



# THE U.S. - VIETNAM TRADE AND INDUSTRIALIZATION AND MODERNIZATION IN VIETNAM

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Vietnam has planned to become an industrialized and modernized country by 2020 and the U.S. - Vietnam trade is considered as an instrument for achieving this aim. All developing countries are trying to promote their export, especially to the U.S. market because this country is ready to suffer a multi-billion trade gap every year. Many countries, such as Japan and South Korea, and China more recently, have started their industrialization by increasing exports to the American market and they now enjoy multi-billion trade surplus when trading with the U.S. Unlike other countries, the U.S. doesn't fear a financial crisis caused by big trade gap and external debts because the U.S. dollar is a hard currency accepted by all countries. That is why it's easy to enjoy a trade surplus when doing business with American companies. Vietnam should increase its exports to this market from millions to billions of dollar from now until 2020, and promote export of manufactured

goods instead of raw materials and farm products.

## 1. An export strategy based on differences between the American and Vietnamese economies

The U.S. is the most developed country in the world. Due to high personal income, the labor cost becomes a heavy burden to all companies (an ordinary worker requires some US\$1,000 a month in comparison with US\$100 for a skilled Vietnamese worker). In addition, the government imposes heavy income and corporate taxes to cover public expenditures and redistribute wealth among different social classes. Heavy taxes and labor cost make American companies prefer importing goods, especially labor-intensive ones, to making them themselves. In production, they tend to go up-market producing high-tech products that are based on new knowledge and the IT. This is a chance for developing countries to increase their export of common consumer goods to the U.S.

On the other hand, Vietnam is an agricultural economy with low personal income. The population is big and the labor cheap. Most people can live on one dollar a day and most workers are content with a monthly income of VND1,000,000 (equaling some US\$70). If Vietnamese workers are trained properly and factories equipped with modern machines and production lines, Vietnam could make goods of very low costs. The problem is that Vietnam has no big investment and advanced technology to build automated factories. Thus, Vietnam can enjoy comparative advantages in labor-intensive industries, such as clothing, footwear, handicraft, etc.

Besides differences in technology and labor costs, there are ones in structure of staple products between Vietnamese and American economies. Vietnam produces a wide range of farm products that are also abundant in the U.S. It's worth noting that the supply of most farm products in the U.S. has exceeded the market demand, therefore the American gov-

ernment takes various measures to protect and support local farmers with the result that it's difficult to market unprocessed farm products from Vietnam to American buyers. The most promising item Vietnam could sell in large quantities to this market is aquatic products, especially frozen or dehydrated shrimp. Many expatriate Vietnamese in the States said that well processed and high-quality food from Vietnam, such as meat rolls or noodles, could be saleable in the U.S. In addition, the demand for canned animal feed, especially for dogs and cats or other pets, is very high but Vietnamese companies aren't interested in this product line. Making and exporting processed food of all kinds is a profitable business and a good way to solve the surplus of many farm products in Vietnam.

The last factor that could affect the bilateral trade between Vietnam and the U.S. is the presence of a community of one million expatriate Vietnamese people in the U.S. Most of them have got good jobs or been running shops and restaurants serving Vietnamese food that is increasingly popular with Americans. These expatriates could become loyal buyers of Vietnamese goods, and they could be developed into a network distributing imports from Vietnam. The government could think of the supply of credit for export to relatives of expatriate Vietnamese in the U.S., and exporting companies could sell their products to Vietnamese owners of shops or restaurants, especially specialties necessary for daily life of expatriates. Thus, trading with the community of one million expa-

triate could help bring in hundreds of millions of dollars in the first few years after the trade agreement comes into effect and billions of dollars in the following years. If an expatriate has an annual income of US\$15,000 the community of overseas Vietnamese will be a 15 - billion market. If they spend 1% of their income on Vietnamese goods, the export earnings will amount to US\$0.15 billion a year. In developed countries, a family usually spends from 2% to 4% of its annual budget on clothes. Therefore, it's possible to increase Vietnamese export earnings remarkably only by supplying consumer goods to expatriate Vietnamese people in the U.S. and other countries.

## 2. The Vietnamese- American trade and industrialization in Vietnam

The above-mentioned measures to increase exports of consumer goods to the community of overseas Vietnamese are only temporary. In the period from now until 2020, Vietnam should accelerate its industrialization to change the structure of exports with a view to reducing export of raw materials and unprocessed goods.

In this period, the promising model is the production of high-quality goods as import substitutes and exports. One of recent examples is the production and export of pairs of scissors. This product requires common machines and raw materials which could be made locally, and cheap labor allows the producer to find a foothold in foreign markets.

If local companies only produce import substitutes that target at the

domestic market, they won't make big sales and profits. When they find out export market for their products, they will be able to modernize and automate the production, thereby achieving better performance.

The success in producing and exporting pairs of scissors leads to possibility of exporting other simple and high-quality goods that depend on cheap labor and common technology. In the last decade, many refurbished and obsolete machines were imported by foreign-invested companies to Vietnam when it tried to industrialize the economy as quickly as possible. It's wiser to import or produce modern ones on our own provided that these machines allow us to make high-quality consumer goods at low costs. The cheap labor will help local companies compete successfully against American rivals. The combination of two models: making import substitutes at first and then making exports; will certainly produce good results. This strategy also requires help from the government in forms of tax incentives or soft loans to companies producing goods for American market.

After producing and exporting cheap goods appealing to low-income buyers, Vietnam can move up-market and produce high-tech and more sophisticated products for the American market, thereby industrializing and modernizing the economy. It's worth noting that all Asian dragons have taken off by adopting the same strategy. The 20-year period from now to 2020 is long enough for us to carry out successfully this strategy depending on great spending power of American buyers. ■

