

Chapter 1: INTRODUCTION

1.1 BACKGROUND AND OBJECTIVES

In many developing countries, particularly in the East Asian Newly Industrializing Economies (EANIE), growth of national income and manufacturing output since 1960 has been high by most standards of comparison: whether in relation to historical rates in these countries before 1960, or in relation to rates currently achieved by developed economies or in relation to the growth performance of the developed economies at earlier stages of their industrialization. A large number of studies have shown as per capita incomes increase with the share of manufacturing production in national income. It implies that the increasing role of manufacturing in economic activity causes higher incomes per capita and vice-versa. Thus, industrialization is necessary for developing countries to overcome their backwardness, to improve the living standards of their people and to integrate into the world economy, as suggested by the EANIEs.

Having noted the role of manufacturing growth in the EANIEs, it is important to consider the question of industrialization policies. It is well-known that the EANIEs have been very successful in their industrialization. On the one hand, dependency theorists have been largely dismissive of the rapid industrialization of the EANIEs which have adopted export-

oriented industrialization (EOI) programs. They have portrayed their industrialization as externally-imposed and qualitatively inferior to that experienced by the advanced capitalist countries in their early stages of development. On the other hand, neo-classical economists have submitted South Korea, Taiwan, Singapore, and Hong Kong not only as proof of genuine industrialization in the Third World, but also of the success of free market policies in generating rapid industrialization. Rational choice theorists further argue that the EANIEs represent a triumph for economic rationality over political interference, and show what can be achieved when domestic policies are conducted on a sound basis. Yet another view of the EANIEs maintain that far from epitomizing laissez-faire development, their industrialization is the product of explicit state-directed initiatives. In view of such divergent claims, it seems close empirical and theoretical examination of the EANIEs are urgently required for Vietnam to learn. Why? Vietnam is a country of approximately 331,041 square kilometers with a population of some 69 million of which the labor force for industry was 2,213,000 equal to 7% of labor force of the whole country (30,974,000) in 1992 (General Statistical Department of Vietnam, (GSD) 1993, pp.5, 12, 60). Vietnam is also situated in East Asia - the most dynamic region in the world - facing the China Sea like Hong Kong, Taiwan, Singapore and Malaysia. The existence of fertile soil, as yet underdeveloped water resources, and the ready availability of a wide range of technology means that, with good

economic management, high rates of agriculture growth could be generated over the next decade. The existence of a long coastline, major inland waterways and irrigation systems also provide enormous potential for the development of sea and river products.

Vietnam currently has approximately 7 million hectares of forest, an important asset, if well managed. Vietnam also has valuable proven mineral deposits as well as a considerable hydroelectric potential. Enough is known, however, to indicate that all that mentioned above can make a substantial contribution to national development, to industrialization and to export earnings. It is thought by many economists all over the world that the Vietnamese economy has excellent potential for successful growth over the coming decade (UNDP, 1990, p.12). This will require correct economic policies, access to external markets, an effective aid program and peace. In order to have a sound program of economic reforms provide an appropriate environment for growth and for productive utilization of external resources, Vietnam would have changed situation in country with reference to foreign experiences particularly EANIEs. My research paper has this purpose. Therefore, in this research paper, I try to briefly present industrialization policies and performance in the EANIEs in chapter 2 . This paper will analyze the crucial role of government, not only in subsidizing and providing fiscal incentives to certain industries to stimulate growth, but in

setting stringent performance standards in exchange for subsidies. The government has not only engaged in selective but significant direct investment, it has also intervened to help shape the cost, supply and quality of labor and infrastructure. In the extra-economic sphere, however, the state's intervention has probably been even more profound, creating a social and political environment conducive to particular forms of industrialization. After that, in chapter 3, this research paper will examine the weaknesses of industrialization policies in Vietnam from the time of unification (1975) in comparison with EANIEs. At that time, Vietnam followed the so-called socialist economic model, like that of the former Soviet Union and the People's Republic of China. This model meant that the economy operated in accordance with centrally planned principles.

In the middle of the 1980s, the widely recognized failure of the socialist economic system to generate growth and to sustain development more, factors that forced Vietnam to transform its economy from a centrally planned economy to a market oriented one. However, the reforms were carried out only to stave off crisis and to ensure the survival of the system. In any case, the challenge for Vietnam is formidable, as there has not been a single well tested and proven model of successful transformation from the former centrally planned economies. It was this dismay at the experience of their centrally planned brethren which encouraged the Vietnamese to seek an appropriate development or

renovation models with its Vietnamese accent, in the form of DOIMOI.

Within this market-oriented approach, economic reforms in Vietnam have had some limited success, but they still have many weak aspects in comparison with the EANIEs. Therefore, this paper will also examine Vietnam's industrialization policies from the mid-1980s in order to see the differences between the EANIEs and Vietnam. From the above two chapters, it is thought that some interesting and useful proposals will be drawn in chapter 4 for Vietnam to make sound industrialization policies in the future. And at the same time, the industrialization prospect for Vietnam in the light of East Asian economic experience might be partly seen

1.2 METHODOLOGY

The paper analyzes and classifies cross regional and inter-temporal industrial growth data in Vietnam and EANIEs.

The analysis employs a variety of simple statistical and graphic techniques ranging from proportion methods to time trends, projections and regression analysis. In addition, the following methods are used: correlation analysis, multiple regression analysis, and projections using shift-share analysis.