Exhibition of imported motorbikes (Photo: Hoà Tấn)

Foreign Trade, Trade Gap and Changes in the Structure of Exports

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One year after its accession to the WTO with a better position in the international arena, Vietnam is trying its best to take business opportunities offered by this position to develop its economy. Besides favorable conditions, however, Vietnamese economy and trade also face many difficulties caused by wide fluctuations in prices on the world market, which make local production cost to increase, bad effects of a high inflation rate, cyclical natural disasters, and widespread animal diseases.

With concerted efforts of all sectors and effective management of the State, however, Vietnam achieved good results in 2007: a growth rate of 8.5%; positive changes in the structure of industry (manufacturing sector rose from 41% in 2006 to 41.8% in 2007; service sector from 40.3% to 40.4% while the primary sector fell from 18.7% to 17.8%); increases in the foreign direct investment (to US$20.3 billion); and rises in foreign trade (import and export value of US$111.2). They are considered by many economists as important factors to the 2007 economic growth. This article will analyze the foreign trade in 2007, changes in the structure of exports and measures to improve this structure and limit the trade gap.

I. Foreign trade in 2007

1. Export

In 2007, the export value reached US$48.56 billion increasing by 21.9% over 2006 and 3.9% higher than the target of US$46.76 billion set by the State.

Export value gained by the foreign sector was US$27.9 billion increasing by 21% over 2006 and accounting for 56.9% of the total value while the value earned by local sectors was only US$20.6 billion increasing by 22.85% as compared with 2006.

Regarding the absolute value, the 2007 export value was US$8.7 billion higher than the 2006 one. Of this figure, US$1.7 billion came from export of farm products; 0.3 billion from minerals; 5.1 billion from manufactured goods and handicrafts, and 1.26 billion from others.

There were 11 items and categories that earned US$1 billion or more. They were aquatic products, rice, coffee, rubber, crude oil, coal, clothing, footwear, electronics and computer components, wooden products and mechanical products.

Export of some staple products reduced in terms of quantity as compared with 2006: such as crude oil (15.1 million tones falling by 8.3% compared with 2006), black pepper (83,000 tonnes down by 28.9%); and rice (4.56 million tonnes down by 1.8%), while some others enjoyed increases: coffee by 25.3%; cashew nut by 20.7%; tea by 8.9% and coal by 9%.

Staple products with increased export values were: rice increasing by 16.8%; coffee 57.1%; black pepper 42.3%; cashew nut 29.8%; clothing 32.8%; electronics and computer components 26.1%; wooden products 24.4%; plastic goods 48.1%; electric cable and wire 25.3%; handbag, suitcase and umbrella 26%; and mechanical products 120% (the highest increase).

Export values of some staple products got higher because of price hikes in the world market. For example, coffee export value rose by 57.1% while its export quantity rose by 25.3%; and value of black pepper rose by 42.3% while the export quantity fell by 28.9%.

The following are some remarks of the export business in 2007.

a. Achievements:

- Size and growth of export stayed high as usual. All targets set for export growth were achieved or surpassed, and even surpassed remarkably.

- There were positive changes in the structure of exports: increases in the export of manufactured goods, especially from technology-intensive industry; and decreases in the export of raw materials and semi-finished goods. Categories with high export growth rate and values were manufactured goods such as aquatic products, clothing, footwear, electronics and computer components, and wooden products. Categories with export values that were much higher than the planned targets were coffee, black pepper and plastic goods.

- Number of exporters from private and foreign sectors was on the increase and their business performance was improved steadily. Export earnings of the foreign sector represented a high proportion and played an important role in the export growth.

b. Shortcomings:

- The size of export was still small. Per capita export value was low in comparison with regional and international average: US$473 in Vietnam compared with US$60,600 in Singapore; 5,890 in Malaysia; 1,860 in Thailand and 546 in the Philippines.

- The export growth rate was high but it was unsustainable and vulnerable to external shocks such as wide fluctuations in the world market prices or appearance of new trade barriers in importing countries.

