2 − 3

General Remarks Sectional Meeting a Strategy for Advancement of Export Industry (Machinery Industry) until the Year 2020

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1. Status of the machinery industry in Viet Nam

1) Agricultural machinery

(1) Market environment

- Current agricultural machinery industry in Viet Nam reflects her growth of economy. Mechanization in agriculture is progressing as the economy grows. As a result, the productivity of agricultural machinery tends to increase.

- Farmers have been taking a positive attitude on accepting the introduction of agricultural machinery. Efficiencies of agricultural machinery supply great demands of farmers. In suburbs near by big cities like Mekong delta, Ho Chi Minh City, and Hanoi, accepting of agricultural machinery can solve the problems that they are currently trying to over come. For instance, a problem of shortage of workers in busy period can be solved by machinery work. Moreover, purchasing power will rise as a result of increase in cash income from the enlarged quantitative crops sales. In addition, machinery work can change the number of harvest within a year. For instance, changing from one harvest in a year to the semiannual crop or even to the tri-annual crop can be possible.

- On the other hand, farming areas in mountainous and countryside, agricultural machinery has not been accepted yet. In the mountainous area, farming area is small. Therefore, the possibility to accept agricultural machineries in such a place is low even in the future.

- For example, MARD predicts the national average of tractor usage within cultivation work. According to the MARD, it is about thirty percent per area under cultivation. However, the percentage has reached to the eighty percent in Ho Chi Minh City already. The percentage shows the existence

of two different styles. One is the area where mechanization has been widely accepted like Ho Chi Minh City, and the other area that has not been accepted agricultural machinery.

- No matter since before the Viet Nam War or new introduction, a great number of agricultural machineries, that are Japanese-made used machineries and Chinese-made machineries, exist in Viet Nam. A chance in accepting Viet Nam-made machinery is few. A small diesel engine is built in a tractor. Chinese diesel engines occupy fifty percent of the total new demands. The twenty-five percent are Chinese used diesel engines. Only the left over twenty-five percent are the small diesel engines that are produced by Viet Nam domestic enterprises.

Table i: A status of the national market in main agricultural machinery

	Compact diesel engines	Rice milling machine	Pump (Agriculture use)	Pump (Domestic use)
National market scale	100,000	50,000	50,000	50,000
National production (Share)	15,000 (15%)	50,000 (100%)	30,000 Hizon Pump 20,000	
VEAM	15,000	20,000	1500	-
Made in China	70,000	-	10,000	40,000
Others	Japanese used Machinery, etc. 10, 000	-	10,000 (Used pump, etc.)	

Provided by VINAPRO Interview

The market overview of compact diesel engine (below 20 horse power)

	National market scale	Made in Vietnam	Importing products	Used products
High cost model	4,000	3,000 (3,000)	1,000 (Main Made in China, etc.)	-
Low cost model	50,000	10,000 (8,000)	30,000 (Main Made in China, etc.)	10,000

Provided by VEAM interview

(2) The status of suppliers

- VEAM group is the central agricultural machinery supplier. Especially in diesel engines, VIKYNO and VINAPRO are the central governmental enterprises. Privately owned enterprises, which designs, produces, and sells rice milling machineries, start to appear. These enterprises continue to grow nearly ten percent annually as the national market expands.

- Normally, an agricultural machinery enterprise in Viet Nam conducts the entire process. The

process consists from processing of necessary parts to assembling of components. Therefore the production rate does not increase. In addition, a company must develop their technology not only in each part but also construction of a product. As a result, a company cannot improve neither their technology nor production rate.

- VIKYNO technically ties up with Kubota. VIKYNO produces compact engines by using about one hundred subcontractors. Kubota produces the same typed engines at their factory in Thailand. Compare to the engines, that are produced in Thailand, VIKYNO's engine lasts only for half. And the price of VIKYNO's engine is about thirty percent less expensive (Engines made in China lasts even less than a half of VIKYNO's engine, and the price is also about half.)

- In 1999, an export of agricultural machinery to Iraq rapidly increased because of a governmental agreement between two countries. Besides that, although Viet Nam exported agricultural machineries to Laos and around the Asian nations, still the quantity of export is limited.

Table iii: The status of business and planning of the VEAM group

→ Planning number

Items	Unit	1998	1999	2000	2001 (F)	2002 (F)	2003 (F)	2004 (F)	2005 (F)
Value of production	Billion Dong	226,357	267	270	326	376	421	510	600
Sales	Billion Dong	464	480	485	553	640	711	833	960
Export value	US$1000	3	8	5	7	8	9	12	15
Main production									
Diesel engine		6,371	14,809	15,000	20,000	25,000	30,000	40,000	50,000
Tractor		1,894	1,756	1,900	2,200	2,500	3,000	3,500	4,000
Thresher		24,916	20,044	22,000	25,000	27,000	28,000	30,000	30,000
Pump		-	8,849	4,000	4,500	5,000	5,500	6,000	6,500
Rubber role		93,915	104,408	133,000	150,000	200,000	200,000	250,000	300,000
Main exporting product									
Diesel engine		844	8,476	4,900	6,000	6,500	7,000	7,500	8,000
Pump		200	7,314	2,500	3,000	3,500	4,000	4,500	5,000
Rubber role		2,803	25,126	7,000	10,000	15,000	18,000	21,000	25,000
Employee		6,668	6,402	6,500	7,000	7,200	7,700	7,800	8,000

Provided by VEAM general company data

Table iv: VINAPRO production items and its overview

	Compact diesel engine	Rice milling machinery	Rubber role	Pump (For agriculture)
Sales scale	50%	22%	18%	10%
Production items and overview	6-18 horsepower compact engine. Technical tie up with Yammer.	Produce from a compact rice milling machinery for a farm to a large sized rice milling machinery for a factory.In-house design	A rubber role for a rice milling machinery, technical guidance from Taiwan	Compact agricultural pump,In-house design
Production number	6,000	14,000	100,000	4,000
Domestic sales	2,000	13,000		1,000
Export	4,000No.1 in Iraq, Malaysia, Indonesia, and Myanmar.	1,000Myanmar, Sri Lanka, and Bangladesh	Taiwan, etc.	3,000No.1 in Iraq, Myanmar, etc.
Domestic share	About 10%	30%	40%	Below 5%
Competitor	VEAM Group such as VIKYNO, SONGCONG, etc. is the central enterprise. Chinese made product is the most powerful competitor.	No main competitor, About 20 small companies like PE, etc.	No main competitor,Small and intermediate enterprises produce.	VIKYNO,Hizon Pump, etc.

Provided by VINAPRO interview

2) Motorcycle

(1) Market environment

- Motorcycle market is expanding in Viet Nam. In 1999, new motorcycle sales number was four hundred thousands. This year, the new motorcycle sales number will be over five hundred thousand. Especially, a motorcycle made by Honda is extremely popular among consumers. Honda occupies about seventy percent of the national motorcycle market in Viet Nam.

- A Production of new motorcycles by CKD and IKD are also growing. Viet Nam government was planning to impose a ban on IKD and CKD. However, the government recognized their beneficial tariff income. As a result, the government permitted the CKD and IKD. Importers, that acquire similar parts from China and assemble parts, are increasing. Importers sell products by using very similar bland. The bland is called HONGDA. After the sales of the HONGDA products, Honda seal is put on the product and sold at the store. Honda is planning to take action on these importers. A half of the new sales are such similar products.

<The status of supplier>

- Honda posses an integrated mill near by Hanoi. Many parts are provided by Japanese-affiliated companies or from Japan. A relationship between Honda and local companies are few. Honda would like to acquire parts from the local companies; however, a production rate of the local companies remains low. Honda hardly can find a company that satisfies their demands. Governmental enterprise can produce a large number of products, however, their technology is low because such enterprise holds variety of procedures. Small and intermediate enterprises posses higher technology than the governmental enterprise. Because small and intermediate enterprises enhanced their technology for their special field. Although they have technology, they do not have enough productivity that satisfies Honda's demand. Therefore, it is difficult for them to make a contract with Honda.

- Currently, nineteen enterprises, which supply parts to Honda, exist. Four of them are local companies. Others are Japanese-affiliated companies. Honda acquires welding and ironware such a stand and loading platform. Although, Honda is searching for the local companies, they can hardly find one. One company will join in Honda within this year. However, Honda had to provide guidance to the company for a year, and then tested about hundred of sample products. Finally, the company improved to be able to make a contract with Honda.

- The local supplier companies are located in the north. Even if a problem occurs, the local companies are ready within one hour. Although, companies in the south seem to be able to supply parts, considering the load condition makes it impossible to make it come true.

- Honda carries a large integrated mill in Thailand. The scale of the factory is larger than one in Viet Nam. Honda seems to be planning to position the factory in Thailand to be the bases of Asia. However, if the factory in Viet Nam can improve in acquiring better suppliers, the price cut may be possible. If so, becoming an exporting base is not a dream.

2. Development potential

- Once a consumer purchases a product, he/she tends to use the product for extremely long term. The period is considered to be as twice as longer than a Japanese consumer. That is why a demand for repair parts is in great request. In the repair parts market, standard parts are hard to find, instead, "after parts," that are produced by the local small and intermediate companies, are common. In addition, such companies

also produce various kinds of attachments for agricultural machineries. These companies specialize in producing parts. And their skill is improving. On the other hand, productivity remains low. Currently, they stay in only production of "after parts."

- For example, a VIKYNO's subcontractor, which produces "after parts," is certainly making a profit. As a result, the companies little by little constantly change their old equipments to newer equipments in their facility. Such a growing companies exist.

1) Development potential on agricultural machinery

<Advance of Japanese-affiliated companies into the Viet Nam market is out of hope>

- According to the business experience in Asia, when the GDP becomes one thousand and five hundred to two thousand dollars per person, Japanese-affiliated companies rapidly initiate a transverse diesel engine market. If the national market is large, production will start based on the direct investment. Right now, the central Japanese-affiliated bases in Asia are in both Thailand and Indonesia.

- Nomura Research Institute predicts GDP based on the view of Viet Nam's Economy. In the year 2000, the GDP is three hundred and fifty dollars per person. In 2010, the GDP will be seven hundred dollars. And the GDP will be one thousand and three hundred dollars in 2020. Although population scale is large and agricultural production is in active, a possibility that Japanese-affiliated companies advance into Viet Nam to conduct their production is low.

Table v: A forecast of the economic indicator

	2000	2005	2010	2020
GDP/Person	$350	$500	$700	$1,300
Population (assumed 1.2% annual growth)	81million	89million	99million	120million

Provided by Nomura Research Institute

<Viet Nam national market will expand three times as much as right now>

- MARD announced that the government has planed to expand the mechanization of areas under cultivation from thirty percent to eighty percent until 2010. Currently, a sales number is one hundred thousand. Assumption of the sales number becomes three hundred thousand, if mechanization rate is applied to the number of small diesel engines. In other words, the market scale can be assumed to become about three times larger than right now. Although, the mechanization rate will not grow in the

mountainous area in 2020, a replacement cycle starts. Therefore, an expansion from four hundred thousand to five hundred thousand is assumable.

<Active use of subcontractors hold promise in improvement of productivity>

- Until now, agricultural machinery makers, in Viet Nam, conducted from producing parts to assembling the parts. A partial governmental enterprises start to structuralize subcontractors in order to improve their productivity. Some companies start to have better productivity and extend the number of production. They are also improving product qualities. The other governmental enterprises started to make a use of outer competitors' productivity and their technology. This trend shows that enterprises will accelerate ordering the procedure of parts processing to subcontractors.

- Many governmental enterprises think that if the technology will be heightened by introduction of better facility, the productivity will increase. On the other hand, the most private companies would like to make a good use of the existing facilities. If the needs arise, private companies would like to invest in equipments and plants at the minimum cost.

<Increase of partner companies from the small and intermediate companies>

- Whether small and intermediate companies can improve their productivity or not. And then, whether those companies can have an ability to supply parts, or not.
  ① By producing "after parts," make a certain profit, and improve their technical skill.
  ② Start to deliver parts to enterprises that assemble parts

- Some private companies, that have had such abilities already, start to appear.
- Some companies deliver products to companies that are trying to structuralize subcontractors. Such companies are improving technical skills and productivity. However, such a case is very rare.

- A company, which produces threshers, only produces attachments and outer parts. Many companies purchase Japanese-made driving parts such as used engines, motors, and gears. Some companies sell driving parts as "after parts. Some steps exist for a company to grow. Right now, a company purchases used parts and assemble parts. In the near future, the company needs to investigate demands specification. Then, the company needs to acquire main parts. Finally, the company can engage in designing of the main parts. A partial Viet Nam companies have already investigated demand specification. These companies may conduct both 1) engaging in designing of the main parts, and 2)

assembling the parts in near future.

- On the other hand, as long term users exist, a market for repair parts are expanding. Therefore, companies, those supply "after parts" are growing. Right now, most companies, which supply "after parts," stay in producing imitation. Others research in materials and theory of structures. That is why such companies can produce high quality "after parts." Such companies may increase the number of parts that they design. Then, these companies may transform from "after parts" production companies to subcontractors that support new production. After that, these companies may grow as partners of a larger company, which produces the final product. If that happens, designing products with the final production company is no longer a dream.

- In order to make it come true, technical aspects in designing ability, processing accuracy, and productivity management need to be improved. And also, in order to introduce facility, ability to manage financial resources is indispensable. Marketing ability to pioneer the business partners is also necessary.

2) Development potential in motorcycle industry

<Market scale becomes four times larger in 2010>

- Government predicts annual sales of new motorcycle. The Annual sales of new motorcycle of the year 2005 are eight hundred thousand. In 2010, it will be two million. In reality, Honda, the largest major company, is considering in an investment project depending on the production plan.

- The other Asian countries, sales numbers are as follow. The Sales number of Thailand was 0.91 million in 1997. Indonesia was 1.85 million and China was 9.7 million. The economy of Thailand is growing. The market in Thailand, consumers' demand is shifting from motorcycles to automobiles. The sales number of motorcycle in Thailand was 1.47million in 1995. From the peak point, the sales number of motorcycle is declining. In the motorcycle market, when the GDP reach to two thousand dollars per person, the market becomes saturated. The growth of sales number cannot be seen in both Taiwan and Malaysia anymore. From the population aspect, sales number will not grow when the number reach to about over 2 million in Viet Nam. Population in Thailand will is 60million. Population in Indonesia is 200 million. Viet Nam's population will be 100million in 2010. In 2020, population will be around 120million.

- As a sequence of national market growth, motorcycle companies will begin producing parts that they are currently importing from Japan and other countries. As a result, cut in cost may come true by improving the local content rate.

Table vi: The Viet Nam's motorcycle market overview and markets in Thailand and in Indonesia

	Viet Nam	Viet Nam	Thailand	Indonesia
	2000	2010 (estimation)	1997	1997
Population	80million	100million	60million	200million
GDP/Person	$350	$700	$3,000	$1,100
Number of sales in motorcycle	0.6million	2million	0.91million	1.85million

Provided by Nomura Research Institute/ summarized from statistic data of each country

<Concern of AFTA>

If AFTA is confirmed, tariff will be abolished. A possibility to establish one base in Asia by Japanese-affiliated companies exists. Not only assembling motorcycle makers but also vendors in Viet Nam, which supply parts to assembling makers, may integrate the base. By producing massive volume in the ASEAN area, the cost down may come true. If such a condition is possible, high possibility in exporting products and integrating the base exists. Assembling makers can acquire parts at the cheaper price. Honda commentated that Honda's basic idea is to produce products that contain specifications that satisfy needs of users. And Honda also would like to conduct the production in the country where the users live in. If this is true, a possibility, that Honda evacuate Viet Nam, is quit low. However, for the other makers, instead of remaining in Viet Nam evacuating from Viet Nam may have more opportunity. This possibility requires the cost down achievement by having an ASEAN base. In order to make it come true, immediate construction of market environment, which raise massive merit by increasing the production number, is indispensable.

<Hope for growth of domestic vendor>

- Whether small and intermediate companies can improve technical skill and ability to supply parts. Phases are as follow.
  ① By producing "after parts," improve technical skill and make definite profit.
  ② Deliver products to assembling companies (mostly foreign-affiliated firms in a while)

- Currently, nineteen companies are the supplier partners for Honda in Viet Nam. Four of them are the local companies, and the others are Japanese-affiliated companies. As Japanese-affiliated companies continue to improve their production number, a number of industrial locations can be assumed to

increase. As a result, a partial parts, that are currently imported from Japan, will be produced. However, AFTA concern exists as it is mentioned earlier. At this point, industrial locations will not be built much. Because most Japanese-affiliated parts makers have already advance into Thailand. After the AFTA, Japanese-affiliated companies will be able to achieve cost down by exporting parts from Thailand instead from Japan to Viet Nam. A tariff becomes less by exporting from Thailand. The most important objective in order to improve rate of supplier is to enhance companies in Viet Nam. Right now, one supplying company will join in Honda. However, a trend to order functional parts to a very small company exists. Some companies, that produce functional parts, exist near by Ho Chi Mink City already. But, such companies have not had partnership with Honda because of the distance. If high advancement in the southern industry comes true, northern industry will also achieve its advancement. In order to become a prospective business partner, several phases exist. A transformation from an "after parts"-producing company to a more advanced company is necessary. Such company should improve designing ability such as structural calculation. Improvement of product quality by using existing facility and technology also needs be achieved. In addition, by renewing facilities, a quality improvement and stabilization need to be turned in to a reality.

3. Possibility of exporting industrialization

1) Agricultural machinery

- Right now, Chinese-made agricultural machinery (Engines, etc.) occupies a large share in the Viet Nam's market. Mostly, the products are imported by using a contraband trade. Therefore, many introductions exist mostly in the north.

- However, an improvement of technical skills, an extended product life cycle, and a cheaper price will make it possible to compete with the contraband trade. If noted aspects are possible, even when the products are imported by using a regular rout, the products will have better attraction for users than the products from China in the future.

- Very good potential exist in Vietnam' s industrial hierarchy. The industry hierarchy can even compete with China. Building up systems of product development, production, and sales, that correspond to clients' needs is extremely important.

- In a mean while, production of agricultural machinery needs to accommodate the domestic market. The future opportunity depends on the domestic production scale. When the productivity improves,

Table vii: A future view of agricultural machinery (Centralized on diesel engines)

	2000	2005	Around 2010	Around 2020
Targeted market	Focuses on Domestic market. Along with a growth of domestic market, production number expands.	(Same with the left table)	Focuses on Domestic demands. Advance into neighbor markets by using AFTA (Laos, Cambodia, etc)	Activate a full-scale export including Asian neighbor nations.
Market scale (compact diesel engine)	100,000	200,000	300,000	400,000-500,000
Technology (Facility. production, development)	Cannot afford to investment. Difficult to invest for renewal of facilities. Newer investment needs are not high.No new development,Process imitations.	Improve technology by making the maximum use of existing facilities.Improve production management ability.No in-house development. Process with basic design like the strength of material.	By introduction of new facilities, improve the precision and productivity.Enhance designing talent, and conduct in-house development. Commercialization of products, that has designs reflecting market needs.	A partial companies accept the forefront facility introduction. Conduct highly advanced Process.Companies, that conduct in-house development, increase. Not only product development but also develop basic development will be conducted by some companies.
Industrial structure	Two types of companies exist. One is a state-owned enterprise conducts integrated production. And the other is a company that produces "after parts." They do not fuse, and each unit conducts their business activity independently.	Companies, which produce the final product, starts to improve productivity by having a business partnership with companies that produce "after parts." Companies, which produce "after parts," also make a profit by improving quality management ability. Not much difference between Governmental and privately owed companies can be determined. Privately owned company start to receive orders from a state-owned enterprise.	A cluster of companies that specialize in each process start to appear. Each company enhances their area of specialization such as process field, process accuracy, designing, and so on. Collaborations with foreign companies begin in cooperative development. Companies begin the OEM production in the same level with advanced country enterprises.	Enhance each expertise. And a collaborative product development by domestic companies will be conducted.Some company produce injection, that has high added value, appear. As a result, all-Viet Nam made product (include engines) will be produced.

an increase in exporting to Cambodia, Laos, and ASEAN nations is expected.

