

IMPORT CONTROL AND THE NATIONAL INDUSTRIALIZATION

by Dr. LÊ KHOA

At present, the industrialization is carried out in Vietnam, so importation must be of service to this program. We want to discuss here the problem of import control, in both theory and practice.

I. THEORETICAL ASPECT OF IMPORT CONTROL

At macroeconomic level, the economy is in general equilibrium when:

$$\text{Investment} = \text{Saving} \quad (1)$$

$$\text{Aggregate supply} = \text{Aggregate demand} \quad (2)$$

$$\text{GDP} + \text{Import} = \text{Investment} + \text{Export} + \text{Expenditure} + \text{Inventory} \quad (3)$$

$$\Delta\text{GDP} = k \cdot \text{Investment} \quad (4)$$

Equations (1), (2) and (3) express required balance in SNA proposed by the UN. The equation (4) suggests that the increase in GDP is a function of investment and efficiency of investment (k). ΔGDP reaches its peak when investment and k reach theirs. However, the same investment could produce different increases in GDP depending on how we employ it. The equation (3) could be rewritten as:

$$\text{GDP} + \text{Import} = \text{Investment} + \text{Export} + \text{Expenditure} + \text{Inventory} \quad (3 \text{ bis})$$

And we have:

$$\text{Expenditure} = \text{Public expenditure} + \text{Private expenditure} \quad (5)$$

Putting the value of investment (at its peak) into equations (3bis) and (5), we could work out the equation (4bis) describing the strategy for fast development:

$$\Delta\text{GDP} = k \cdot (\text{at its peak}) \cdot \text{Investment} \cdot (\text{at its peak}) \quad (4bis)$$

In short, if other things are unchanged (or on the *ceteris paribus* assumption), we could maximize investment and make ΔGDP reach its peak by reducing public and private expenditure. Thus the equation (4) is a theoretical basis for the strategy for fast development.

As we know, import includes different categories:

- (1) Capital goods (machinery and

equipment).

(2) Raw materials needed for local industries.

(3) Hi-tech consumer goods.

(4) Goods that could be made in Vietnam.

(5) Contraband goods, banned goods.

We can easily see that it's necessary to reduce importation of the category (3) - consumer goods that we can't make locally and stop importing categories (4) and (5). To control importation of a poor nation is to find out ways to make the best use of its meager source of foreign exchange. Vietnam is one of the poorest countries in the world so it receives a lot of help from international development funds and we have to employ loans from these funds more carefully.

II. PRACTICAL ASPECT OF IMPORT CONTROL

In the 1980s, Vietnam has invested a lot in major projects (Hòa Bình, Tri An hydroelectric plants; Vietsov Petro oil rig; Bỉm Sơn, Hoàng Thạch Cement Factories; etc.). The value of import wasn't big then. It reached a peak in 1988 (US\$-rouble 2,756 million).

Table 1: Imports in 1987-1988 (US\$-rouble million)

Items	1987	Aggregate value	%	1988	Aggregate value	%
Complete equipment (cbu)	576.1			636.2		
Separate equipment (ckd)	167.2	743.3	30.2	194.1	830.3	30.1
Spare parts	136.9			194.8		
Raw materials	1,110.4			1,353.		
Consumer goods	350.8	1,711.8	69.8	366.1	1,926.4	69.9
Others	113.7			11.8		
Total	2,455.1	2,455.1	100	2,756.7	2,756.7	100

Source: General Department of Statistics

The table shows that the value of imported equipment in this period reached US\$-rouble 700-800 million a year, representing around 30% of the total value of imports.

The added value generated by assembling imported equipment, building plants and factories... was approximately twice the value of imported equipment, thus the gross investment in this period was about US\$-rouble 2 billion a year. This gross investment has helped to complete many projects which provided a firm basis for present development.

In recent years, the percentage of imported equipment in total imports has changed, the Vietnam Statistics Yearbook 1994-1995 published by the Vietnam General Department of Statistics provided us with the following table (pages 261-262):

This table is different from the table 1 which is also supplied by the same Department. The table 1 supplies processed data while the table 2 provides more detailed, but less useful, information. Why did the GDS use both the US dollar and the rouble as a unit while those two currencies couldn't be considered as equal. This makes it difficult for users to work out the real value of each imported item. Moreover, the table 2 didn't supply both value and amount of each imported item, therefore users, after studying the table, couldn't work out the importance of each item in the total value of imports. And all numerical data supplied are obsolete, because up to 1997, the GDS has failed to gather all necessary data about 1995. Our information service can't bear comparison with foreign sources of updated and well-processed information about the Vietnam economy supplied by all kinds of mass media, so we think that the

GDS has to be reorganized in order to meet requirements posed by the task of managing the increasingly complicated economy.

