IMPORT SURPLUS AND SOLUTIONS TO THIS PROBLEM

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1. Import surplus as a common feature of developing countries

Import surplus is the excess of imports over exports taking place in a nation (or a province) in a period, or in other words, the balance of trade of the nation, or province, becomes unfavorable.

In developing countries today when the open - door policy is adopted and the value of exports always increases faster than the growth rate, the import surplus is increasingly popular as showed by the following tables.

Table 1: Economic Development of HCMC in comparison with ASEAN Members (1995)

Indicators	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	HCMC
1. Growth rate (%)	3.0	7.5	9.6	5.4	8.0	8.5	9.5	15.3
2. Exportation rate (%)	3.0	12.0	20.0	27.9	19.9	23.0	25.0	24.33
3. Balance of trade (US$ bil.)	0.8	7.1	-5.0	-8.4	-5.0	-12.8	-2.2	-0.65

Table 2: An Estimate of Economic Development of ASEAN Members and HCMC in 1996

Indicators	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	HCMC
1. Growth rate (%)	2.5	7.4	8.5	5.7	7.8	8.2	10	15
2. Exportation rate (%)	8.6	15.0	20.0	21.0	15.0	20.0	32	30
3. Balance of trade (US$ bil.)		6.5	-6.0	-10.1	-3.0	-13.3	-4	-1

The tables show that Vietnam's import surplus is not much bigger in comparison with ASEAN members. These members keep on facing import surplus although they have adopted open economic policy for one decade or two because importation has played an important role in their economic development:

- Importation of new technology and equiment, and high - class raw materials has helped them enhance their technological level and produce more competitive goods for export.

- Importation of new technology also helps to industrialize and modernize the economy and change them from agricultural to industrial countries.

- Importation of foreign direct investment not only helps to accelerate the economic growth, but also creates new jobs and improves the living standard.

- The ODA capital from international financial institutions has helped them develop the infrastructure needed for economic development.

However, economic experts have also pointed out dangers involved in great import surplus:

+ Uncontrolled importation will lead to the waste of foreign exchange and bad effects on local production.

+ Importation of consumer goods will encourage a taste for foreign goods and reduce the market share of local industries.

+ Prolonged import surplus will lead to big external debts and the danger of insolvency because one nation must depend on exportation for repayment of debts.

So increasing importation needed for development and at the same time, avoiding import surplus always pose knotty problems to countries with open economic policy.

2. Import surplus in Vietnam and HCMC

Except for the year 1992, Vietnam kept on suffering import surplus as showed by the following table.

Table 3: Vietnam Foreign Trade (1960 - 1996)

Year	Export (US$ mil.)	Import (US$ mil.)	Comparison Difference(mil.)	Comparison Percentage
1960	71.1	116.5	-45.4	61.0
1975	129.7	784.4	-654.4	16.5
1976	222.7	1,004.1	-881.4	22.18
1986	789.0	2,155.1	-1,319.2	36.61
1990	2,402.0	2,752.4	-314.5	87.34
1991	2,020.0	2,274.3	-254.3	88.91
1992	2,500.0	2,400.0	+100	104.1
1993	3,000.0	3,300.0	-300.0	91.0
1994	3,600.0	5,000.0	-1,400.0	72.0
1995	5,300.0	7,500.0	-2,200.0	70.66
1996 (est.)	7,000.0	11,000.0	-4,000.0	63.63

These numerical data didn't include the values of illegal trade in

Table 4: HCMC Foreign Trade (1991 - 1996)

Year	Export (US$ mil.)	Import (US$ mil.)	Comparison	
			Difference(mil.)	Percentage
1991	357,556	379,796	-22,240	94.14
1992	464,388	606,868	-142,480	76.52
1993	480,612	846,749	-366,137	56.75
1994	555,286	902,146	-346,860	61.55
1995	782,209	1,444,312	-662,103	54.14
1996 (est.)	879,867	1,685,696	-805,829	52,19

small quantities over the border which could make Vietnam's import surplus much bigger.

