

# EXPORT-ORIENTED INDUSTRIALIZATION STRATEGY ITS GROUNDS AND MEASURES TO REALIZE IT

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## 1. Grounds for export-oriented Industrialization strategy

The world economic development encourages both globalization and regionalization, and as a result, the world is divided into economic blocs and at the same time, it produces many international economic organizations. In short, in the world economy, competition and co-operation exist side by side. That is why the export-oriented industrialization strategy becomes a common trend, especially among developing countries. The grounds for this strategy are as follows:

Reality shows that industrialized countries, especially NICs in Asia, have succeeded in industrializing their economies by putting stress on this strategy. In the first stage of their industrialization, NICs have carried out the import substitution strategy for a while, but after some five years their international competitiveness wasn't enhanced because the spending power in domestic markets was poor and the protectionism didn't encourage local companies to pay full attention to improvements in labor productivity and technical innovations. In addition, the import

substitution strategy failed to improve their balance of trade with the result that the trade gap kept on increasing, because these economies were forced to import raw materials and machines in large quantities in order to produce substitutions for imports.

In such a situation, all NICs switched to the export-oriented strategy with appropriate steps and they all succeeded in the industrialization.

Theoretically, foreign trade was considered as the best way to develop the economy by mercantilists in the period between the fifteenth and

the seventeenth centuries and they petitioned the government to take measures to protect home industries and increase foreign trade. After the mercantilism, the theory of comparative advantage which was formulated by Ricardo and developed by Heckscher and Ohlin, has encouraged all economies to specialize in production of what they have comparative advantages and engage actively in international trade.

Hla Myint, an economist from Myanmar, has observed that it's the European colonialism that helped many Asian and

African economies make the best use of their labor and natural resources, thereby escaping from the state of leaving their potentials untapped.

Looking at the balance of payments in many developing countries, we see that export value represents some 60% of their receipts and import value some two thirds of their payments, while foreign aid and investment represent some 10% of the value of inflow capital, and interest payments and remitted profit account for 11 - 13% of the outflow.

These analyses show that the growth of foreign trade has encouraged a

fast and sustainable economic development, especially in developing countries, therefore the export-oriented strategy seems the best option open to Vietnam, especially when the globalization and regionalization became the main trends in the world economy. This strategy has many strong points:

+ Promoting the production of exports is a necessary precondition for increases in import, especially import of new technologies needed for the industrialization process.

+ Untapped resources will become more valuable, resources in use will be employed more effectively by making the best use of comparative advantages and expanding the production.

+ Domestic labor division will be coupled with international specialization and local market with international one, therefore the labor force will be employed more effectively because the competition on the world market is always keener than on the local market.

+ The export value will increase and help to bridge the trade gap.

+ New dynamic will be created to produce multiplier effects.

+ Proportion of unfinished products to exports will decrease because the supply of them tends to exceed the demand on the world market.

However, this strategy also poses many requirements:

- Comparative advantages in each period must be defined clearly and they should be employed effectively, because comparative advantage isn't a static conception.

- Local companies are forced to select and replace technologies in use, and improve their managerial skills.

- It also requires new macroeconomic policies that are flexible enough to deal with changes on

the world market.

- The economy should ensure conditions for enhancing the quality of development, and more exactly, enhancing the international competitiveness.

Not only Vietnam, but also developed countries could find these requirements hard to meet.

## 2. Measures to realize the export-oriented strategy

According to the General Department of Statistics, the export earnings in the first three quarters of 1998 increased only by 4.1% in comparison with the same period last year, while the figure realized in September 1997 was 14.5%. This situation originated from many causes:

on calculation of all factors of the production cost of each product.

+ Keeping the exchange rate well under control with a view to ensuring reasonable profits for local producers and exporters.

+ Using financial instruments (taxation, interest rate, etc.) to discourage the production aiming at local market demand: This measure requires the Government to remove protectionist tariffs and quota on imports in order to encourage competition in the domestic market and force companies to concentrate their efforts on export.

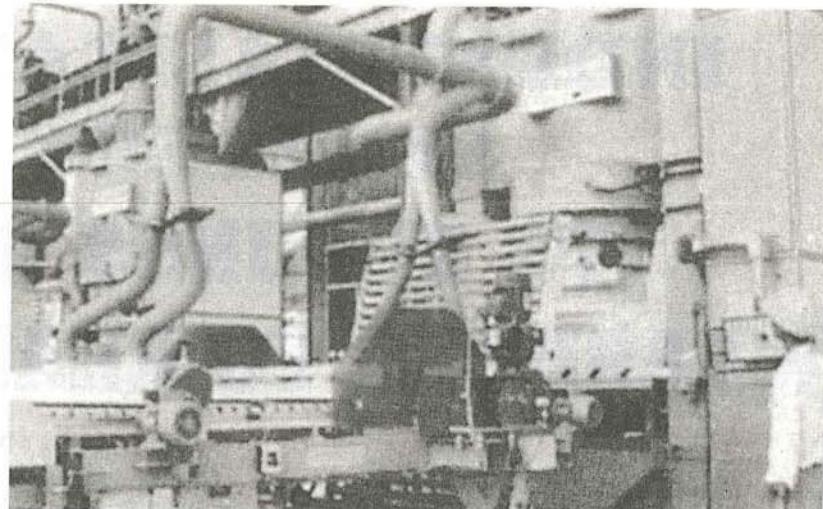
+ Giving tax reduction or exemption to products that are exported for the

limit exporting to intermediaries and forecast changes in the world market demand.

+ Developing industrial and agricultural zones specializing in production of exports (or raw materials for producing exports) and making them pace-setters for export business.

+ Allowing market prices (of consumer goods and factor inputs as well) to fluctuate according to changes on the world market in order to force local companies to enhance their competitiveness.

+ Creating a cooperation relation between the Ministry of Trade, customs authority and local companies and removing all regulations and rules un-



effects of the economic crisis, falls in Vietnam's main exports, narrowing market for Vietnam's exports, etc. To promote our export, we should carry out the following measures:

+ Selecting investment projects based on studies of our comparative advantages in each period: These studies will provide a basis for production and export strategies. In addition, full attention must be paid to possible breakthroughs in technological and economic fields.

+ Making decision on investment projects based

first time with a view to making them more competitive: this measure can encourage local companies to try their best to produce exports by innovating technology, improving labor productivity and product quality and reducing production cost.

+ Making business information and advisory services available to all companies: Looking for new foreign markets must be central to the Government's foreign trade policy. In addition, the Government should encourage diversification of exports,

favorable for the export-oriented strategy.

+ Keeping foreign exchange reserves big enough to deal with sudden fluctuations and protect the international competitiveness of the economy.

In short, the export-oriented industrialization strategy is the best way to increase capital accumulation, investment and production. As a strategy, it also involves challenges and dangers. That is why appropriate policies at macroeconomic level are much needed.