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A STUDY ON THE REPUBLIC OF VIETNAM'S  
EXPORTS

Tran Trong Nga

Naval Postgraduate School  
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June 1974

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In order to get out of this dependency, the "outward looking" policy was chosen for economic viability in Vietnam. Apart from improvements in monetary sector and in administrative procedures, a series of new laws were issued to form a progressive program for export promoting.

Although these governmental efforts had created some progress in export activities, the prospects of Vietnamese exports certainly depended upon many other aspects, in which the war is still the most important one.

A Study on  
The Republic of Vietnam's Exports

by

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Submitted in partial fulfillment of the  
requirements for the degree of

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## ABSTRACT

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## I. INTRODUCTION

Vietnam - the term used for the Republic of Vietnam unless otherwise stated - is a developing country with a population of about 18 million people, expanded over an area of 169 thousand square kilometers. The traditional agriculture is its main economic activity which employed more than 80 per cent of the population and gave an annual per capita income of not more than U.S. \$100 each head.

Shortly receiving freedom in the mid-1950's, after an almost-a-century struggle against foreign rulers, the country has been immersed again in another war. Though much ink has been spilled and a peace agreement was signed years ago, the substance of this war has remained debated and it is seemingly an endless war. One thing which could be sure is that this war has swallowed a large part of the resources, both human and material, and the energies necessary for building the country, on the one hand. However, on the other, in contrast of other wars, the current Vietnam war created many strange patterns for the economy of this country.

In order to help the Vietnamese government against the communist expansion, the United States had injected billions of U.S. dollars into Vietnam to support its military, which included more than half of a million combat troops in the peak of war. It also contributed substantial AID counterpart funds. As dollars, this money made possible, and indeed

encouraged, massive commercial imports; as plasters, it covered most of the government's budget deficit.

In that context, the Vietnamese economy, even in the wartime, still had the prosperous appearance, which was clearly showed by imported goods overflowing on markets.

In the final years of the American involvement, there existed an inverse trend. The rapid cutback in U.S. expenditure in Vietnam, along with the foreign troop withdrawals, has destroyed the previous economic prosperity. The gap in the country's budget could not be bridged and thus, inflation became more and more spiral. Meanwhile, the unemployment, mainly caused by the shutdown of U.S. military bases and offices in the country, became a matter to be discussed for the first time in years! In addition, the nation's foreign exchange reserves reduced sharply, due to the foreign trade deficit, in which exports could only finance 2 per cent of imports.

The dummy appearance was immediately replaced by the true face of a deteriorated economy which heavily depended upon the external resources.

In such conditions, the war in Vietnam was described as to be changed from military battles to economic ones. In other words, the Vietnamese government has been in front of many major economic problems, in which one concerning to this paper is the foreign trade deficit.

Even though the foreign trade was totally out of balance, it's seemingly very difficult to reduce imports sharply. It

was strongly believed that one of the finest weapons to defend the free world against the communist is the higher standard of living in the former. In Vietnam, although it may be wrong, that standard was formed mostly by imported commodities. Therefore, any sharp reduction in imports will create disadvantages on the government credit. Moreover, the most important part of national revenue came from the import tax duties. It implied that the budget deficit will be greater if imports are going down. In addition, a great part of the population got used to the foreign goods consumption and they cannot leave it easily!

Bounded by those constraints, the Vietnamese government has accepted that export promotion is the only viable way to solve the foreign trade deficit problem, along with gradually reducing imports, particularly luxury ones! Moreover, through the view point of Vietnamese planners, export promotion is also considered as a feasible way to survive the economy! In other words, exports could play the role as "the engine of growth" to develop the economy. With these implications, export promotion was viewed as a national plan with highest priority.

This paper concentrates on the exports activities of Vietnam. Its main purpose is to present the country's export performance in the past, and to estimate its prospects in the future. In doing so, some lines briefly covering the foreign trade policy of developing countries were needed in comparing to the new Vietnamese export policy.

Needless to say, because of their close relationship, exports could not be considered separately from other economic activities, particularly from imports. However, due to many restrictions, this paper does not pay too much attention on those, even if it should do.

## II. FOREIGN TRADE AND DEVELOPING COUNTRIES

During the past two decades or three, a "fundamental revolt" has been sweeping the foreign trade theory, bringing profound changes in the economic pattern developed in almost four centuries since the first direct commercial contact between Europe and the overseas world. The revolt in trade theory, in fact, represents one facet of the greatest political fact of the present time - the revolt of the underdeveloped economies, the former colonial countries, against the political and economic system which had resulted from their commercial and political contacts with the advanced countries. The essence of this revolt has reflected on the following, J. Nehru's statement:

We talk of freedom but today political freedom doesn't take us very far, unless there is economic freedom. In fact, there is no such thing for a man who is starving or for a country which is poor. The poor, whether they are countries or individuals, have little place in the world.<sup>1</sup>

Economic development, therefore, became the ultimate goal of the developing countries and, from the start, it was an intensely political matter, a business for the governments.

In that context, the role of exports was reviewed. Endowed with an abundance of labor, as well as natural resources in some cases, the developing countries have been dealing with an important question: whether their external trade will generate a major force for attaining a satisfactory rate of economic development in their countries.

Trade-growth relationship, therefore, has become a continually disputed problem! As other economic debates, the classical theory was preferred by some, while others used historical experiences to strengthen their arguments.