Tables 3 and 4 show that the percentage of import surplus in HCMC is bigger than that of the whole country.

3. Causes of import surplus

Analyzing the economic development and foreign trade of Vietnam and HCMC, we could find out causes of import surplus:

a. Main exports of Vietnam are of low prices because most of them are raw materials (crude oil, agricultural products, etc.) whereas its imports include equipment, machines, oil products, processed goods...which are of high prices.

b. Foreign direct investment also helps to increase the import surplus. Since the introduction of Foreign Investment Law up to August 1996, Vietnam has attracted 1,813 projects with total investment of US$ 22,494 million. Some 80% of these projects are in their first stage of realization: construction, pilot stage of production, working at low capacity, etc. These projects, therefore, make more importation than exportation. According to a report made by the Minister of Trade, in the first three quarters of 1996, foreign invested companies imported US$ 1,536 million worth of goods while their export earnings reached US$572 million only, that is, they made an import surplus of US$964 million. Many other projects building hotel, water supply system or infratructure in export processing zones and industrial estates and the like only aim at local market and produce no goods for export.

c. The ODA capital from foreign financial institutions supplied to Vietnam is on the increase: from US$ 602 million in 1994 to 640 million in 1995 and some 690 million in 1996. In the first three quarters of 1996, the Government has spent US$ 310 million on importing equipment needed for the building of infrastructure (electricity network, road building, seaport and airport construction, etc.). This expenditure led to no exportation and a lot of import surplus. In the coming years, the ODA capital will increase, that is, importation will certainly become larger.

d. Working as subcontractors for foreign companies when we couldn't get necessary raw materials from local sources is also a cause of import surplus. Subcontract business in clothing, leather, footwear...industries could generate export turnover of some US$ 1 billion and supply jobs to thousands of workers, but the export earnings from this business is small in comparison with the value of goods exported after being processed and this business also contributed to the import surplus, because doing subcontract work means importing machines and raw materials first and exporting processed goods later. In the first three quarters of 1996, this business has imported US$ 1,045 million and exported only 646 million and caused an import surplus of some 400 million.

e. Effects caused by importation under deferred payment term: Facing difficulties in securing loans from banks and shortage of funds, many import - export companies have considered buying goods under deferred payment term as an effective way to obtain needed capital. Up to September 1996, according to banking authorities, imports under this term were worth US$ 1,132 million. The importation of these goods has caused bad effects on local production and contributed to import surplus.

f. The shortage of local raw materials: Many local industries such as plastic, chemicals, oil, cosmetics, tobacco, etc. have to import raw materials but their products could only be sold to local markets. This situation also leads to import surplus.

g. Inefficiency of importation management: The plans made by different ministries to import and consume foreign goods aren't well-coordinated with the result that many local factories suffer large stockpiles and face the threat of closure. This is also a cause of import surplus.

4. Some solutions to import surplus

a. Short-term solutions

- To encourage the export-oriented production by helping factories make products for export.
- To control importation more strictly by making plans to import and consume foreign goods, especially oil, iron and steel, fertilizer, cement, sugar, paper and equipment.
- To put in order the service of supplying bank guarantee to companies importing goods under deferred payment term and make stricter regulations on this business.
- To encourage import - subsitution production with a view to reducing importation of raw materials needed for companies doing subcontract work for foreign partners.
- To give preferential treatment to foreign investors with projects to produce goods for export.
- To better the task of collecting and processing statistical data about importation and exportation in order to make suggestions dealing with the imbalance between importation and exportation on time.
- To encourage exportation of finished and well-processed products by giving export-tax relief and supplying soft loans, and reduce exportation of raw materials.
- To restrict importation of luxuries and other consumer goods which could be made locally. Strict import quotas could be applied to protect home industries and for tax purpose.

b. Long - term solutions

- To invest more intensively in export oriented industries in order to reduce exportation of; raw materials and natural resources.
- To encourage investment in oil refinery and oil products with a view to substituting imports.
- To invest more intensively in textile industry which is one of main industries of HCMC and Vietnam as a whole and reduce importation of raw materials needed for this business■