Motorcycle

- Opinions of Japanese-affiliated companies, that conduct production, tend to have a great impact.

- For a while, a possibility, that Honda exporting a complete product, is low. As Honda's basic idea introduced before, Honda would like to make products with specifications that reflects needs of users in Viet Nam. Also, if the local content rate would not be improved, export possibility is difficult in terms of profit margin. However, along with the domestic demand, if the production number will reach around three hundred thousand, increased number of product by Viet Nam Honda becomes possible. Massive production produces a merit. If that happens, comparing price of Thailand-made product is necessary. A chance to export partial parts arises.

- For a while, considering the current productivity of both Japanese affiliated companies and local companies, export of parts are difficult. The local Japanese-affiliated companies process imported products that are from Japan. Products that are produced by the local companies have low added value. Also such products are more than likely bulky. Therefore, a possibility to export to a different base is low. If AFTA is carried out, a possibility that Honda import parts from Thailand is high. Viet Nam Honda can import cheaper parts from Thailand instead of acquiring the parts from vendors in Viet Nam.

- In a long run, Viet Nam becomes a leading country in Asia for a production number of compact motorcycle. A chance for the product export to Asian neighbor countries is high. A motorcycle market has already gone as high as it can go in Thailand. Motorcycles are exported from Thailand. A partial companies establish research and development function. The R&D develops parts, and designs local specification. They also controls parts supply within Asian area. Therefore, a great possibility for Viet Nam to be positioned as the production base of compact motorcycle exists.

Table viii: The view on future of motorcycle

	2000	2005	Around 2010	Around 2020
Targeted market	Domestic market only.Along with the domestic market growth, expansion of production number.	(Same with the left table)	Domestic market is central.Because of AFTA, products with low added value are exported. Product with high added value are imported from Thailand, etc.	Domestic Market is central.A high possibility, that Viet Nam become the central country to produce compact motorcycle, exists.
Market scale	0.6million	0.8million	2million	2million
Technology (facility, production, development)	A local content rate is fifty percent.The most are Japanese-affiliated parts makers.The local companies are only parts with low added value.	A local content rate improves up to around seventy percent.However the local companies stay in supplying basic functional parts.	A local content rate hardly improves. Product importing country changes from Japan to Thailand.Export products, with low added value, to Thailand where the final assembling base is located.	A local content rate hardly improves. Production with high added value starts.
Industrial structure	Two different types of companies exist. State-owned enterprises conduct integrated production. Others produce "after parts." Each conducts each own business independently	Companies, that produce final products, start to have business relationship with companies that produce "after parts."Although local companies enhance their technology, they cannot supply enough functional parts.	Along with the increase in production number, subsidiary industry expands. The secondary and the third local subcontractors occupy a large share.However, companies that have a business partnership with final assembling companies do not increase much.	Parts production companies increase. Production of functional products with high added value also is conducted.
Export possibility	Almost none	Almost none	Internal demand is central.Export of parts with low added value starts.	Start export of compact motorcycles to Thailand and other neighbor countries.

4. Policy option

- Reinforcement of authority in each state-owned enterprise shop

State-owned enterprises possess all process. Basically, governmental companies process products for companies that order. In that case, if the production number of the company does not increase, extreme increase of production number cannot be achieved. The failure to increase the production number results in decrease of labor rate of each shop. In addition, even the company tries to enhance their technology, each field, that needs to be strengthened, is dispersed. Effective investment cannot be achieved either.

Independence of each shop is a key to build up a competitive environment. Such an each independent shop should be able to freely conduct sales and investment activities.

- Support on ability improvement in both sales and comprehension of needs

Right now, most companies strongly believe that if they produce, products will be sold. Not only a sales ability is low, but also an interest in comprehending the needs of customers is low as well. Especially, the characteristic can be seen among many governmental companies. A partial companies succeeded in acquiring sales ability and reflecting needs of customers to products. As a result, such companies are rapidly growing.

At first, importance is to let the companies to be aware of a comprehension of needs of customers. In order to let them realize the fact, improvement of sales ability is important. Then, collecting of customers' opinion is necessary. Active movement, holding trainings and seminars, to make companies to determine the importance is necessary.

- Improvement on production management ability

Many companies do not make the best use of existing facilities. However, the companies claim that the productivity does not increase because they do not have new facilities. Normally, while companies make good use of existing facility, at the same time, in finding an area, which needs to be improved, is a necessary step. After finding such a problematic area, finding a solution comes next. In this case, solution can be an introduction of new facility. Such a careful analysis is indispensable. Companies should make the best use of existing facility. Improvement of product management ability is essential to make it happen.

Companies should actively conduct training and seminars. An use of consulting service is also helpful. Clarifying in each problem that a company has is extremely important.

- Reinforcement of technology development

For a while, instead of developing a new product, enhancement of technology is necessary. Developing products that reflects needs is necessary in the future. Therefore, a conduction of technical guidance by providing technical trainings and seminars are necessary to improve technology for a while. In the future, conduction of trainings and seminars about an original design development is also necessary.

- Advancement of small and intermediate companies

Small and Intermediate companies, that posses various technology, will shoulder the future destiny of machinery industry in Viet Nam. Although current industrial structure centralize governmental companies, advancing many small and intermediate companies is necessary. And creating many extensive industries are sought. For that reason, establishing business environment for small and intermediate companies is important.

- An establishment of physical distribution network

Northern companies and southern companies sometimes cannot have a business relationship because of a physical distribution problem. Considering a status of industrial accumulation, advancement by fusing the entire industry in Viet Nam is desirable. In reality, a Japanese-affiliated company, located in the north, said that they determine a southern company possesses technology; however, the poor physical distribution network prevents them from having a business relationship. In order to advance the entire industry, improvement of the domestic physical distribution network needs to be started immediately.

- Financial support

Raising funds is limited especially among private companies. Most mechanic facilities are very expensive. Considering the current interest rate, an acquisition of new facility introduction is impossible. In the future, a need for new introduction of facility will increase. When the need arise, company will not be able to start new technology because they cannot raise funds. A long-term low interest rate loan system needs to be furnished. For instance, giving a financial assistance for an introduction of new facility is helpful. Anyways, a financial support is necessary.

- Satisfaction of working environment

Most people who work in the machinery industry have a difficult working condition in Viet Nam. From now on, in order for company to improve technology and developing ability, raising staffs is necessary. Especially, a shortage in staffs with production management, technical engineers, and the middle class management staffs exist. Colleges of engineering and vocational colleges of technology are substantial. However, many graduates are involved in service related industry, instead of being

involved in machinery industry. A working environment of machinery industry is not in a good condition. A reinforcement of the staff training and a reformation of working environment are indispensable.

Table ix: A policy option in Viet Nam machinery industry

		2005	2010	2020
Agric-ultural mach-inery	Future	· Market is an internal demands basis. · Active sales activity· Use of existing facility· Improvement of the production management ability and production facility · Reflect internal demands to products	· Centralize in internal demands in the Market. Advancement into the AFTA market (centralize in Laos, Cambodia, etc.) · Start acquiring foreign needs · Conduct new product development (domestic needs) · Invest for new facility	· Pioneer AFTA market in a full-scale · Product development reflecting foreign needs · Companies, that develop the forefront technology, appear · Collaborative development system with foreign companies
	Policy	<Incubation Era> · Conscious revolution of the governmental companies · Governmental companies revolution (dispersion, etc.) · Supply market needs information · Guidance for the production management technology	<Support for Independence> · Acquisition of foreign information · Training in Marketing method · New product development (guidance for improvement of designing ability) · Financial support for facility investment	<Take Off Period> · Foreign information· Financial support · Technology development support
	Export	(Almost none)	· Internal demand is central.A partially to the AFTA membercountries	· AFTA member countries
Moto-rcycle	Future	· Foreign-affiliated companies produce products · The original local content rate is fifty percent · Market is in Viet Nam	· Foreign -affiliated companies produce products · The local content rate is seventy percent · Market is in Viet Nam. Parts are exported to AFTA area	· Foreign -affiliated companies produce products. Partially, like OEM production. · The local content rate is eighty percent
	Policy	· Protection of domestic industry · Creation and development of parts companies	· Creation and development of parts companies	· Creation and development of parts companies
	Export	(None)	Export parts	Export compact motorcycle and parts

2 – 4

Policy on Assisting Development of Infant Industries in Viet Nam

Pham Quang Ham

Development Strategy Institute

1. Trends of shaping and developing infant industries in Viet Nam to achieve objectives of industrialization and modernization

(1) During the past 10 years, growth rate of industry has reached a high level, averaging 14.5% per annum, despite of a slight decline due to monetary-financial crisis in the region. Such a development has created a move of economic restructuring, urging up the process of national industrialization and modernization. Industry has an active impact on development of other sectors, particularly agriculture. Percentage of value-added increase in GDP has been raised from 18.8% in 1990 up to 23% in 1995 and 26.8% in 1998. Key industries have seen a significant increase, enabling to make better use of domestic resources, a number of industrial products have gained competitiveness, meeting market demands. Growth rate of major industrial products after 9 years is as follows:

Products	Output increase 98/90 (times)	Average growth rate per annum(%)
Crude oil	4.63	21.11
Coal	3.31	11.03
Cement	3.71	17.81
Steel	8.41	30.50
Chemical fertilizer	2.75	13.48
Insecticides	2.18	10.23
Paper	3.80	18.16
Ready-made garment	2.31	11.03
Weaving threads	1.22	2.52
Shoes, footwear	9.07	31.72
Beer	6.56	26.51
Processing machines	1.73	7.09
Diesel engine	1.45	4.75
Electric engine	3.96	18.77
Machine tools	0.84	-2.16
TV assembly	3.81	18.20

Industrial experts also have seen a high growth rate, contributing significantly in export turn-over of the whole country. A number of industrial products have high export turnover are (in USD million):

Unit: million USD

	1991	1995	1996	1997	1998	1999
Crude oil	581	1,033	1,346	1,426	1,239	1,860
Textile and garment	158	850	1,150	1,503	1,450	1,500
Leather shoes	10	296	530	965	1,031	1,350
Electronics	0	20	100	450	480	650
Coal	0	89	114	110	102	96
Fishery products	-	621	697	781	858	950

Foreign direct investment (FDI) to the industry from 1988 to 1999

	Total projects	Registered capital	Legal capital
1988-1999	2,800	37,088	17,048
of which, industry	1,426	4,273	7,287

In 1999, licensed projects numbered 312, with registered capital USD 1,568 million, of which there were 218 industrial projects with registered capital of USD 856 million. Some important industries have attracted much FDI such as crude oil (100%), steel manufacture and steel structures (70%), steel rolling (54%), cement production (24% and expected to be 41% up to the year 2000), electronics (50%) etc.

The State has focussed on infrastructure development to create favorable conditions for industry development and FDI attraction. So far, 67 industrial and export-processing parks have been approved with their plans, among them 58 areas have been set up (38 parks in the South), concentrated in the key region and 4 parks in Eastern part of the South, 13 parks in the North concentrated in the key region and 7 parks in the Central region. There have been 35 industrial and export-processing parks with FDI projects, however land-use efficiency is still low, attaining only 21.7% as compared to rentable land area. Up to the end of 1998, 458 projects have been licensed for investment to industrial parks with total capital amounting up to USD 6.023 million and site area for project implementation is of 1.577 hectares (as compared to 6.983 hectares that have been invested to infrastructure building). FDI to industrial and export-processing parks has contributed considerably into involving more than one hundred thousand laborers and value of export turnover, that represents 11% of export turnover of the whole country.

The sector of state-owned enterprises has been restructured, reducing the number of unprofitable enterprises that failed to accommodate to new management mechanism. For 9 years, the number of industrial enterprises has been reduced by 977 (from 2,798 enterprises in early 1990 down to 1820 ones in late 1999). Similarly, cooperatives have been reduced from 23,024 down to 1,729 in 1995. There have been a lot of policies to encourage development of private sector. The number of private businesses has been increased from 770 in 1990 up to nearly 8,000 in 1996.

Generally, almost enterprises have been focussed on intensive investment, technological renovation, management renovation. Therefore, many enterprises, particularly FDI enterprises, have more advanced technologies.

However, there are also industries who lost markets due to backward technology, low management efficiency, unstable quality and high cost-price.

(2) Achievements obtained by industrial sector during past time are resulted from the policy of renovation, rearrangement of production in industry. Enterprises in the industry have been gradually familiar with market mechanism, not subject exclusively to subsidies from the State, and aware of necessity to raise competitiveness of goods on the market. However, it is noteworthy to identify many weak points, to overcome particularly in long-term vision, enabling to create a new industrial structure which is economic-efficient and competitive on the market as well as to exhaust potential of our country. Remarks on existing structure of the industry sector are as follows:

- Exploitation industry: For recent years, this industry has seen a strong development particularly in oil and gas exploitation, which plays an important role contributing to the start-up stage of national industrialization process. Currently, exploitation industry represents about 14.4% of industrial output value, particularly oil and gas industry accounts for 12%. Crude oil output in 1999 reached 15 million tons, export nearly USD 1.7 billion, contributing more than 10% to export turn-over of the country. In the years to come, this resource will be increased, particularly gas, enabling us to develop processing industries, involving particularly power industry and chemicals, fertilizer industries. At the same time, it also opens development perspective for many territorial areas.
- Processing industries: Percentage of processing industries represents nearly 80% in industrial output value. (1) Of which, processing industries that use raw materials from agriculture, forestry and fishery sector, account for a highest percentage, over 30% of industrial output value. Many exported products of high turnover value and competitiveness on the regional market have been created such as: fishery products, rice, coffee, rubber, cashew-nut, tea etc... However, it is only at a preliminary stage of processing, mainly export of raw materials. Processed raw-materials of farming products account for only over 30%, a low percentage, the remainder will be sold on the market in the form of fresh products. This industry strongly developed will result in a trend of re-division of labor in agriculture, in the orientation towards industrialization. However, in recent years, labor structure between agriculture and industry has seen a very slight change. Some products having favorable advantages such as export vegetable and fruit have not been developed to the utmost of potential. (2) Labor-intensive industries such as textile, garment, leather-shoes, accounting for nearly 13% of industrial production value, have contributed significantly to export turnover. During the past years, these industries mainly dealed with export processing, creating thus more jobs for the community and production distribution over many parts of the country both in urban areas and rural areas. These are industries, which Viet Nam has advantages in respect of manpower with low wages. However, the form of processing to order brings along low added value. Association ties within the industry are still weak, most raw materials are imported from overseas. The main reason is poor technology that results in low quality. On the other hand, another reason is due to bad quality of marketing, mainly relying on partners who give order for processing work. Business environment is still restricted, not creating much motive force to

the development of small and medium businesses and private sector. (3) Mechanical engineering industry and electronic industry and information technology industry are high-tech industries involving many workers, particularly highly qualified labor. Currently, these industries account for a small percentage in industrial output value, about 6-7%. In recent years, a development has been beginned with assembly industry particularly assembly of automobiles, motorbikes and electronic consumer goods. These are industries involving many workers of higher technical qualification. However, it's only the first stage which fails to create assistance industries, production facilities for accessories or components associated with assembly industry. Not yet shaping a network of small and medium businesses associated with big companies, so efficiency is not high, not enabling to raise goods competitiveness on the market. Demands of local markets are very diversified in terms of products from these industries, but not yet responsive because market demands are not high for having an efficient production-scale on the one hand, and the industry itself, on the other hand, due to its low technological level, its products are of low competitiveness, and overridden by imports.

- Trend to move to high-tech industries is only in the first stage. Its impact on development of national economy is still small. Electronic and information technology industry starting up from assembly has involved a number of production facilities for components and equipment. Software industry also begins to develop firstly application software. IT program has developed across the country in system of management and accounting. Currently, high-tech parks are being developed in two North and South regions, so as to associate R & D, production and human resource training.
- Industries of production and supply of water and power are regarded as infrastructure for industrial development, so they are given priority to be invested for development. Their growth rate in recent years reached about 15% per annum on average.
- Industrial links are still weak, firstly those of production of upstream processes and downstream ones. Almost raw materials, equipment and spare-parts and a part of semi-products for industrial production have to be imported, subject to external market, so domestic resources cannot be exploited efficiently. Assistance industries are underdeveloped, most of spare-parts and additive materials are also subject to imports or overseas partners. As a result, cost-efficiency is low and industrial competitiveness is weak.
- Impact from industry on other economical and technical sectors and even on itself is still small. Mechanical engineering industry only meets about 8% of local demands for equipment and spare-parts. Mechanical engineering industry has a small impact on agriculture production. Mechanization of land preparation only meets about 30% of demand and targets to be reached in a couple of years will be 40%. In processing industry, almost technologies are old-fashioned, equipment has been changed slowly, local industry of machine construction is not up to requirements.
- Percentage of raw materials from agricultural products that are industrially processed is still small,

for sugar-cane, it reaches only 20%, coffee 40%, vegetable and fruit 50%, meat 3% etc. Therefore, many times farming products are stagnated which causes degradation and waste and no cost-savings can be made. Demands for processing equipment in the upcoming years are large and urgent.

- Ship-building industry is one of important industries of Viet Nam, a country with more than 3,000 km of coast with more than 100 sea-ports. At the moment, mechanical engineering industry meets only about 20% of local demands for new of ships building and 15% of local demands for repairing ships and boats. Every year we have to spend from 400 to 600 million USD for new building and repair of ships and boats carried out abroad, in conditions of foreign exchange balancing.
- Textile and garment industry also imports almost raw materials, chemicals, dyes, equipment, spare parts and even some additive materials for garment industry. Fabric supplied for export garment industry is also imported from processing orderer-clients. Local textile industry supplies a very small quantity, about 10%. Therefore, export effectiveness is low, foreign currencies obtained are used mainly for manpower cost and partly for equipment depreciation.
- Industrial enterprises are generally of small size and low technological qualification. Manufacturing technologies are old-fashioned from 2 to 3 generations, percentage of backward and average technology is from 60 to 70%. Percentage of added value of industrial processing product is low, rate of power-consumption per unit of product is high, monotonous product, high cost-price, low labor-productivity in industry, therefore competitiveness is poor.

(3) Industrial development plays a crucial role in the cause of national industrialization, struggling for becoming an industrial nation within 20 - 25 upcoming years. The seventh resolution of Party's Central Committee has defined "Industrialization and modernization is a process of radical and comprehensive reform of activities in production, business, service and socio-economic management from using basically manual labor to using widely manpower together with advanced, modern technologies, facilities and methods, basing on scientific and technological development to create higher social labor productivity".

Industrialization associated with modernization, require that industrial development should access to modern technologies of our era. Scientific and technological advances play an important role, as a key for rapid economic development and shortening period of industrialization in many countries. Science and technology is a factor determining the competitiveness of industry both in quality and labor productivity. To achieve national industrialization and modernization, there should be an intensive conversion of structure of the industry as per following trends:

- Conversion from industries using advantages of Viet Nam in terms of manpower and natural resources (particularly in agriculture, forestry and fishery) into more intensive processing industries.
- Conversion from downstream industries into upstream industries.
- Conversion from low technology industries into industries with high technologies, linking tightly

industrial development with technological development.

