

## Chapter2. Promotion of Industrialization and the Golden Triangle's Development

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# CHAPTER 2

## Promotion of Industrialization and the Golden Triangle's Development

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The Vietnamese economy has continued to achieve a high economic growth of 8% since 1992. And the Asian Development Bank estimates the GDP growth rate in 1995 and 1996 at a near double-digit high ( 8.5% in 1995 and 9.0% in 1996).

As for the stabilization of the macroeconomy, Vietnam succeeded, above all, in curbing inflation. In 1990 Vietnam's inflation rate reached as high as 90 percent. But in 1993, surprisingly enough Vietnam managed to bring it down to 5.2%. Therefore, it can be said that the macroeconomy was stable for a while (See Table 1).

In 1994, however, inflation rose. Economic expansion is probably one of the reasons. Furthermore, an increase in money supply which was carried out for the purpose of easing fiscal deficit should also be pointed out. In 1993 the money supply showed an increase rate of 17.2%. Such an increase is related to the fact that fiscal reform has not been

completed, and hence state-owned enterprise (SOE) reform remains one of the major challenges. Unless SOE reform is completed, subsidies will be granted to SOEs in one form or another. But the subsidies are determined by money supply. This practice, in turn, leads to inflation. Consequently, uncertainty of the macroeconomy, which is caused by inflation, cannot be avoided until SOE reform has been completed. In any case, the kind of development policy for industrialization which Vietnam will adopt under the macroeconomy which has temporarily stabilized is a big challenge for Vietnam.

### 1. Industrialization Strategy for Economic Development

In the Seventh National Party Congress (1991), the direction of Vietnam's economic development was

Table 1 Vietnam's Key Macroeconomic Indicators

	1988	1989	1990	1991	1992	1993	1994
Economic growth rate	5.0	7.6	5.1	6.0	8.6	8.1	8.8
(Incl.) Agriculture	4.0	7.0	1.5	2.2	7.2	3.8	4.0
Manufacturing	2.3	-2.8	3.0	8.6	13.3	12.9	13.5
Gross domestic saving	...	...	7.4	13.1	16.3	11.2	15.0
Gross investment	14.4	11.6	11.5	15.1	17.0	19.4	19.9
Consumer price index	310.0	95.0	36.0	63.0	37.8	8.3	14.4
Growth rate of money supply	445.0	188.0	49.2	83.5	33.7	17.2	...
Growth rate of exports	21.6	27.1	31.1	18.0	21.2	15.2	20.8
Growth rate of imports	12.3	-36.2	6.1	18.8	20.4	38.3	...
External current account (of GDP)	-16.9	-10.3	-4.2	-1.9	-0.7	-8.3	-4.9
External outstanding debt (million dollars)	15,286	15,661	17,348	17,713	17,678	17,678	...
Debt service ratio	70.0	42.3	29.9	20.2	22.4	26.5	11.6
Exchange rate (dong/US dollar, annual average)	3,000	4,300	5,000	12,500	10,530	10,510	10,900
Fiscal account (of GDP)	-8.3	-8.7	-5.8	-1.5	-1.7	-4.7	-2.5

(Sources : ADB Outlook 1994, World Bank data 1994 and Vietnam Investment Review 3 - 4 April, 1995)

(Note: figures for 1994 based on estimate except for Economic Growth Rate, Agriculture, Manufacturing and Consumer Price Index)



**People who go to their work place in Hanoi**

indicated. Top priority is given to the industrialization of farm villages. Firstly, it is decided to provide irrigation facilities to meet the demand for water supply and drainage. Then, agricultural, forestry, and marine processed products are to be developed together with the remaining fields of agriculture. In this way, industrial and service groups are to be formed in cities, towns, and villages. And traditional industry by each occupational field and community were to be developed. Furthermore, by using advanced technology, new areas were to be expanded.

Secondly, in Tay Nguyen, a mountainous and highland district, industry shall be developed by taking advantage of the regional characteristics. As for agriculture and forestry, designated areas will be developed for concentrated farming and forestation according to planning. In this district, the processing industry shall also be developed for agricultural, forestry and marine products. As for mining development, exploration shall be continuously conducted to recover mineral resources.