#### A. DEVELOPMENT THROUGH TRADE: THE CLASSICAL THEORY

Trade-growth relationship was presented in the classical theory as an optimistic one. Trade was considered to be not simply a device for achieving productive efficiency but also an "engine of growth." The gains from trade in the economic development process can be simply explained as follows. When a country specializes according to its comparative advantage and trades at the international exchange ratio, it gains an increase in real income. In other words, in a more scholarly term, it means that the "production possibility curve" is expanding from the origin.

This mechanism was very clearly described by the classical economists. John Stuart Mill, for instance, in his "Principals of Political Economy," stated that the gains from trade, through comparative advantage, comprised not only the "direct economical advantage" which is a "more efficient employment of the productive forces," but also the "indirect effects which must be counted as benefits of a high order."<sup>2</sup> These indirect benefits, according to Mill, include the improvement of the production process by a larger market, more extended division of labor, greater use of machinery, as well as the existence of a new motivation which stimulates the people to work harder, to accumulate more capital, to break the chain

of habit and turn the population toward new wants, new tastes, new ambition, and greater thought for the future.

In brief, foreign trade not only helps a poor country to remove domestic shortages and to overcome the diseconomies of the small size of its domestic market, but also provides "a sort of industrial revolution," which improves the technology of production to get a higher productivity and creates an appropriate and favorable environment for economic development. For these several reasons, the traditional conclusion has been that international trade stimulates a country's development.

This classical conception of the impact of trade is emphasized again by some recent economists. G. Haberler, for example, after reconsidering the benefits of foreign trade on the economic development in the modern context which accounted for such factors as the international movement of capital, the antimonopoly policy, healthy degree of free competition, etc. . . ., concluded that "international trade has made a tremendous contribution to the development of less developed countries in the 19<sup>th</sup> and 20<sup>th</sup> centuries and can be expected to make an equally big contribution in the future."<sup>3</sup>

In order to prove that foreign trade did have a propulsive role in economic development, many historical cases have been cited. In the case of Britain, development was fostered by the export trade in woolen manufacture and cotton textiles; for Sweden, it was the timber trade; for Denmark, dairy produce; Canada, wheat and wool; Switzerland, lace-making and clock-making; Japan, silk.<sup>4</sup>

In many cases of successful development, the importance of the international trade is clearly confirmed, not only for countries that exported industrial products, but also for primary product exporters.

The foregoing analysis, however, indicates only what would be - not necessarily what has been or is! Indeed, the historical experiences of numerous poor countries reveals considerable growth in their foreign trade, but only a slow rate of domestic development. Exports usually played a lagging role, instead of a leading one.

#### B. CRITICS OF THE CLASSICAL THEORY

As cited above, after World War II, developing countries reviewed their trade performance and many studies were carried out, based on historical data. Their results show that from 1928 to 1955, the volume of exports from both industrial and primary-producing countries rose by nearly 40 per cent, but if petroleum is excluded, the rise in exports from the later group was under 20 per cent.<sup>5</sup> Further evidence of the slower rate of the growth of exports from the primary producers than from the industrial countries is shown by the fall in the percentage share of the former in the world exports. If the oil countries are included, the percentage fell only marginally from 34 in 1957; but excluding the oil countries, the fall was from 32 to 24 per cent over the period.<sup>6</sup>

In a smaller scale, the foreign trade performance of the developing Asian region gave a relevant example. According to the Economic Commission for Asia and the Far East (ECAFF),

this region's share in the world export is rather small and shows a tendency to decline; thus, from 10.1 per cent in 1928 it fell to 9.6 per cent in 1938, then to 8.2 in 1948, and in 1960 it was only 6 per cent.<sup>7</sup> Moreover, it is apparent that after a poor country became part of the international economy, its production did increase, but primarily for exports. Despite this increase in exports, the development process has remained stagnant in many poor countries.<sup>8</sup>

Based on those facts, critics of the traditional view on the growth-trade relationship then can be classified into two types: first, the arguments on the lagging role that international trade has impeded those countries' development.

#### 1. Critics of the Exports' Role

The arguments invoked can be conveniently grouped according to whether they place emphasis on a deficiency of world demand for the exports of primary producing countries, or on a deficiency in the supply of these commodities.

##### a. Demand Deficiency

Perhaps, Ragnar Nurkse was the most powerful advocate of the "demand deficiency theory." According to Nurkse, the demand expansion for primary products helped economic growth in the 19th century. However, in recent periods, "there is a relative lag in the industrial countries' demand for a wide range of primary commodities."<sup>9</sup> The causes of this relative lag appear to have been:

- Change in the industrial structure in favor of "heavy" industries with a low content of imported raw materials,
- rising share of services in the total output of advanced countries,
- low income - elasticity of consumer demand for agricultural products,
- agricultural protectionism in advanced countries,
- introduction of synthetic materials which substitute the imported natural materials.

Nurkse did not, however, deny that in some countries, domestic policies have resulted in restrictions on supplies of primary produce for export but he considered that "such policies can sometimes be interpreted as reactions to relatively unfavorable demand conditions for primary export products."<sup>10</sup>

#### b. Supply Deficiency

In contrast to that view, the failure of primary producing countries to expand their exports was interpreted as the deficiency in their own capacity to increase the supply of these products.