- The structure of exports was not favorable enough, which reflected itself in three aspects: (1) The range of exports witnessed almost no change and exports with high added value and earnings were slow to make their appearance; (2) The export value relied mostly on raw materials and farm products while such manufactured goods for export as clothing, footwear, and electronics and computer components were produced according to subcontracts given by foreign companies; and (3) Changes in the structure of exports following the industrialization trend took place slowly and there was no radical solution to this situation.

- Exporters were not good at taking opportunities to enter and exploit new markets. They failed to make the best use of advantages offered by the WTO membership status, and bilateral and multilateral trade agreements between Vietnam and foreign countries to increase their shares in such major markets as the U.S., the EU, and China, etc.

- Operations of network of trade representatives in foreign countries were ineffective and failed to support the export. Trade promotion programs were of small size and low efficiency.

- Export markets developed unevenly: Vietnamese exports gained favorable growth rate in the ASEAN, the EU and the U.S., and witnessed some falls in China, Japan and Australia.

2. Import and trade gap in 2007

The 2007 import value was US$62.68 billion increasing by 39.6% over 2006. Of this figure, local sectors accounted for US$40.9 billion (an increase of 44.2%), and the foreign sector 21.7 billion (an increase of 31.7%).

The 2007 trade gap was US$14.1 billion equaling 29% of the export value, 2.5 times higher than the 2006 one (11.5%). This was a high rate of trade gap for several years straight, and it came from various causes:

- High growth of investment: The growth rate rose from 8.17% in 2006 to 8.5% in 2007 while the foreign direct investment amounted to US$17.65 billion for 1,406 licensed projects. If additional capital to existing projects is taken into account, the 2007 FDI figure is US$20.3 billion increasing by 69% over 2006 and surpassing the planned target by 56%.

The gross investment amounted to VND462,000 billion increasing by 15.8%. Of this figure, the public sector accounted for 40.7% making an increase of 25%. Import of machines and equipment was worth US$11.1 billion increasing by 67.8%; fuel 7.7 billion increasing by 29.1%; steel and iron US$5.1 billion (by 74.1%); cloth US$3.96 billion (32.6%); electronics and computer components 2.96 billion (44.4%); plastic materials 2.5 billion (34.4%); raw materials for clothing and footwear industries 2.2 billion (10.3%); chemicals 1.47 billion (40.7%); chemical products 1.3 billion (27.6%); animal feed and raw materials 1.18 billion (60.2%); and wooden products and auxiliary materials 1.0 billion (31.1%).

In addition, the import value of machines and raw materials needed for key projects in power, oil shipbuilding and cement industries was also very high.

- Increases in prices of important imports:

+ Trade gap caused by price hikes: Remarkable hikes in the prices of essential raw materials on the world market in comparison with 2006 ones made the 2007 import value skyrocket: finished steel was US$129 higher for a ton (Vietnam paid US$728 million more); semi-finished steel by US$150 per ton (309 million more); fertilizer by US$43.5 per ton (165 million more); plastic by US$132 per ton (219 million more); fiber of all kinds by US$143 per ton (61 million more); other metals by US$364 per ton (158 million more); wheat by US$102 per ton (61 million more); fuel by US$67.6 per ton (868 million more); and paper by US$43.6 per ton (37 million more). These nine items alone cost importers US$2.7 billion more.

+ Trade gap caused by increases in quantity: Because of increased demand for both consumers' and capital goods, the import of many items rose in 2007: fuel by 11.5%, or US$982 million; finished steel by US$1.34 billion; semi-finished steel by US$61 million; fertilizer 178 million; fiber of all kinds 149 million; plastic 462 million; and other metals 292 million. These seven items cost importers US$3.46 billion more.

In addition, increases were also found in the import of several items that couldn't determined whether the cause was the increase in price or in quantity: US$910 million more for electronic components; US$4.5 billion more for machines and equipment; 424 million for chemicals; 201 million for raw materials for footwear and clothing industries; 972 million for cloth; 241 million for wood and related materials; and 444 million for animal feed and related materials. These seven items added a total of US$7.7 billion to the import value.

