TRADE GAP AND SOLUTIONS

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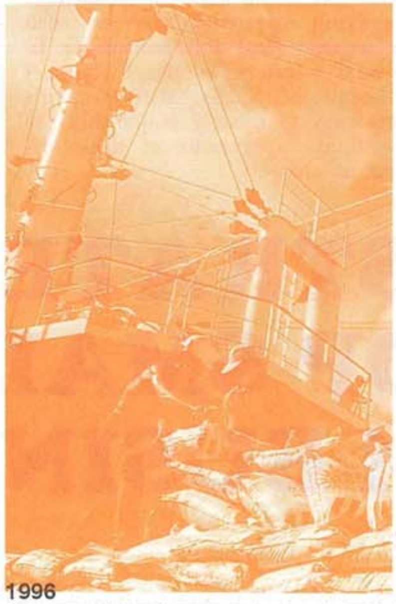

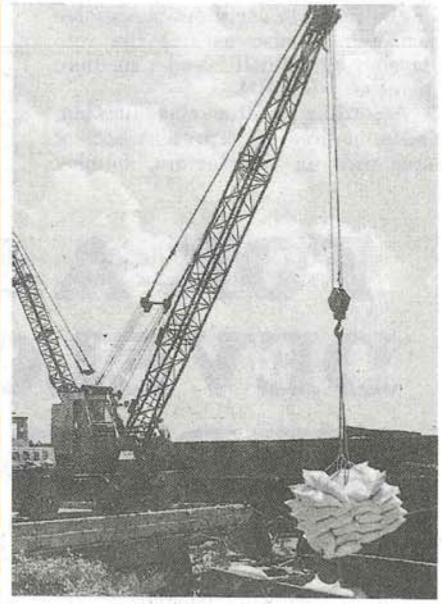

I. TRADE GAP IN ASEAN ECONOMIES

Trade gap is very common among market economies. It could even be found in the U.S., the most powerful and developed economy in the world, in the last two decades: according to the WTO, the American imports in 1997 were worth US$817.8 billion while its export value was 624.5 billion and its trade gap was 193.3 billion.

In developing countries where open economic policies have been introduced, although their growth rates are always lower than increases in their export values, the trade gap is still widespread (Table 1).

The Table 1 shows that the trade gap of Vietnam isn't big as compared with that of neighboring countries. Those countries, having adopted open economic policies for one decade or two, still suffered trade gaps because imports have played an important role in their economic development. Main reasons for this situation are as follows:

Table 1: ASEAN Economic Growth in 1996

	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	HCMC
Growth rate (%)	2.5	7.4	8.5	5.7	7.8	8.2	10	15
Export rate (%)	8.6	15.0	20.0	21.0	15.0	20	32	30
Trade balance (US$ bil.)		6.5	−6	−10.1	−3.0	−13.3	−4	−1

Source: ASEAN Secretary Board, 1997

+ Import of hi-tech technologies helps these countries produce exports of higher quality and more competitive prices.

+ Imported technologies help them change their structure of exports, selling manufactured goods instead of raw materials. Imported materials are important to their export-oriented industrialization strategy when local production couldn't supply well-processed materials to local factories.

+ Import of consumer goods that are necessary for cultural and scientific development allows improvements in living standard and quality of human resources, and more importantly, forces local production to become more competitive.

+ Importation financed by foreign capital not only accelerates the growth rate but also creates new jobs, thereby reducing the unemployment rate.

+ Importation of materials financed by foreign financial institutions helps to improve the infrastructure.

However, foreign economists have also warned of potential damage caused by big trade gaps:

- Uncontrollable import will lead to waste of foreign exchange and harm local production.

- Import of consumer goods will fill local buyers with admiration for foreign goods, and make it difficult for local producers to sell their goods.

- Constant trade gap will lead to big foreign debts and insolvency. It's the trade gap that made ASEAN economies fall into financial crisis in 1997-98.

Therefore, the trade gap has become a complicated problem for developing countries that are trying to reduce the trade gap when they are badly in need of foreign raw materials.

