INVARIABLE AND VARIABLE COSTS, VIETNAM'S POLICY FOR FOREIGN INVESTMENT AND NATIONAL MODERNIZATION, INDUSTRIALIZATION

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Experience from developed countries such as the U.S, Russia, Italy, Japan and South Korea shows fast development is associated with construction of key industries, for example, manufacturing autos (the U.S., Japan), motorcycles (Italy, Japan), electronic equipment (Japan) and so on. Recently, the U.S. restored its growth as a leader in the computer sector with well-known softwares and Bill Gates became one of top billionaires in the world. Vietnam is implementing its target of industrialization and modernization. This will be obviously reached if Vietnam owns its plants making autos, computers, motorcycles, air conditioners, in short, plants producing high-quality consumer goods whose prices are high on the market and they bring huge turnover and profits to producers. Meanwhile, earnings from annual rice export can afford only imported motorcycles. If motorcycles, autos, air conditioners can be locally produced, they help satisfy home demand and speed up development as well as national industrialization and modernization.

I. INVARIABLE, VARIABLE COSTS AND INVESTMENT IN ADVANCED PLANTS

Vietnam should set up a few plants producing autos and motorcycles, and should not have permitted foreign investment in 10 auto plants and over 3 motorcycle plants as at present. An auto plant must turn out hundreds of thousands of units yearly to earn profits, if not, it will suffered great losses because of its huge investment capital and small domestic demand.

Another cause is plants' costs include invariable and variable ones. Invariable costs are bank loans and interests, land rent, out-of datedness (only in a few years, new modern plants will be erected, so their machinery will be outmoded and their competitiveness will be low), and workers' wages.

To visualize impacts of variable and invariable on product price, we make an assumption as follows:

An auto plant has invariable and variable costs:

Designed capacity:	300,000 units
Cost price: US$10,000 or total costs:	US$3,000,000,000 including:
- Invariable costs:	US$2,000,000,000
- Variable costs:	US$1,000,000,000

When the plant works at full capacity, costs allocated to each unit:

- Invariable costs: US$2 billion : 300,000 units = US$6,666.7/unit
- Variable costs: US$1 billion : 300,000 units = US$3,333.3/unit

So the cost price of an unit is = US$10,000.

In case the plant can produce and sell off 100,000 units or one-third of designed capacity, it still spends US$2 billion of invariable costs. This sum is allocated to each unit:

US$2 billion : 100,000 units = US$20,000/unit

and variable costs still remain constant: US$3,333.3/unit

So the cost price of an unit will be US$23,333.3/unit, much more than the price in case 300,000 units are made and sold off. Moreover if economic crisis exists, it produces and sells only 50,000 units, then the cost price of unit will be US$43,333/unit.

As a result, every firm tries to promote sales so as to operate at full capacity, or at least 70-80%, if not, their products' prices become too high and they will be in the red.

In brief, the troubles in the industrialization and modernization process are large-size manufacturing plants have to pay large invariable costs. In addition, these plants must innovate their technology and production lines with the aim to win in fierce competition with their rivals after five to seven years of operation.

II. VIETNAM'S TINY AUTO MARKET AND PLANS TO BUILD LOCAL AUTO PLANTS

Although private cars were not plentiful, roads became narrow. The yearly consumption of auto amounts to 20,000 - 50,000 units at most. How to build Vietnam auto industry?

Plan 1: the Government approves all foreign auto makers' investment in Vietnam. There are currently over 10 auto investment projects in Vietnam. So no plant can reach an annual output of 10,000 units. In the first years of production, locally made components make up 5% or 10% at most. In addition, the cost prices of autos will be so high. The same are other assembly plants producing electronic appliances. In short, these plants cannot carry out localization of 50-60% of accessories.

