

IMPORT CONTROL AND EXPORT PROMOTION

by Dr. LÊ KHOA

At present, Vietnam is carrying out the industrialization and modernization program and trying to increase the gross investment to some 30-40% of GDP. There are two ways to increase the gross investment: first, to increase bank circulation to develop heavy industries and place orders to them; and second, to import new and modern capital goods needed for production development.

Thus, we have:

Gross investment = local industrial output + imported capital goods (1)

Δ GDP = k. Gross investment (2)

Or Δ GDP = k. (local industrial output + imported capital goods) (3)

These equations point out the method of maximizing the growth rate: to increase values of local industrial output and of imported capital goods. As for k, it is a variable expressing efficiency of investment that can be maximized by proper strategies adopted by companies and policies taken by the Government (protecting local industries, raising trade or non-tariff barriers, preventing smuggling, etc.)

Thus, import control and export promotion are of great importance to the industrialization and modernization process. Increases in export value allow increases in import, however, importation must be well under control, thereby avoiding damage to local production, that is, fall in k and GDP values. Δ GDP, or increase in GDP, is a criterion for estimating economic policies, including import-export ones.

The effect of import-export policy is measured by the import efficiency which is the relation between GDP and import:

$GDP = k \cdot \text{import}$ (where k is the import efficiency)

GDP 1991 = US\$9.6 billion = 4.7 x US\$2,049 million worth of import

GDP 1995 = US\$22.0 billion = 2.7 x US\$6,825 million worth of import

GDP 1996 = US\$24.0 billion = 2.2 x US\$10,640 million worth of import

GDP 1997 = US\$26.1 billion = 2.3 x US\$11,200 million worth of import

These data show that the import efficiency decreased year after year, from 4.7 in 1991 to 2.3 in 1997.

The Table 1 also shows that the investment efficiency tended to decrease over years, from 1.30317 in 1991 to 0.29236 in 1997. This means that the investment policy produced poor results. Thus, to promote export and control import strictly, Vietnam has to enhance the efficiency of import and investment.

To find out ways to achieve this aim, we can study Japanese classification of commodities. The Japanese government has classified commodities into many categories:

-Cheap agricultural and mining

products that can be imported in large quantities.

-Products of labor-intensive industries (clothing and garments) that can be made locally: these industries are automated and computerized, therefore, it is difficult to export these products to Japan now.

-Semi-processed products such as iron, steel, oil, plastic, etc. that aren't imported to Japan.

-Well-processed and expensive products (car, motorbike, air-conditioner, etc.): Japan had better produce and export, instead of importing them.

-Products of technology-intensive industries (electronics, robot, com-

Table 1: GDP, Gross Investment (US\$ mil.), Efficiency of Import and Investment

	1991	1992	1993	1994	1995	1996	1997
GDP (1)	9,656	11,770	15,478	19,100	22,000	24,000	26,112
Import (2)	2,049	2,540	3,924	6,825	7,500	10,640	11,200
Export (2)	2,009	2,552	2,952	4,054	5,200	6,903	8,850
Trade gap (2)	40	-12	972	2,771	2,300	3,737	2,350
Import/GDP	0.212	0.216	0.254	0.357	0.341	0.443	0.429
Export/GDP	0.208	0.217	0.191	0.212	0.236	0.288	0.339
Import efficiency	4.713	4.634	3.944	2.799	2.933	2.256	2.331
Investment/GDP (3)	0.168	0.214	0.295	0.304	0.292	0.301	0.307
Gross investment	1,622.2	2,518.8	4,566	5,806.4	6,424	7,224	8,016.4
Δ GDP (4)		2,114	3,708	3,622	2,900	2,000	2,112
Investment efficiency (5)		1.30317	1.47213	0.79325	0.49945	0.31133	0.29236

Note:(1)From *Asian Development Outlook* and *Thời Báo Ngân Hàng* (May 29,1997): GDP 1997 equals GDP 1996 multiplied by the growth rate of 8.8%.

(2)From monthly reports made by the PM Office and General Department of Statistics.

(3)Đào Ngọc Lân, "Về nguồn vốn và sử dụng nguồn vốn đầu tư để tăng trưởng", *Kinh Tế và Dự Báo* (March 1997)

(4) Δ GDP: year-on-year increase in GDP. GDP values in this table are in the dollar, so they can be different from GDP values being expressed in fixed prices in VND.

