IMPORT SUBSTITUTION OR EXPORT-ORIENTED STRATEGY?

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In order to carry out the national industrialization, we must, at first pick out appropriate steps. Experience from developing countries, especially from NICs, shows that there are two strategies to choose from: import substitution and export-oriented strategies. Each nation has chosen between them after examining their characteristics and conditions of its own.

The import substitution strategy has certain strong points: Firstly, in developing countries there are always large domestic markets for manufactured goods, so developing an import subsitution industry involves a low degree of risk. Secondly, for developing countries, to protect local industries against foreign competition is easier than forcing developed countries to lift trade barriers against manufactured goods from developing countries.

However, this strategy also meets with difficulties: Firstly, bad management and technology, and protectionism usually lead to low product quality and high production cost because of a lack of improvements. So it's difficult to require local industries to supply high-quality substitutes for imports. Moreover, in small countries with small domestic industries, carrying out the import substitution strategy is no easy task. Secondly, a lack of capital and new technology has made local industries failed to meet diversified tastes of customers, and has made imported goods cheaper than locally-made counterparts.

The export-oriented strategy also has both the pros and cons. In developing countries, low personal income makes the domestic market less attractive, so aiming at larger foreign markets seems to be a good solution which could help to: (1) create more jobs and stabilize socio-political life, and (2) bring in more foreign exchange needed for importing new technologies and increasing manufacturing output.

However, countries adopting this strategy meet with a lot of difficulties in gaining a foothold in the world market which is relatively stable and is controlled by more reliable suppliers from developed countries. In addition, developed countries are experts in protecting their labor-intensive industries against products from developing countries with better comparative advantages.

Table 2: Inflation Rate in Vietnam 1986-1996

Year	Inflation Rate
1986	774.7
1988	393.8
1990	67.4
1992	17.5
1994	14.4
1995	12.7
1996	4.5

Sources: *Vietnam Statistics Yearbook* 1995
Thời báo Kinh tế Việt Nam (Jan.15,1997)

The introduction of market economy under the management of the Government has helped Vietnam escape its socio-economic crisis as shown in the Table 1: its growth rate increased from 5.1% in 1990 to 9.5% in 1995 and its export earnings from US$2,404 million to 7,100 million in 1996. The economic development has helped to stabilize the public finance. The inflation rate was reduced from 774.7% in 1986 to 4.5% in 1996. The Vietnam's growth rate in the past years was rather high in comparison with ASEAN countries and its inflation rate was kept at the regional average.

Table 3: ASEAN countries' growth and inflation rates 1995-1996

Indicators	Vietnam	Malaysia	Singapore	Thailand	Indonesia	Philippines	Brunei
Growth rate (%)							
1995	9.5	8.8	7.9	8.7	7.1	5.4	
1996	9.38	8.2	7.5	8.4	7.3	5.4	
Inflation rate (%)							
1995	12.7	4.4	2.2	5.4	9.2	8.5	2.4
1996	4.5	3.4	1.4	4.8	6.9	4.5	3.2

Source: ***Thời Báo Kinh Tế Việt Nam***, special issues in 1995-1996 and 1996-1997

1. Vietnam in pre-industrialization period

Before thinking of an industrialization strategy, Vietnam was in a socio-economic crisis and has been one of the world's poorest countries. Vietnam's personal income in 1993 was US$170, ranking 153rd in 158 countries. Its personal income increased to US$190 in 1994 and 240 in 1995 but Vietnam was still in the group of the 15 poorest countries.

With these achievements, Vietnam has just come to its starting post. In the years 1991-1995, the importance of manufacturing and service sectors became greater in the structure of industry: the manufacturing and construction industries increased from 23.8% in 1991 to 30.1% in 1995, and the service industry from 35.7% to 42.3% in the same period, while the primary sector decreased from 40.5% in 1991 to 27.6% in 1995. Although the manufacturing output was on the

Table 1: An overview of Vietnam's economy 1990-1996

Indicators	Units	1990	1991	1992	1993	1994	1995	1996	1997 (est)
Growth rate	%	5.1	6.0	8.6	8.1	8.8	9.5	9.38	9-10
Exports	US$mil.	2,404	2,087	2,580	2,985	3,600	5,300	7,100	8,900
Imports	US$mil.	2,752	2,338	2,541	3,924	5,000	8,200	11,000	12,200
Trade gap	US$ mil.	-348	-251	+40	-939	-1,772	-2,300	-3,900	-3,300

increase (its growth rate was 13.6% a year in the period 1990-1995, more than two times higher than the growth rate of 5.9% in the period 1986-1990), but 27.7% of it came from the food processing industry (see Table 5).

