exports and attracting investment in specific fields and regions, but the most urgent task is to comprehensively dismantle the obstacles that hinder joint ventures.

If by combining this proposal with Proposal 1, a series of successes by joint ventures and foreign-affiliated companies can be created, the amount of new FDI will increase. Unless existing companies succeed, there will be no appetite for new investment.

(3) Encouragement of FDI in new fields through "pioneer status"

As mentioned above, so far, a low proportion of Viet Nam's FDI has been in manufacturing industries, and most of what little there has been is in heavy industries. From now on, in order to enable economic development in Viet Nam, a labor-surplus country, to bring potential comparative advantaged industries into being, and to nurture supporting industries, it is necessary to attract direct investment in employment-creating and labor-intensive industries, and direct investment by small business in a wide range of fields. One means of achieving this is the provision of various special or preferential treatments (tax breaks, etc.) by assigning "pioneer status" to domestic and foreign companies that make early investments in developing and nurturing industries new to Viet Nam. In Malaysia, this means has been used to encourage the development of electronics and other industries.

Conclusion

The Vietnamese government needs to become more clearly aware that FDI is the most effective means of achieving industrialization in Viet Nam. Since 1998, there have been favorable policy reforms, but policies and laws have not penetrated the "front lines," and at every level the officials and staff assigned to joint ventures have not been the most suitable ones. Consequently, even at the turn to the new century, the assessment of Viet Nam's investment environment among foreign investors has not improved.

As means to overcome this situation, in the present paper I have proposed, based on my personal opinion, policies and strategies including the priority to allocation of personnel well-versed in international businesses and affairs to the FDI field, the creation of a series of successes by joint ventures and other foreign-affiliated companies, and the assignment of pioneer status to firms which operate pioneering businesses.

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Table 1 Foreign direct investment in Asian countries

(net inflow basis, million dollars)

	1988-93	1994	1995	1996	1997	1998	1999
China	8,852	33,787	35,849	40,180	44,236	43,751	40,400
Thailand	1,899	1,343	2,000	2,045	3,732	7,449	6,078
Philippines	770	1,591	1,459	1,520	1,249	1,752	737
Viet Nam	319	1,936	2,349	1,455	2,745	1,972	1,609
ASEAN-8	7,768	11,814	16,486	20,602	19,557	13,998	9,200
NIEs	9,787	18,744	6,335	23,616	24,789	25,706	43,354
Asia	27,113 (57.8)	65,954 (62.9)	71,654 (64.0)	87,952 (60.6)	93,518 (52.3)	87,158 (48.6)	96,148 (46.3)
All developing countries	46,919	104,920	111,884	145,030	178,789	179,481	207,619

Notes

1. ASEAN-8 indicates ASEAN countries except Singapore and Brunei
2. Figures in parentheses represent Asia's share in total developing countries

Source: *World Investment Report*, 2000.

Table 2 China's export performance and role of FDI

	Export value (billion dollars)	Share of Manufactured Products (%)	Share of Foreign-affiliated Firms (%)
1985	23,970	42.5	1.1
1990	64,897	74.2	12.6
1995	148,720	85.6	31.5
1996	155,717	-	40.7
1997	182,877	85.6	41.0
1998	183,589	-	44.1
1999	195,150	-	45.5

Source: 1985-1996 export values and share of manufactured products obtained from UN trade data; 1997-1999 export values obtained from *Asian Economy* 2000; 1985-1995 share of foreign-affiliated firms obtained from Aoki and Umada (2000), 1996-1999 figures obtained from data presented by Jiang Xiaojuan at IDE-JETRO Workshop (Jan. 2000).

Table 3 Industrial exports from ASEAN and China by Japanese-affiliated companies (1996)

(billion yen, %)

	ASEAN		China	
Gross value of industrial exports	1,527	(100.0)	337	(100.0)
- Exports to Japan	774	(50.7)	182	(54.0)
- Exports to Asia	480	(31.4)	132	(39.2)
Exports of electrical equipment and transportation equipment	1,006	(100.0)	180	(100.0)
- Exports to Japan	551	(54.8)	82	(45.6)
- Exports to Asia	308	(30.6)	85	(47.2)

Note: Figures in parentheses represent Japanese and Asian export shares

Source: MITI *Overseas Investment Statistical Overview* 1996. Data used here is quoted from Aoki (2000).

Table 4 Shares of exports to Japanese market In total sales by Japanese-affiliated companies

(%)

	1995	1997	1998
ASEAN-4	18.8	29.4	31.4
Asia	18.5	25.2	25.1
North America	2.1	2.1	1.9
Europe	1.4	2.6	2.6

Source: MITI JETRO Trade White Paper 2000, p.83

Table 5 Direct investment in Asian countries by Japan (cumulative)

(billion yen)

	End March 2000		1995-1999		1998-1999	
Viet Nam	135	(100)	111	(100)	18	(100)
Indonesia	2,694	(1,996)	962	(867)	240	(1,333)
Philippines	601	(445)	314	(283)	118	(656)
Thailand	1,507	(1,116)	774	(697)	267	(1,483)
Malaysia	989	(733)	341	(307)	124	(689)
China	2,069	(1,533)	1,179	(1,062)	220	(1,222)

Note: Figures in parentheses represent index based on Viet Nam (Viet Nam = 100)

Source: Japanese Ministry of Finance data

Table 6 Approved FDI projects in Viet Nam by period and ownership type

	1988-1992	1993-1996	1997-2000
Joint ventures	417	813	376
100% foreign-owned	69	537	827
BCC	76	62	90
BOT	0	2	5
Total	562	1,414	1,298

Note: BCC (Business Cooperation Contract); BOT (Build-Operate-Transfer)

Source: Compiled from MPI sources