II. VIETNAM'S TRADE GAP

For the past three decades, except for 1992. Vietnam has suffered trade gap. This situation is presented in the Table 2.

The Table 2 shows that the trade gap in 1997-98 tended to decrease and stayed at some US$2.5 billion. Main causes of the trade gap are:

Firstly, Vietnam's main exports

Table 2: Vietnam's export and import in 1960 – 1998 (US$ mil.)

Year	Export	Import	Trade gap	Export as % of import
1960	71.1	116.5	–45.4	61.0
1975	129.7	784.4	–654.4	16.5
1976	222.7	1,004.1	–881.4	22.18
1986	789.0	2,155.1	–1,319.2	36.61
1990	2,402.0	2,752.4	–314.5	87.34
1991	2,020.0	2,274.3	–254.3	88.91
1992	2,500.0	2,400.0	+100.0	104.1
1993	3,000.0	3,300.0	–300.0	91.0
1994	3,600.0	5,000.0	–1,400.0	72.0
1995	5,300.0	7,500.0	–2,200.0	70.66
1996	7,255.0	11,144.0	–3,889.0	65.1
1997	8,850.0	11,200.0	–2,350.0	79.01
1998 (1st half)	4,814.0	6,066.0	–1,252.0	79.36

Note: these data of trade gap didn't include value of cross-border small-scale trading.

(unprocessed agricultural products and crude oil) are of low prices while its imports (machines, well-processed goods, hi-tech materials, etc.) are expensive.

Secondly, the foreign sector makes import value increase: up to July 1998, some 70% of 1,785 foreign-invested projects worth US$32.7 billion are under construction or carrying out their pilot production plans, therefore, their import value is bigger than export value. According to the Ministry of Trade, in the first half of 1998, although the Government gave more encouragement to export, the foreign sector still suffered a trade gap of US$434 million (US$1 billion worth of exports as compared with US$1.434 billion of imports) representing 30% of Vietnam's trade gap. In addition, many foreign projects that are of service to local economy (such as ones to build hotels, office blocks, power plants, infrastructure in IP and EPZ or produce consumer goods using imported raw materials) couldn't export anything.

Thirdly, foreign loans and aid which amounted to US$10.3 billion by the end of 1997 are used for importing raw materials and machines needed for infrastructure development programs. These imports also produce no exports.

Fourthly, many local factories doing subcontract work for foreign companies also cause high trade gap because they have to import machines and raw materials needed for realizing their work before they can export their produce. Although their business can generate big export earnings and create new jobs, their revenues are usually small in comparison with the export value realized.

Fifthly, raw materials demanded by many local industries (textile, plastic, chemicals, cosmetics, cigarette, etc.) come from foreign sources but goods produced by these industries aren't exports.

Sixthly, the Asian financial crisis and devaluation of the yen cause difficulties to Vietnam's export business while goods from ASEAN countries become cheaper and tend to flood the local market.

Seventhly, export promotion policies adopted by the Government have been carried out slowly and haven't produced intended results.

III. SOLUTIONS

1. Immediate solutions

+ Encouraging all economic sectors to promote their exports by supplying soft loans, offering preferential exchange rates to exports producers, using export quotas as incentives, etc.

+ Controlling strictly the import business by assessing exactly local demand for main imports such as petrol, steel and iron, fertilizer, sugar, paper and machines.

+ Controlling the bank guarantee services offered to importers who open deferred-payment LCs and making stricter regulations about this service.

+ Encouraging subcontractors to find measures to use local raw materials instead of imported ones.

+ Giving preferential treatment to foreign investors with plans to produce exports.

+ Making adjustments to import-export policies over time by gathering and analyzing on time all information about import and export businesses.

+ Using taxes and credit supply to encourage export of well-processed goods and limiting export of raw materials.

+ Limiting import of non-essential consumer goods and what can be made locally.

2. Long-range solutions

+ Making big investments in production of well-processed exports in order to reduce export of raw materials.

+ Encouraging foreign investment in petrochemical industry in order to produce import substitutions.

+ Modernizing the textile industry (the most important industry in HCMC and in Vietnam as well) with a view to producing high-quality garments for export and gaining independence from imported raw materials■