The sharpest argument in general supporting this view has been expressed by A. K. Cairncross. He pointed out that the failure of those countries to expand their exports of primary products in proportion to their economic growth, or to their consumption of manufactures, is caused by the price factor. The prices of exports from developing countries have, in fact, risen since prewar by half as much again as

the prices obtained by industrial countries for their exports of primary produce. In his point of view, Cairncross stated that the increasing price "reflected the acute pressure on supplies of primary produce in a full-employed economy - a pressure that continued because of the low elasticity of supply of this produce."<sup>11</sup>

Many reasons are cited as the causes of this "low-elasticity of supply." Some of the most important include:

- the concentration of effort in many developing countries on industrialization rather than agricultural development,
- their inability to transform resources from one sector to the others,
- the existence of intermediate goods that are needed in relatively fixed proportions in many productive processes and that the less developed countries cannot produce for themselves.

In addition to these two extreme views, there existed some "neutral" ones. Professor Kindleberger, for instance, believed that the problem of export expansion in developing countries had been caused by both the "internal conditions" - the supply side - and the "external conditions" - the demand.

Staffan B. Linder put it in a more scholarly way, "in developing countries it may not, in fact, be possible to solve the factor-proportions problem through trade"; the reason for this was "the existence of an export maximum," based on the inelasticity of the foreign offer curve for

primary products and their inability at an early stage of growth to produce and market finished manufactures.<sup>13</sup>

On the other side, ECAFE countries, after accepting that there actually existed some internal obstacles, have claimed that exports from the region were confronting various kinds of obstacles created by developed countries, among which Western Europe was the most important. The quantitative import restrictions, tariffs and preferences policies, internal fiscal charges, agricultural policy, etc., were listed as the main measures to protect the domestic market against exports from developing countries, especially from the ECAFE region. These obstacles, the region concluded, "have indicated decisively that export expansion along traditional lines is limited,"<sup>14</sup>

## 2. Critics of the Exports' Performance

The second type of critic is sometimes presented in an angry and bitter tune. The free play of international market forces, in the view of some economists, "will tend cumulatively to accentuate international inequalities," and "a quite normal result of unhampered trade between two countries, of which one is industrial and the other underdeveloped, is the initiation of a cumulative process towards the impoverishment and stagnation of the latter," as argued by Myrdal.<sup>15</sup>

The arguments supporting this idea, first of all, come from the analyses of unfavorable effects of international factor movements.<sup>16</sup> These movements have been claimed to

create a highly unbalanced structure of production in developing countries. In order to keep the natural resources supply in a proper level, inflow of capital has developed only the export sector and neglect the production in the domestic sector. The result is simply the creation of a "dual economy" in which production is "export biased," and the export sector is separated and surrounded by a backward-low-productivity sector. The former is usually composed of plantations, mines, oil fields, etc., which produce for export, in large-scale and capital-intensive manufacturing. To the contrary, the latter is dominated by peasant agriculture, handicrafts, small-scale and labor-intensive industry producing for local demand.

The advanced industrial sector received capital, especially capital from foreign countries, to produce exports and expansion in exports may have induced investment and stimulated technological progress in this sector. However, the rate of investment in this sector and labor employment opportunities did not keep pace with population growth. The result is that the increasing population had to seek employment in the backward "pre-industrial" sector: disguised unemployment, therefore, became inevitable in this sector whenever all available land was cultivated. In other words, developing countries were still in a condition of poverty and could not "take off" even though exports did increase.

The most ardent argument, however, may be the so-called "Prebisch's thesis." This work, following the name of a

well-known Argentine economist, Raúl Prebisch, stated that underdeveloped countries have actually been hurt by international trade. In his famous essay,<sup>17</sup> Dr. Prebisch stressed that economies in developed countries (the Center, according to Prebisch) are self-sustained through technological progress, whereas developing countries (the Periphery, in the author's terminology) play the role of raw material suppliers for the former. The problem resides on the fact that "general improvements in productivity tend to be fully reflected in the increment of the wage rate at the Center, while at the Periphery a part of the fruits of these improvements is transferred through the fall of export prices and the corresponding deterioration in the terms of trade."<sup>18</sup>

In other words, the commercial interchange between peripheral and central countries based on the exports of primary and industrial goods, respectively, is of a sort which does not facilitate economic development in the Periphery: the poor communities remain trapped inside a vicious circle of low productivity and low savings, followed by more of the same. In the light of Prebisch's thesis, the Adam Smith's "international division of labor" theory which is the basis for the classical theory of international trade is likely invalid.<sup>19</sup>

In addition to the above arguments, it has also become common to claim that the international operation of the "demonstration effect," created by trade, has been a handicap for the poor countries.<sup>20</sup> This effect has raised

the propensity to consume in the poor countries and has thereby limited capital accumulation. The consequences, however, are only sufficiently strong and detrimental for such poor countries whose imports are mostly composed of second products and there exists a large urban population.

### C. THE MIXTURE OF ECONOMIC AND POLITICAL MATTERS

Even though, based on the statistical data, the relative deterioration of the developing countries' foreign trade is an undeniable fact, the critics against the traditional theory of trade-growth relationship mentioned above seem to be ambiguous and blended by more political implications than economic ones.