Thirdly, in the coastal areas, works shall be carried out for the excavation, research, and feasibility of exploration of coastal resources. In particular, the petroleum industry will be developed. Mineral products will also be developed and processed, and thereby sea-farming, catching, and processing of marine products shall be promoted. In addition, the infrastructure shall be strengthened and maintained, including the ship repair and ship building industry, coastal transportation, seafood services, tourist industry, and port facilities.

Fourthly, urban development will be carried out in such a manner that it may serve as a core to promote nationwide modernization and industrialization. To meet such purposes, investments shall be made in industries, services and infrastructures.

## **2. Urban Development : Three Golden Triangles**

With the fourth paragraph as a focal point, I would like to explain further about urban development. According to the State Planning Committee, the Vietnamese government's medium-term target for the macroeconomy by the year 2000 is fixed at 8 to 9 percent of the real growth rate and a single digit of inflation rate.

Capital required for investment during the period from 1994 to 2000 is approximately US\$50 billion in total, of which US\$20 billion will come from domestic financing and US\$30 billion from external financing. As for domestic financing, US\$10 billion is expected to be supplied by the government while the remaining US\$10 billion will come from the private sector. Meanwhile, as for external financing, US\$20 billion is expected to come from foreign direct investment and the remaining US\$10 billion from official development aid.

Vietnam's strategy is to develop three preferential districts which are specially designated: (1) the Northern District consisting of Hanoi, Hai Phong, and Quang Ninh, (2) the Central District consisting of Da Nang and Hue, and (3) the Southern District consisting of Ho Chi Minh City, Bien Hoa and Vung Tau.

The "Southern District" centering around Ho Chi Minh City is the area where the market-oriented economy has already been practiced. Therefore, foreign direct investment has already become active.

The "Central District" aims at economic linkage between Laos and the northeastern district of Thailand. Incidentally, the Asian Development Bank (ADB) is positively engaged in highway development in this area. However, for Vietnam, this district is not that attractive because both Laos and the northeastern part of Thailand are rather small in terms of the economic scale.

The disparity in income levels between North and South is big. So, the Northern district is the government's

chief target for development. The latest major change in the development of the Northern District can be seen in the development of port facilities: the important point, based on the long-term view, has been shifted from the port of Hai Phong to the port of Cai Lan. The shift reflects the fact that only smaller ships in the 10,000 ton class can berth in the port of Hai Phong. Thus, the port is not suitable for large-sized ships. Consequently, National Highway 18 leading to Cai Lan has become important in parallel with National Highway 5 leading to Hai Phong. However, the development of the port of Cai Lan is heavily delayed at the present time. Furthermore, environmental problems are arising there. Under these circumstances, the development of Cai Lan will require a long time period before its completion.

According to the Ministry of Construction's investment plan (April 1994) for the infrastructure by the year 2000, investment is allocated for the fixing of the infrastructure as follows:

- Northern District and Southern District ... US\$4 billion, respectively;
- Da Nang, Can Tho, and Phu Quoc .... total of US\$2 billion;
- Reconstruction of National Road 1 to highway.... US\$1 billion.

### **3. Industrial Parks and State-Owned Enterprise Reform Required for Industrialization**

For development of these three important districts, industrial parks and export processing zones shall be constructed. A remarkable change appearing from the beginning of 1994 is the emphasis placed especially on industrial parks. Furthermore, there are opinions in the government to emphasize that Vietnam's development is entirely different from China's development strategy. In short, export-processing zones are based on the introduction of foreign investment in export-oriented businesses while industrial parks are export-oriented, but at the same time they place emphasis on import substitution. This concept derives from the fact that

domestic products have no competitive edge, partly because of smuggling. Therefore, in case that industrial parks serve for import substitution, commodities, such as sewing cloth, motorcycles, and bicycles, if possible, are considered suitable. In such cases, consumer goods shall basically be manufactured in industrial parks mainly by small- and medium-sized enterprises.

In fact, it is foreign direct investment which serves as a propelling power and promote industrialization. State-owned enterprises are using outdated facilities and pay wages higher than those paid in China. Eventually, representative SOEs in the Northern District are also weak in international competitiveness and want to establish joint ventures with Japan (for instance, Than Long Garment Sewing). In any case, it is acknowledged in the State Planning Committee that a shift of SOEs to joint-stock companies and joint ventures shall be unavoidable for industry, including the heavy and chemical industry.

Under the circumstances, the disparity in income level begins to widen largely between urban and rural areas. So, the State Planning Committee is well aware of rural development problems too. Rural development will be delayed behind the development of the three important district developments and take a longer time. (The State Planning Committee's statistics show the unemployment rate as low as 7 to 8%).



