economic measures to help factories make profits, such as:

- The banks bought US$ at a high price. In the period between 1950 and 1973, the banks bought a US$ at ¥ 360. Nowadays, Japanese exchange rate is US$ to around ¥ 100.

- Japanese Ministry of Commerce allowed importation of food for domestic animals, farm and mineral products, oil and some machines used as sample. From these imports, Japanese factories made into finished goods for domestic and foreign markets. Japanese factories had a large domestic market for their products because importation of machines and consumer goods were banned.

- Japanese banks charged an interest rate of loans lower than that of foreign banks, the taxes on industries and wages for workers were also lower compared with Western countries, so Japanese products were cheaper than Western ones.

- The Japanese government favored scientists, helped them go abroad to study foreign industries and buy new technology. These scientists imitated and improved imported technology and produced goods of smaller size and high capacity with nicer design.

In 1950-1973, Japanese banks supplied capital to factories and have collected debts (both principal and interest). And now, Japan becomes the second economic power and Japanese banking system is of the strongest ones in the world.

Japanese lessons can be applied to Vietnam carefully and we have to pay full attention to risk of inflation, low-profit projects, badly-managed factories and smuggling activities. In order to avoid these risks, we can practice auditing and force businesses to make annual financial statements. The Japanese case showed that we could invest first and mobilize capital later ♣

ON IMPORT SUBSTITUTION POLICY

by Dr. BÙI THỊ MINH HẰNG & MA. BÙI NGUYÊN HÙNG

Recently, in Vietnam, a lot of economic reforms have been carried out in order to change from a self - sufficient economy to open economy. The development in foreign trade has contributed remarkably to the process of stabilizing and developing Vietnam economy.

In our plan of development from now until 2000, the policy on "import substitution" and "developing production of goods for export" was mentioned a lot of times. But how can we do it? Which industries will we develop to export and substitute import?

In our opinion, we haven't enough strength (capital, skilled labor force, technology...) to increase exportation of all of our products and substitute importation of all products. If we allocate funds to every industry, it is unlikely to innovate technology of that industry.

The problems are which products can be exported profitably and which products we will keep importing.

The theory of comparative advantage can help us solve these problems. This theory could be expressed as follows:

$$\text{If } \frac{C_{AX}}{C_{AW}} < \frac{C_{BX}}{C_{BW}} \qquad (1)$$

Where: C_{AX}: Production cost of goods A in country X
C_{BX}: Production cost of goods B in country X
C_{AW}: Production cost on average of goods A in the world
C_{BW}: Production cost on average of goods B in the world

Country X had better specialize in production of the goods A and the world in production of B. The foreign trade of the country A (exports A and imports B) could increase its economic welfare beyond its capacity of production.

Recently, we have conducted a survey of three goods: sugar, rice and cabbage.

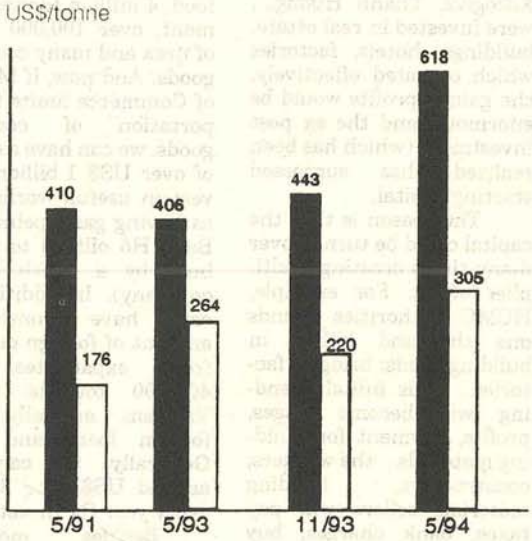

Fig 1: Comparison of Vietnam and world's prices of sugar

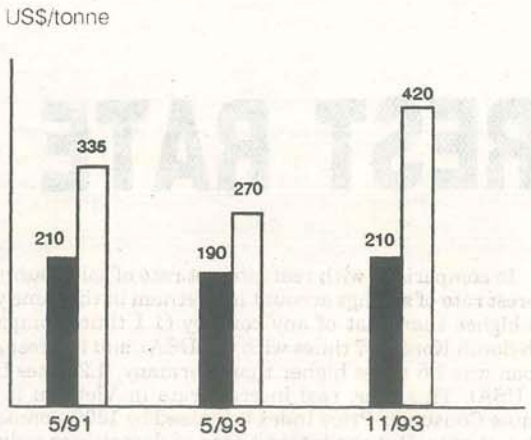

Fig 2: Comparison of Vietnam and world's prices of rice

■ *Vietnam market price*
□ *World market price*

These figures showed that:

$$\frac{\text{Vietnam sugar price}}{\text{World's sugar price}} \cong 1.5 - 2 \ (2)$$

$$\frac{\text{Vietnam rice price}}{\text{World rice price}} \cong 0.5 - 0.7 \ (3)$$