Generally, rises in prices and quantity added a total of US$13.86 billion to the 2007 import value, and most of these additional items were used for production and industrialization. The import of consumers' goods accounted for only 3% of the import value.

- The export grew more slowly then the import because the volume of farm products for export tended to stop increasing because the farming area, yield and output decreased; bad weather was widespread; and production of various farm products was limited in order to protect the environment. In addition, output of the crude oil, one of staple exports, fell by 8.3%, which partly reduced the export value.

- Removal of tariff barriers, increased demand for consumers' goods and a higher spending power in 2007 also led to increases in the import of raw materials for clothing, footwear, cars and auto spare parts, and some kinds of food.

Although many import duties were cut, absolute value of imported consumers' goods only rose slightly and represented a small proportion in the import value because most of essential goods have been made locally and the supply was high enough to satisfy the domestic demand. The consumers' goods imported in 2007 were worth some US$2 billion equaling some 3% of the import value.

- Changes in the exchange rate affected greatly the foreign trade. The euro and other hard currencies rose against the dollar and affected the import of goods from these areas. Imports from the EU, especially machines and equipment imported according to contracts expressed in the euro, become more expensive when Vietnamese importers had to exchange the depreciated dollar for the appreciated euro to pay European exporters. This is one of reasons that made the value of imports from the EU rise by 24% compared with 2006.

Regarding its export markets, Vietnam only suffered trade gap when trading with Asia and enjoyed some surpluses from markets in other continents. In 2007, the trade gap from Asian markets amounted to US$29 billion increasing by 1.6 times over 2006: the trade gap caused by the trading with China was US$9.1 billion, a twofold increase over 2006; with Taiwan: US$5.8 billion increasing by 50%; with Singapore US$5.4 billion (up by 16.5%); with South Korea US$4.1 billion (up by 34.8%); and with Thailand US$2.7 billion (up by 26.5%). Vietnam imported more and more goods from these countries because their goods and more competitive and appropriate to local production and consumption habits. In addition, Vietnam also imported more goods in 2007 from such market as the U.S. and the EU where Vietnam usually enjoys some trade surplus (imports from the U.S. rose by 73% and from the EU 66%) because of the removal of tariff barrier and appreciation of the euro.

II. Changes in the structure of exports

From 1995 on, the structure of exports has experienced some positive changes; the proportion of manufactured goods rose at the expense of raw materials, semi-finished and farm products; and the public sector lost its shares in the exports to the foreign and private sectors. But it's easy to see that these changes took place vary slowly and in the last five years, there have been no remarkable changes or breakthrough in the structure of exports.

- Regarding categories of exports, the proportion of farm products fell drastically from 46.3% in 1995 to 23.7% in 2007 while shares of goods from the heavy and mining industry rose from 23.7% in 1995 to 36.2% in 2007, and shares of goods from the light industry and handicraft increased from 28.4% to 40.1% in the same period. This is a positive change appropriate to the international trend. From 2004 on, however, the share of manufactured goods in the export has almost ceased to rise.

Table 1: Vietnam's structure of export in 1995-2007 (%)

	Heavy and mining industry	Light industry and handicraft
1995	25.3	28.4
1996	28.7	29.0
1997	28.0	36.7
1998	27.9	36.6
1999	31.3	36.3
2000	35.6	34.3

Source: General Bureau of Statistics; * estimated results

- Regarding changes according to the SITC, increases in the share of the manufactured goods in the structure of exports in the years 1995-2007 were not noticeable enough. It only rose from 45.4% in 1995 to 50.7% in 2007. This growth is not only small but also unsteady. It rose by only 5.3 percent point with in 13 years and almost gained no rise in the last three years.