This structure conversion may take place both gradually step by step and at the same time, subject to opportunities created by the economy.

In next coming years, it requires to focus on developing industries having advantages in competition and important contributions to export. At the same time, it is necessary to promote the development of a number of industries of importance as motive force to promote rapidly the process of national industrialization and modernization (NIM) - infant industries.

2. Infant industries in Viet Nam

(1) In long-term strategy, it requires to identify important industries to have nourishing and development policies, creating industries with competitiveness in the future. These industries should become those urging forward the process of industrialization and modernization (IM). This requirement is more urgent in the trend towards a knowledge economy in next century. There are a lot of consideration criteria to identify such industries. In our opinion, there are some criteria as follows:

- Creating capacity for developing modern technologies and intensifying industrial links. Impact spreads to technological qualification improvement and developing other countries. Raising social labor productivity and competitiveness of the sector and competitiveness of the nation.
- Exploiting comparative advantage of the country in terms of human resources particularly of trained and highly qualified workforce, transformed into competitive advantages.
- Creating national industrial potential with a nation of population over 100 million after the year 2010.

(2) Studying on competitiveness of important industries, the Ministry of Industry in a document has divided industries into 3 groups:

- Group having competitiveness includes industries of textile-garment, leather-shoes, and industry of metal structure manufacture.
- Group having goods of competitiveness in future if protected by the State in initial stage includes: weaving threads industry, mechanical engineering industry, electrical equipment industry, electronics and information technology industry, chemicals industry, paper industry, porcelain and glass industry, construction materials industry (of which, there is cement production) and a number of industries of goods belonging to food processing industry.
- Group of industries having goods of low competitiveness: steel industry

Mechanical engineering industry

Industrialization and modernization is a process of radical change in terms of technology for all sectors of national economy. For any product or industry, application of modern technology also relies on using machine in an appropriate way. Therefore, mechanical engineering industry plays an important role, it is not only an industry of manufacture but also an industry supplying tools to other areas of manufacture and processing industries. In almost industrialized nations, mechanical engineering has developed into a very sophisticated industry associated with electronic and IT industry.

Currently, mechanical engineering industry (MEI) has nearly 460 state-owned enterprises, over 900 private production businesses, nearly 30,000 individual production households of small-size under 10 employees for each facility. Total workforce of the whole industry numbered 197,000, among them about 10,000 are of university qualification. There are 12 specialized research centers.

Output value of MEI accounts for 9% of that of the whole industrial sector.

Exports reach nearly USD 55 million per annum, including mainly household utilities and other machines, however, its structure is not stable and of slow growth-rate, representing only about 1% of total value of export turnover.

As an important industry, but MEI of Viet Nam has many weak points. One of these weak points is the lack of related industries and auxiliary industries. Most raw materials for producing high quality products must be imported. Mechanical engineering companies have few opportunities to access to consulting services or technical design services, quantity of "soft" inputs during manufacture process is very small as compared with the outside world.

Production is limited due to old and backward equipment and old-fashioned production system (there are many kinds of equipment which are over 40 years old from different origin and not renovated). As a result, percentage of rejected products is high. Production organization is usually not self-contained, resulting in low productivity, high cost and low competitiveness.

Technical workforce for this industry is very important, deciding the industry's success but is also limited. Workers of high skills and workmanship has declined rapidly in recent years. Many engineers trained for the industry have to work in other industries inconsistent with their trained professions. Number of workers in mechanical engineering courses in vocational training centers or universities also declines because this declined industry is not attractive for them.

MEI consists of many specialties: manufacture of equipment and machines for agriculture and processing industry; repair and new building of sea-ships; manufacture of machine-tools; automobile and motorbike industry; manufacture of electric equipment; manufacture of construction machines and structures; manufacture of machinery and spare-parts for light industry; mechanical engineering for consumer goods etc... There is a large domestic demand for products of this industry, however as per estimation, they meet only 8-9% of demands. Analysis of import of mechanical products in recent

years indicates that: 30% of luxury consumer products of mechanical engineering industry such as car, motorbike, washing machine, fridge..., 25% of individual equipment and 30% of complete equipment. Particularly in 1998, import was over USD two billion for complete equipment, if local MEI participated in manufacture of a part, it was a great production value.

MEI has not to start up from zero but it has a long history of development over several decades with a certain basis, particularly high-skilled staff of engineers, technicians and workmen. In difficult conditions, many products from the industry have meet market demands such as various kinds of engine, water-pumps for irrigation purpose, a number of equipment for the transport industry, individual equipment for processing industry, new building and repair of sea-ships of 11.500 tons of tonnage, assembly industry with percentage of domesticating some kinds of parts/ components, consumer goods/ mechanical products such as electric fan, bicycle... Therefore, if assisted by policies, restructured, modernized in terms of equipment, MEI certainly has a good prospect for development in the future.

Orientation of MEI development in the years to come is to meet 40% of local demands and to increase step by step by 30% of the industry's output up to the year 2010. At the same time, domestic content of mechanical products should reach up to 60.70% of product value. One of important contents in establishing the industry assistance policies is selecting proper product structure, to meet requirements for industrialization and modernization. Key products of MEI should be emphasized onto specialties and product groups in the major fields as follows:

- Mechanical engineering to serve agriculture and processing industry
- Ship-building industry
- Machine-tools industry
- MEI manufacturing electric equipment and materials
- Automobile and motorbike industry with the program for domestication of components/ accessories production.
- MEI for equipment for light industry and construction equipment.

MEI should be restructured to raise the level of production specialization. It is possible to investigate the shaping of industrial groups, for instance group of industry—agriculture, industrial group of transport equipment, group of textile and garment—mechanical engineering, industrial group of mining and exploitation...

Intensifying the investment to assistance industries, key technology industries so as to improve product quality for the industry.

Important programs for development assistance in long-term vision are: development of human resources; upscaling of domestic technologies, development of R & D capacity through the efforts of the industry associated with research institutes and universities.

Electronic and IT industry

Electronic and IT industry is usually regarded as a "leading" industry in the economy. One of reasons for regarding it as "leading" is that, application of electronic technology and IT technology into other industries will result in creating inventions, raising labor productivity, creating new markets and more jobs. It is just for this reason why governments of many nations have focussed on the industry of electronic technology and IT more than any other industries, this has been the trend in the years of 80's and 90's.

So far, electronic and IT industry in Viet Nam remains to be a rather small industry, its considerable growth pace takes place only in a small number of products. Output value of the industry represents about 4% of output value of the whole industrial sector. Currently, in the whole country exist 74 state-owned enterprises with total capital over VND 400 billion (equivalent to USD 38 million), involving over 100 thousand employees. Mostly concentrated in 2 big cities, Hanoi and Ho Chi Minh city. There are 52 private businesses with total capital of VND 500 million, involving 1900 employees. Enterprises with direct foreign investment (foreign-invested enterprises FIE) up to the end of 1999, numbered 30 joint-ventures with total invested capital of USD 397 million, involving 3,700 employees, 39 foreign-owned enterprises with total investment of USD 365 million, involving 3160 employees.

Currently, consumer's electronic goods still prevail over the products category of the industry, industrial electronic products represent only about 13%. Capacity of TV set assembly is estimated about more than 2 million sets per annum, but local market currently uses about 0.7 million sets per year. Beside TV sets, electronic companies also assembles a large quantity of other household appliances such as cassette-radio, stereo tape-recorder... but in this area, production capacity also exceeds demand. So far, this kind of assembly remains to be prevailing. A major part is implemented under contracts in initial design of product, method of equipment and arrangement of production line. Domestic establishments do not develop initial design and manufacture of commercial nature, there are not yet marks of significant commercial nature for consumer's goods of household utilization and industrial electronic products. Assistance industries have not been developed, there is only newly shaped industry of manufacture for low added-value products. Components production is under-developed. Regarding human resources, there exist a very small number of highly qualified engineers in this industry. Staff of leading scientists, designers, R & D engineers is in severe shortage.

The area of applied informatics strongly developed after 1990 has rapidly spread on a large scale our all sectors, localities, public services and schools. Computer science has developed its effects in state-management, in many enterprises, in banking, finance and education.

However, at the moment, there exist no industry for manufacturing complete P.C. that have to be mainly imported. In the whole country, there exist only a line of computer assembly by GENPACIFIC company, with capacity of 50,000 units per annum, but operating with low output and inefficiently.

Some business facilities organize the assembly in the module-form of some hundreds units for each commercial transaction.

Software is now applied and produced by a number of universities, research centers and some specialized companies and has some advances to serve practical needs. However, only a number of simple application software have been developed. Basically, they are now doing business of distribution and service for overseas computer companies.

Telecommunication is one of industries, which has the most speedy growth pace. Telecommunication is regarded as a spear-headed industry in technological renovation, catching up demands of the society and market economy, which is accepted by customers.

In such actual status of electronics and IT industry as at the present, if gradually developed from lower to higher level and started up from assembly to manufacturing components and then up to complete products, it is hard to catch up other countries, even countries in the region. Taking opportunity to come directly to selective modern technologies, focussing on developing software technology relying on intelligence of Vietnamese human resources. Giving priority to industrial and specialist electronics to create favorable conditions for developing manufacture of electronic components. There should be an orientation to export at the initial stage electronic and IT products. Combining internal strength development with involving FDI, particularly focussing on high-technology transfer. Urging forward scientific and technological research on a basis of top-priority investment, to have many products bearing trade-marks of Viet Nam. These are view-points for developing electronic and IT industry. Many experts found that going immediately to IT as a spear-headed industry of top-priority for development is a proper strategic decision.

Development of this industry will give an impact multiplying competitiveness of economic sectors on the regional and world's market.

It is a high-tech industry, developing strength of our human resources having educational qualification, and of a large number of young intellectuals of our country. It is recommended that the State and government will give a prior concern and assistance so that this industry could become a motive force for our country's economy in the future.

It is necessary to create and institute a healthy legal environment as a basis for R & D activities, production and commerce of products of the industry, particularly software products. The role of the State assistance is to be implemented for the industry development, ranging from State management organization to assistance programs for R & D, human resources training, creating environment for developing all economic sectors and individuals, involving FDI and protection in the initial stage.

Chemicals industry:

The chemicals industry is developed on a basis of using efficiently natural resources of the country.

At the same time, its important target is to provide in-full fertilizers and insecticides for agricultural development as well as to secure a number of chemical products for other economic sectors and domestic consumption. Viet Nam has natural resources used as raw materials for chemicals industry such as: oil and natural gas (for industry of organic synthesis and fertilizer manufacture), apatite for phosphatic fertilizer; natural rubber (for rubber products such as automobile and motorbike tyres...), sea salt (for production of soda, chlorine...); limestone (for $CaCO_3$ and soda).

Viet Nam chemicals industry is yet small but many specialities have been shaped such as: manufacture of fertilizer, pesticide, fundamental inorganic chemicals, detergents, consumer's chemicals ... Currently, 8% of demands for phosphatic fertilizer for agriculture, 30% of demands for soda, 15% of demands for automobile tyres have been met. A number of products have met domestic demands such as insecticides, phosphatic fertilizers, batteries, detergents, bicycle tyres...

Chemicals industry in 1995 - 1999 period has an average growth rate of 15% per annum. Up to the year 1999, it has 17 joint-venture companies (with foreigners) mainly in manufacturing consumer's chemicals, only 3 joint-ventures producing raw materials for chemicals namely active agent for insecticide, PVC plastic substance and DOP plastic substance.

Existing problems and weak points of Viet Nam chemicals industry are: (1) Production capacity is very small and productions are limited (2) Technological qualification is still backward, resulting in high material consumption, low competitiveness of products (3) In the industry's structure, oil-chemistry specialty, a core area producing a number of raw materials for other industries, has not been shaped. It is necessary to prepare its efficient development after completing oil-refinery plant. (4) Financial capacity is still restricted, not enough to invest into big-sized projects.

Targets of developing chemicals industry has a rather complete structure including main production fields such as: manufacture of nitrogen fertilizer and phosphatic fertilizer, industrial and consumer's rubber, a number of inorganic and organic key chemicals, consumer's chemicals... Shaping a number of modern industrial parks for chemicals, chemicals manufacturing groups of large scale and using modern technologies. Rapid investment to manufacture of products in large domestic demands and having advantages on raw materials and exportable such as: phosphatic fertilizer, tyres of automobile, motorbike and bicycle, high-quality fibres, soda and so on.

Chemicals industry will be developed on both areas of consumer goods and capital goods. In the first stage, in order to come to meet oil refining industry, it is necessary to import interim raw materials to produce some raw materials such as PVC, PE that are currently in large demand. Development of chemicals industry is carried out as per two levels: upstream (capital goods) and downstream (consumer goods).

Incentives should be given to all economic entities for investing and developing chemicals industry, particularly downstream segment.

Development of chemical industry, particularly downstream production processes, and large projects require enormous funds and high technologies, so the State should give special assistance in the first stage.

3. Assistance policies of the State

From actual conditions of weakness in many aspects, particularly in technology and competitiveness, with a view to developing into key industries, with enough strength to re-equip the economy, urging forward the process of industrialization and modernization, the State is required to have special assistance policies in the first stage. Assistance from the State is necessary as a start-up motive force for sustainable development of industries, avoiding the maintenance of persistent requirements for protection as experienced in the past. Particularly in the trend of integration into regional and world's economies, it is impossible to maintain trade protecting barriers by means of customs and non-customs.

It is desirable to organize detailed study in respect of each elected trade industry to develop specified assistance policies, enabling these industries/ trades to develop by itself rapidly, without relying exclusively on the State or government.

Each trade/ industry has its own development program with a specified progress schedule.

There are two kinds of assistance policies designed to institute and nourish these industries: (1) In long run, it is necessary to focus on measurers/ solutions to create prerequisites for development of the industry. Each industry of production has its own features, however generally, solutions for create high-quality human resource, strong assistance for science and technology, creating necessary infrastructure ... are all top-priority crucial solutions. (2) In the next coming years, it is necessary to create favorable environment for business and production activities. Truly encouraging and assisting for development of different industries. Creating favorable environment to attract various economic entities and FDI to be involved in investment and development of the industry.

Policy of training and using efficiently human resources

Human resources is a determining factor for successful implementation of strategy of industry development including key industries. First and foremost, it requires to improve qualification for existing staff at the same time prepare a staff of high qualification, modern knowledge to meet requirements for development in the years to come.

With regard to existing staff, it requires to have both incentives to use qualified persons and retraining, adding new knowledge and catching up new technologies. Training and using staff are designed how to develop dynamics and effort of staff in a selective manner. Retraining is designed to meet requirements of efficient integration into the region and the world. New education and training should prepare for

higher development steps of industries and for access to new technologies of the era. It is needed to revise starting from curriculum and appropriate kinds of training. Attention must be paid to orchestrated training of managerial staff, technicians and high-skilled technical workmen. Improvement of human resources quality for industrial development should be examined starting from general education system associated with educational reform requirements.

Assistance policy on scientific and technological development

Technology is one of important factors to raise labor productivity, improve product quality and competitiveness of business and industries. For key industries, the factor of technology is more important and is of determinant nature. In present conditions, receiving technological transfer from overseas is the most rapid and efficient way. Import of equipment and receiving direct foreign investments constitute key channels for technological transfer. For efficient transfer, it requires to strengthen own capacity of recipient-enterprises, in applying and upgrading imported technologies. It requires to improve technological capacity of the enterprises. Strengthening ties between research institutes, universities and enterprises. Providing services for R & D and technical consulting services of high-quality.

The Government should give priorities for applying and developing high technologies, particularly IT. Having incentive policies such as tax exemption for application of new technologies, tax reduction or exemption in the first stage for products of high-tech contents... Upgrading research institutes to increase capacity of high technology creation and assimilating efficiently imported technologies. Increase budget percentage of R & D in key industries.

Giving incentives to intellectual labor, particularly intellectual properties and problems of copyright and stimulating environment for creativeness.

Creating favorable conditions to attract investments for developing key industries

Fund is a determinant factor for growth and development of key industries. However, obtaining fund and using fund efficiently have interactive relationships. Using fund efficiently, in its turn, create conditions to have accumulation for further development. So, mechanism for fund sourcing to force enterprises to be responsible for themselves to fund source is very necessary.

Local fund plays a determinant role, it also influences on another important resource, i.e. FDI (foreign direct investment). In order to have domestic fund, in addition to solutions for mobilizing through banks form savings resources of the community and other savings devoted to investment, it is necessary to create an environment favorable for businesses and enterprises. From this, enterprises could have profitable business operations, accumulation for self-development. Regarding key industries, in the first stage, the State should create favorable conditions giving long-term loan with low interests to invest to a number of important projects. At the same time, the State will invest to some important programs such as training and R & D.

Together with incentives for domestic investment, a favorable environment will be created to involve FDI to key industries.

Market policy, market protection for key industries

The State is recommended to have policy to institute market and protect market for products of key industries. Firstly, the State should be a client of these industries, projects of investment or purchase by the State will order goods to these production industries, particularly products in terms of mechanical engineering or electronics and IT. These should be policies for using local goods when local production capacity is available.

And it is necessary to have demand stimulating policy for rural market whose buying capacity is still limited, such as giving loan to farmers at low interests or repayment on credit with a view to enable them to procure mechanical equipment, fertilizers and insecticides. It requires to organize well post-sales services, repair service, guidance for operation and maintenance...

At the same time, it needs to take measures for market protection, prevention of illegal imports, defective goods, imitated goods... from entering into local market and overriding local products. Promulgating technical standards for important products to prevent from undersirable goods/ products on our market as well as providing information to customers, advising them to buy quality products.

Parallel to incentives given to domestic market development, it requires to encourage strongly export of our products to overseas market and to have solutions for assisting our enterprises with secking export markets.

