

ON WAYS TO CHANGE THE STRUCTURE OF HCMC EXPORTS

by MA. NGÔ THỊ NGỌC HUYỀN

According to the theory of comparative advantage, a country had better specialize in production of goods in which it has comparative advantages and import goods in which it has no advantages in order to increase its share of world exports and develop its economy better. Economic theories also show that most developing countries have advantages in products from the primary sector. In Vietnam, HCMC is a big trading center in the South, so it's reasonable that products from the primary sector represent some 30% of its exports in recent years. However, HCMC is also a large industrial hub where produces over 30% of the national industrial output and its growth rate is high (HCMC industrial output in 1996 was worth VND46,197 billion, increasing by 100% as compared with 1992 and its growth rate in the years 1992-96 was about 20% a year). Thus we can see that HCMC has advantages in manufactured goods that usually represent some 65% of its exports. In the trend of export-oriented industrialization, it's necessary to change the HCMC structure of industry by enhancing the relative importance of manufacturing goods for exports, especially by developing agro-industrial products, with a view to stop exporting unprocessed goods. The following are our opinions about ways to change the structure of HCMC exports.

1. THE PRESENT STRUCTURE OF HCMC EXPORTS

Generally, HCMC export earnings increased fast in recent years, from US\$1.65 billion in 1993 to 3.72 billion in 1996. The average growth rate was 31% per year. During those years, there were minor changes in the structure of exports as shown in the following table.

Table 1: Changes in the structure of HCMC exports

	Unit	1993	1994	1995	1996
Total export earnings	US\$ mil.	1,655.1	1,794.4	2,604.7	3,723.2
Agricultural products	%	21.8	24.1	18.3	30.7
Maricultural products	%	11.3	10.9	7.3	6.2
Forest products	%	2.4	3.5	1.7	1.4
Manufactured goods	%	64.5	61.5	72.7	61.7

Source: HCMC Statistics Department, 1996.

This table shows that the relative importance of maricultural and forest products was small and on the decrease (by some 50% in the past four years), while the share of agricultural products increased from 21.8% in 1993 to 30.7% in 1996. This fact reflects the recent development of agriculture in HCMC. The proportion of manufactured goods to HCMC exports varied from 61% to 73%. Although this proportion is high enough but it

isn't appropriate to the role of HCMC in the economy. To clarify this argument, let's study the list of main exports from HCMC in recent years and we can see that manufactured goods aren't diverse and predominant in the structure of exports.

Table 2: Main exports from HCMC

Item	Unit	1993	1994	1995	1996
Rice	1,000 tonnes	817.9	835.7	746.5	736.8(*)
Maize	-	15.3	50.8	33.9	35.9
Soybean	-	2.1	5.9	0.4	0.3
Peanut	-	43.5	55.8	42.6	40.1
Black pepper	-	5.9	4.8	4.8	6.8
Coffee	-	51.0	47.2	54.1	46.6
Vegetables	-	3.3	6.2	23.8	17.7
Frozen meat	-	7.4	2.0	1.8	0.5
Frozen maricultural products	-	22.0	21.4	22.7	25.6
Wood	-	76.6	3.2	3.3	5.1
Works of art	m ³	3.7	2.9	1.4	5.3
Clothing	US\$1,000	75.2	182.1	301.5	398.5
Knitwear	-	1.2	12.2	23.4	29.7

Source: HCMC Statistics Department and HCMC Trade Service, 1996.

(*) According to the HCMC Statistics, the amount reaches 2,886 million tonnes if included rice exported by Southern Food Corporation.

The following are our remarks on main exports from HCMC in recent years:

1. Agricultural products

In 1996, those products brought in US\$1,064.5 million, tripling in three years and increasing by 44.2% per year since 1993. However, the increase in agricultural exports isn't stable because of the following reasons:

+ HCMC has no advantage in producing agricultural products, but as a trading center in the South with big ports and other export facilities it can help many state companies purchase and process agricultural products from southern provinces. However, these companies didn't affect the agricultural production in HCMC, therefore supplies of agricultural products aren't stable and these companies have to purchase from private traders.

+ Prices of agricultural products in HCMC and other provinces are unstable and low in comparison prices in

international market because agricultural products are badly processed and export companies lack capital to modernize production lines and keep good stock of products for export, therefore they have to sell out what they purchase after harvest at low prices.

+ Most export companies have to depend on intermediaries because they couldn't get access to end-users. This situation also causes the prices to decrease.

Thus, one of urgent measures to improve the export of agricultural products from HCMC is to carry out technical innovations with a view to increasing export of well-processed goods.

2. Maricultural products

The maricultural product is ranked fourth among the country's staple exports, below crude oil, rice and garment. In HCMC, however, export of maricultural products increases slowly, from US\$183.1 million in 1993 to US\$215.5 in 1996, by 5.6% per year only. Our estimates of the export of maricultural products are as follows:

+ Like agricultural products, HCMC exporters get maricultural products from other provinces with the result that the supplies aren't stable.

+ Most maricultural exports are frozen and proportion of processed products increases slowly.

+ Prices of maricultural products have gone down for the past two years and have caused bad effects on export earnings.

+ Main buyers of these products are Japan and EU countries. Japan buys some 70% of Vietnam's maricultural exports and re-exports the better part of them to markets that Vietnam couldn't get access to.

To develop export of these products, it's necessary to improve ability to process maricultural products in HCMC and invest in deep-sea fishing with a view to ensuring good supplies of raw materials.