The table 2 also raises a lot of

Table 2: Main imports

Items	Unit	1990	1991	1992	1993	1994	1995
Truck	Single unit	3,726	808	281	956	8,413	
Car	Single unit	2,042	599	3,201	6,869	7,380	6,000
Steel and iron	1,000 tonne	324.3	113	343	686.3	754.0	1,100
Petrol	1,000 tonne	2,860.8	2,572.5	3,142.0	4,990.7	4,531.4	
Fertilizer	1,000 tonne	2,085.2	2,662.6	2,420.0	3,018.4	4,134.0	
Insecticide	1,000 tonne	9.0	22.5	24.1	33.4	58.9	
Caustic soda	1,000 tonne	4.5	3.7	2.3	3.3	3.9	
Asphalt	1,000 tonne	35.8	27.6	32.0	73.5	70.5	
Plastic	1,000 tonne	20.6	35.6	79.6	138.9	223.7	
Cotton	1,000 tonne	58.8	32.5	8.3	16.4	19.9	
Fiber	1,000 tonne	17.2	19.1	25.0	35.3	64.9	
Malt	1,000 tonne	1.3	8.4	6.9	29.6	33.3	
Raw materials for tobacco making	US\$-rouble mil.	7.2	39.6	53.3	59.0	79.0	
Raw materials for garment making	US\$-rouble mil.	68.8	17.7	55.0	96.2	152.3	
Cement	1,000 tonne	221	7	43.4	134.4	571.9	1,300
Wheat flour	1,000 tonne	141.2	197	252.2	250.9	260.1	
Milk	1,000 tonne	2.8	7.5	8.6	15.2	39.5	
Pharmaceuticals	US\$-rouble mil.	25.7	29.5	61.0	86.0	121.7	
Cloth	Mil. m.	30.7	19.8	28.1	27.5	54.1	
TV set	1,000 piece	172.3	142	244.9	368.3	390.4	
Radio	1,000 piece	44.4	27.7	38.8	66.9	30.4	
Motorbike	1,000 piece	36.4		55.2	374.0	286.3	403.5
Sugar	1,000 tonne	23.8	15.9	11.3	44.3	124.4	175.0

Source: General Department of Statistics

questions: why did Vietnam import 175,000 tonnes of sugar in 1995? Didn't it damage local sugarcane planting business and sugar industry? Why did Vietnam import 403,500 motorbikes instead of public service vehicles? Why didn't we import only certain parts of a motorbike which couldn't be made locally and try to produce some simple parts? Why did the amount of imported cloth increase year after year? Where have local textile factories gone? Why did we import so much cement, steel and fertilizer that they flooded the market? Studying this table, we saw that it's easy to reduce 30% or 40% of imports thereby protecting local indus-

tries from foreign competition and saving a lot of foreign exchange needed for importing capital goods.

Consulting other sources of information, we worked out the following table. (see next page)

To work out this table, we have

used the equation (6):

$$\text{Value made by local industries} + \text{Imported capital goods} = \text{Gross investment}$$

$$(6)$$

We could assume that Vietnam industries have contributed 2/3 of the gross investment by building plants, installing new machinery and equipment... while imported capital goods represented the rest, and then, we could work out data in the table 3.

The table 3 also shows that imports increased year after year but the importance of capital goods in total imports was on the decrease. In the 1980s, capital goods represented some 30% of total imports although Vietnam had to import around one million tonnes of food a year. In re-



Table 3: Value of imported capital goods in Vietnam's imports

Indicators	1992	1993	1994	1995	1996
Vietnam's GDP (US\$ bil.) (a)	9,656	11,770	15,478	19,100	21,751
Rate of investment (b)	13%	14%	17%	20%	19%
Gross investment	1,256	1,647	2,631	3,820	4,132
Imported capital goods (around 1/3 of gross investment)	419	549	877	1,273	1,377
Value made by local industries (2/3 of gross investment)	837	1,098	1,754	2,547	2,755
Imports (c)	2,541	3,879	4,500	8,450	11,000
Capital goods/imports	15.47%	14.15%	19.49%	15.06%	12.52%
GDP/Import ratio	3.80	3.03	3.43	2.40	1.98

(a) *Asian Development Outlook*, GDP in 1995 and 1996 is worked out by multiplying GDP in 1994 and 9.5 (growth rate) and revaluation rate of the VND.

