

So far, the history of the world economic development has experienced various models of industrialization as follows:

- Classic style
- Centrally-planned mechanism
- Import substitution
- Export orientation

It also shows the export-oriented model is the most persuasive practice because in this model:

- The comparative advantage is utilized at the highest level, especially developing countries are obtaining advantages in labor and natural resources and speeding up products of import-intensive industries

international trade. Over the past ten years, Vietnam GDP has scored a high growth rate, 8.5% annually, partly because its export soared by 25% per year. In the next stage, to keep the pace with other regional countries in the early years of the twenty-first century, Vietnam indispensably realizes export-oriented strategy to promote its industrialization.

To date, the Party and the Government assert the local industrialization model is basically export-oriented practice. The authorities have stressed: "maintaining the sovereignty, along with expand-

currency earnings could cover a better part of import spendings; and the import volume could increase 8.5 times as compared with the year 2000. Such targets require the Government to make great efforts.

Previously economists saw the industrialization model of import substitution characterized by the Government's intervention in the market and the export-oriented fashion by fully liberalized market mechanism. However, the experience from successful economies showed in the export-oriented pattern, the government role is appreciated more highly

the following functions:

- Perfecting the macro-economic environment to apply the foreign exchange (forex) flexibly to the export progress.

To implement its export-oriented strategy successfully, Vietnam has to stabilize the macro-economic environment, remove hurdles to the trade liberalization and make favorable conditions for the exchange rate to facilitate the export. The macro-economics affirms that the foreign exchange rate is an extremely sensitive and decisive factor in the export-oriented policies. In fact, all countries realizing export-oriented strategy

USING FINANCIAL INSTRUMENTS TO BOOST VIETNAM EXPORT

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in order to gain foreign currency. Thereby they can repay foreign debts, improve the balance of international payments, import technologies, expand production and help increase their GDP growth rate.

- The competition incentives are created between local and foreign enterprises, at the same time domestic firms can seize opportunities to renew their technologies.

- The export will be boosted, outlets expanded, local production reinforced.

With these features, the East Asian countries have implemented the export-oriented model over the past two decades. As noted by the International Monetary Fund (IMF), in the world economic history from the World War II, no country could develop fast its economy without

ing international cooperation, multilateralizing and diversifying foreign relations, building the open-door economy, boosting export, and at the same time substituting imports with locally made commodities..." (1). To develop export is a matter of great significance both in the short and long run, especially when Vietnam joins AFTA and the world and region economies.

Vietnam's ambition is to raise the export rate per capita to US\$200 by 2000 from US\$70 currently with an annual increase of 28% per year. By 2010, the export turnover would rise 8 times over the year 2000 (2), making up 50% of GDP. Based on this strategy, Vietnam hopes to better the balance of payments and keep the trade deficit at safe proportion (3); the foreign

than ever before. Because to attain high growth rate of export, the production and business of exports have to change actively their structure and quality. Moreover, in this fashion, in addition to making the best use of comparative advantages (natural resources, labor...), a country should generate other strengths from the human resources, technology research and development and infrastructure construction for export. These advantages require strong intervention of the government. In other words, in the macro-economic management process, the government should issue positive policies to boost export, especially policies on using financial instruments to regulate economic activities.

These policies, on the whole, mainly focus on

tend to prevent their own currencies from too high revaluation so that their exports become more competitive.

In this period, Vietnam must attract foreign investment and increase the import of machinery and materials for local production. Nevertheless, if the Government centers the forex policy on encouraging foreign-invested enterprises to boost export rather than exploiting local outlets, the balance of payments will be strengthened. In 1997, the export of foreign-invested firms reached US\$1.1 billion (but import US\$ 2.7 billion) with a growth rate of 20%, far lower than that of local firms, 30%. Meanwhile, their industrial production rose by 20.4%, doubling that of local firms (4). Because foreign-invested businesses sold

their products locally in large quantity with much lower prices compared with home made commodities of the same kind. This forced local businesses to cut down their selling prices, even lower than the cost price.