Table 2: Vietnam's exports in 1995-2007 by SITC (%)

Year	Raw or semi-finished goods	Manufactured goods
1995	54.6	45.4
1996	47.0	53.0
1997	42.4	57.6
1998	42.1	57.9
1999	51.9	48.1
2000	55.8	44.2

Source: General Bureau of Statistics; * estimated results

Regarding roles of sectors, the share of the foreign sector rose at the expense of local ones. It increased from 27% in 1995 to 56.9% in 2007. It's worth noting that the foreign sector accounted for 15% - 17% of the gross investment. This means that the foreign-invested sector represents the export-oriented industrialization because 90% of exports from this sector are manufactured goods.

Table 3: Exports by sectors

	Local sectors	Foreign sector
1995	73.0	27.0
1996	70.3	29.7
1997	65.0	35.0
1998	65.7	34.3
1999	59.4	40.6
2000	53.0	47.0

Source: General Bureau of Statistics; * estimated results

To present more exactly changes in the structure of exports in order to estimate the industrialization and modernization of the production of exports, I take minerals from the group of exports from the heavy and mining industry and clothing along with footwear from group of exports from the light industry and handicraft, and add them to the groups of farm products, because in fact, the minerals are raw products while clothing and footwear are of low added value and dependent too much on imported materials, so they can be considers as raw and semi-finished goods, like farm products. In recent years, these groups of products have accounted for some 50% of the export value. This new classification increases the share of raw, semi-finished and low added- value goods in the export value to 70%.

The new approach shows clearly imbalance in the structure of exports that affects badly the export-oriented strategy adopted by Vietnam in its industrialization and modernization. Data prove that Vietnam is at the starting point of Malaysia, Indonesia and Thailand in the late 1970s. In other words, behind numerical data reflecting a remarkable growth of Vietnam's export in 1995-2007 is poor quality of the export development in the past decade.

Thus, the structure of exports in the past two decades didn't reflect the trend of industrialization and modernization. The most noticeable feature is a big share of raw, semi-finished, and low-added-value goods in exports (some 70%). Vietnam could only make the best use of its comparative advantages to promote the export but it failed to employ competitive advantages to produce high-added-value and technology-intensive goods. Looking at the problem from this aspect, we see that the export business in the past has succeeded only in creating new jobs and failed to accelerate changes in the manufacturing industry and link various industries to produce exports of high added value. In other words, changes in the structure of exports fail to form a new force that can satisfy demand from the modern market economy and help integrate Vietnam more fully into the world market.

With such a structure of exports, Vietnam will find it difficult to maintain a high growth rate, improve its competitiveness, reduce the trade gap and accelerate the industrialization and modernization.

III. Measures to change the structure of export and reduce the trade gap

1. Improving the competitiveness of exports

- The structure of exports can be changed positively by increasing the share of manufactured goods based on economies of scale, and at the same time, capital- and technology-intensive industries must be developed in order to make goods of high added value. From now to 2010, Vietnam can concentrate in developing labor-intensive industries, and after that it must start developing technology-intensive industries and high-class services (information, tourism, finance, and education).

- Both quality and cost of services must be improved. Ability to supply services and service cost must be revised regularly in order to reduce costs of input factors for companies. For the time being, authorities must take action to cut prices of services and goods important to the production cost, such as water and power supply, telecommunications, transport, airport and seaport fee, and administrative services.

- More attention and proper sources of finance must be paid to trade promotion campaigns in order to enhance their efficiency, especially campaigns to do market researches. The central government should engage more actively in these campaigns and e-commerce should be developed to cut marketing cost.

- Reforms should be accelerated in companies, especially state-owned ones. Strong measures could be taken to give more liberation and support to the private sector. For the time being, new policies must be adopted to create more favorable conditions for business and remove barriers to operations of companies.

2. Controlling the import

- Top priority must be given to import of original technologies and patents. High-tech centers should be built to attract investments from multinationals to bridge the technology divide. The Government should make study and adopt policies to carry out this measure.