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Industrial gross output by ownership

(at constant 1994 prices)

Unit: Bill.dongs

	1995	1996	1997	1998	Prel.1999
Total	***103,374.7***	***118,096.6***	***134,419.7***	***151,223.3***	***166,965.3***
I. Domestic economic sector	***77,441.5***	***86,534.7***	***95,541.9***	***102,864.8***	***108,946.3***
1. State owned enterprises	51,990.5	58,165.6	64,473.9	69,462.5	72,604.3
Central	33,920.4	38,411.0	42,215.1	45,677.2	47,986.0
Local	18,070.1	19,754.6	22,258.8	23,785.3	24,618.3
2. Non state	25,451.0	28,369.1	31,068.0	33,402.3	36,342.0
Collective	650.0	684.4	751.2	858.8	
Private	2,277.1	2,791.9	3,223.9	3,382.7	
Households	18,190.9	18,977.4	19,703.7	20,826.8	
Mixed	4,333.0	5,915.4	7,389.2	8,334.0	
II. Foreign invested sector	***25,933.2***	***31,561.9***	***38,877.8***	***48,358.5***	***58,019.0***

Source: Statistical yearbook-1999. General statistical office

Structure of industrial gross output

Unit: %

	1995	1996	1997	1998	Prel.1999
Sum	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
I. Domestic economic sector	***74.9***	***73.3***	***71.1***	***68.0***	***65.3***
II.Foreign invested sector	***25.1***	***26.7***	***28.9***	***32.0***	***34.7***
I.Domestic economic sector	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
1. State-owned enterprises	67.1	67.2	67.5	67.5	66.6
2. Non state	32.9	32.8	32.5	32.5	33.4
1. State-owned enterprises	100.0	100.0	100.0	100.0	100.0
Central	65.2	66.0	65.5	65.8	66.1
Local	34.8	34.0	34.5	34.2	33.9
2. Non state	100.0	100.0	100.0	100.0	100.0
Collective	2.6	2.4	2.4	2.6	0.0
Private	8.9	9.8	10.4	10.1	0.0
Households	71.5	66.9	63.4	62.4	0.0
Mixed	17.0	20.9	23.8	25.0	0.0

Growth rate of industrial gross output

Unit: %

	95-96	96-97	97- 98	98-99	95-99
Total	***14.2***	***13.8***	***12.5***	***10.4***	***12.7***
I. Domestic economic sector	***11.7***	***10.4***	***7.7***	***5.9***	***8.9***
1. State-owned enterprises	11.9	10.8	7.7	4.5	8.7
Central	13.2	9.9	8.2	5.1	9.1
Local	9.3	12.7	6.9	3.5	8.0
2. Non state	11.5	9.5	7.5	8.8	9.3
Collective	5.3	9.8	14.3	-100.0	-100.0
Private	22.6	15.5	4.9	-100.0	-100.0
Households	4.3	3.8	5.7	-100.0	-100.0
Mixed	36.5	24.9	12.8	-100.0	-100.0
II. Foreign invested sector	***21.7***	***23.2***	***24.4***	***20.0***	***22.3***

Industrial gross output by kind of industrial activity

(at constant 1994 prices)

Unit: Bill.dongs

No	Sectoer	1995	1996	1997	1998	Prel.1999
	Total	***103,375***	***118,097***	***134,420***	***151,223***	***166,965***
I	***Mining***	***13,919.7***	***15,967.6***	***18,313.7***	***21,117.8***	***24,074.9***
1	Coal	1,677.2	1,929.8	2,229.1	2,138.4	1,670.5
2	Oil and gas	10,844.6	12,466.9	14,238.6	16,868.6	20,065.6
3	Metal ores	236.1	282.5	172.3	199.9	197.4
4	Stone and others mining	1,161.8	1,288.4	1,673.7	1,911	2,141.4
II	***Manufacturing***	***83,260.6***	***94,787.8***	***107,662***	***120,666***	***132,550***
5	Food and beverage	27,008.2	30,886.7	34,015.2	36,495.6	39,392.3
6	Cigarettes and tobacco	3,976.7	4,195.6	4,399.9	4,894.9	4,960.3
7	Textile products	6,176.2	6,373.6	7,261.2	8,365.9	9,288.9
8	Garments	2,949.8	3,400.3	4,325.4	4,666.5	5,031
9	Leather tanning and processing	3,569.9	4,468.8	6,614.3	7,082.6	7,898.6
10	Wood and wood products	3,323.5	3,198.5	3,145.7	2,956.3	2,824.1
11	Paper and paper products	1,946.8	2,293.6	2,643.8	3,177.7	3,526.3
12	Printing, copying and publishing	1,510.4	1,514.7	1,620.4	1,868.1	2,061
13	Coke and petrolium	343.2	208.7	83.5	107.8	143.5
14	Chemicals	5,085.6	6,283.1	7,222.5	8,143.6	8,979
15	Rubber and plastics	2,272	2,789.7	3,528	4,417.5	5,309.6
16	Non metallic products	9,200	10,120.6	12,222.8	13,744.4	15,278.8
17	Metallic	3,428	4,085.9	3,999.8	4,079.7	4,377.6
18	Metal products	2,331.6	2,941.1	3,558.8	4,210.3	4,783.5
19	Machinery and equipment	1,345.1	1,560.2	1,673.8	2,050	2,428.8
20	Computer and office equipment	27.9	39.5	37.7	228	300.5
21	Electric and electronic products	1,087.6	1,341.8	1,650.3	2,308	2,860.1
22	Radio, TV, telecommication equipment	2,064.8	3,078.7	3,278.1	3,477.6	3,571.1
23	Medical & accurate instruments	202.6	261.6	238.9	368.3	547.3
24	Assembling & repairing motor vehicles	1,459.7	1,375.2	1,629.3	1,667.9	1,843
25	Production,repairing other meand of transport	1,892.7	1,982.4	1,814.9	3,378.8	3,870.2
26	Furnitures	1,969.5	2,264.6	2,564.4	2,815.3	3,102
27	Reproduced goods	88.8	122.9	133.4	161	173
III	***Electricity, gas and water***	***6,194.5***	***7,341.4***	***8,443.7***	***9,440***	***10,340***
28	Electricity, gas	5,443.8	6,537.8	7,596.5	8,519.8	9,346
29	Water	750.7	803.6	847.2	920.3	993.9

Industrial gross output

Growth rate of IGO by the kind of industrial activity

Unit: %

TT	Sector	95-96	96-97	97-98	98-99	95-99
	Total	***14.2***	***13.8***	***12.5***	***10.4***	***12.7***
I	***Mining***	***14.7***	***14.7***	***15.3***	***14.0***	***14.7***
1	Coal	15.1	15.5	-4.1	-21.9	-0.1
2	Oil and gas	15.0	14.2	18.5	19.0	16.6
3	Metal ores	19.7	-39.0	16.0	-1.3	-4.4
4	Stone and others mining	10.9	29.9	14.2	12.1	16.5
II	***Manufacturing***	***13.8***	***13.6***	***12.1***	***9.8***	***12.3***
5	Food and beverage	14.4	10.1	7.3	7.9	9.9
6	Cigarettes and tobacco	5.5	4.9	11.3	1.3	5.7
7	Textile products	3.2	13.9	15.2	11.0	10.7
8	Garments	15.3	27.2	7.9	7.8	14.3
9	Leather tanning and processing	25.2	48.0	7.1	11.5	22.0
10	Wood and wood products	-3.8	-1.7	-6.0	-4.5	-4.0
11	Paper and paper products	17.8	15.3	20.2	11.0	16.0
12	Printing, copying and publishing	0.3	7.0	15.3	10.3	8.1
13	Coke and petrolium	-39.2	-60.0	29.1	33.1	-19.6
14	Chemicals	23.5	15.0	12.8	10.3	15.3
15	Rubber and plastics	22.8	26.5	25.2	20.2	23.6
16	Non metallic products	10.0	20.8	12.4	11.2	13.5
17	Metallic	19.2	-2.1	2.0	7.3	6.3
18	Metal products	26.1	21.0	18.3	13.6	19.7
19	Machinery and equipment	16.0	7.3	22.5	18.5	15.9
20	Computer and office equipment	41.6	-4.6	504.8	31.8	81.2
21	Electric and electronic products	23.4	23.0	39.9	23.9	27.3
22	Radio, TV, telecommication equipment	49.1	6.5	6.1	2.7	14.7
23	Medical & accurate instruments	29.1	-8.7	54.2	48.6	28.2
24	Assembling & repairing motor vehicles	-5.8	18.5	2.4	10.5	6.0
25	Production,repairing other meand of transport	4.7	-8.4	86.2	14.5	19.6
26	Furnitures	15.0	13.2	9.8	10.2	12.0
27	Reproduced goods	38.4	8.5	20.7	7.5	18.1
III	***Electricity, gas and water***	***18.5***	***15.0***	***11.8***	***9.5***	***13.7***
28	Electricity, gas	20.1	16.2	12.2	9.7	14.5
29	Water	7.0	5.4	8.6	8.0	7.3

Industrial gross output

Structure of IGO by the kind of industrial activity

(at constant 1994 prices)

Unit: %

TT	Sector	1995	1996	1997	1998	Prel.1999
	Total	***100***	***100***	***100***	***100***	***100***
I	***Mining***	***13.5***	***13.5***	***13.6***	***14.0***	***14.4***
1	Coal	1.6	1.6	1.7	1.4	1.0
2	Oil and gas	10.5	10.6	10.6	11.2	12.0
3	Metal ores	0.2	0.2	0.1	0.1	0.1
4	Stone and others mining	1.1	1.1	1.2	1.3	1.3
II	***Manufacturing***	***80.5***	***80.3***	***80.1***	***79.8***	***79.4***
5	Food and beverage	26.1	26.2	25.3	24.1	23.6
6	Cigarettes and tobacco	3.8	3.6	3.3	3.2	3.0
7	Textile products	6.0	5.4	5.4	5.5	5.6
8	Garments	2.9	2.9	3.2	3.1	3.0
9	Leather tanning and processing	3.5	3.8	4.9	4.7	4.7
10	Wood and wood products	3.2	2.7	2.3	2.0	1.7
11	Paper and paper products	1.9	1.9	2.0	2.1	2.1
12	Printing, copying and publishing	1.5	1.3	1.2	1.2	1.2
13	Coke and petrolium	0.3	0.2	0.1	0.1	0.1
14	Chemicals	4.9	5.3	5.4	5.4	5.4
15	Rubber and plastics	2.2	2.4	2.6	2.9	3.2
16	Non metallic products	8.9	8.6	9.1	9.1	9.2
17	Metallic	3.3	3.5	3.0	2.7	2.6
18	Metal products	2.3	2.5	2.6	2.8	2.9
19	Machinery and equipment	1.3	1.3	1.2	1.4	1.5
20	Computer and office equipment	0.0	0.0	0.0	0.2	0.2
21	Electric and electronic products	1.1	1.1	1.2	1.5	1.7
22	Radio, TV, telecommication equipment	2.0	2.6	2.4	2.3	2.1
23	Medical & accurate instruments	0.2	0.2	0.2	0.2	0.3
24	Assembling & repairing motor vehicles	1.4	1.2	1.2	1.1	1.1
25	Production,repairing other meand of transport	1.8	1.7	1.4	2.2	2.3
26	Furnitures	1.9	1.9	1.9	1.9	1.9
27	Reproduced goods	0.1	0.1	0.1	0.1	0.1
III	***Electricity, gas and water***	***6.0***	***6.2***	***6.3***	***6.2***	***6.2***
28	Electricity, gas	5.3	5.5	5.7	5.6	5.6
29	Water	0.7	0.7	0.6	0.6	0.6

Industrial gross output by sub-sector

(at constant 1994 prices)

Unit: Bill.dongs

		1995	1996	1997	1998	Prel.1999
	Total	***103,375***	***118,097***	***134,420***	***151,223***	***166,965***
I	***The agricultural, fishery, forest processing sector***	***38,352.2***	***43,164.1***	***47,104***	***51,239.4***	***55,662.6***
1	Food and beverage	27,008.2	30,886.7	34,015.2	36,495.6	39,392.3
2	Cigarettes and tobacco	3,976.7	4,195.6	4,399.9	4,894.9	4,960.3
3	Wood and wood products	3,323.5	3,198.5	3,145.7	2,956.3	2,824.1
4	Paper and paper products	1,946.8	2,293.6	2,643.8	3,177.7	3,526.3
5	Rubber products	2,097	2,589.7	2,899.4	3,714.9	4,959.6
II	***Labour intensive sector***	***12,695.9***	***14,242.7***	***18,200.9***	***20,115***	***22,218.5***
1	Textile products	6,176.2	6,373.6	7,261.2	8,365.9	9,288.9
2	Garments	2,949.8	3,400.3	4,325.4	4,666.5	5,031
3	Leather tanning and processing	3,569.9	4,468.8	6,614.3	7,082.6	7,898.6
III	***Hight-tech sector & sector wth close relative***	***41,165.6***	***47,875.5***	***54,128.1***	***63,071.4***	***71,069.5***
1	Coke and petrolium	343.2	208.7	83.5	107.8	143.5
2	Chemicals	5,085.6	6,283.1	7,222.5	8,143.6	8,979
3	Plastics	175	200	250	300	350
4	Non metallic products	9,200	10,120.6	12,222.8	13,744.4	15,278.8
5	Metallic	3,428	4,085.9	3,999.8	4,079.7	4,377.6
6	Metal products	2,331.6	2,941.1	3,558.8	4,210.3	4,783.5
7	Machinery and equipment	1,345.1	1,560.2	1,673.8	2,050	2,428.8
8	Computer and office equipment	27.9	39.5	37.7	228	300.5
9	Electric and electronic products	1,087.6	1,341.8	1,650.3	2,308	2,860.1
10	Radio, TV, telecommication equipment	2,064.8	3,078.7	3,278.1	3,477.6	3,571.1
11	Medical & accurate instruments	202.6	261.6	238.9	368.3	547.3
12	Assembling & repairing motor vehicles	1,459.7	1,375.2	1,629.3	1,667.9	1,843
13	Production,repairing other meand of transport	1,892.7	1,982.4	1,814.9	3,378.8	3,870.2
14	Coal	1,677.2	1,929.8	2,229.1	2,138.4	1,670.5
15	Oil and gas	10,844.6	12,466.9	14,238.6	16,868.6	20,065.6
IV	***Material, power & fuel sector***	***23,675.6***	***27,436.1***	***31,375.1***	***34,895.3***	***38,474.9***
1	Chemical Industry	5,603.8	6,691.8	7,556	8,551.4	9,472.5
	Coke and petrolium	343.2	208.7	83.5	107.8	143.5
	Chemicals	5,085.6	6,283.1	7,222.5	8,143.6	8,979
	Plastics	175	200	250	300	350
2	Metallic (Steel sector)	3,428	4,085.9	3,999.8	4,079.7	4,377.6
3	Non metallic products(Cement)	9,200	10,120.6	12,222.8	13,744.4	15,278.8
4	Electricity, gas	5,443.8	6,537.8	7,596.5	8,519.8	9,346

Industrial gross output

Structure of IGO by sub-sector

(at constant 1994 prices)

Unit: %

		1995	1996	1997	1998	Prel.1999
	Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
I	***The agricultural, fishery, forest processing sector***	***37.1***	***36.5***	***35.0***	***33.9***	***33.3***
1	Food and beverage	26.1	26.2	25.3	24.1	23.6
2	Cigarettes and tobacco	3.8	3.6	3.3	3.2	3.0
4	Wood and wood products	3.2	2.7	2.3	2.0	1.7
5	Paper and paper products	1.9	1.9	2.0	2.1	2.1
6	Rubber products	2.0	2.2	2.2	2.5	3.0
II	***Labour intensive sector***	***12.3***	***12.1***	***13.5***	***13.3***	***13.3***
	Textile products	6.0	5.4	5.4	5.5	5.6
	Garments	2.9	2.9	3.2	3.1	3.0
	Leather tanning and processing	3.5	3.8	4.9	4.7	4.7
III	***Hight-tech sector & sector wth close relative***	***39.8***	***40.5***	***40.3***	***41.7***	***42.6***
	Coke and petrolium	0.3	0.2	0.1	0.1	0.1
	Chemicals	4.9	5.3	5.4	5.4	5.4
	Plastics	0.2	0.2	0.2	0.2	0.2
	Non metallic products	8.9	8.6	9.1	9.1	9.2
	Metallic	3.3	3.5	3.0	2.7	2.6
	Metal products	2.3	2.5	2.6	2.8	2.9
	Machinery and equipment	1.3	1.3	1.2	1.4	1.5
	Computer and office equipment	0.0	0.0	0.0	0.2	0.2
	Electric and electronic products	1.1	1.1	1.2	1.5	1.7
	Radio, TV, telecommication equipment	2.0	2.6	2.4	2.3	2.1
	Medical & accurate instruments	0.2	0.2	0.2	0.2	0.3
	Assembling & repairing motor vehicles	1.4	1.2	1.2	1.1	1.1
	Production,repairing other meand of transport	1.8	1.7	1.4	2.2	2.3
	Coal	1.6	1.6	1.7	1.4	1.0
	Oil and gas	10.5	10.6	10.6	11.2	12.0
IV	***Material, power & fuel sector***	***22.9***	***23.2***	***23.3***	***23.1***	***23.0***
1	Chemical Industry	5.4	5.7	5.6	5.7	5.7
	Coke and petrolium	0.3	0.2	0.1	0.1	0.1
	Chemicals	4.9	5.3	5.4	5.4	5.4
	Plastics	0.2	0.2	0.2	0.2	0.2
2	Metallic (Steel sector)	3.3	3.5	3.0	2.7	2.6
3	Non metallic products(Cement)	8.9	8.6	9.1	9.1	9.2
4	Electricity, gas	5.3	5.5	5.7	5.6	5.6

Industrial gross output

Growth rate of IGO by sub-sector

(at 1994 price)

Unit: %

	Ngµnh	95-96	96-97	97-98	98-99	95-98
	Total	***14.2***	***13.8***	***12.5***	***10.4***	***12.7***
I	***The agricultural, fishery, forest processing sector***	***12.5***	***9.1***	***8.8***	***8.6***	***9.8***
1	Food and beverage	14.4	10.1	7.3	7.9	9.9
2	Cigarettes and tobacco	5.5	4.9	11.3	1.3	5.7
4	Wood and wood products	-3.8	-1.7	-6.0	-4.5	-4.0
5	Paper and paper products	17.8	15.3	20.2	11.0	16.0
6	Rubber products	23.5	12.0	28.1	33.5	24.0
II	***Labour intensive sector***	***12.2***	***27.8***	***10.5***	***10.5***	***15.0***
	Textile products	3.2	13.9	15.2	11.0	10.7
	Garments	15.3	27.2	7.9	7.8	14.3
	Leather tanning and processing	25.2	48.0	7.1	11.5	22.0
III	***Hight-tech sector & sector wth close relative***	***16.3***	***13.1***	***16.5***	***12.7***	***14.6***
	Coke and petrolium	-39.2	-60.0	29.1	33.1	-19.6
	Chemicals	23.5	15.0	12.8	10.3	15.3
	Plastics	14.3	25.0	20.0	16.7	18.9
	Non metallic products	10.0	20.8	12.4	11.2	13.5
	Metallic	19.2	-2.1	2.0	7.3	6.3
	Metal products	26.1	21.0	18.3	13.6	19.7
	Machinery and equipment	16.0	7.3	22.5	18.5	15.9
	Computer and office equipment	41.6	-4.6	504.8	31.8	81.2
	Electric and electronic products	23.4	23.0	39.9	23.9	27.3
	Radio, TV, telecommication equipment	49.1	6.5	6.1	2.7	14.7
	Medical & accurate instruments	29.1	-8.7	54.2	48.6	28.2
	Assembling & repairing motor vehicles	-5.8	18.5	2.4	10.5	6.0
	Production,repairing other meand of transport	4.7	-8.4	86.2	14.5	19.6
	Coal	15.1	15.5	-4.1	-21.9	-0.1
	Oil and gas	15.0	14.2	18.5	19.0	16.6
IV	***Material, power & fuel sector***	***15.9***	***14.4***	***11.2***	***10.3***	***12.9***
1	Chemical Industry	19.4	12.9	13.2	10.8	14.0
	Coke and petrolium	-39.2	-60.0	29.1	33.1	-19.6
	Chemicals	23.5	15.0	12.8	10.3	15.3
	Plastics	14.3	25.0	20.0	16.7	18.9
2	Metallic (Steel sector)	19.2	-2.1	2.0	7.3	6.3
3	Non metallic products(Cement)	10.0	20.8	12.4	11.2	13.5
4	Electricity, gas	20.1	16.2	12.2	9.7	14.5

Gross domestic product

(at current prices)

Unit: Bill.dongs

		1995	1996	1997	1998	1999
	Total	***228,892***	***272,037***	***313,624***	***361,016***	***399,942***
1	Agriculture,forestry&fishing	62,219	75,514	80,826	93,072	101,723
2	Industry and construction	65,820	80,877	100,595	117,299	137,959
3	Service	100,853	115,646	132,203	150,645	160,260

Structure of gross domestic product

(at current prices)

Unit: %

		1995	1996	1997	1998	1999
	Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
1	Agriculture,forestry&fishing	27.2	27.8	25.8	25.8	25.4
2	Industry and construction	28.8	29.7	32.1	32.5	34.5
3	Service	44.1	42.5	42.2	41.7	40.1