The critical interpretation of the export-biased international factor movements cited above has, in fact, neglected to take into account many other important factors. First, since foreign trade has accounted for a large share of governmental revenue, the governments of many poor countries have actually pursued policies designed to attract foreign investment to their export sectors in order to promote their export trade. As will be mentioned later, more or less, this is the case of Vietnam through the new export policy! Secondly, foreign investment, regardless of its character, has not been competitive with home investment. There is no reason to believe that if there had not been foreign investment, a poor country would have generated more domestic investment; or that, in the absence of foreign entrepreneurs, the supply of domestic entrepreneurs would have been larger.

In other words, the real choice in many underdeveloped countries was not so much between using the resources for export production or for domestic production, as between giving employment to the surplus resources in export production or leaving them idle.<sup>21</sup> Therefore, as Nurkse stressed, "even 'unbalanced' and unsteady growth through foreign trade was surely much better than no growth at all."<sup>22</sup>

The second major criticism of international forces, the so-called Prebisch's thesis, has, in fact, relied on extremely weak statistical foundations and its analytical reasoning is unconvincing. Many studies have shown that the allegation of a long run decline of the terms of trade of primary producers or of underdeveloped countries is vague.<sup>23</sup> In addition, even if the terms of trade had deteriorated, the basic difficulty would have been not the external change in prices, but the failure to have had sufficient internal resource flexibility. If domestic resources were mobile, the distribution of resources would tend to shift from export sector to home market industries when the commodity terms of trade deteriorate. In other words, by inducing shifts in production and in the distribution of resources, a change in the terms of trade would tend to reverse or counteract itself.<sup>24</sup>

At this point, it is more likely that, instead of focusing on the unfavorable effects of international trade, the domestic economy of the poor country may be a more convincing explanation for its trade-growth problem.

Factor immobility, price rigidity, restrictive tendencies in both the factor and good markets, ignorance of technological possibilities, limited knowledge of market conditions, poorly articulated price system are some of the numerous inhibiting factors existing in the domestic economies of underdeveloped countries.

In connection with these domestic impediments, the traditional structure of the society as well as the economical inefficacy of the governments in formulating and administering economic policies have been the socio-cultural and institutional obstacles for economic development in those countries.

These impediments have had bad effects on the transmission of the gains from exports to other sectors. Then even a strong stimulus from foreign trade will have only slight penetrative power.

In summary, in Rostow's terms, the failure of the export sector to have been a primary growth sector, setting in motion expansionary forces elsewhere in the economy, may be attributed in large part to the absence of the preconditions necessary for a take-off into self-sustained growth. While their exports rose, many poor countries at the same time had not yet experienced the second stage of growth - a transitional era when the politics, social structure, and values of a traditional society are altered in such a way as to permit regular growth.<sup>25</sup>

#### D. EXPORT INSTABILITY AND ECONOMIC DEVELOPMENT

It is likely that the debate of the trade-growth relationship could last indefinitely. However, whatever the causes have been, the bad effects of export lagging as well as export fluctuation on the economic growth of developing countries are undeniable.

The vital goal of these countries, as noted, is economic development and their plans are mostly based on the amount of capital goods and intermediaire goods imported to push the productivity. These imports, in turn, depend upon the foreign exchange mostly earned by exports. When exports increase less rapidly than national product, it can hardly be expected that they will earn sufficient foreign exchange for financing economic development and provide a satisfactory market for the growth of domestic production, thus fulfilling the function of generating momentum for economic growth. Moreover, when exports increase at slower rate than imports and enlarge the trade deficits, the economic growth process is bound to be frustrated by balance of payments difficulties, unless foreign aid is forthcoming in sufficient amounts to fill the gap.

The case of ECAFE countries may be helpful to prove this.

The considerable export lag has put a serious brake on the economic development of the region, particularly on the foreign exchange earning on which the region's bulk supply of capital goods depends . . . the large export surplus of 1928 was reduced by more than one half by 1938 and was replaced by a sizable import surplus in 1948 . . . in the post war period . . . the region's deficit leaped from U.S. \$.4 billion in 1948 to the level of about 1.3 billion in 1959-61.<sup>26</sup>

Furthermore, not only does the lag in exports hamper the rate of economic growth, the export instability is also detrimental to economic development in the less developed countries.<sup>27</sup> This instability is usually caused by fluctuations in the export prices as well as the export volume of primary products. During the period of 1901 to 1950, the year to year price changes over 18 primary commodities which represent the major exports of 47 underdeveloped countries, averaged about 14 per cent; fluctuations within the year averaged about 27 per cent as between the high and the low point of each year.<sup>28</sup> The changes of export volume showed up as even larger than the price changes, averaged between 18 and 19 per cent on a year to year basis.<sup>29</sup>

In general, these fluctuations may come from the industrial import market or potentially from the traditional structure of the underdeveloped production conditions. Their effects, however, are the same in adding to the complexities of the economic planning and management, and adversely affecting the process of economic development. On the one hand, the capacity to import investment goods vital for economic growth is destabilized; on the other, there are the hurtful effects on the growth of exports.<sup>30</sup>

Moreover, as Myrdal pointed out,

From the point of view of the need to import capital goods for economic development, it should also be noted that a large part, usually more than a half, of the export proceeds are needed for the import of essential consumer goods. In a downward movement, this usually results, of course, in the cutting down of imports of capital goods more than proportionally to the total fall in export proceeds.<sup>31</sup>

It is also worth noting that many of the developing countries rely almost exclusively on the export proceeds of one or two commodities. This lack of diversification naturally tends to increase the fluctuations of their total export earning.