- Securing supplies from various markets is a useful way to avoid excessive dependence on certain suppliers. For the time being, Vietnam should increase export to some Asian economies to reduce the trade gap in commercial relations with them and promote import from such economies where Vietnam enjoys some surplus as the U.S. and the EU in order to secure original technologies.

- Import of consumers' goods that can be made locally should be put under strict control. Contraband goods from the ASEAN and China must be stopped in order to protect local production.

- Set of standards for imported technologies must be worked out in order to limit the import of obsolete ones. Cooperation with regional countries is needed for making our standards harmonize with theirs. Only imported goods that match standards and technical specification approved by the WTO are allowed to enter Vietnam. This measure aims at preventing flows of obsolete or second-hand machines and equipment that can produce bad effects on competitiveness of Vietnamese goods and ability to repay foreign debts.

- Tracks for cuts in import duties on goods essential to local production, such as paper pulp, electronic components, fuel, fertilizer and chemicals must be worked out in order to implement international commitments and encourage local and foreign companies to invest in these fields.

3. Improving the business climate and changing the structure of industry

- Selecting the investment projects must be done carefully, especially the ones with low cost-effectiveness (more resource is spent for a product in comparison with an imported one). Industries with cost production that is higher than the international average must be reformed and restructured, especially state-owned companies. This process can serve as a basis for the reform in the public sector in which state-owned companies with poor performance could be dissolved, sold, privatized or provided with new investments.

- Structure of investment could be adjusted by determining whether an industry or a product is competitive enough at present and in future or not. This adjustment could be based on comparative advantages and the master plan for socioeconomic development of each province and of the whole country.

- The business climate should be improved to attract more foreign investment and this task must be considered as an important measure to enhance technological level and force companies to improve their productivity and management. Limits relating to forms of investment, capital and permission to mobilize capital from the public on foreign investment projects in production of exports must be removed. Number of fields that are not open (or conditionally open) to foreign investment must be reduced. Requirements about export volume, local content, use of local materials and labor, etc. must be replaced with more reasonable regulations.

- Public investment in business, especially in industries whose output has exceeded the market demand, must be cut. The Government should refrain from investing in products of poor competitiveness and poor market demand, or in fields where private companies have operated well.

- Inspection and supervision must be beefed up to prevent waste of public investment, especially in major development projects.

4. Developing the supporting industries

- The supporting industries are much needed for the industrialization. For the time being, development of these industries can ensure raw materials and input factors for companies making clothing, footwear and electronic components for export. In the long run, Vietnam should development industries supporting the production of automobiles, motorbikes or software.

- Tax incentives could be used for encouraging private investments in these supporting industries. Other incentives could be offered to foreign companies in these industries (exemption from duties on imported machines and other capital goods, or exemption from corporate income tax for certain periods of time, etc.)

- Protectionist measures for local production of raw materials can be removed by degrees to order to force local companies to deal with foreign competition, thereby helping them integrate more fully into the world market.

5. Exchange rate policy

The exchange rate should be flexible enough cope with changes in the market. For the time being, the exchange rate of the VND could be lower to make Vietnamese goods and services more competitive on foreign markets. Price of the VND should not be fixed for a very long time and linked too closely to the dollar. Strong measures must be taken to make the VND the only legal tender in Vietnam. It could be seen as a way to make the VND convertible. The exchange control must be beefed up and the exchange rate policy must harmonize with other macroeconomic policies.

6. Other measures

- Beefing up the control over foreign debts, limiting commercial loans used for importing consumers' goods and luxuries; enhancing efficiency of project employing the ODA source; issuing T-bonds on foreign stock markets; and inspecting sources of foreign finance and adopting new policies to attract immigrant remittance.

- Promoting the export of services to reduce the trade gap and encouraging the import to a certain extent to ensure fair competition.

- Reforming the market mechanism as a precondition for industrialization and modernization; making all mechanism transparent and proactive; struggling against corruption and commercial frauds.

All of these measures are active factors affecting favorably the trade balance ■

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