Industrial value added by main sub-sector

(at current prices)

Unit: Bill.dongs

		1995	1996	1997	1998	1999
	Total	***50,028***	***63,111***	***80,072***	***96,441***	***116,195***
1	Mining	11,009	15,282	19,768	24,196	34,194
2	Manufacturing	34,318	41,291	51,700	61,906	70,346
3	Electricity, gas and water	4,701	6,538	8,604	10,339	11,655

Structure of industrial value added by main sub-sector

(at current prices)

Unit: %

		1995	1996	1997	1998	1999
	Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
1	Mining	22.0	24.2	24.7	25.1	29.4
2	Manufacturing	68.6	65.4	64.6	64.2	60.5
3	Electricity, gas and water	9.4	10.4	10.7	10.7	10.0

Industrial value added by main sub-sector

(at constant 1994 prices)

Unit: Bill.dongs

		1995	1996	1997	1998	1999
	Total	***43,960***	***50,078***	***56,619***	***63,003***	***68,836***
1	Mining	10,345	11,753	13,304	15,173	17,450
2	Manufacturing	30,231	34,339	38,743	42,694	45,888
3	Electricity, gas and water	3,384	3,986	4,572	5,136	5,498

Growth rate of industrial value added by main sub-sector

Unit: %

		95-96	96-97	97-98	98-99	95-99
	Total	***13.9***	***13.1***	***11.3***	***9.3***	***11.9***
1	Mining	13.6	13.2	14.0	15.0	14.0
2	Manufacturing	13.6	12.8	10.2	7.5	11.0
3	Electricity, gas and water	17.8	14.7	12.3	7.0	12.9

Industrial gross output by region

(at constant 1994 prices)

Unit:Bill.dongs

	1995	1996	1997	1998	1999
Whole country	***103,374.7***	***118,096.6***	***134,419.7***	***151,223.4***	***166,965.2***
Red River Delta	17,590.5	19,923.8	23,541.7	26,704.8	29,299.9
North East	6,882.8	7,798.6	8,984.2	10,520.2	11,505.7
North West	320.5	364.4	398.4	493.7	550.5
North Central Coast	3,705.2	3,986.2	4,401.7	4,852.8	5,257.5
South Central Coast	4,972.0	5,584.0	6,483.8	7,198.9	7,926.7
Central Highlands	649.6	731.0	807.4	848.5	994.3
North East South	51,693.2	60,188.2	68,222.9	77,016.0	86,481.0
MeKong River Delta	12,236.9	13,154.0	14,296.6	15,410.0	15,914.2
na	5,324.0	6,366.4	7,283.0	8,178.5	9,035.4

Note: na means data of mixe some regions

Structure of industrial gross output by region

Unit: %

	1995	1996	1997	1998	1999
Whole country	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
Red River Delta	17.0	16.9	17.5	17.7	17.5
North East	6.7	6.6	6.7	7.0	6.9
North West	0.3	0.3	0.3	0.3	0.3
North Central Coast	3.6	3.4	3.3	3.2	3.1
South Central Coast	4.8	4.7	4.8	4.8	4.7
Central Highlands	0.6	0.6	0.6	0.6	0.6
North East South	50.0	51.0	50.8	50.9	51.8
MeKong River Delta	11.8	11.1	10.6	10.2	9.5
na	5.2	5.4	5.4	5.4	5.4

Growth rate of industrial gross output by region

Unit: %

	95-96	96-97	97-98	98-99	95-99
Whole country	***14.2***	***13.8***	***12.5***	***10.4***	***12.7***
Red River Delta	13.3	18.2	13.4	9.7	13.6
North East	13.3	15.2	17.1	9.4	13.7
North West	13.7	9.3	23.9	11.5	14.5
North Central Coast	7.6	10.4	10.2	8.3	9.1
South Central Coast	12.3	16.1	11.0	10.1	12.4
Central Highlands	12.5	10.5	5.1	17.2	11.2
North East South	16.4	13.3	12.9	12.3	13.7
MeKong River Delta	7.5	8.7	7.8	3.3	6.8
na	19.6	14.4	12.3	10.5	14.1

Main industrial products

N.	Products	Unit	production			Growth rate	
			1995	Plant. 2000	Est. 2005	95-2000	2000-2005
1	Electricity	Bill. kwh	14.7	26	44.3	12.1	11.2
2	Oil	Mill. tons	7.62	17	22	17.4	5.3
3	Gas	Bill. m^3	0.25	1.5	8.5	43.1	41.5
4	Coal	Mill. tons	8.3	10	15.3	3.8	8.9
5	Steel	Mill. tons	0.38	1.4	2.3	29.8	10.4
6	Phosphate fertilizers	Thous.tons	800	1,150	1,350	7.5	3.3
7	Nitrogen Fertilizer	Thous.tons	111	45	1,100	-16.5	89.5
8	Fabrics of all kinds	Mill. m	228	400	750	11.9	13.4
9	Papers of all kinds	Thous.tons	203	300	500	8.1	10.8
10	Cement	Mill.tons	5.8	11.5	20	14.7	11.7
11	Sugar	Thous.tons	517	1,000	1,300	14.1	5.4
12	Beer	Mill. litres	375	700	900	13.3	5.2
13	Milk	Mill.tins	170	180	230	1.1	5.0
14	Diesel motors	Thous.pieces	5.2	8	60	9.0	49.6
15	Electricity rotaring engines	Thous.pieces	28.7	48	65	10.8	6.3

2 – 5

Some Comments on the Export-Oriented and Import-Substitute Policies in Viet Nam

Do Quoc Sam

State Appraisal/Evaluation Council

Without studying fully and carefully on the Project on "Study on Economic Development Policies in the Transition towards the Market Economy in Viet Nam", I would like to contribute some of my comments on Sub-topic 4 on "Strategy on Import-substitute Industries and Development of a Capital-Concentrated Zone" within the framework of the General Commentary Group.

1. First of all, it would be unreal if we study the "economic policies on external-oriented industries" (sub-topic 3) and the "strategy on import-substitute industries" (sub-topic 4) as proposed separately. In the recent official documents [of the Government] published in the past period, policy-orientation (not to mention a complete strategy) on "strongly focus on export and at the same time substitute imports by efficient domestically-produced products" was often mentioned. This orientation means a bilateral development orientation but with a strong emphasis on export. The implementation, in fact, also shows a bilateral implementation of an open-door policy and the improvement of some domestic economic units, in which the policies on opening [the economy] to the outside is still dominant.

2. The implementation of the above policy has created great changes: export volume has increased by 5-6 times, the foreign investment has increased by 30% of the total [national] investment, etc. At the same time, some industries and services have shaped and developed rapidly, for example, petroleum, electronics, garment, airlines, telecommunications, etc. Those achievements has considerably contributed to the economic growth rate in the last 10 years.

   However, the quality of those changes shows many constraints and weaknesses. The majority of the exports are rough, semi-finished or processed products with very low value added and technology-content and with low efficiency. Some domestic consumption products (import-substitutes) are of high prices, not of outstanding quality, unable to compete with the imports. These products require protection and at the same time are not able to squeeze into the [foreign] markets (esp. steel, cement, sugar, mechanics, etc.)

   The above weaknesses prove that the policy on bilateral orientation on both the external and internal doesn't bring about the best results. It even leaves behind issues that are difficult to overcome. Specifically,

it takes a long time of more than years to create and improve the competitiveness of products, from the paddy to the computer software. In fact, the situation is understandable: the domestic enterprises get used to the State protection. They are lack of capital and technology, so it's not easy at all to manufacture the highly competitive goods in terms of the quality and prices in the international market. However, with the State protection, they are able to import expensive equipment [at cheap prices] by borrowing [from the State] or by deferred payment. As the production of domestic consumption goods with protected prices is easier and more "level", enterprises certainly choose the less difficult way and consequently [this situation] also attracts foreign-invested enterprises to manufacture the "import-substitutes".

3. Whether it is possible to find out an industrialization strategy for Viet Nam is a question that the studies on the "Socio-economic development strategy for the period 2001-2010" are trying to figure out. It's not a complete strategy but at this moment, limiting the study solely within the framework of an internal and external economic policy already raises many issues for consideration. The model of import-substitute industrialization so far has shown unsuccessfulness (failures) in the countries that implemented it, therefore there's no reason for its success in Viet Nam. The export-oriented model has gained outstanding achievements in many countries, especially in the Asia but the conditions for such success is not easy to repeat in Viet Nam at all. Although the recent studies in Viet Nam hasn't shaped details of a model or complete strategy, it emphasis is put on factors that might be the core of the development policies. That is to orient to both domestic and foreign competitive markets and at the same time to shape the socialist republic-oriented market economy and to actively integrate into the international economy. Obviously, it's necessary to make further in-depth analysis to fully work out the economic policies, achieve the objective of speedy and sustainable development, bring the "national character" into full play and the social equality.

4. Within the above-mentioned framework, how should we define and solve the matter of "import-substitute" and "development of capital-intensive industries"? First of all, in terms of strategy, although not focusing on import-substitute or development of capital-intensive industries, we don't exclude the import-substitutes because the economic orientation is on both domestic and foreign markets, especially for products that need to utilize the available materials and labor force in the country. The question here is what criteria to be used for choosing the products for the domestic market? The general criteria must be the efficiency (including the financial, economic and social efficiency) and the competitiveness in the market (both domestic and foreign markets). However, the efficiency and the competitiveness is not the same for all products. For the short-term and long-term development, priority must be high efficiency (including financial efficiency) and high competitiveness (also in the international market). For the long-term objectives, we might need to pay more attention to the socio-economic efficiency and domestic

competitiveness. For those products that have a direct impact on the national security and economic safety, in specific cases, we need to accept the losses (with time-limit and subject to the capability of the economy)

Obviously, the above-mentioned requirements are general criteria. In order to have a choice, it's necessary to clarify some reasonable limitations, for example: To avoid the passive production relating to the foods security, should and how much [the State] be able to ensure for the fertilizer and how much should we based on the foreign markets? What should the ratio between the domestic mechanic products be to create a safe economic potential? What is the actual trading protection ability (State budget) and how will it be narrowed in the process of participating in the AFTA and WTO? At what level the competitive environment still exists and to what extent the monopoly should be encouraged? etc. Given the fully consideration of the above factors, the import-substitute policy possibly is not able to cover many trade lines but should be considered case by case (by project).

Above are some summarized comments on the selected topic for your reference.

2 – 6

Comments on Export-Oriented Industrialization Policy

Tran Phuong Lan

Ministry of Trade

Part 1

Export-oriented industrialization policy is the right path to accelerate economic growth

1. International trade and the development strategy of a nation

In the context of increasingly deeper economic integration, the option of a long-term development strategy is of great importance to a developing country in a transition like Viet Nam. This requirement has been raised not only at this moment but since the early 1990s, when Viet Nam embarked on its "renovation" and "open door" policy. Since then, international trade has been considered the top priority, engine and foundation for the economic development. In line with the world development trend and based on the country's capacity, Viet Nam has chosen the export-oriented industrialization strategy. So far, despite some different points of view, the strategy has proven right through the practice of the world development trend and our export outcomes over the past period.

The world's development trend

For developing economies, international trade and the national development have a close and causal relation. There are two points of view on this relation, that are: (i) import-substitution industrialization (ISI) and (ii) export-oriented industrialization (EOI). Both the two points of view are based on a nation's competitive advantage which however should be understood as a "static" advantage, i.e. advantage of internal resources such as natural resources, or human resource...

In the first point of view, in the context of international trade liberalization, developing countries should focus on producing commodities in which they have competitive advantages, and therefore follow the policy on industrialization of these production branches for import substitution. The policy is accompanied by the state protectionism.

In the second point of view, the development strategy will be based on export-oriented industries. It requires a nation to develop only exporting industries, or the industries having competitive advantages. It will bring about such benefits as (i) developing external markets, (ii) stimulating the overall economic development and (iii) adding the resources in shortage. However, it will also cause some troubles such as the difficulty for developing countries in orienting the exporting industries due to the competition with developed countries

and the strong protection by developed countries for the industries in which developing countries have competitive advantages. The condition for the strategy's success is trade liberalization at both regional and world levels.

Table 1: Average indexes on economic development in the 1980s

Index	Strong EOI policy	Moderate EOI policy	Strong ISI policy
Annual average GDP growth rate	7.9	5.0	3.0
Annual average GDP growth rate/ per capita	6.0	2.0	-0.2
Annual average export growth rate	14.0	9.0	3.0

Source: Salvatore.D., 1995, World Economy, page 349

According to the Table 1, developing countries who follow the export-oriented policy record the annual average GDP growth rate of 7.9% and the annual average export growth rate of 14%, while the countries following the import-substitution policy record the corresponding rates of only 3%. Therefore, it can be concluded that the export-oriented policy is a right option of developing countries. Moreover, the successful lessons of NIC countries (Hong Kong, Taiwan, South Korea and Singapore...) have clearly proven this argument.

2. Viet Nam's practical export policy and structure over the past 10 years and their roles in economic growth

Before the renovation policy is implemented, foreign trade activities in Viet Nam were centrally controlled by the State Planning Committee and Import-Export Corporations. In other words, the state monopoly ruled in foreign trade. Only some state-owned companies were authorized to carry out import and export activities. Thus, the state completely controlled and imposed import/export plans for such companies. At that time, our major export markets were the Soviet Union and other former Eastern European countries. The structure of export commodities were mainly agricultural products and raw materials (accounting for 91% of the export value), while industrial products only represented a small percentage (8%). The export value therefore was relatively modest (of about more than USD 2 billion).

In late 1980s, the political and economic turmoil in the former Soviet Union and Eastern European countries led to a serious plunge in our trade with these countries, forcing us to look for other markets. This is a move resulted from objective causes. On the other hand, it also affirms the fact that in foreign trade activities, the market diversification is an indispensable strategic direction for both countries and enterprises because of unpredictable fluctuations of the market and other objective affecting factors. In brief, market is a determinant to successful foreign trade activities.

Since the early 1990s, under the renovation policy, our country has gradually opened door and foreign trade activities have been conducted in accordance with the guideline on "market diversification and economic relation multi-lateralisation... active penetration into and creation of foot-holds in new markets, development of new relations". So far, we have established trade relations with 165 countries; signed trade agreements

with 76 countries, including the Viet Nam - US trade agreement; implemented the MFN status with 72 countries and territories; integrated into ASEAN, APEC, ASEM; established relations with international financial and monetary institutions.

Over the past 10 years, our foreign trade activities have achieved considerable outcomes as follows:

Table 2: Viet Nam's foreign trade activities (1990 - 1999)

Unit: million USD

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Export	2,404	2,087	2,581	2,985	4,054	5,449	7,256	9,300	9,486	10,814
Growth rate	23.5	-13.2	23.7	15.7	35.8	34.4	33.2	24.0	2.0	14.0
Import	2,752	2,338	2,541	3,924	5,826	8,155	11,144	11,500	11,385	10,929
Growth rate	7.3	-15.1	8.7	54.5	48.5	40.0	36.7	3.2	-1.0	-4.0

Source: Institute of Economic Research and Management, Hanoi, Viet Nam

World Bank (1999)

The aforementioned results have proven the fact that the export-oriented policy over the past period has brought about encouraging outcomes. The highest growth rate over the past years is 35.8% recorded in 1984 —a double rate of that recorded in developing countries who follow the export-oriented policy (i.e. 14% in Table 1). However, it should not be early concluded that exports rose vigorously during this period as this is only a relative figure while the absolute export value is still modest (increasing from USD 2.9 billion to USD 4 billion). Such high growth rate can be explained by our tiny starting point (of USD 2.4 billion). The 1999's figure has proven this sound policy (growth rate of 14% and the absolute figure of over USD 10 billion). The absolute export value in 1999 increased six-fold and the growth rate reached nearly 80% as compared with the year 1990. So, exports have contributed to fostering the economic growth, creating employment and balancing foreign currencies' revenue-expenditure balance. Specifically, the GDP growth rate has been maintained at 8% for many years, while the average export growth rate has been kept at 18.4% (export accounted for nearly 50% of GDP). Shares of economic sectors in GDP have changed in a positive way (in 1999: agriculture - 24.5%, industry - 33.5%, service - 44.5% as compared with 1991's figures: 38.7%, 22.3% and 37.2% respectively). Similarly, the structure of export commodities has been improved towards higher proportion of processed commodities (from 8% to 40%) and lower proportion of raw products (from 91% down to 40%).

Import activities have also been driven towards serving the production and technology renovation for industrialization. Specifically, capital goods account for nearly 95% of the import value, 26% - 27% of which is machinery, 68% is materials. Consumption goods account for only 5% as compared with the 1990's figure of 15% (according to statistical data by the Ministry of Trade).

On the other hand, the export-oriented policy has reflected changes in trade policies. Trade policies have positively changed towards less intervention by the state in enterprises' business activities. Specifically, the issuance of the Decree No. 57/1998 has provided a more open and equal legal environment for business

activities, leading to a quality change in import-export management mechanism. Enterprises' rights of doing business and self-control are absolutely respected in an attempt to encourage them to develop export activities, seek and expand markets, improve the competitiveness of export commodities.

Together with the establishment of a healthily legal environment, the state has taken several measures to foster the export, for example the Export Supporting Fund has been set up to provide exporting enterprises with financial support and encourage them to strengthen their export capacity as well as provide incentives for further export improvement.

Such changes in policies together with the implementation of export fostering measures have reflected the export-oriented policy by the Vietnamese government. In addition, enterprises' efforts have considerably contributed to the export growth over the past time. However, our current export structure should be reconsidered and evaluated in order to design appropriate steps in fostering the stable export growth in the future.

Part 2
Opportunities and challenges in implementing the export-oriented policy

1. Advantages and opportunities

(1) Resources potential in producing export commodities

Advantages in exporting raw products; agricultural - forestry - fishery products and handicrafts: Viet Nam's export commodity structure (Table 3) can be divided into 3 main groups: group of agricultural - forestry - fishery products and handicrafts (including coffee, rubber, tea, rice, cashew nut, groundnut, vegetables, marine products and handicrafts) in which rice and coffee are the two key commodities; group of raw materials (including crude oil, coal) and group of technological commodities (textiles and garments, footwear, machinery, computer and electronic parts); and other commodities (the remaining commodities). By commodity structure, the group of agricultural - forestry - fishery commodities and the group of raw materials account for a major share of over 50% in the export value. In 1998 and 1999, the share of agricultural products rose mainly thanks to strong increase in rice export. Therefore, it can be concluded that our export commodities are mainly based on advantages of natural resources, such as favourable natural conditions for developing cultivation and marine, aquatic products, or exploitation of natural resources such as crude oil, coal. As early as in 1991, aquatic products and crude oil gained the export value of more than USD 100 million. During 10 years, these commodities' export value continuously increased and held a major share in the total export value. It reflects our advantages in exploiting naturally favoured products. However, at the existing growth rate, these resources will increasingly go scarce and become a weakness in the future.