(5)Investment efficiency equals Δ GDP of this year divided by gross investment of previous year. The result helps us to know how many dollars are made by one dollar invested in the previous year.

puter, etc.): Japan develops these industries because they use only limited amount of imported raw materials and make exports of high value.

This classification has determined the Japanese foreign trade policy and helped Japan gain trade surplus for years. This policy (import cheap raw materials and export expensive manufactured goods) has helped to enhance the Japanese import efficiency and make Japan the second economic power of the world.

Looking back at Vietnam, although export value is on the increase but prices of most Vietnam's exports (agricultural products, crude oil, clothing, etc) are unstable, while Vietnam has to spend a lot of foreign exchange on importing manufactured and semi-processed goods. So the Government had better adopt new policies on use of foreign exchange and import-export.

It's worth noting that there are two models of industrialization. The first has been taken by Japan, South Korea and Taiwan: industrialization by developing heavy industry and promoting export. The second has been adopted by Thailand, Indonesia and Mexico: exporting cheap agricultural products and borrowing foreign loans to import consumer and capital goods. The second approach led Mexico and Thailand to crises when they failed to repay foreign debts when due. Therefore, besides new policies on import-export, Vietnam should adopt a cheap money policy and a floating exchange rate system in order to develop heavy industries and promote export.

I. EXPORT PROMOTION

In promoting export, we must stop exporting cheap raw materials and agricultural products (such as rice, crude oil, unprocessed cashew nut and rubber) and start processing them before export. This approach will help to increase the export value and create more jobs. It also requires modern factories and well-trained laborers, that is, many problems must be solved before this new export policy produce good results.

Export of manufactured goods has been so far an advantage of developed countries. If Vietnam has modern machines and equipment but has no ability to produce completely finished goods, it can make spare parts at low prices by making the best use of cheap labor and raw materials. To achieve this, it's necessary to develop heavy industries

by carrying out the cheap money policy, and give incentives to intellectuals.

Increasing export of manufactured goods is the best way to promote export because Vietnam, and many other developing countries, has an advantage of cheap labor and raw materials. Moreover, when developing countries produce and export well-processed goods, instead of selling raw materials and agricultural products, prices of these products on the world market will rise to developing countries' advantage.

II. IMPORT CONTROL

After many years, Vietnamese people have got accustomed to imported consumer goods, so it's difficult to save all foreign exchange for importing only capital goods and

import consumer goods in order to reduce immediately the inflation rate, however, they make it difficult for local producers to compete against imported goods. The solution 3 means that the economy still depends on imported consumer goods. The solutions 4 and 5 reflect a policy to increase import of machines and raw materials needed for the industrialization.

As we know, the gross investment equals value of industrial output plus value of imported capital goods, so we must develop the production of all kinds of capital goods, that is, all heavy industries, and we only import what couldn't be made locally. The following are our suggested options of the future gross investment.

Table 3: Options of Gross Investment (US\$ mil.)

	Imported capital goods	Local industrial output	Gross investment
Option 1	1,800	4,000	5,800
Option 2	2,400	6,000	8,400
Option 3	3,000	8,000	11,000
Option 4	3,600	10,000	13,600
Option 5	4,200	12,000	16,200

necessary raw materials. However the Government can limit import of consumer goods, especially what can be made locally, and impose heavy taxes on costly imported consumer goods in order to reduce spending on such things and increase the budget income.

At present, Vietnam can spend some US\$12 billion a year on imports much higher than in the 1980s when Vietnam imported some 700 million dollars or rubles worth of goods needed for investment projects. Moreover, local production can now satisfy domestic market demand for many consumer goods, so we can work out plans to spend foreign exchange on imports:

The solutions 1 and 2 are appropriate to an economy that tends to

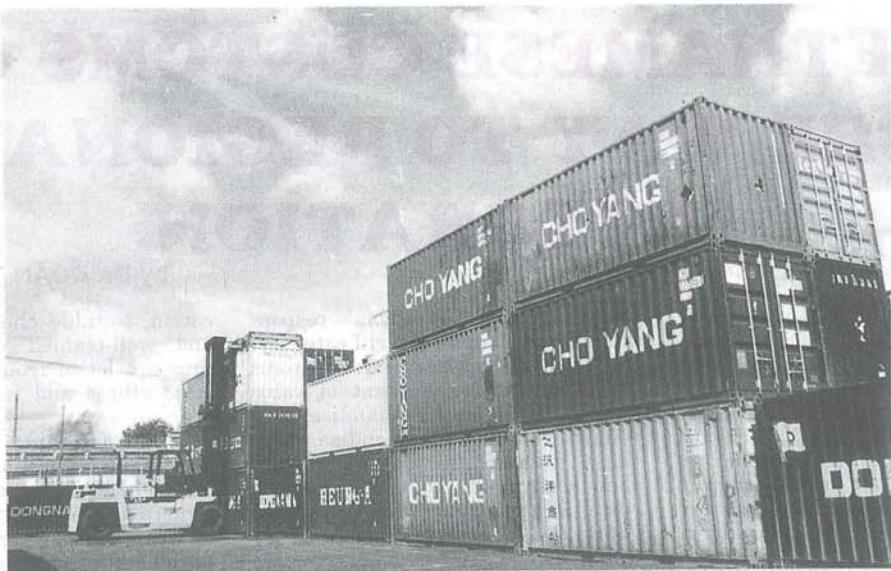
If the options 4 or 5 is chosen, big gross investment will lead to high growth rate according to the equation $\Delta GDP = k \cdot \text{gross investment}$.

In the option 1, we use the value k of the gross investment in 1997. This value is low, because one dollar invested can make an increase of US\$0.29 in GDP. If the options 2, 3, 4 and 5 are chosen, the investment efficiency will be enhanced because local producers will make big profits when there is a shortage of consumer goods. In these cases, the value of k and ΔGDP will increase accordingly.

The Vietnam GDP in 1997 was estimated at US\$26.1 billion, so we can work out growth rates according to these options.

Table 2: Plan to Allocate Foreign Exchange to Imports (US\$ mil.)

	Machines	Raw materials	Consumer goods
Solution 1	1,800 (15%)	3,600 (30%)	6,600 (55%)
Solution 2	2,400 (20%)	4,200 (35%)	5,400 (45%)
Solution 3	3,000 (25%)	4,800 (40%)	4,200 (35%)
Solution 4	3,600 (30%)	5,400 (45%)	3,000 (25%)
Solution 5	4,200 (35%)	6,000 (50%)	1,800 (15%)



The growth rate of 6.4% is expected for the second half of 1998. If other options are taken, the growth rate could reach somewhere between 9.9% and 22.9%. These growth rates aren't beyond reach because per capita income in Vietnam is very low (US\$325) so the economy can develop with a rate of over 20%.

III. FINANCE AND MONETARY POLICIES FOR DIFFERENT OPTIONS

Finance and monetary policies will vary according to options selected. The option 1 requires policies that supply credit to importers of consumer goods, maintain fixed exchange rates and high interest rates, and impose heavy taxes on local producers. The option 5 leads to increases in bank circulation needed for investment projects, low internal value of the currency, low interest rates and heavy taxes on imported goods. Between the two groups of extreme policies, there will be moderate policies for other options.

In economic planning, a lot of attention is paid to the foreign sector because it is sensitive to economic policies and can supply exact statistics, while the corporate and household sectors are less responsive to these policies. That is why policy makers tend to give top priority to the banking and foreign sectors.

We hope that our opinions will be applied to economic planning and produce intended results.

Table 4 : Estimates of Δ GDP (or Increases in GDP) (US\$ mil)

	Gross investment	k	Δ GDP
Option 1	5,800	0.29236	1,695.69
Option 2	8,400	0.31	2,604
Option 3	11,000	0.34	3,740
Option 4	13,600	0.35	4,760
Option 5	16,200	0.37	5,994

Table 5: Growth Rates According to Options

	Δ GDP (US\$ mil)	GDP in 1997 (US\$ mil)	Growth rate (%)
Option 1	1,695.69	26,100	6.4969
Option 2	2,604	26,100	9.977
Option 3	3,740	26,100	14.3295
Option 4	4,760	26,100	18.2375
Option 5	5,994	26,100	22.9655