As a matter of fact, when the local currency is long revaluated, will the export-oriented strategy attain achievements? In the upward trend of foreign capital flows into Vietnam, Vietnam may succeed if implementing its strategy to absorb foreign investment effectively. More importantly, when joining AFTA and WTO, in the framework of cooperation, Vietnam is required to cut its tariffs. Then, the protection of local production by import-export duties is almost invalid. Therefore, to se-

port, while Vietnamese currency remains stiff. This surely reduces the competitiveness of local commodities and the danger of economic recession cannot be avoided. The currency devaluation will increase the pressure of inflation and the value of foreign debts. However, if the Government reduces budget deficit at least, raises foreign currency reserve to safe level, controls forex dealing, equals the balance of payments, perfects instruments of the monetary policies such as required reserve, rediscount rate, strict control over money supply and strongly attracting dead money from the public. If these measures are successful, the inflation no longer brings the economy into crisis. At the same time, the banking authori-

ty should inspect and monitor closely foreign debts and apply forex transactions such as forward and swap dealing...to hedge risks and stabilize the local currency.

insurance. But more importantly, these policies can have good effects on the export-oriented plans only when the economic structure is logical.

- Regarding economic structure of each area: Because each area has different natural and socio-economic conditions, its advantages should be generated particularly. For example, HCMC has a lot of large universities and well-known scientists and experts, so its advantages involve hi-tech commodities such as electronic appliances, computer softwares...not agro-forestry-fishery products which other localities have more potentials and favorable conditions for direct export. This will keep local competition healthy and prices of Vietnam export attractive. The Government should devise plans to restructure the economy of each area, at the same time narrow the current gap between growth rate of urban and rural areas.

-Regarding structure of sectors: The Vietnam's export-oriented strategy should have particular features and it must be prudently examined and selected. The proper selection of sectoral structure not only speeds up the comparative advantage in competition, but also nurtures economic potentials. Those sectors which have great demand in the local market, and find it ineffective to export their goods due to huge investment costs and transport fees, they need not be oriented towards export. Such sectors as garments, home appliances, sports-wear, machinery assembly, electronics, sports equipment, agro-forestry-fishery products should be given financial and technical assistance for export. In addition to tax incentives (tariffs, VAT, corporate income tax...), the Government should urgently establish an export credit

fund to offer preferential credit and export guarantee; an export insurance fund for major exports. Furthermore, an export award fund should be set up to encourage those enterprises which export new items, high-quality goods, hardly-exported commodities, and expand new markets for major exports. Along with stimulating the sectors processing exports, those which produce raw materials for exports production should be also given tax incentives and soft loans.

Vietnam also take advantages of every source to invest in training talents, improving human resources, research and development, and infrastructure construction for development...By doing so, the country can gain a firm foothold in the world high-tech market.

- Regarding economic sectors: The Government should encourage enterprises to build associations in order to boost the local competitiveness in the world market; quicken the reform of state-run export companies; allow all businesses to engage in export activities; and give funds to the establishment of centers for market research and information.

References:

- (1) *Công nghiệp hóa hiện đại hóa Việt Nam đến năm 2000* (Vietnam Industrialization and Modernization), Khoa Học Xã Hội Publisher, Hà Nội, 1996. p.201.
- (2) *Thương mại, môi trường và phát triển bền vững ở Việt Nam* (Trade, Environment and Sustainable Development), Chính Trị Quốc Gia Publisher, 1998, p.265.
- (3) Following a survey, the safe ratio of trade deficit to GDP is not over 8%.
- (4) *Nghiên cứu kinh tế* (Economic Research Journal) 273 (February 1978), p.4.



cure the domestic production and stimulate the export, the only effective financial instrument is the forex policy giving incentives to the export and compensating for losses of local enterprises caused in the process of trade liberalization.

Suffered from the sharp devaluation of their currencies, regional countries have made great efforts to revitalize their economies after the financial crisis by intensifying ex-

ports, while Vietnamese currency remains stiff. This surely reduces the competitiveness of local commodities and the danger of economic recession cannot be avoided. The currency devaluation will increase the pressure of inflation and the value of foreign debts. However, if the Government reduces budget deficit at least, raises foreign currency reserve to safe level, controls forex dealing, equals the balance of payments, perfects instruments of the monetary policies such as required reserve, rediscount rate, strict control over money supply and strongly attracting dead money from the public. If these measures are successful, the inflation no longer brings the economy into crisis. At the same time, the banking authori-

ty should inspect and monitor closely foreign debts and apply forex transactions such as forward and swap dealing...to hedge risks and stabilize the local currency.

- Giving assistance and incentives to export activities based on a proper economic structure. The financial policies for export development include not only adjusting flexibly forex rate, but also offering tax incentives and giving soft credit and in-