Table 3: Export structure by high - valued commodity groups

Unit: million USD

Group of commodities	commodities	1997 value	1997 share	1998 value	1998 share	1999 value	1999 share
Group 1	1. Rice	870.1		1,024.0		1,025.1	
	2. Coffee	490.9		593.8		585.2	
	3. Rubber	190.9		127.5		146.8	
	4. Cashew nut	133.3	30%	117.0	32%	109.8	30,5%
	5. Vegetables	68.3		53.4		104.9	
	6. Pepper	62.8		64.5		137.3	
	7. Tea	47.9		50.5		45.2	
	8. Groundnut	44.7		42.1		32.8	
	9. Aquatic products	780.8		818.0		951.1	
	10. Handicrafts	121.3		111.2		168.2	
Group 2	1. Crude oil	1,413.4	16%	1,232.2	14%	2,091.6	20%
	2. Coal	110.8		101.5		96.0	
Group 3	1. Textiles and garments	1,413.4	25%	1,351.4	29%	1,747.3	33%
	2. Footwear	965.4		1,000.8		1,391.6	
	3. Machinery, parts			400.9		4,722.9	
Other commodities			29%		25%		16,5%

Source: Ministry of Trade

Group 1: Agricultural - forestry - fishery products and handicrafts

Group 2: Raw materials

Group 3: Sub-contracted and manufactured products

Available human resource: The export commodity group of large share and high value includes mainly the labour-intensive industries based on advantages of available human resource. Among them, processed commodities such as textiles and garments, footwear... still hold a large share. As early as in 1991, textile and garment industry is among the industries gaining the export value of more than USD 100 million. These commodities are competitive in the international market thanks to cheap labour costs and skilled workers. According to a survey conducted by FAO in 1995, the labour cost per hour of USD 0.18 in Viet Nam's textile and garment industry is lowest as compared with other countries, e.g. USD 0.87 in Thailand, USD 10.33 in the US, and USD 16.37 in Japan. Cheap labour cost is a competitive advantage for labour-intensive industries. The industry of electronics assembly is a clear example for this conclusion.

(2) Markets

At the moment, we are gradually diversifying markets and our products are available in many markets. Expanded markets and higher export value to such markets are also considered an advantage.

Table 4: Viet Nam's exports by markets

Markets	1996 (%)	1997 (%)	1998 (%)
Asia	70.9	63.8	61.2
ASEAN	24.5	21.2	25.1
Japan	21.3	17.7	15.8
Taiwan	7.4	8.5	7.1
Hong Kong	4.3	5.2	3.4
South Korea	3.4	3.9	2.5
China	4.7	5.7	5.1
Europe	15.4	22.7	27.7
COMECON	2.3	2.3	2.0
EU countries	11.0	16.8	22.5
North America	3.3	3.7	5.9
US	2.8	3.0	5.0
South America	0.0	0.1	0.6
Africa	0.2	0.1	0.2
Oceania	1.0	2.2	5.3

Source: Ministry of Trade

From the previously major markets—the former Soviet Union and Eastern European countries, our markets now are expanded to all the continents and the export value to traditional markets accounts for only a tiny percentage (2%). Meanwhile, the Asian - Pacific region has played the role of our major export market during the past time. The EU market has gained a relatively high growth rate in our export market structure (of over 30%). In addition, we are gradually penetrating into such markets as North America (especially after the Viet Nam - US trade agreement come into effect, South America and Africa.

(3) Opportunities from the trade liberalization (granted trade preferences, opportunities for market penetration and expansion)

Trade liberalization will firstly help better adopt foreign advanced knowledge in form of machinery, equipment, modern technology, scientific management methods, thus resulting in higher productivity. Trade and investment liberalization can improve the ratio of profit per capital (including material and human capital), which in turn will improve domestic and foreign investment in order to speed up the industrialization process and serve better the export target. However, this process will also put higher pressure on economic competition. Therefore, in an attempt to adapt to the new situation, the domestic reform progress should be stepped up in all the areas, including: macro-economic stabilizing measures, legal framework and regulation improvement, infrastructure upgrading and human resource development. In order to take full advantage of these opportunities, our economic policies play a very important role.

More specifically, the integration into ASEAN, APEC, ASEM will help us to gain their tariff and non-tariff preferences in order to expand the market into strongly growing economies. As analyzed in an

aforementioned example, in the future, Viet Nam's electronics and computer products will be more competitive than Chinese similar products in the ASEAN market (with the population of 500 million) as we are granted tariff preferences.

The World Trade Organization (WTO) account for 95% of the world's trade market capacity. Entry into WTO means our market will be opened in such a way that our domestic commodities and enterprises can be expanded into the international market. Concurrently, WTO also reserves some preferences for developing countries and countries in the transition as well as prolongs their grace period in fulfilling WTO's obligations. In addition, it also takes measures to provide support for developing countries in improving their production levels and requires developed countries to unilaterally grant preferences for developing countries. This is a favourable opportunity for us to penetrate and expand our export markets.

A foreseeable opportunity resulted from the WTO entry is the chance to expand markets for textile and garment commodities as the implementation of the Agreement on Textile and Clothing (ATC) will gradually remove the Multi-Fibre Agreement's (MFA) quota system. According to the latest release by the American Committee on International Trade, ATC will affect the US textile and clothing industry much more than the WTO agreements' provisions. It is expected that the textile products imported from the US will increase by 5% - 15%, while the clothing products will increase by over 15%. The import of US textile and garment products will rise most strongly in developing countries who are restricted by the MFA. This will bring about a big opportunity for Viet Nam at the entry into WTO.

(4) Viet Nam - US trade agreement

Firstly, the US is a vast market with vigorous purchasing power and varied demands. It is a potential export market for all countries in the world, including Viet Nam. Commodities in the US market are of various kinds, suitable for all classes of consumers and distributed via a store system which serves the population of rich, middle and poor classes.

The grant of the Most Favoured Nation (MFN) status will foster trade activities and improve the efficiency in resource allocation in Viet Nam, which is the biggest opportunity resulted from the agreement. A greater opportunity for Vietnamese products to penetrate into the US market will improve our export value as well as to provide the American consumers with cheaper goods. A recent American survey uncovers that Viet Nam's export value to the US is likely to double (from USD 338 million to USD 768 million) after we are granted the MFN status. According to another survey, Viet Nam's annual social welfare will reach USD 118 million, the average income per capita thus will increase by 0.9%. These expected outcomes can be explained by the export growth and more efficient resource allocation. After the US's embargo removal (in 1994), our exports to the US have gained considerable improvements (the annual export value has increased by about USD 75 million since 1994). Therefore, the likeliness of export expansion when the agreement comes into effect is completely feasible.

In the US point of view, the opportunities for Viet Nam concurrently promise benefits for the US. The lower tariff barrier against the Vietnamese products' entry into the US market will encourage the American consumers' purchasing power for cheaper goods, and therefore increase the US's import value against Viet Nam. A calculation shows that the US's annual social welfare fund will increase by USD 56 million thanks to the consumption of cheaper goods.

Table 5: Viet Nam's exports to the US during the period 1994 - 1998

Unit: thousand USD

Commodities	1994	1995	1996	1997	1998
Cereal seeds	0	0	51	260	159
Vegetables	470	1,223	8,276	16,092	23,715
Oily seeds	2	0	2	0	12
Raw fibre	0	0	7	91	56
Plants	32,874	156,067	119,436	119,133	159,557
Processed meat	203	394	2,782	3,773	8,231
Forestry products	0	0	42	0	30
Marine products	30	189	213	378	3,010
Coal	1,548	0	0	2,795	0
Minerals	70	77	36	145	263
Vegetable oil and fats	1,554	0	0	21	0
Rice	5,339	8	6,568	21,862	0
Sugar	0	0	0	1,148	539
Food	6,351	21,507	39,574	65,270	103,478
Beverage	251	423	591	332	613
Textiles	20	111	182	302	365
Garments	2,831	18,317	25,567	27,914	30,917
Leather products	676	4,197	11,746	38,474	49,196
Wooden products	587	776	1,081	1,068	2,164
Paper	47	30	11	120	84
Rubber, plastic, chemicals	262	2,388	31,863	65,550	75,030
Mineral-derivative products	316	796	1,319	2,072	4,148
Metals	108	813	61	264	1,535
Electric appliances	254	0	154	94	47
Machinery and equipment	38	94	325	622	1,582
Other manufactured products	122	382	1,602	1,686	969
Total	53,953	207,817	337,451	407,139	588,794

Source: UN system

According to the aforementioned table, categories of export commodities to the US market are very diversed. Therefore, the penetration of these commodities into the US market will be stronger when we are fully granted the MFN treatment status. Based on our current production capacity and much lower duty rates as compared with previous general tax rates, such commodities as footwear, textiles and garments, handicrafts, wooden products, processed food, vegetables and aquatic products will strongly grow (such commodities already gained the export value of over USD 50,000).

In conclusion, the Viet Nam - US trade agreement will offer an opportunity for us to expand the export on a large scale as well as to strengthen our position in WTO entry negotiations.

2. Disadvantages and challenges

In spite of some advantages and opportunities, our export activities are still facing many underlined disadvantages, challenging the export growth in the future. More importantly, we should not be based on absolute figures of the export growth rates over the past time in order to make a conclusion about the export's high efficiency and benefits because our export activities have gained too low added value. Such disadvantages are as follows:

(1) Exporting industries' weak internal capacity:

In order to foster export activities, our commodities should maintain their competitiveness in the world market, while the enterprises' production capacity plays a determinant role to the commodities' competitiveness. However, the production structure of our industries is lagging behind other countries, the technological level is still low, reflected in the fact that technology applied in production industries is only at medium level, even lags behind that in other developing countries by one or two technological generations. On the other hand, our enterprises are only new comers and unfamiliar with the transitional period into the market economy. This factor also greatly hampers our commodities to build up their image in the world market.

In general, equipment and technology in our exporting industries lag far behind other countries, for example many industries (tea, steel, textile...) are still using the former Soviet Union's or Chinese technology and equipment. Many enterprises have made efforts in renovating their equipment and technology as well as in receiving new technological transfers, but only for some parts or some stages rather than synchronously for the whole process. This can be explained by the lack of capital, accompanied by a lending mechanism inappropriate for industrial investment with such shortcomings as collateral requirements, high interest rates, short credit terms... According to the general evaluation, our technological level is still at the low - medium level, or even lagging behind the world level by 2 or 3 generations. Specifically in some industries: in the mechanical industry, most of the equipment and technology have been in use for over 20 years, technologically outdated and inaccurate, leading to a very few high-quality products. Most of factories are of small size, where the production is conducted under a closed technological process and there is little assignment, cooperation and specialization in production among enterprises. The situation is similar in the chemical and cement industries, where the technological backwardness is popular and only a few factories are transferred with new technology, though the technology is of 1980s' generation. In the textile, garment and footwear industries, sub-contracting is dominant, particularly in the textile industry, Chinese equipment of 1960s' generation is still in use... Although the electronics and computer industries are considered new industries that have high growth rates (of 20% per annum) and have opportunities to approach new technology, the technological level in these industries is still low, focused mainly on CKD assembly, failing to master the technology as the

product's core technology has not been transferred yet. According to the specialists' evaluation, the technology in these industries is lagging behind regional countries by about 10 years, and behind the world developed countries by a generation (20 years).

The aforementioned essential and immanent factors will result in difficulties in maintaining and improving the Vietnamese commodities' competitiveness in the world market in the future, unless the government conducts actively and comprehensively a programme on production and investment structure adjustment for the export-oriented industrialization target.

(2) Low export efficiency, unsustainable growth

Currently, our export commodities mainly fall into industries based on the competitive advantage of high labour - content, reflecting in the large share of raw materials and roughly processed goods in our export structure. Among processed products, sub-contracted and assembled commodities still hold a large share, e.g. in the textile and garment, footwear, electric, electronic, car industries... The share of technology-intensive products is small such as hardware and software in the computer industry. The advantage in labour will be eroded when the world development trend moves to using the knowledge and advanced technology as the source for producing material wealth. More specifically, only knowledge-intensive products will bring about competitive advantage and generate high added value. According to specialists, our knowledge- and technology-intensive products will be new industries, the core of which is electronics and computer products. However, in fact, this group of commodities (electronics and computer products) have not generated such high added value as our assumption. Therefore, the challenge will be hard if we fail to establish a firm basis and foundation for the industries that have export potentials and bring about efficiency in the future. We will take three group of commodities that have export advantages as an example to evaluate the export efficiency.

Aquatic products

Table 6: Production cost, price (export price) and added value, 1998

A	Production cost	HOSO prawn	Suchi	PTO	Pugmon prawn
	1. Raw material cost	160,000(97%)	183,000	176,000	154,000
	2. Labour cost	2,500 (1,5%)	4,000	7,000	6,000
	3. Ice cost	450	525	600	600
	4. Packing material cost	1,200	2,500	2,500	2,000
	5. Electricity cost	400	480	480	480
	6. Water cost	18	20	20	20
	7. Working capital gains	1,000	1,300	1,200	1,000
	Total cost	165,568	191,825	187,800	164,100
B	Export price	169,000	195,000	201,500	169,000
C	Added value	3,432 (2%)	3,175 (2%)	1,370 (7%)	4,900(2,9%)

Source: Ministry of Aqua- Products

Although the industry of aquatic products is a potential exporting industry with the export value of more than USD 1 billion and high socio-economic efficiency such as creating millions of employment for the society, its added value is still low (Table 6) as the input cost is too high (accounting for 97%) while exported products are only in form of raw or roughly processed products.

Textiles and garments

The industry's export value has reached USD 1 billion. In spite of such high absolute figure, the export efficiency is not high, reflected in the low added value (less than 10%). In fact, all of our exported textile and garment products are sub-contracted goods, the contracts signed with EU are mostly sub-contracts (in which cloth, materials and parts, designs are provided by the importer). The sub-contracting only generates low added value, based on low labour cost. According to a calculation, if we only import cloth and materials, and make designs by ourselves then export products, the export value will increase four- or fivefold as compared with a similar sub-contract. This reveals that the added value is generated mainly by the designing, while this is our weakest point as we have not managed to catch up with the world fashion development trend as well as customers' tastes. On the other hand, we are in shortage of skilled labour in the fashion industry. Another reason is the demand for the industry's materials have not been met, therefore the import of cloth and other materials will be a dependent factor that raise the production cost.

Electronics and computer products

This group includes knowledge- and technology-intensive products that generate high added value. However, the products' added value also depends on category of products and level of technology transfer. In 1999, Viet Nam exported electronics and computer parts with a value of USD 40 million, but the included import value is about USD 32 -34 million, accounting for 80% of the export value. The added value accounts for only 2% as we mainly focus on assembly but have not yet manufactured components and spare parts. For example, the 100% Japanese-owned company FUJITSU, specializing in manufacturing computer's hard drive, has the annual export value of about USD 500 million but 97% of which is the value of imported components. Therefore, in spite of high export value, the added value is very small (of about 2%). Electronic and computer products that we presently manufacture and export are mostly domestic electronic appliances and personal computers (PC), which are technologically transferred mainly in form of assembly, while the technology in manufacturing equipment's parts and components has not been transferred. Such knowledge-intensive and high value-added products as application software and system software for industrial electronic equipment, measuring, automatic controlled equipment have not yet been developed in our country. The total global annual trade value of electronic and computer products is about USD 2000 billion, 15% of

which is the value of domestic electronic appliances. For Viet Nam, the annual trade value stands at only USD 200 - 300 million, while 90% of which is the value of domestic electronic appliances. So, in the future, if we continue to focus on the manufacturing and export of domestic electronic and computer products, the increase of our share in the 15% of the world total demand will be a difficult question to policy-makers. Therefore, the production and investment structure adjustment in this area for the target of export strategy in the future will be a great challenge to the Vietnamese government in the context of the current under-developed and incompatible infrastructure.

(3) Lack of a system of distribution channels abroad (the export is generally through an intermediate market), depending on a foreign system of foreign distribution channels.

Table 7: Export value by 10 countries that have the highest export value

Unit: million USD

	Country	1997		1998		1999	
		Value	Share (%)	Value	Share (%)	Value	Share (%)
1.	Japan	1,614.6	17.5%	1,481.3	15.8%	1,786.2	15.5%
2	Singapore	1,157.3	12.5%	1,080.1	11.5%	822.1	7.1%
3	China	521.4		478.9		858.9	
4	Taiwan	780.5		666.0		682.2	
5	Germany	395.7		587.9		654.3	
6	US	273.3		468.6		504.0	
7	Australia	181.3		469.3		814.6	
8	Britain	225.8		333.4		421.2	
9	Philippines	210.9		392.6		393.3	
10	Indonesia	48.4		316.15		421.0	

Source: Ministry of Trade

According to the aforementioned table, we can see that Singapore is our second largest import market (accounting for more than 10% of our total export value). On the other hand, Singapore is a big import market in the world, so our commodities exported to this market will be re-exported to other countries. This reveals that although Singapore is a big import market, it is not the target one, reflecting the important role and efficiency of the country's trading corporations. On the other hand, it also reflects the role of the system of distribution channels abroad. Thus, due to the lack of a system of distribution channels in target markets, our commodities are still exported through intermediary markets.

For example, our garment products are often exported through intermediary countries. In other words, our garment import markets in their own mean, are sub-contracting markets through sub-contracting orders. The distribution of finished products depends on the person who places sub-contracting orders. This explains why Vietnamese products are sold in many markets under the trademark of sub-contracting countries. This is also a weakness in our export capacity, leading to more dependence on foreign importers. The same situation also occurs in some other industries such as mechanical engineering. Dynamic

machines, motors, small-sized machine-tools and some other products made in Viet Nam are exported to Taiwan for re-export to target markets. Therefore, in spite of the products' relatively high selling price in target markets, the export price is much lower due to the lack of a distribution channel system in overseas markets. This is also a factor reducing the products' competitiveness as enterprises have not managed to actively expand to outside markets.

The export through intermediary markets is also recognized for the rice, of which our export ranks second in the world. For example, according to a powerful Swiss trading corporation, it often imports about 40-50% of our total exported rice to re-distribute to other markets (Middle-East and Africa)

(4) Competitiveness against potential rivals.

It should be said that opportunities and challenges co-exist and are affected by outside factors, especially in the context of ever deeper international economic integration. While the integration brings about many business opportunities through opening markets, removing tariff and non-tariff barriers, challenges caused by this movement are considerable as the competition will become ever fiercer when trade borders among countries are gradually wiped out. In that spirit, in mentioning challenges, we should take into consideration our competitiveness against potential rivals who have competitive advantages and an export structure similar to ours, particularly ASEAN members and China (especially at its entry into the WTO).

ASEAN member countries:

According to assessments by many researches, "ASEAN cooperation has more competitive characteristics rather than resource supplement among member countries in order to co-develop". From the fact that Viet Nam has a lower economic development level in comparison with ASEAN's major members (such as Singapore, Thailand, Malaysia, Indonesia and Philippines), our export products' competitiveness is lower than that of the aforementioned countries. Our structure of export products and competitive advantages have many similarities to these countries, however, their industrialization level is 10-year in advance as compared to our level (they have been transferred with many modern technologies by developed countries while we have been transferred with technologies of previous generation, such as the FUJITSU's technology in the electronic area as an example). Therefore, their export volumes are much higher than that of our country.

In details, in terms of the production and export structure, Viet Nam and other ASEAN member countries produce a lot of similar products which can compete with each other in the outside-ASEAN markets, for example processed and non- processed agricultural products, fertilizer, automobile, motor, bicycle, domestic appliances (TV, electronic appliances, washing machine, air conditioner, electric fan..), some kinds of steel, popular mechanical products, garments and textiles, children's toys, cosmetics, plastic, paper, sugar, milk, cakes and candies, refined vegetable oil, construction glass,

cement, domestic ceramics and porcelains (including sanitary ware and fittings)... This situation obviously leads to difficulties and big challenges to our exports into outside-ASEAN markets, especially when their products are much more competitive in price and quality as compared with our products. The situation becomes serious especially in the capital- and technology-intensive industries because of big gap in the development level at present.