(b) *Thời Báo Ngân Hàng*, Dec. 26, 1996.

(c) Data from the General Department of Statistics and Government's report to the National Assembly in October 1996.

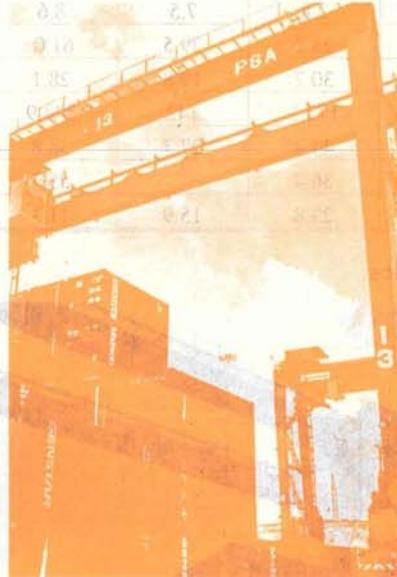
cent years, the value of imported capital goods was on the decrease (12.52% in 1996 compared with 30% in 1987 and 1988) while Vietnam has been able to produce a lot of cotton, steel, fertilizer... and export rice. This shows that we have used our source of foreign exchange wastefully by reducing the importation of capital goods. And as a result, the GDP/import ratio decreased from 3.8 in 1992 to 1.96 in 1996 (in Japan, this ratio was 9.0 - 10.0 in the period between 1950 and 1973).

It's worth noting that the value of contraband goods, which was estimated at over US\$1 billion a year by the Ministry of Planning and Investment, wasn't included in this table. If illegal imports (not including imported heroin) is added, the GDP/import ratio will be lower (around 1.78 only in 1996).

Another problem is the impact of the decrease in importation of capital goods and the importation of obsolete capital goods on the national income.

According to Saigon Giải Phóng (April 1, 1997), the Ministry of Science-Technology and Environment has issued a short notice of importation of capital goods in recent years. This notice informed about alarming numerical data:

Over 60% of imported capital goods used for "modernizing Vietnam's industries" were made in the 1960s.



Only 15% of them were produced in the 1990s.

Around 80% of capital goods brought by foreign partners into joint ventures with Vietnamese parties were marked up too much (from 100% to 400%).

The above data show that the policy to modernize and industrialize the economy by importing capital goods and attracting foreign investment can succeed only on condition that we know how to deal with foreign partners and what to import. The best way to develop the economy is to make capital goods by

ourselves.

After completing some development projects (Thăng Long Bridge, some cement and steel factories, North-South high voltage line, etc.) Vietnamese experts have accumulated some experience. In Khánh Hòa, local experts have built two sugar refineries with locally-made equipment and some imported parts. Those refineries have come into operation and produced high-quality sugar. Unfortunately, in other provinces, Long An for example, obsolete production lines have been imported for local sugar refineries, and large sums of foreign exchange have been wasted. In my opinion, we had better trust local experts to undertake some major projects, and foreign experts could serve as advisors if need be. Locally-made factories will certainly be of lower cost and come into operation sooner.

III. SUGGESTIONS

The above analyses explained why Vietnam's imports had increased recently but failed to improve the national income. The following are our suggestions:

1. To enhance the import control: top priority must be given to importation of capital goods; importation of consumer goods must be reduced; and flows of contraband goods into Vietnam must be stopped.

2. Capital goods imported into Vietnam must be of new generations, not obsolete ones (we must wonder here if there is somebody who made easy money by allowing importation of these obsolete capital goods).

3. The Government had better assign some development projects to local experts.

4. The General Department of Statistics must reorganize itself in order to be able to supply more exact and scientific statistics needed for both researchers and policymakers.

5. Devaluating the domestic currency, increasing import duties and controlling strictly flows of contraband goods are useful measures to reduce trade deficit.

6. The Ministry of Planning and Investment, in cooperation with the Ministry of Trade, the State Bank and the Ministry of Finance must carry out certain plans to substitute imports and develop exports.

We think that these measures will be of service to the national industrialization.