In short, while export trade is of critical importance to the economic development of less developed countries, its recent performance has been disquieting. The considerable lag in these countries' exports behind those of the developed countries, as well as its fluctuations, lead to a widening of the already large gap between standards of living in the developed countries of the world and in the developing ones.

#### E. NEW TRADE POLICIES OF DEVELOPING COUNTRIES

Dealing with these disadvantages, underdeveloped countries have to trace out a new road to follow. This road must simultaneously fulfill their two ambitions: political independence and economic growth.

To many of them, this promising road is the industrialization. As described by Prebisch,

Although it is not an end in itself, (industrialization is) the principal means at the disposal of the countries for obtaining a share of the benefits of technological progress and of progressively raising the standard of living of the masses.<sup>32</sup>

In their techniques, the first phase of industrialization is usually based on the home market in the form of import-substitution. Generally, import substitution in any plan does not aim at a reduction of total imports, but at a saving of foreign exchange in order to allow for import of

capital goods or certain basic consumption goods which can not be adequately produced at home in the near future.

The motives of this policy can, in fact, be described by facts other than the aim at economic independence and self-sufficiency. Newly developing domestic production may be used to substitute for imports or add to exports merely as a result of general profit seeking ventures. Import substitution may be an incidental result of import restrictions or equivalent policies adopted as stop-gap measures to limit an acute short term balance of payment deficit. Even if the government does not intend to promote domestic production, import restriction, or the increase of import cost, may provide enough profit incentive to produce the restricted articles at home.

Even import substitution may theoretically arise in these different contexts, the result is usually leading to industrialize the economy.

It has been pointed out that industrialization through import substitution does more than increase income and foreign exchange saving.<sup>33</sup> The establishment of certain industries adds to existing external economies and paves the way for many new lines of productive activities. These industries increase the demand for material and equipment and may furnish byproducts for further processing. They promote the growth of technical skills among the workers and management alike so that they seek new opportunities for innovation. If well-nourished and supported with adequate

training and infra-structure, these import-substituting and export industries may carry the seeds for general economic growth.

In brief, although some measures have to be applied in carrying this policy, such as import limitations, import quotas, foreign exchange controls, etc., the above mentioned advantages have strengthened the role of import substitution to be the best policy in view of most developing countries in the recent time.

There have existed other additional policies which attribute to import substitution. As mentioned above, since most of these countries concentrate on one or two main commodities, all come to the world market with much too narrow a range of goods for exporting. Needless to say, they are easily hurt when the prices of those goods fluctuate. Diversification of exports then is the urgent need for most underdeveloped countries. This helps them to be safe in the price fluctuation, on the one hand, and to strengthen their bargaining power, on the other. Moreover,

This is the only practical means of overcoming the basic weakness of underdeveloped countries in international trade, which is rigidity, and of acquiring the flexibility in their economy which is a precondition for greater success in exploiting the new opportunities and releasing themselves from the less remunerative lines of exports.<sup>34</sup>

Along with diversification of exports, cooperation among developing countries has been suggested for supporting industrialization. The small size of most underdeveloped countries prevents them from going ahead in the industrialization process. In order to reach the full advantages of economic

of scale and specialization, the policy of regionally economic integration has been promoted among these countries.

The case of Latin America is evidence:

Trade between Latin American countries forms only 10 per cent of their total foreign trade, and industrial exports are relatively very small by contrast with countries such as Italy, Japan, and others with similar income levels. All this has resulted in the splitting of the industrialization process into as many watertight compartments as there are countries, without the advantages of specialization and the economies of scale,

and the best solution for this is

the enlargement of national markets through the establishment of a common market,

as stressed by Prebisch.<sup>35</sup>

The developing countries in the ECAFE region had the same idea. They believed that development activities, in strict context of import substitution, "had tended to the national autarkic. This has inevitably led to duplication of efforts and to difficulties in expanding markets beyond national boundary, resulting in inefficient production and waste of resources."<sup>36</sup> The view point of those countries is clearly stated: "An import substitution program on a regional scale would be more sensible and mutually beneficial than merely import-substitution within individual national boundaries."<sup>37</sup>

In addition to the economic policies mentioned above, some internationally political actions were also advocated by developing countries in order to accentuate their ambition. It is likely that the "complaint" of the developing countries on the trade with developed ones has gradually changed, from passive to active form. Generally speaking, up to the end of

World War II, the former's arguments were for "aid, not trade." But as soon as World War II ended, "trade, not aid" became the slogan of developing countries.<sup>38</sup>

The most prominent movement might be the creation of the United Nations' Conference on Trade and Development (UNCTAD). Over 2000 delegates representing 120 countries attending the first meeting in Geneva in 1964 is, in fact, an extraordinary effort. Obviously, at the conference the developing countries (75 in number at that time) formed a "majority front" against the "rich but minority" group. Although many demands of this front have not been sufficiently fulfilled, this conference as well as the following ones, however, is certainly considered as the developing countries' appeal for trade-cooperation send to the advanced bloc, as Dr. H. W. Singer said

The failure of the underdeveloped countries to come closer to the levels of the industrialized countries and to approach them more rapidly should not be laid entirely at the door of domestic weaknesses or handicaps implicit in the economic structure of the underdeveloped countries. Hence, the increasing inequality in the distribution of world income need not be accepted as inevitable, given the present economic structure of underdeveloped countries.<sup>39</sup>