ASEAN member countries' main export markets are also Viet Nam's target markets, and therefore the competition with ASEAN commodities in these markets in the future is a considerable challenge for us. The Unites States, on one hand, is the biggest import market for ASEAN's major member countries. ASEAN exports to the US such products as oil, rubber, sugar, garments and textiles and other labour-intensive products. Among that, Thailand and Indonesia gain the highest percentage in exporting labour-intensive products. On the other hand, the American market is also an import market for ASEAN's high value-added products. Over the last decade, ASEAN member countries have shifted from exporting raw material and labour-intensive products to exporting such capital-intensive and high value-added products as electronic components, memory chips, integrated circuits... Meanwhile, our processed products for export only focus on labour-intensive, sub-contracting and assembly industries such as garments and textiles, footwear, electronics and computers, car...

Japan is an important market and a major investor for ASEAN countries, especially for Viet Nam. In addition to the import of mineral resources and raw materials from ASEAN countries, Japan is also an import market for ASEAN's manufactured capital-intensive products such as chemicals and other manufactured products. Japan, at present, is the Viet Nam's biggest importer in terms of export value although a trade agreement between the two countries has not been reached. However, in order to maintain and increase export value against Japan, the competition with other ASEAN member countries should be taken into account.

China

China's entry into WTO is a big challenge for Vietnamese exports. This challenge results from the fact that China is a big exporter of labour-intensive and competitive products to the same import markets as ours.

Table 8: List of China's 15 commodity groups that gain the highest export value

Unit: million USD

No.	Group of products	Export value		
		1996	1997	1998
1	Garments and textiles	47,123	57,606	54,586
2	Electric, electronic products	20,012	25,089	28,904
3	Toys	6,501	8,104	8,437
4	Plastic	2,678	3,490	3,822
5	Office equipment	1,909	2,524	3,482
6	Household appliances	1,669	2,113	2,277
7	Watches, clocks	1,963	2,043	1,981
8	Ships, boats	1,153	1,630	1,860
9	Truck/lorry	1,156	1,145	1,719
10	Jewelry	1,009	1,398	1,673
11	Crude oil	2,798	2,734	1,523
12	Electricity generator	1,156	1,449	1,522
13	Pharmaceutical products	1,204	1,241	1,393
14	Porcelains	1,013	1,356	1,329
15	Office machines	1,117	1,357	1,297

Source: ITC Database

Looking into China's aforementioned export structure, we can see that during the period from 1996 to 1998, such labour-intensive products as textiles, garments, and other products (toys, plastic products, household appliances...) hold a considerable share in the total export value (about 36%). Though being limited by the MFA agreement, garments and textiles are still its main strength thanks to cheap labour cost and policies on receiving technology transfers from developed countries.

Another rapid growing exporting industry based on advantages of human resource is the electric and electronic industry. This is also an industry in which we have export potentials. However, presently, Chinese main products in the industry are telecommunication equipment, telephone, radio, television and other components and spare parts. These products have high localized content and are labeled with Chinese trademark. Generally speaking, it can be seen that most of Vietnamese key export commodities will have to compete fiercely against Chinese products in the world market.

Table 9: China's export markets

Unit: billion USD

Year	Hong Kong	Japan	USA	Germany	Korea	Canada	ASEAN	Asia	Australia
1994	26.7	17.8	17.7	3.9	0.4	1.2	5.3	60.7	1.2
1995	24.7	19.1	16.8	3.8	0.3	1.0	6.0	61.9	1.1
1997	24.0	17.4	17.9	3.6	5.0	1.0	6.9	59.6	1.3
1998	21.1	16.1	20.7	4.0	3.4	1.2	6.0	53.4	1.5

Source: Chinese Customs statistical book (1998)

According to the aforementioned table, we can see that China's three biggest export markets are Hong Kong, Japan and the US. In fact, Hong Kong is only an intermediary market but not a consumption market for Chinese goods. Therefore, the two major markets are actually Japan and the US, especially

when the exports into the US market is considerably increasing. Like China, these are also our major and important markets. Therefore, the China's entry into WTO will leads to our fiercer competition against Chinese commodities in these markets.

References to specific analyses on some typical commodities, presented in the attached annex (*), will help to study challenges to our exports at the China's entry into WTO.

(5) Declining investment.

Under the trend of international integration, multi-national corporations today play an ever important role and make great contribution to the development of international trade. However, more than 90% of these corporations belong to developed countries, accounting for over 40% of the global total production value, and more than 60% of the world trade. For Viet Nam, although foreign investment sector makes a considerable contribution to our total export value (see the Table 10), the participation of multi-national corporations is still very limited. On the other hand, if these corporations invest in Viet Nam, Vietnamese products will be exported to the world market under their trademark. Therefore, Vietnamese commodities have not gained the reputation in the world market. It should also be noted that the decline of FDI into Viet Nam, especially the Japanese investment, will affect badly our exports.

Table 10: Enterprises' participation in foreign trade activities

Enterprises	Export share		Import share	
	1997	1999	1997	1999
State-owned enterprises	70	57	68	53
Non state-owned enterprises	10	15	4	14
FDI enterprises	20	28	28	33

Source: Ministry of Trade and Customs general department

(6) Incomplete management mechanism, incompatible policies

Our policies still lack stable and pre-recognizable characteristics, thus failing to stimulate and support enterprises in developing their export activities. For example, the import/export regulation mechanism is issued annually. Although the annually changing management mechanism meets the requirement of giving flexible response to occurring problems, they also bring about many difficulties for enterprises and state agencies, for example passive attitudes in business activities and solving outstanding management issues.

On the other hand, when joining WTO, ASEAN, APEC, ASEM, it is necessary to establish, complete and supplement a system of economic and commercial management policies in accordance with regional and the world's common practices, as well as for creating strengths so as to encourage domestic production to penetrate into the world market, following the world trend of improving transparency and for-see-ability of management mechanism. Therefore, the lack of compatibility is inevitable in the process of

adjusting and completing this policy system, causing obstacles to export and import activities.

In addition, state management of commercial activities, though gaining many improvements, is still passive. The mechanism of cooperation among ministries and branches in managing some export commodities is still rigid and uneasy for enterprises. In other words, the management mechanism and administrative apparatus still show many weaknesses in many cases, especially the local administration at ward, commune, district levels not only do not provide enough favourable conditions for business activities, but also troubles enterprises, raising their business and production costs.

Part 3
Recommendations on policies and solutions to conduct the export-oriented policy

As analysed in the two parts above, with the export-oriented policy and in the context of opportunities and challenges co-existing, the question is what and how we should do to achieve the target by our own capacity. This part will mention some personal opinions concerning answers to the aforementioned question. As mentioned above, opportunities and advantages are not little, however, the biggest challenge facing us is to enhance the internal capacity of exporting industries and the market issue. Therefore, we will focus on recommendations on product and market strategies.

1. Policies on improving export efficiency, increasing added value (for some specific commodities)

The actual situation of export activities over the past time shows that if only based on "static" competitive advantages as presently, the question of improving export efficiency is not simple. One of the important factors playing the decisive role in the sustainable development of export activities is to create "dynamic" competitive advantages for our exports. This means that we should actively create the advantages for those products. In many opinions, the advantage of available human resource will gradually disappear when the world moves to technology- and knowledge-intensive industries. Therefore, the products having advantages of labour-intensive will not have competitive advantages in the future, thus, we should think of how to change inherent factors in the way so as to follow the world development trend while maintaining our strengths. In conclusion, the important factor here is how to adjust the export structure in accordance with the aforementioned trend, at the same time to improve the export efficiency, that means the value added per each product unit will be increased. Three commodity groups are proposed as follows:

(1) Textiles and garments

In a decade, the core of the group of processed products is still textiles and garments. Therefore, our textiles and garments export capacity should be strengthened. The essence is to improve the export efficiency and raise the added value of a product unit to 30% - 40%. To achieve this target, the improvement

of enterprises' internal capacity and products' competitiveness is of the most importance, that will determine the products' export stable growth. The practice of production has shown that there is an inconsistency between the production of cloth and other materials and the sub-contracting of finished products. According to a survey, 15% - 20% of materials used for textile and garment production are from domestic sources while the remaining are imported from abroad. Our cost price is also higher than that of similar Chinese products by 15% - 20%. Therefore, according to some opinions, given our current situation of the textile and garment industry, the implementation of quota system by main countries (such as EU) will bring about advantages, rather than disadvantages, for Viet Nam as in the context of complete liberalization, our textile and garment products will hardly compete to gain the market. Therefore, a synchronous development strategy for the industry should be outright established as follows:

- Investment in depth, more specifically is to renovate the technology and equipment in the textile industry, draw and implement an investment policy for the textile technology in order to hold the initiative in supplying cloth and other materials for the industry. Concurrently, such high value-added work stage as the finishing stage should be paid attention to and properly invested. A recent research shows that in the whole technological chain, the finishing stage generates the most added value for products (about 40%). Therefore, for the purpose of generating high added value, the equipment and technology investment into this stage plays an essential role in the aforementioned development strategy.
- A development strategy should be established for the fashion design industry so as to study the products' designs and consumers' tastes. One of the reasons why many importers of our textile and garment products only place sub-contracting orders is that we have not managed in building our reputation in this area and our fashion industry is still in the embryonic period.
- It should be noted that according to the forecast by the Korean Chairman of the World Textile and Clothing Association—Mr. Min-Sok Suh, in the new millennium, the volume of textile and garment products consumed in developing countries will overtake that in developed countries because of the excess supply (World Textile and Clothing Journal, 2000). Therefore, this also promises a new business opportunities for the international business community in general, and our country in particular, to penetrate into the developing markets. It deserves to note that when we penetrate into other developing countries' markets, the advantage of cheap labour cost is not of the most importance, but designs, variety and ability to meet customers' tastes play the determinant role.

(2) Handicrafts

This group of commodities generates high added value as well as other socio-economic efficiency. Handicrafts are mainly made of domestic materials, while imported materials account for a small proportion of about 3% - 5% in the product's value. Therefore, unlike other commodities, the amount of foreign currency actually gained in exporting handicrafts is very high, at about 95% - 97% (Report on handicraft

exports, Ministry of Trade, page 2); meanwhile, in spite of higher export value, the amount of foreign currency actually gained in exporting some other commodities such as garments, footwear... is low, at about 25% of the export value as production materials are mainly imported from abroad. It can be concluded that this is the group of commodities that generates the highest added value (of about 70% - 80%) among our groups of exported commodities. Therefore, taking advantage of domestic potentials to foster the handicraft production and export should be considered a priority and paid much attention to in the coming future.

On the other hand, the improvement of handicraft production and export will create more employment and income for millions of specialized craftsmen and farmers in their leisure time; help to solve the "unemployment" problem which is among the most serious problems in our society. According to a conclusion derived from practical experience, every USD 1 million of exported handicrafts will create employment and income for about 3000 - 4000 workers, mainly in rural trade villages (while every USD 1 million of exported cashew nuts creates employment for only 400 workers). With the handicraft export values during the past few years, it will create employment and medium income for about 500,000 - 600,000 labour, or for up to over 1 million people if including farming labour in their leisure time. If the production volume is raised and the export of these commodities increase five- or tenfold as compared with this moment, the social benefits will be much greater.

It can be concluded that the improvement of handicraft production and export will bring about great social and economic efficiency. On the other hand, this is also our advantage because of their very high added value. Therefore, the government should set up policies on providing encouragement and support for this group of commodities, such as preferential lending interest rates for production and business establishments; exemption and deduction from export tax, value-added tax for production and trade of some handicrafts; supporting policy for trade villages, craftsmen and vocational training policy for manual labour.

(3) Electronic and computer products

As the aforementioned analysis, at present, this group of commodities gains low added value of about USD 700 million in 2000, in spite of its high export value. This can be explained by our outdated technological infrastructure, lack of investment capital, so it can be considered an assembly industry with low localized content. In line with the world's current trend of in-depth labour assignment, we should establish specific policies to focus the investment on the industry's products that are technology- and knowledge-intensive such as computer software (both application and system software), electronic components, spare parts... However, in the current situation, the government should provide support and investment for this industry, including the industry's development strategy, especially in the context of the world's move to a New Economy. The supporting policies should focus on the followings:

- According to assessments by specialists in this area, in order to achieve the target of USD 500 million of software export by 2005, the investment of USD 300 million should be put in human resource training for the software industry. The human resource to be trained will include 40,000 technicians and software workers. Meanwhile, trainers are also a problem for us as our team of trainers have not met the training demands. Therefore, the government should set up specific policies and mechanism to encourage and develop the human resource in this area.
- Draw up policies on raising the localized contents, abosorbing technology transfers in component manufacturing for the following reasons: (i) Component supply markets in the world are abundant. However, according to the "Economic News" issued on 6 - 16 March 1996, if the electronic and computer industry completely depends on the component import, it will face many difficulties as the component prices are greatly affected by global financial conditions. For example, a higher Yen against the US dollar will increase the price of components imported from Japan. This in turn will directly affect Viet Nam as our industry is only stays at assembly level; (ii) Previously, we have not had any difficulties in importing components. However, currently, some joint-ventures have imposed internal monopoly on components, so other electronic and computer assembly companies will have less alternatives in selecting commodities or will be imposed high prices... Therefore, the solution should be to improve joint-ventures and embark on manufacturing components, parts of the added value of 40% and up.
- The government should invest in the industry: this industry requires much investment capital. For example, the establishment of a medium-sized component manufacturing factory will require about USD 20 million. However, the total working capital of the Viet Nam's Electronics and Informatics Corporation is only USD 20 million (according to an unofficial source from the Corporation). Therefore, enterprises are unable to invest without the government's support.
- The government can extend export opportunities to the industry by allowing it to engage in the programme on foreign loans repayment.

2. Market development strategy

The market expansion strategy, aiming at improving the export of Vietnamese commodities, should focus on some following target markets:

A. Developed countries' markets

These are potential markets with strong purchasing power. The successful example of new industrialized economies (NIEs) has shown that the export-oriented policy should focus on developed countries among which the core is Japan, the US and EU.

1. Japan

Japan has been a market having the highest import value against Viet Nam for many years, with the peak of 17% - 18% of Viet Nam's total export value. Our commodities exported to the Japanese market include marine products, textiles and garments (mainly knitwear products), footwear and leather products, coal, rubber, coffee, vegetables, processed food, tea, ceramics and porcelains, and wooden products. Therefore, Japanese market plays a very important role both in volume and variety of imported commodities. Among these commodities, agricultural products and food in which we have advantages are welcomed in the Japanese market. In addition, handicrafts have managed to meet the Japanese' taste and gradually strengthened their positions in the market. However, the groups of commodities in which we have export advantages are mainly raw materials, roughly processed or sub-contracted goods, while technology-intensive products such as electronic and computer components are mostly exported by 100% Japanese-owned companies. On the other hand, it can be stated that Japan is a technologically advanced country with original technologies as well as a major exporter of highly technological machinery and equipment to Viet Nam. Therefore, in order to improve our exports to this market, including to raise export value and expand the variety of commodities, the followings should be taken into consideration:

- Draw up policies on providing encouragement to attract Japanese investment, so that the export to Japanese market will be improved by joint-ventures or 100% foreign-owned companies; policies on intellectual property rights protection, applied for technological transfers in manufacturing and processing, especially in electric, electronic, computer and car industries. More importantly, regulations to strictly control the implementation of this industrial protection policy should be established.
- Presently, our export commodities have not yet fully granted the MFN status, leading to lower competitiveness than similar commodities from MFN granted countries (for example handicrafts). Therefore, governmental negotiations should be fostered in order to sign an agreement on Japan's full grant of MFN status for Vietnamese commodities.
- Improve trade promotion activities in the Japanese markets in the framework of bilateral and multilateral economic cooperation, e.g. the programme on trade and investment promotion that Japan has set up for ASEAN.

2. EU

EU is an enormous market and Viet Nam's export value to EU had increased considerably during 1991-1999. Exports to EU are mainly footwear, textiles and garments, coffee, marine products, rubber, coal, cashew nut, fruit and vegetables; of which main export earners are textiles and garments, footwear and marine products. Recent statistics show that export to EU accounts for 70% - 75% of Viet Nam's

total export value. The most important feature of EU market is that it is not only the importer of the above-mentioned products, but also the supplier of machines and equipment for producing these products, especially textiles, garments and leather additives. As a result, in order to maintain and expand export to EU—a market with complicated regulations and high quality, some recommendations are made as follows:

- For meeting the requirements on quality and reducing costs for food hygiene inspection of marine products and processed food stuff, it is necessary to issue policies on developing and upgrading technical foundation for the systems of bureaus for quality and hygiene testing and certifying based on international standards.
- There have some arguments that with present situation of Viet Nam's textile industry, the maintenance of quota regime by EU is more beneficial rather than harmful to Viet Nam because if complete liberalization is applied it is likely that Viet Nam's textiles and garments are not capable enough to penetrate into this market. Consequently, we should try to negotiate with EU for increasing export quota and at the same time accelerating the negotiation process in order to increase textile and garment quota swap (SWAP) in ASEAN and EU markets.
- Information collection on EU's complicated trade regulations should be strengthened for disseminating them to enterprises. Enterprises should also make use of foreign law companies operating in Viet Nam so that these companies can provide them with legal consulting services for export activities to markets with strict legislation system like EU.

3. The United States

The United States is the leading importer in the world (annual import value of over 1,000 billion USD) with diverse demands and the tops of science - technology and source technology. As analyzed above, Viet Nam has full capacity to export to American market, especially when it enjoys full MFN status. This can be proven by the fact that in 1999 Viet Nam's export value to America was USD 500 - 600 million with major exports of coffee (USD 100 million), frozen prawn (USD 150 million), footwear (USD 150 million), garments and textiles (USD 70 million); and it is estimated that this year Viet Nam's export value to America will amount to around USD 700 million. Due to its stipulated tax rate of 0%, export value of aqua-products and marine products have increased rapidly (USD 200 million). At present, 30 enterprises nationwide have been granted licenses to export marine products to the United States. Although being imposed with the highest tax rate, Viet Nam's garments, footwear and knit-wears have been present at this market and their export value has gone up recently. This is the sign affirming the ability to penetrate and expand Viet Nam's exports to this market when Viet Nam - America Trade Agreement comes into effect.

In order to realize the about-mentioned opportunities, right now concerned ministries and agencies

especially Ministry of Trade needs to conduct a comprehensive research on America's law system and market in a bid to disseminate them to enterprises so that they can have adequate information on the market for preparing appropriate steps to enter the market. In addition, there should be policies on encouragement and measures for facilitating enterprises to penetrate to the American market; of which distribution system is an important factor for export activities. As analyzed in part II, a challenge to Viet Nam's export in the future is the lack of a distribution system abroad. As a result, a distribution system via overseas Vietnamese (overseas Vietnamese community in America is the biggest one abroad) including both traders and consumers. Via this system, Viet Nam's goods can be communicated and advertised. This can be an experimental step for Viet Nam's goods to penetrate the market.

B. Developing countries' markets

1. ASEAN countries

ASEAN is a potential market with a population of 500 million, a favourably geographical location for trading with Viet Nam. ASEAN market occupies 25% of Viet Nam's total export value. The most important factor is the advantages in trade preferences (including duty and non-duty) brought about by CEPT/AFTA. Although these mutual preferences among ASEAN countries will improve competitiveness of products within this market, they also make our products more competitive than the imported ones from non-ASEAN members thanks to tax reduction. As a result, we have to take initiatives to make use of the business opportunities brought about by CEPT/AFTA in order to maintain and expand our market share in ASEAN countries by:

- early notifying overall schedule for tax reduction up to 2006 to enterprises; taking initiatives in formulating production and business plans and strategies in such a way that we can make use of the opportunities for exporting commodities which enjoy preferences in ASEAN countries in an optimal manner.
- strengthening cooperation with other ASEAN members in other economic fields like looking for partners to implement cooperation programme for accelerating export as AICO.