Table 4: Changes in the structure of industry in 1991-1995

Sector	1991	1992	1993	1994	1995
Secondary	23.8%	27.2%	28.9%	29.6%	30.1%
Primary	40.5%	33.9%	29.9%	28.7%	27.6%
Service	35.7%	38.8%	41.2%	41.7%	42.3%

Source: *Vietnam Statistics Yearbook* 1995

Table 5: Output of industries as%of GDP

Industry	1990	1995	Industry	1990	1995
Electricity	7.5	7.0	Building materials	7.1	8.1
Fuel	11.1	16.2	Food processing	36.2	27.7
Engineering	4.3	3.7	Textile	9.0	6.7
Electric-Electronics	1.9	1.9	Others	2.3	1.7
Chemicals	6.6	8.7			

Source: *Thời Báo Kinh Tế Việt Nam*, special issue of 1995-1996

The export earnings tripled in the period between 1990 and 1996 but main export staples were from the primary sector and light industries (see Table 6) and manufactured goods, especially technology-intensive products still represented a small percentage. Imports have increased by four times in the past six years with the result that the trade gap became larger. However the fact that capital goods represented 80% of imports shows that the economy is making favorable changes.

Table 6: Exports in 1995-1996

Staples	1995	1996
From farming	51%	46.6%
From mining .	30%	30.1%
From light industries	19%	23.3%

Table 7: Imports in 1990-1996

Goods	1990	1991	1992	1993	1994	1995	1996
Capital goods	85.1%	89.9%	83.4%	84.4%	80.8%	88.0%	92.8%
Consumer goods	14.9%	10.1%	16.6%	15.6%	19.2%	12.0%	7.2%

Source: *Vietnam Statistics Yearbook* 1995 and *Thời Báo Kinh Tế Việt Nam*

Despite of difficulties, the Vietnamese Government has tried to create conditions favorable for both foreign and domestic investment with the result that in the period betweeen 1991 and 1996, the realized FDI in Vietnam represented some 40% of the annual gross investment, and 27 industrial estates and three export processing zones (EPZs) have come into being in Vietnam.

Most foreign investors want to gain a foothold in the domestic market of some 80 million buyers, so it's inappropriate to have all goods made in EPZs exported. The main goal for industrial estates and EPZs is to supply goods to both domestic and foreign markets but most of produce will be exported.

Thus, when Vietnam started to carry out the industrialization program in 1996, its economy had passed the crisis and had got some preconditions for development.

2. The appropriate strategy

In the 1960, ASEAN countries carried out a two-stage program: at first they adopted the import substitution strategy and then they realized the export-oriented strategy. The first stage took different length of time according to conditions in each country: it was four years in Singapore and Malaysia, or over 10 years in Thailand or Indonesia.

In NICs, the industrialization strategy includes three stages. Firstly, they adopt the import substitution strategy but keep on importing capital goods, semi-finished products and consumer goods. Secondly, they export consumer goods and develop capital-intensive industries in order to reduce importation of consumer goods. And finally, they export labor-intensive technologies and develop technology-intensive industries.

In recent years, Vietnam's EPZs and industrial estates have been able to supply high-quality products to local and some foreign markets. The fact that the Ministry of Trade put a ban on the import of 12 items shows that local industries could supply substitutes for imported goods. In the conference of tax authorities in Hà Nội in June 1997, it was planned that export duties would be minimized, or even be removed totally. This could be considered as the first step towards the export-oriented strategy. In 1996, EPZs and industrial estates produced US$730 million worth of goods with export earnings of US$406 million. Certain joint ventures in Vietnam have been able to export equipment and machines to foreign customers.

At present, the trend of regionalization and globalization have led to the formation of the WTO and inter-regional markets that enabled Vietnam to integrate into the world economy. In this trend, Vietnam had better work out an appropriate strategy of its own instead of following in ASEAN countries or NICs' footsteps. Its course of action will be to combine the import substitution strategy and the export-oriented strategy with stress is put on the first strategy for the time from now to 2000 and on the second one from 2000 on.

This means that the Government should make plans to develop both import substitution and export-oriented industries, and make the best use of all opportunities to expand markets for Vietnam products by improving the product quality and carrying out market researches. After joining the AFTA, Vietnam has to seek admission to the WTO with a view to attracting more foreign investment and development aid.

In short, the Government has to try its best to improve its ability to control and help the economy develop, that is, to realize the idea given by Prime Minister Võ Văn Kiệt at the 11th session of the National Assembly of 9th term: "We had no alternative but to develop fast and sustainably in order to catch up with neighboring countries. We can certainly do it if we know how to make the best use of creative strength of our people" ■