

# SOME BASIC LOGICAL PROBLEMS OF THE EXPANSION OF VIETNAM'S FOREIGN ECONOMIC RELATIONS AT PRESENT

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**W**hen trading business expands beyond the frontier of a nation, foreign economic relations come into being. The foreign economic relation is the result of the international labor division and becomes a factor in forming the world economy.

At first, the economic relation between nations is based on differences in natural conditions: population, raw materials, weather, geographical features, etc. Each nation can sell its staple products. A nation, in fact, can't produce all the goods and commodities that it needs, so it must buy them from other countries. In this process, the international labor division takes shape.

The international labor division is the process of specializing the production of certain goods and commodities based on advantages of a nation with a view to selling them to other countries.

International trade developed basing itself on the international labor division. There were different viewpoints about the foreign trade. The mercantilists (the XVII century) stressed the importance of trade and commerce as the source of nation's wealth (that is gold and jewel), and each nation would take different positions when they took part in the foreign trade. It's a war whose winners were the stronger ones. In foreign trade, according to the mercantilists, there must be winners and losers, one people would get rich with loss and damage to the others.

Adam Smith (1723 - 1790), the British classical economist, argued that engaging in international trade, one nation should depend on its absolute advantages, that is, each nation

should specialize in producing certain products at a lower cost than other countries. Thus, nations who possessed no advantage could not engage in international trade.

But in reality, engaging in international trade is a must to every nation. It is an important lever or dynamic of the economic development, and an inevitable bridge between local and foreign economies. Each nation will gain benefits of the international division of labor and international trade although it has no absolute advantage in natural conditions or technology. This was justified by David Ricardo (1772 - 1823), another English classical economist, in his theory of comparative advantage.

His theory establishes that one nation that is less efficient than other countries in producing many products

will be able to increase its economic welfare if it specializes in production of the good in which it has a comparative advantage and in importation of the good in which it has a lesser comparative advantage instead of producing all products by itself. The problem is to find out exactly what to produce and export. Thus, specialization enables a nation to make the best use of its scarce resources (labor, capital, materials...) more efficiently by changing the economic structure and investing in well-selected activities.

Ricardo's theory has altered the common way of thinking about international trade. All nations can and must take part in the international division of labor and international trade, whether they have absolute advantage or not.

If a nation which possesses no





absolute advantage refuses to engage in international trade, it won't get a chance to develop its economy. At present, the international trade has ceased to be an opportunities for rich countries to exploit the poor ones. Contrarily, by engaging in international trade, poor countries could have chances to exploit foreign capital and technology for tapping their resources more efficiently. Thus, the theory of comparative advantage could help every nation choose its position in the international trade and division of labor.

Ricardo's theory has been justified by realities. It is developed in modern trading environment by later economists. The most outstanding is the theory of factor endowments expressed by two Sweden economists, E. Heckscher (1879 - 1952) and B. Ohlin (1899 - 1979). Heckscher-Ohlin comparative advantage model is described by the coefficient of revealed comparative advantage (RCA). This coefficient is the relation between the percentage of a certain product in total exports of a nation and the percentage of that product exported by all nations in total export turnover of the world. This coefficient helps a nation realize what product it had better to produce and export, and what product to import on base of its comparative advantages.

Heckscher - Ohlin's explanation is based on differences in factor endowments between countries because they used these endowments as a base for explanation of the comparative advantage of a nation. Moreover, this explanation could help us connect the international trade with the use of national resources, the distribution of income, the economic development and capital movements in the world.

Heckscher-Ohlin theory has consolidated the opinion that: nations with no absolute advantage could take part in the international trade. This opinion means a great deal to the

Government and Party's policy on expansion of Vietnam's foreign economic relations. In carrying out this policy in the coming years, we should pay attention to the following points:

1. Vietnam is a poor and under-developed country. Its infrastructure, agriculture and equipment are of low level. However, it has a lot of untapped resources. In developing the economy, expansion of trading, technological and economic co-operation with foreign countries, especially Southeast Asian ones becomes the inevitable and a matter of great ur-

fit, equality and non-interference. Besides maintaining old markets and traditional customers, we should try our best to penetrate into new markets, especially the regional ones. American decision on normalization of the US-Vietnam relationship provided us with a chance to integrate into the world economy.

3. We should find out measures to increase export turnover by increasing the percentage of manufactured goods in our exports, and at the same time, reducing the percentage of raw materials; finding out staple products for export; adopting policies on export encouragement (reducing export duty, giving price support, lifting restrictions, etc.).

As for importation, we should abolish the quota system step by step; stabilize and simplify the import tariff; impose discriminatory tariffs on luxuries and non-essential goods.

4. All activities of foreign trade should be given appropriate attention: developing tourism business, supplying all kinds of services to foreigners (finance, repair, shipment, labor, etc.); attracting foreign investment and trying to invest in foreign countries; attracting foreign technology and managerial skill through direct investment or technology transfer; striving to obtain foreign aid of all kinds and

sources.

5. The mechanism for carrying out foreign trade should be renovated: allowing all organizations and businesses to make contract with foreign parties; allowing all economic sectors, even a private person, to take part in foreign trade; separating the role of administrative management from the role of business management; creating legal and economic conditions favorable for foreign trade; establishing new mechanism for controlling the foreign trade with a view to ensuring law and order; and eliminating the monopoly in foreign trade step by step.

agency. If we keep on closing the door and developing a self sufficient economy, we will miss the opportunity to develop and integrate into the world economy.

We have a lot of untapped resources, but we can't exploit them efficiently. If we don't co-operate with foreign partners and export all we can produce with a view to importing new technology and equipment, all these resources will be left untapped, and our economic welfare can't be improved.

2. We should diversify and multilateralize our economic relations with any country or foreign organization on the principle of mutual bene-