## F. RESULTS OF THE "REVOLT"

The efforts mentioned above have been praised for years. Import substitution policies were officially publicized in Latin American countries in the late 1940's and in Asia in the 1950's. UNCTAD is already enjoying its 10<sup>th</sup> anniversary. The results of these efforts, however, turned out to be discouraging. If the beginning of the 1950's can be marked as the start of the "revolt" in the developing bloc, the results at the end of the 1960's can be evaluated by the following facts:

- Relative economic capacity - The Periphery's total gross domestic product experienced an average annual growth rate of 4.8 per cent, that is a little higher than that of the center, which attained 4.4 per cent. However, this small difference disappears if we consider the associated demographic increases. From this standpoint, as should be clear, the Periphery has a much smaller per capita rate than that of the Center, 2.5 and 3.3 per cent, respectively.<sup>40</sup>
- International Trade - The difference between two blocs is even more significant if we consider international trade. Between 1948-1968, in global terms, the average annual rate of increase of the Center's exports is much higher than that of the Periphery, 7.9 and 4.8 per cent, respectively.<sup>41</sup>

In other words, during two decades which included even the sixties, the decade of international effort "for the

development of the underdeveloped," according to the slogan of U.N., the gap between "rich" and "poor" countries became larger.

In that context, developing countries began questioning whether import substitution has not been carried too far to the detriment of more rapid, self-sustained growth. At least, finally, they found out that along with the "more theoretical" advantages, import substitution, in reality, created so many problems that, in fact, the net gains of this policy were much smaller than the original expectations.

First, there is the problem of quality. Due to the lack of technical skills and trained labor, it may be found that initially, the domestic manufacture of certain items results in an inferior product. Such import substitution may involve a considerable waste of resources which will tend to offset the advantages derived from savings of foreign exchange. The inferior quality of goods is also one major obstacle in the way of exporting in the latter period.

Secondly, there is the problem of production costs. The so-called "infant industry" is usually not competitive on a costs basis with imports of the same quality. The Argentine automobile industry which produced cars at a cost of \$5000 when they can be imported for \$2000 is the universal example for this disadvantage.<sup>42</sup> Most infant industries therefore usually require protective tariffs or import controls, and also export incentives or substantial subsidies if exported. The "cost" of this protection is sometimes as high as 10 per cent of gross national product.<sup>43</sup>

There is also the important problem of efficiency in allocating resources. Import substitution usually leads to the inefficient employment of factors of production. This is the case of most developing ECAFE countries where the scarce resource is capital, but import substituting activities are oriented to the capital-intensive industries.<sup>44</sup>

The problem of finding sufficient foreign exchange to carry through the industrialization programs is also a constant source of worry to governments of developing countries. Industrialization and import substitution require increased imports of capital equipment and perhaps also increased imports of foodstuffs in some countries. There seems no prospect of expanding traditional primary exports to meet these increasing import requirements, and many developing countries have been relying on inflows of foreign capital, and reductions of their foreign assets, to finance imports. On one hand, foreign assets in many of these countries, in fact, have already been reduced to a minimum level and have to be protected by strict import and exchange control. On the other hand, foreign capital, from the standpoint of developing countries, "does not precisely belong to the type of activity which generates and maintains an ideological favor propitious to social and economic development."<sup>45</sup>

In addition to these disadvantages, in general the reaction of the developed countries to the "appeals" of poor ones mentioned above were almost negative. Those countries, as one put it, "have offered many explanations but very few positive proposals in matters of underdevelopment."<sup>46</sup>

Moreover, economic integration among developing countries, if it got some successes in Latin America, is still on the drawing board in other underdeveloped regions. The Association of Southeast Asian Nations (ASEAN), for example, although in striving to create a common market in the area for years, is still a more political organization than an economic one.<sup>47</sup>

In dealing with those problems and disadvantages, it is likely that "developing countries have come to recognize that their growth has been trade-limited and that a new more relevant developing policy is required in which agriculture and export expansion must play a key role."<sup>48</sup> However, the successes of industrialization in Taiwan and Korea,<sup>49</sup> starting in import substitution policies, in fact showed that the above argument is not always the case.

Again, trade-growth relationship is coming back its mythical state. The complexity as well as the uncertainty and confusion of the matter are still the "veil" covering the true face of the problem! In that context, it might be accepted that there existed a number of different trade theories applying to the different kinds of countries instead of only one, an abstract and general theory.

#### G. THE CASE OF VIETNAM

In contrast with other developing countries, Vietnam falls into a particular case. Not only being a developing country, Vietnam is also a wartorn land, in which the seemingly never-ending war has distorted the economic structures of this country.

As previously mentioned, the outward looking policy for foreign trade, therefore was chosen in this country, not only as a viable way to maintain the external trade, but also as the only feasible one. The requirements of economic development through trade, even cited as the major purpose of the export promotion plan, was indeed ranked as the second, while the first one should be to provide badly needed foreign exchange to finance imports.

A closer look on the recent performance of Vietnam's exports, as presented in the next chapter, is certainly helpful to realize that real situation.

### III. RECENT HISTORY OF EXPORTS FROM VIETNAM

The recent history of the Vietnamese exports can be marked by two time milestones: the year of 1955 and of 1971. The former was simply the first consolidating year of the newborn state, of which the independence was just the result of the 1954 Geneva Conference. The latter marked the broad changes in the Government's export policy which is going to be the subject of the next chapter.