From (1), (2) and (3), we can say that Vietnam had better specialize in production of rice, and import sugar instead of producing sugar. A study of a group of WB experts on Vietnam production cost and price of Vietnam exports produced the same result which can be seen in the following figure:

Goods	DRC index
An Giang rice grade I	0,565
An Giang rice grade II	0,669
Tiền Giang rice grade I	0,479
Tiền Giang rice grade II	0,568
Cabbage	0,535
Pork	2,1
Frozen shrimp	0,6

Basing on this result, these experts said that Vietnam had better export rice, frozen shrimp, cabbage... (DRC is more than 1) but not pork (DRC is less than 1).

We have also calculated effects of this specialization:

If we export 1 tonne of rice at US$ 210, we can import 0,6 tonne of RE sugar (its CIF price is US$ 350 per tonne).

If we produce RE sugar, the production cost for 1 tonne produced in Khánh Hội Sugar Factory in 1992 was VNĐ 4,103,000 that means VNĐ 2,461,000 for 0,6 tonne, whereas the production cost for 1 tonne of rice for export in Vietnam is 1,667,800.

Thus, exporting rice and importing RE sugar could make a surplus of VNĐ 794,800 per tonne of rice.

As for consumers, price of sugar can be lowered to VNĐ 4,103 per kg from VNĐ 5,800. Consuming 600 kg of sugar, they can make a surplus of (5,800 - 4,103) x 600 kg = VNĐ 1,018,200

This surplus could help raise the living standard of the people, help sugar - consuming factories (softdrink, confectionery, beer, food processing...) reduce the production cost, increase competitiveness of their products in foreign markets.

Comparison of sugar price and export price of cabbage showed that exporting 1 tonne of cabbage in order to import sugar can make a surplus of VNĐ 48,455 for producing sector and VNĐ 466,674 for consuming sector.

According to the WB experts, Vietnam has capacity of exporting 40,000 tonnes of cabbage per year to Hong Kong, Singapore, Russia...Land favorable for cabbage planting is 200,000 ha. In HCMC in 1992, there were 5,868 ha for sugar cane planting. If we plant cabbage (1,500ha) and rice (4,368 ha) on this area, we can harvest:

- Cabbage for export :
  1.500 ha x 22 tonnes per ha = 33,000 tonnes
- Rice : 4,368 ha x 3,37 tonnes per ha = 14,720 tonnes

Rice processed for export:
14, 720 x 0,65 = 9,568 tonnes

Exporting those amounts of cabbage and rice and importing sugar (at said prices), we could have a great surplus:

	For producing sector (VNĐ)	For consuming sector (VNĐ)
- From exported cabbage	16,086,015,000	15,400,275,000
- From exported rice	7,604,729,000	9,742,243,500
Total	23,690,744,000	25,142,518,500

These calculations showed that, by foreign trade, we need not invest any more in sugar cane planting and sugar industry, we can obtain an amount of sugar of two times bigger than before, reduce sugar price and have a capital of VNĐ 23 billion to invest in rice processing, shrimp freezing factories and change the structure of crops.

Basing on these calculations, we can see that:

- Importing sugar wasn't encouraged, imported sugar was levied with import tax of 35% and licence for importing sugar was limited, therefore the price of imported sugar has been pushed up so strongly that it was equal to or even higher than that of local sugar. The price of Vietnam sugar was kept two times higher than the price of sugar in foreign markets. This led to a lot of non - economical plans such as increasing investment in sugar cane planting; building five sugar factories more, giving price support in order to encourage peasants in sugar cane planting. In our opinion, when we are going short of capital, investing in sugar business is less profitable than producing said goods for export.

Singling out which product for exporting and which product could be imported profitably will help us realize where to invest our money in. In order to carry out what has been calculated, we have to try hard to satisfy requirements of foreign buyers about product quality, delivery service.. and introduce new technology into our export processing industry ♣

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