3. Forest products

The forest products represent a small percentage in HCMC export earnings (they bring in some US\$40-50 million a year) and made no increase in recent years because of the Government's ban on exploitation and export of timber. Measures taken by HCMC export authorities to develop the export of forest products are to increase output of wooden works of art and first-class furniture.

4. Manufactured goods

These are goods in which HCMC has advantages. Experience from NICs and other developing countries shows that one of strategies for economic development is to promote export of labor-intensive products. This strategy is pursued by HCMC industries now. Although manufactured goods haven't been predominant in HCMC exports but their importance is on the increase (revenue from export of manufactured goods increased by 27% a year, reaching US\$2,145 million in 1996 and tends to rise in the coming years). Particularly, the HCMC clothing industry is emerging as one of main foreign currency earners. Its achievements are shown in the following table:

Despite its relative importance to the national clothing industry, the HCMC clothing industry still faces the following problems:

+ Most HCMC-based clothing companies couldn't market their products by themselves so they have had to depend on intermediaries or acted as subcontractors for foreign companies who tended to cut prices or wages to the bone while local companies had to compete with one another for subcontracts.

+ Quota on exports to EU countries, the main market, is distributed unreasonably among companies and

Table 3: Revenue earned by the HCMC clothing Industry in 1996

	N ^o of companies	Revenue		Proportion to total revenue earned by the national clothing industry
		US\$ mil.	Percentage	
A. EU countries				
1. Under quota				
Centrally-run companies	20	84.0	41.8	20.0
Municipally-run companies	38	58.3	29.0	14.0
Limited and private companies	43	48.1	24.0	11.5
Foreign-invested companies	13	10.5	5.2	2.5
Total	114	200.9	100.0	48.0
2. Without quota		216.0		
B. Other markets		12.0		
Grand total		428.9		51.5

as a result, many companies couldn't work at full capacity. Other markets, such as Norway, Canada and the US, haven't been open to Vietnam's clothing industry (strict import quota, lack of the MFN status, etc.)

+ Because of a lack of proper investment, technologies and workers employed by the HCMC clothing companies are poor. That is why they couldn't make complex and first rate items (of 100 items demanded by EU countries, 44 ones are beyond the reach of local companies, so they had to compete fiercely with one another for the rest)

+ Production of raw materials of clothing industry hasn't been paid full attention to because of the lack of capital facing most companies.

To make the HCMC clothing industry more internationally competitive, besides studying the market demand, there must be big investments in equipment and labor training.

In addition, many other export-oriented industries are taking shape in HCMC, such as rubber products, electronic equipment assembling, food processing, etc. In the near future, it had better to invest in export-oriented industries, instead of developing import substitu-

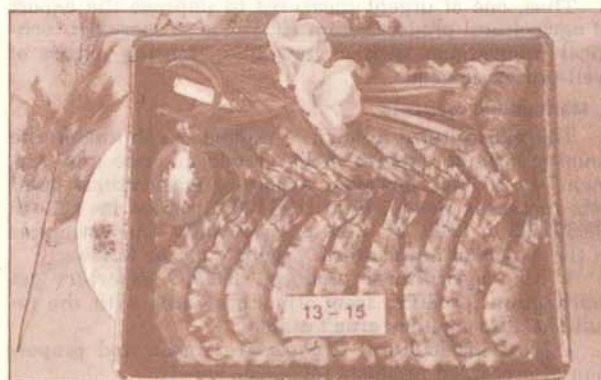


tion industries as what has been done in recent years.

II. WAYS TO CHANGE THE STRUCTURE OF HCMC EXPORTS

Main directions in changing the structure of HCMC exports in the coming years are: reducing export of semi-finished and unprocessed goods and increasing the

proportion of well-processed products, including agricultural and maricultural goods. It is planned that manufactured goods will represent some 90% of HCMC exports by 2005. The following are our suggested measures to change the structure of HCMC exports ■



STAPLE EXPORTS	MEASURES
1. 1997-2000 <ul style="list-style-type: none"> + Promoting export of garments, textile and footwear + Developing and modernizing agro-industries + Producing fresh and processed tropical fruits for export + Paying attention to export of toys, souvenirs, high-quality furniture and household goods + Preparing for export of mechanical products in the next period. 	<ul style="list-style-type: none"> + Developing production of raw materials of the clothing industry and production of first rate clothing items + Cooperating with southern provinces in producing and processing fruits and other agricultural products; importing new strains of fruits and technologies needed for processing and exporting fruits. + Studying techniques and methods of making first rate toys and unique souvenirs. + Modernizing all existing food processing factories in order to raise their capacity + Starting cooperating with foreign partners in making mechanical products
2. 2001-2006 <ul style="list-style-type: none"> + Increasing the quantity of traditional exports + Promoting export of electronic and car spare parts + Starting exporting mechanical products, tools, semiconductors, electric and electronic appliances. + Promoting export of first rate toys. 	<ul style="list-style-type: none"> + Diversifying export items with a view to stabilizing export of traditional products + Cooperating with foreign investors in making mechanical products, electric and electronic appliances for export + Increasing investment in production of toys, souvenirs and furniture
3. From 2006 on <ul style="list-style-type: none"> + Maintaining export of traditional labor-intensive products and manufactured goods and promoting export of technological-intensive products. + Increasing export of mechanical products, electric and electronic appliances. + Promoting production and export of information products (computers and their spare parts, software, etc.) 	<ul style="list-style-type: none"> + Concentrating capital on production of electric and electronic equipment + Directing foreign investment towards production of information products + Increasing quantity of locally made spare parts used by existing car assembling factories in order to make their products more internationally competitive + Enhancing the role of research centers in selecting appropriate technologies