During that period, the export performance drastically fluctuated, reflecting the real face of not only an under-developed economy, but also a war-torn one, as noted by the following analyses.

#### A. SOME RELEVANT CHARACTERISTICS OF EXPORTS FROM VIETNAM

Exports from Vietnam during the period of 1955-1971 can be examined in three aspects

- Value of exports (Table I),
- Value of exports of selected commodities (Table II),
- Export trade of Vietnam with specified countries (Table III),

from which some observations are marked.

##### 1. Exports Were Very Erratic

The total value of exports of this seventeen year period is U.S. \$788 million with the mean of 46.3 million. The difference between the mean and the value of each year ranged from -34.8 million to +38.2 million. In other

TABLE I  
VIETNAM, VALUES OF EXPORTS, IMPORTS,  
BALANCE OF TRADE, GNP, 1955-1971

Year	Value of Exports (1)	Value of Imports (2)	Balance of Trade (a) (3) = (1) - (2)	GNP (b)	Value of Exports GNP %
1955	69.0	263	-194.0	--- (c)	---
1956	45.1	218	-172.9	1,790	2.5%
1957	80.5	289	-207.5	1,960	4.1
1958	55.2	232.1	-176.9	--- (c)	---
1959	75.1	224.6	-149.5	--- (c)	---
1960	84.5	240.3	-155.8	2,340	3.6
1961	69.8	255.1	-185.3	2,330	3.0
1962	56.6	264.5	-207.9	2,550	2.2
1963	76.7	286.2	-209.5	2,570	3.0
1964	48.4	297.8	-249.4	2,830	1.7
1965	35.4	357.3	-311.9	3,080	1.1
1966	27.6	494.2	-466.6	3,100	0.9
1967	16.4	538.0	-521.6	3,160	.5
1968	11.7	475.3	-463.6	3,020	.4
1969	11.9	667.9	-656.0	3,140	.4
1970	11.5	550.4	-538.9	3,240	.4
1971	12.5	714.0	-701.5	3,360	.4

Sources: Vietnam Statistical Yearbook 1971 (National Institute of Statistics, Saigon: 1972).

Notes: a Minus sign (-) implies deficits  
b GNP in fixed price of 1960, with US \$1 = 35 VN piastre  
c GNP in some years was not estimated

TABLE II

VALUE OF EXPORTS OF SELECTED COMMODITIES FROM VIETNAM, 1955-1971  
(in thousands of U.S. dollars)

Commodities	1955	1956	1957	1958	1959	1960	1961	1962	1963
Rice and Brokens	7,981	3	19,979	13,493	23,394	27,270	14,598	8,760	35,736
Rubber	40,085	39,291	48,797	35,560	46,913	48,998	43,832	37,917	33,480
Tea	120	240	360	360	501	1,046	1,612	1,893	1,858
Coffee	102	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17
Duck Feathers	1,440	480	1,320	480	362	589	689	914	659
Duck Eggs	954	36	n.a.	n.a.	62	229	636	875	443
Fish Products	185	42	128	171	228	186	357	495	646
Vegetable Oils	59	195	475	300	n.a.	291	877	577	61
Oil Cake	173	139	79	158	208	298	153	247	287
Peanuts	82	6	n.a.	4	72	205	311	157	66
Sesame	n.a.	n.a.	n.a.	n.a.	n.a.	94	35	60	59
Fresh Fruit	n.a.	25	n.a.	n.a.	n.a.	24	18	12	n.a.
Fresh Vegetables	69	1	41	81	81	27	9	12	18
Cinnamon	16	14	235	785	785	617	502	185	254
Kapok	37	29	12	n.a.	n.a.	n.a.	56	9	33
Salt	238	167	450	325	325	330	99	163	91
White Sand	n.a.	n.a.	n.a.	n.a.	n.a.	163	283	280	476
Beer	960	720	840	124	124	636	872	555	449
Wood Products	78	94	132	51	51	79	130	66	2
Iron Scrap	2,280	240	840	495	495	525	524	1,043	2
Others	14,158	3,385	6,856	1,462	1,462	3,844	4,473	2,427	2,034
TOTAL	69,017	45,107	80,545	55,175	75,063	84,451	69,766	56,627	76,671

TABLE II (Continued)