**Japanese enterprise in Tan Thuan Export Processing Zone in Ho Chi Minh**

#### **4. Different Concept of Export - Processing Zones from the World Bank**

Vietnam's development policy is practiced in line with a market-friendly approach as explained in the "*East Asian Miracles*" report issued by the World Bank in 1993. As for the nurturing of industry, Vietnam's concept of development policy is different from that of the World Bank in the following two respects.

One point is that export-processing zones (EPZ) which have preferential treatment such as taxation, are designated especially to Hai Phong, Da Nang, and Ho Chi Minh City. In a sense, this arrangement will cause a clear disparity in income levels between these designated areas and other areas. But it is effective in terms of promptly increasing Vietnam's income as a whole.

Another point is that there is not one type of business but a few types of businesses which are desired to advance into export-processing zones. As for the manufacturing industry, this includes, textiles, clothing, consumer electrical goods, electronics, shipbuilding, bicycle assembling, and stationery.

In terms of trade structure, Vietnam exports crude oil and rice, and imports petroleum products and fertilizers. In the near future, Vietnam will have to increase in export of agricultural processed products and labor-intensive manufacturing goods, and import a wide range of machinery and raw materials. As for export products, Vietnam should export not only rice, but also seafood, rubber, nuts, coffee, and tea by diversifying her export products. In other words, regarding export products, Vietnam should export agricultural products, seafood, and mineral products. Taking advantage of primary commodity processing and EPZ, Vietnam should promote, as a future challenge, the diversification of labor-intensive manufactured goods.

Incidentally, Vietnam's ongoing import tariffs or import surcharges have a negative effect on export expansion. As one means of bridging the gap caused by such a disadvantage, a new concept has been introduced. That is the concept of EPZ. And based on this concept, Vietnam's development is about to be promoted. It is noted

that the World Bank, however, interprets EPZ as a transitional system in the process of trade liberalization. In fact, the World Bank believes that preferential treatment for export-processing zones is basically unfavorable.

#### **5. Aiming at Favorable Economic Growth**

Vietnam's macroeconomy has just achieved stabilization. But not all the economic problems have been solved. Let's streamline the points causing these problems along with Chart 1. First, there is the financial deficit problem which may refuel inflation. As a consequence, the SOE reform needs to be carried out. This reform is also required for improvement in economic efficiency and for an ensuing rise in productivity.

Another pillar of stabilization of the macroeconomy is employment measures. Indeed, the statistics sometimes show a low unemployment rate, but latent unemployment is very high in the agricultural sector. To cope with such a situation, industrialization and rural development are required. In view of the fact that the Vietnamese economy has been primarily based on commercial activities rather than manufacturing activities, some point out that these projects are hard to carry out. However, the feasibility of nurturing of small- and medium-sized enterprises should be examined. Because it is certain to lead to a raise in the domestic inter-industry linkage.

Meanwhile, the per capita GDP is at a low level. Therefore, saving and investment have to be raised in the direction of high economic growth. First, to promote an increase in savings, the preparation of a banking system is a must together with the stabilization of money supply (as well as the introduction of inflation measures and stabilization of the exchange rate). Furthermore, foreign direct investment should be increased by EPZ. Considering the present situation Vietnam faces, foreign capital will play a decisive role. For this reason, the preparation of laws and the fixing of the infrastructure become prerequisites.

With economic development in progress, disparity in income levels will increase. There will be a great disparity between the South and North, and rural and urban areas of the country. In view of Vietnam's political situation, disparity in income levels between the South and the North

entails a big problem. As for development of the Northern district, the industrial parks and export-processing zones, above all, should be strengthened. As a result, to some extent, it will be unavoidable that more importance will be placed on the development of the Northern district.

To correct the disparity in income levels between rural and urban areas, labor mobility from rural districts to urban areas, which is not very free at present, will become inevitable. In addition, improvement of agricultural

productivity, a factor bearing great importance in Vietnam's economy, is a big challenge.

Despite all these problems mentioned above, the Vietnam of today possesses a number of advantages including stabilization of its macroeconomy, human resources, and geographic advantages in industrial policy. Given such a situation, apart from short-term fluctuation, economic growth is more favorable in comparison with other developing countries.

**Chart 1 Vietnam's Economic Problems**