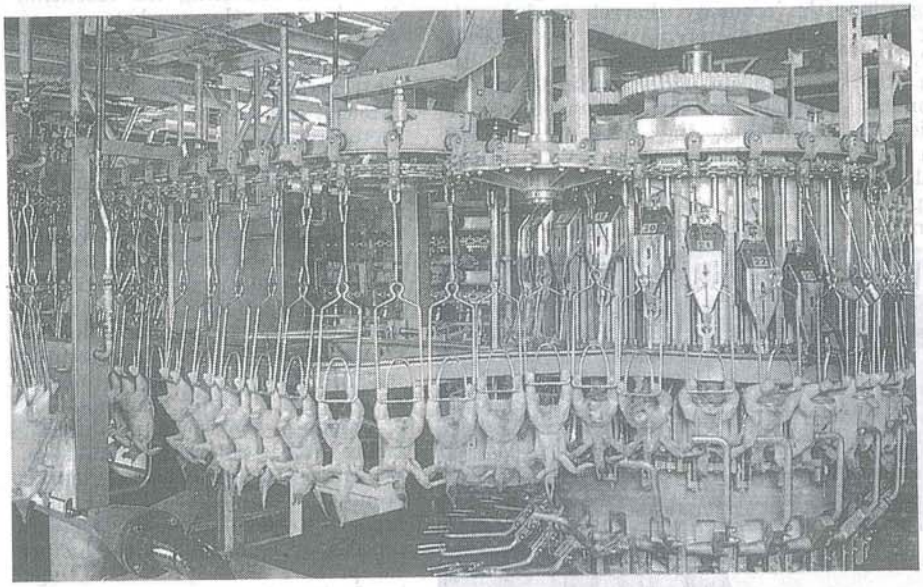
Moreover, in Vietnam tens of various trademarks of cars, motorcycles are available on Vietnamese market. Consequently their spare parts are wholly different and cannot be replaced with each other. Producers must import components. This plan obviously causes losses to

Vietnam.

Plan 2: Brand-new cars are very expensive, so foreign manufacturers suggest to sell to Vietnam used cars (3-4 years old) at cheap prices, equal to two-thirds or one - third of original price. As such, foreign firms benefit a lot: (a) costs of repairing cars are so high in their home country(b) their production will continue to grow and help create jobs for their workers. Then Vietnam find hard to set up its own auto industry.

Plan 3: Only foreign investor is given green light to set up assembly plants of autos, color TVs and so on. Vietnam will made commitments to offering them favorable conditions for their products on the local market. Certainly, foreign partners have to response to Vietnam's preferential treatment: (a) their products' prices are reasonable, (b) their technology must be advanced, (c) they have to soon localize 30% to 40% of their products in the first years.

Plan 4: Local consumers have to accept made-in-Vietnam cars even though their quality is inferior to foreign ones. For instance, before 1975, La Dalat, a trademark of made-in-Vietnam car, was supported by Saigonese. Although they looked ugly but they had many advantages: their prices were low, 40-50% of their components were locally made, and their engines were durable because they were made by famous France auto firm, Peugeot, who accepted to sell its products at prices lower than other suppliers.



If we approve the plan 4 (using local products instead of foreign ones), we can produce 40-50% of accessories of autos, motorcycles, air conditioners and so on. Then the country's import will reduce billions of dollars per annum. This sum will be used to rent foreign experts to build projects that Vietnam cannot yet carry out on itself, for instance, the pipeline bringing gas to Phú Mỹ Power Plant have been built by South Korean experts.

III. VIETNAM'S POSSIBLE DEMAND FOR HUNDREDS OF THOUSANDS OF AUTOS

Prior to 1975, although La Dalat cars looked ugly, but they were exported to Cambodia, Laos and Thailand. In less developed countries, quality is not so important as price. The price of a car assembled in Vietnam is currently higher than an imported one. If the plan 4 is approved, the foreign auto maker has to sell their engines and major accessories at lower prices and local cars will be much cheaper than imported ones. Consequently, auto consumption may rise to hundreds of thousands units. Moreover, because the foreign partner agrees to transfer technology to Vietnam for monopolistical sales and local production of accessories, Vietnamese makers will soon improve their capability and localize about 60-70% of total accesories. Then made-in-Vietnam cars could be exported to other countries.

To apply the above plan, the Government should publicize bidding application. A foreign auto maker who supplies its accessories at lowest prices and helps Vietnam localize production will win the bid and enjoy the monopoly in selling their cars and spare parts in Vietnam. As a result, there is only an auto trademark instead of tens of marks as at present. This policy is not only applied in auto industry, but also in other industries such as motorcycles, computers, air conditioners. It will assist Vietnam's embryonic industry to develop and create millions of jobs for workers. Then Vietnam will enter an ever cycle of economic growth■