2. China

China is a vast market, located very closely to our country. In addition, this is a country with high competitiveness and therefore China is both our importantly potential partner and competitor. Furthermore, China's entry to WTO will have direct impacts on our exports because China's commodities have had their foot-hold in big markets like America and others. A study by Jose Tongzon at Singapore National University indicates that China's entry to WTO will have impacts on accelerating the development of Viet Nam's beverage and cigarette industries, but the technical infrastructure of these industries is very poor (Jose Tongzon, page 115, policy study on strengthening ASEAN's exports,

2000). As a result, it is difficult to grasp this opportunity. Based on this and the analysis of impacts by China's entry to WTO, the following policies can be taken into account:

- Speed up trade and investment liberalization process for making use of business opportunities and attracting investment.
- Strengthen cooperation within ASEAN: Strictly implement CEPT/AFTA and AIA commitments in order to attract foreign investment. Create strength within ASEAN for competition and formulation of a development strategy towards a common direction. Cooperate and support each other to develop technology, especially in the area of information technology which can be done via the form of joint venture. Accelerate the formation of shared copyright system.
- Foster the economic relations with China, a vast and potential market with abundant labour force at a much lower costs than that in our country. We can not compete with China in this field and therefore cooperation such as in the form of joint venture should be promoted for export.
- Improve the competitiveness of the commodities which face direct competition by China. One of the factors for improving the competitiveness which must be taken into account is the improvement of Viet Nam's brand name image in the world market. As a result, right now attention should be given to the formation and registration of brand name as well as advertisement of names, brand names and traditions of the companies in both domestic and foreign markets.
- Accelerate the export of some commodities which have capacity to penetrate into China's market like seafood, vegetable, fruit.....
- Adjust production structure of exports towards the direction of concentrating investment in advanced technology for industries which have potential for improving labour productivity and conduct research and development of some new exports such as marine ship, detergent and food stuff.

C. Looking for niche markets

Under the conditions of increasingly fierce competition in big markets and in order to quickly meet the changing demands in the markets, search for niche markets should be taken into account in addition to improving production capacity by expanding production scale for reducing production costs especially in processing industries. In order to search for these markets, it is necessary to create new products or add new values to the existing products. The feasibility of this requires good marketing and trade promotion measures.

3. Some other recommendations

(1) *Improvement of policy mechanisms*: Improving legal environment, renovating and improving import-export mechanisms and policies as well as continuing to regulate trade policies in a clear and stable

manner in order to improve the trust of business environment are inevitable requirements. Furthermore, attention should be given to add some policies which have been applied by other countries while we have not yet applied or applied them in a restricted manner, including policies on trade promotion, research and application and credit for export... Fund for supporting export promotion should be established for supporting export activities.

(2) *Policy on investment encouragement:* Create more open and flexible investment environment for attracting foreign investors, especially multi-national companies investing in production for export.

(3) *Access to modern business methods:* E-commerce has been becoming an efficient business method, resulting in savings of transaction costs (total global trade value via E-commerce in 1998 was USD 50 billion and in 1999: USD 111 billion. It is forecasted that the figure in 2003 will be USD 1,300 billion). Viet Nam is also in the process of formulating legal environment for proceeding with this way of doing business. However, our telecommunication price is still too high compared to other countries, thus affecting the access to Internet—the environment for doing E- commerce. As a result, this service should be further liberalized for reducing costs in order to facilitate and encourage enterprises to look for partners by E-commerce.

(4) *Joining WTO* only creates favourable conditions. It does not mean that thanks to WTO membership Viet Nam will be able to realize business opportunities in international forum. Thus, it is necessary to study very carefully WTO agreements and possible developments by main partners in the world for working out appropriate policies.

Annex

Analysis of the impacts by China's entry to WTO on Viet Nam's exports (on some commodities)

1. Garments

International trade on garments by WTO members is currently following WTO's Garment and Textile Agreement. In accordance with this agreement, garment and textile export quota will be gradually eliminated until its complete termination by 2005. As a result, from 2005 forwards there will have no longer restrictions in garment and textile export volume. Non-members of WTO will not be entitle to enjoy this benefit.

Viet Nam's export value of garments and textiles accounts for 40% in EU market, 23% in Japan and only 2% in American market. China ranks the first in these three markets in terms of garment export.

The current trade terms to garments of Viet Nam and China in the main markets are as follows:

- *Japan market*: Japan presently does not apply quota to garments and textiles. Garments and textiles of both Viet Nam and China enjoy MFN tax rates.
- *EU market*: Garments and textiles of both Viet Nam and China are currently enjoy MFN tax rates and subject to export quota to EU market. In fact from now up to the year 2004, EU excludes only less sensitive categories from the list of quota application, while sensitive categories are still subject to quota. As a result, if China joins WTO in 2000, until 2004 China's garments will not in more favourable position that those of Viet Nam. From 2005 when EU eliminates quota to WTO member, Viet Nam's garments shall have to compete fiercely with China's.
- *America market*: China's garments have been subject to quota by the United States, but have enjoyed MFN tax rate for many years (MFN tax rate imposed on garments is 13.4% and general tax rate is 68.9%). At present, America has not yet applied quota to Viet Nam's garments. However, Viet Nam's garments have not yet enjoyed MFN tax rate. Once Viet Nam - America Trade Agreement is approved, Viet Nam's garments will enjoy MFN tax rates but subject to export quota.

Viet Nam's textile industry has not yet met the requirements for materials by garment industry, while almost all inputs for China's garment industry are domestically produced. As a result, price of Viet Nam's garments is much higher than that of China. A study shows that garments for export in our country have used only 15%-20% of locally made materials, and the remaining materials are imported, resulting in the fact that production costs of the same product made by Viet Nam are 15%-20% higher than that made by China. Furthermore, design technology of Viet Nam has not yet been developed and therefore exported garments of Viet Nam are mainly under subcontracts with foreign partners.

From now up to the year 2005, China's entry to WTO will not cause major changes in our country's

garment export. Since 2005, Viet Nam's garment exports will have to compete very strongly with China in some big markets like EU, America.

2. Footwear:

Major export markets of Viet Nam's footwear currently are EU (with the export value accounting for 74% of its total export value, America (11%) and Japan (8%). Viet Nam ranks the second (after China) among footwear exporting countries to EU.

The current trade terms to footwear of Viet Nam and China in the main markets are as follows:

- *Japan market*: Japan presently does not apply quota to . Footwear of both Viet Nam and China enjoys MFN tax rates.
- *EU market*: Viet Nam's footwear exporting to EU is enjoying GSP and not subject to export quota. Footwear of China currently enjoys MFN tax rates and subject to export quota because volume of China's footwear exporting to EU market has increasingly gone up in recent years (accounting for 33.4% of total footwear imported by EU) at a very cheap price, having negative impacts on EU's footwear production industry.[1] In the negotiation for China's entry to WTO, EU and China have agreed to gradually eliminate volume restriction measures and advance toward completely terminating this measure by 2005. Consequently, if China joins WTO in 2000, there will be the possibility that China's footwear is still subject to quota until 2005.
- *America market*: At present, America has not yet applied quota to Viet Nam's footwear. However, Viet Nam's footwear only enjoys GSP while China's have enjoyed MFN tax rate (MFN tax rate imposed on leather footwear is 5.6% and general tax rate is 33.0%).

Similar to textile industry, Viet Nam's leather and its supporting industries have not yet met the requirements for materials by footwear industry. As a result, price of Viet Nam's footwear is much higher than the same product of China. China's entry to WTO will not cause major reduction in our country's footwear exported to main markets like EU, America in the short run. From 2005 when EU eliminates quota applied to China's footwear. Viet Nam's footwear will have to compete very strongly with China in EU market .

3. Ceramics and porcelains (including industrial, home and art ceramics and porcelains)

Viet Nam's ceramics and porcelains are currently competing with those of China in the markets of Japan, EU and America.

The current trade terms to ceramics and porcelains of Viet Nam and China in the main markets are as

[1] According to Report on Quota measures and Monitoring towards some Commodities originated from China by European Commission dated on 17 February 2000.

follows:

- *Japan market*: Japan's trading policies applied to exports of Viet Nam and China are similar to each other. After China joins WTO, there will no major changes in competing environment in this market.
- *EU market*: China's home ceramics and porcelain are subject to export quota and do not enjoy GSP, while Viet Nam's ceramics and porcelains are not subject to quota and enjoy GSP. When China joins WTO, there is possibility that from 2005 EU shall have to shift to the application of self-protection by WTO principle. Quota can be abolished and China's ceramics and porcelains will have more opportunities to enter EU market.
- *America market*: At present, China enjoys more advantages than Viet Nam because it enjoys lower MFN tax rate than general tax rate imposed to Viet Nam. For example:

Group of products	MFN tax rate	General tax rate
Home ceramics and porcelains	4% - 10%	50% - 70%
Art ceramics and porcelains	0% - 4%	20% - 70%

Although China's entry to WTO will cause no changes in its tax rate, its regular and stable MFN tax rate will contribute to promoting its ceramics and porcelains, especially its home and art ceramics and porcelains which rank the first in American market, to penetrate to this market.

However, in the immediate time China can not accelerate its export level. According to The Year 2000 Report by EC, the elimination of quota for China also depends on China's trade liberalization. EU survey indicates that the use of quota, the impacts of China's exports on EU producers and negotiation process for joining WTO by China will lead to the fact that EU will not completely eliminate quota in the coming 3-5 years.

Furthermore, the group of ceramics and porcelain commodities has its own specific characteristics, linking closely to each country's cultural identity. Consequently, Viet Nam will still have opportunities to export its art ceramics and porcelains.

China's entry to WTO will not immediately have great impacts on export of Viet Nam's ceramics and porcelains. However, in the long run, Viet Nam can face difficulties, especially in exporting home ceramics and porcelains to markets of EU and America.

4. Electronic products

Viet Nam's main export markets are ASEAN, EU and Japan. The current trade terms to electronic products of Viet Nam and China in the main markets are as follows:

- *ASEAN market*: In accordance with CEPT process, average tax rate of ASEAN countries (1999)

imposed on electronic products is 5% - 10%. As of 2006, main import duty will reduce to 5%; while China's exported electronic products are taxed at the average MFN rate of 25% - 30% and sensitive products at the rate of 60%.

- *Japan market*: Both Viet Nam and China are enjoying tax rate of 0%.
- *EU market*: Both Viet Nam and China are enjoying GSP.
- *America market*: China enjoys MFN tax rate. Viet Nam is imposed general tax rate much higher than MFN tax rate.

	MFN tax rate	General tax rate
Electronic products	2.8	34.0

In the group of electronic products, Viet Nam has currently exported only consumer and computer products and not yet exported telecommunications electronics products; while telecommunications electronics product is China's the highest foreign exchange earner, of which telephones account for 35% of the world export share with the largest markets of America, Hong Kong and Mexico (according to UNCTAD).

China's entry to WTO will enable the country to attract more foreign investment and high technology in electronics sector. Viet Nam should sustain its advantages in ASEAN market because Viet Nam enjoys CEPT preferential tax rates.

China's entry to WTO can cause reduction in Viet Nam's electronics export. However, Viet Nam still has better competitiveness in ASEAN market thanks to its more preferential import duty rates.

2 – 7

Export-Oriented Development Strategy: Obsolete or Actual

Preliminary Outline for Discussion

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1. Introduction:

- In front of the new millennium, there are many arguments on the ways of development for the humanity in general and the world economy as well as each economy, in particular, in the context of the establishment and the development of a new economy— a knowledge economy or a knowledge-based economy.
- In respect of developing economies, one of which is Viet Nam's case, the argument seems to turn around the most fundamental questions: how to overcome poverty, how to reach sufficient-high growth rate to shorten the development gap and at the same time to ensure sustainable development, how to build a highly competitive national economy in the context of globalization and trade liberalization, etc.
- For us, as the Vietnamese Communist Party is preparing for IXth Congress with the purpose of working out the development strategy for the nation in the next 10 years, in order to create the foundation for an industrial country in future hopefully in 2020, there are many questions still opened. One of the questions is what shall be the driving force for the economic development of Viet Nam in the next 10 years: foreign investment? "grey" matter [intelligence/knowledge]? internal strength? (a very ambiguous definition)? development of some key industries such as informatic technology, agricultural product processing, etc.? concentrate on production to meet the demand of the domestic market? or export?
- In this writing paper, we want to focus on the heated argument recently on the selection of one of the two industrialization strategies: export-oriented or import-substitute. The most important question here that needs to answer is whether export-oriented development strategy is the right strategy that Viet Nam needs to choose for itself in the coming period or not? If yes, what should be the contents of such strategy for Viet Nam? What has Viet Nam done and what does it have to do to successfully implement the chosen development strategy?
- It is our view that in the context of globalization and international integration, if export-oriented strategy is considered within the framework of the classical debates on development models in the 1960's and 1980's and even in the early 1990's, i.e. placing the export-oriented strategy as an opposite and eliminatory choice to import-substitute strategy, it would not be the path for Viet Nam in the upcoming decade - and the debate would be useless. But if export is viewed as the main driving force for development,

it would be the priority in Viet Nam's industrialization and modernization strategy in the upcoming decade. In this paper, we will also reject the arguments that today, in the face of trade and investment globalization and liberalization, the deeper Viet Nam integrates into the regional and world economy, the more the boundaries between domestic market and overseas market are eliminated and that, therefore, export-orientated development strategy is meaningless but the matter is to raise the competitiveness of Vietnamese goods and services in general. The integration, in our view, will lead to the abolition of tariff and non-tariff barriers that separate domestic and international markets - but there are many fundamental differences between these two markets (as analyzed in more detail below). On this basis, we review Viet Nam's export policies and structure in the last 10 years and appraise the role of export in Viet Nam's growth, then we give recommendations and proposals on the policies necessary to make export to be the main driving force for Viet Nam's development in the coming years. It should be noted that in the current circumstances, the exportable goods usually are the ones that have the competitiveness even in the liberalized domestic market but the contrary is unlikely to be entirely true.

2. The choice of export-oriented or import-substitute strategy in the 1970's and 1980's: a win-or-loss battle or a question of who takes lead, or simply a matter of time and circumstances?

- A summary on the two schools, examples of success and defeat: the reasons - and the winner is...

3. The financial-monetary crisis in the East Asia: the end for the export-orientated strategy or just a new beginning?

- Looking for someone to blame - but there's not only one reason for the crash (excessive investment in export, especially in electronics, seemed to have been a reason for the crisis? One should be soberer when looking back).
- Bring into full play the "internal strength" —an unperceived appeal from some mouthpiece. In substance, and for many people this is a way to call for high protection of the domestic market under the import-substitute label—a near-sighted policy being crashed right prior to the implementation.
- Export is what relieves the troubled economies out of crisis—illustrated statistics indices of some fast-recovering economies in the East Asia.

4. A handful of academic theories: trade in the context of globalization and integration —comparison of the absolute advantage and relative advantages, and the advantage of the uniqueness as the bases of the world trade, and a seemingly childish question: What is export for?

- From the absolute advantage theory to Ricardo's "excellency theory" (which was cited by K. Marx in the Capital) on relatively comparative advantages as the fundamental of inter-industry trade and the specialisation that reserves a place for less competitive participants to the H-M model as the basis of inter-industry trade - when " strangeness is good" and "African bananas differs from Vietnamese one". Why do many people in Viet Nam, including some high-ranking leaders, confusingly use the term "comparative advantage" (which is often mistakenly used to designate the absolute advantage, for example when saying "our comparative advantage is cheap labour costs")? Static (or hereditary) comparative advantage or dynamic (or created) comparative advantage - "I don't want to spend my whole life cultivating paddy ".
- Globalization and integration will not change the fundamentals of trade and cannot totally eliminate the boundaries between the national market and the international market (arguments in more detail). Furthermore, it promotes international trade, especial the trade that is based on the absolute comparative advantages. What will be the remaining differences between the national market and the international market after demolition of the tariff and non-tariff barriers (economy of scale, differences in habits and tastes, human's eagerness for the new as a strength, the graphic showing the relations between the choices available and the utilization degree of consumers, and price differences caused by living standards and price floor, which leads to differences between the revenue from sales of a particular commodity in the domestic market and exportation of the same commodity).
- We sometimes forget a greatly essential point: one of the main objectives of export is to allow for import (in tandem with job creation, foreign currency accumulation, debt repayment, capital balance improvement, etc.). So import surplus in many cases is not necessarily bad to the economy, and equally, export surplus is not always good (when and why).

5. Why the export-oriented strategy is not a choice for the development of Viet Nam in the future?

- Because it <u>has been</u> the driving force for the development for over the last decade (the statistics, especially the data in the report to the Government in September 2000 can illustrate through the ratio of the export over the growth rate and over GDP)
- Because it <u>is no more a choice</u> but a dispensable component in the development strategy of Viet Nam

in the coming time.

- Because we shouldn't be under illusion about other driving forces. Foreign direct investment (FDI), besides irrefutably positive effects and which is one of the great driving forces for growth, contains many negative effects and in many cases, the net profits that it brings about for the national economy is not worth - for example, the value added of a series of exports from FDI is low (especially from the processing activities); the transfer of advanced technology + very limited wide-spread effects; the majority of the gained profits go into the pockets of the foreign investors; the weak qualification and management skills of the Vietnamese side in joint-ventures, the lack of contributed capital - only by land use rights, etc. continue to reduce the positive effects of FDI to the development of our national economy; the calculating method of production output by FDI enterprises contributed to the GDP growth should be factually assessed - without GDP growth rate we can't say it's the development, etc. (I know my personal arguments might create further debates).
- Because Viet Nam committed and in fact has participated into the integration progress (analyze our commitments in AFTA, APEC and especially in the U.S.-Viet Nam Trade Agreement and our plan to access the WTO) and if Viet Nam has decided to involve in the globalization and speed up the integration, it obviously means the Vietnamese Government has decided to choose export as the key driving force for development - otherwise why we need to integrate?

6. Viet Nam's development strategy with export as the main driving force: main components: (I use it in this way to avoid the misunderstanding of export-oriented strategy before as a strategy that eliminates the import-substitute strategy)

- Analyze the current export structure of Viet Nam: the absolute advantages are mainly utilized but the comparative advantages are not brought into full play, the value added from the export is low; in many cases excessive export is not always good - to some extents it is said that we sell the fortune of our ancestors and take the havings of our descendant; the export is sustainable because of the sustainable development.
- Analyze Viet Nam's trade and economic development policies in general: how priority we give for export? Comments on the draft Export Strategy prepared by the Ministry of Trade and discussed by the Government for many times.
- Propose main components of the development strategy where export is the driving force in the context of international integration (AFTA, APEC, recently signed U.S. - Viet Nam Trade Agreement, accession to WTO): recommendations on policies.

7. Conclusions

What would be the driving force for export if export is the driving force for Viet Nam in the coming decade: (1) it's necessary to strongly liberate the import-export control mechanism (stress is given on import also as otherwise it's very difficult to improve the export - it sounds illogical but it's true that those two can't be separated - otherwise the costs that the Government has to pay to support the export will be higher than the gain; and (2) the national private sector is where support and export incentives should be received, and we should increase the national competitiveness, in addition to the strengthening and improving the capability of the SOEs. It is necessary to strongly stress here that export as the driving force doesn't mean to forget the domestic market but support to export also helps improve the competitiveness of the Vietnamese goods and services in the domestic market. Simultaneously, actively taking the domestic market share is a very effective measure to support export, especially taking into account the experiences of Japan and Korea.