Commodities	1964	1965	1966	1967	1968	1969	1970	1971	Total	%
Rice and Broken	5,353	---	---	---	---	---	---	---	156,567	20.0
Rubber	33,299	26,011	22,035	13,268	9,706	9,394	8,851	8,500	504,937	64.0
Tea	1,888	2,135	2,142	955	689	149	53	50	16,051	2.0
Coffee	349	88	n.a.	244	145	n.a.	n.a.	n.a.	945	0.0
Duck Feathers	1,091	868	770	542	348	248	280	316	11,366	1.4
Duck Eggs	657	181	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4,073	.5
Fish Products	632	852	959	550	142	149	46	105	5,873	.7
Vegetable Oils	284	826	27	n.a.	n.a.	n.a.	n.a.	n.a.	3,952	.5
Oil Cake	362	532	449	7	n.a.	n.a.	n.a.	n.a.	3,092	.4
Peanuts	927	1,237	65	n.a.	n.a.	n.a.	n.a.	n.a.	3,132	.4
Sesame	74	11	22	n.a.	n.a.	n.a.	n.a.	n.a.	355	.0
Fresh Fruits	97	23	5	n.a.	n.a.	n.a.	n.a.	n.a.	205	.0
Fresh Vegetables	90	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	392	.0
Cinnamon	931	778	58	84	83	17	162	132	5,249	.7
Kapok	1	179	72	40	28	5	n.a.	38	541	.0
Salt	175	22	n.a.	n.e.	n.a.	n.a.	n.a.	n.a.	2,195	.3
White Sand	685	289	19	17	n.a.	n.a.	n.a.	n.a.	2,212	.3
Beer	n.a.	3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6,119	.8
Wood Products	3	7	73	3	n.a.	n.a.	37	118	912	.1
Iron Scrap	n.a.	n.a.	111	89	n.a.	n.a.	178	52	6,757	.9
Others	1,562	1,448	774	611	533	1,970	1,840	3,189	52,981	6.9
<b>TOTAL</b>	<b>48,460</b>	<b>35,490</b>	<b>27,581</b>	<b>16,410</b>	<b>11,694</b>	<b>11,932</b>	<b>11,446</b>	<b>12,500</b>	<b>787,816</b>	<b>100.0</b>

Sources: Vietnam Statistical Yearbook 1971; Joint Economic Office, USAID/Vietnam, Directorate General of Customs.

NOTES: The symbol n.a. indicates either an insignificant amount or that data is not available. Before August 1, 1966 the conversion was based on VN \$35/US \$1, after August 1, 1966, the rate used was VN \$80/US \$1. Values are on a customs clearance basis (f.o.b. Vietnam).

TABLE III  
 VALUE OF EXPORTS, BY COUNTRY OF DESTINATION  
 (in thousands of U.S. dollars)

Country of Destination	1957 + 1958				1963				1969			
	Rubber	Rice	Total	% of Exp.	Rubber	Rice	Total	% of Exp.	Rubber	Rice	Total	% of Exp.
France	65,500	13,700	82,000	59.4	18,000	220	18,700	24.3	5,550	0	5,800	46.4
U.S.A.	14,600	0	16,200	11.5	374	0	1,100	1.4	53	0	230	1.8
Hong Kong		430	1,830	1.4	0	6,050	7,000	9.1	0	0	1,420	11.3
Singapore, Malaysia		7,350	8,900	7.1	0	7,760	8,000	10.4	0	0	125	1.0
Japan		2,290	4,500	3.0	2,260	1,100	4,300	5.6	1,680	0	2,075	16.6
Great Britain		0	1,260	1.1	3,860	209	5,600	7.3	392	0	557	4.5
West Germany		0	2,000	1.5	5,940	0	6,600	8.6	845	0	890	7.1
Philippines		5,200	5,250	4.2	0	7,000	7,000	9.1	0	0	0	0
Indonesia		3,360	3,800	3.3	0	1,150	1,150	1.4	0	0	0	0
Other Countries		500	10,100	7.5	3,060	10,200	17,750	23.2	880	0	1,425	11.4

Sources: Vietnam Statistical Yearbook 1971, Vietnam National Bank, Directorate General of Customs.

words, the fluctuation in value of exports had the amplitude varying from 75 per cent on the negative side to almost 84 per cent on the positive one.

Based on its trend, this period could, in fact, be divided into two parts; each one had a different pattern.

a. From 1955 to 1964

During this ten-year period, exports varied erratically. Compared to the average value of exports of this period, U.S. \$661 million, the highest value, 84.5 million, occurred in 1960 with the excess of 18.4 million, or 128 per cent of the average. The lowest value fell into the year of 1956 with only 45.1 million or about 68.2 per cent of the average.

Compared to the relative stability in the political and military situation during that period, this fluctuation reflected many weaknesses of the Vietnamese economy, some of them are going to be mentioned in the following sections.

b. From 1965 to 1971

This seven year period was started by the presence of thousands of foreign troops in the country along with the expansion of war. This was the really worst period of the Vietnamese exports. The value of exports decreased drastically at an average rate of 18 per cent each year. Comparing it to the best year for Vietnamese exports, 1960, the worst year's value - 11.5 million in 1970 - was only 13.5 per cent.

The contraction of exports could also be viewed through the percentage of export to GNP. During the period of 1955-1964, the highest was 4.1 per cent, and the average was 2.9 per cent. In the following years, this average was dropped down to .8 per cent, and in some years, exports shared only .4 per cent of the GNP. This recession became more drastic and more pessimistic comparing with the sharp increase in imports. During the whole period, the value of imports was almost tripled. In contrast with exports, especially in the period of 1965-71, imports increased at a faster rate.

In order to get a broader impression, the export performance of some other Asian developing countries is presented in Table IV.<sup>50</sup> These data evidently show that exports from Vietnam were not only negligible but also in the backward direction.

## 2. The Narrow Composition of Exports

The second observation is that exports from Vietnam comprised only a few agricultural primary goods, Rice and natural rubber were the principal export commodities of which the contributions always got a big share in the export value, as stated in Table II. Even though there have been no rice exports at all since 1964, the value of exports of these two goods were still at 84 per cent of the total.

As cited above, such an undiversification in exports existed not only in Vietnam but also in many other developing countries. Needless to say, this situation has steepened

**TABLE IV**  
**SOME ECAFE DEVELOPING COUNTRIES**  
**EXPORT PERFORMANCE, 1960-1971**

Country	Highest Export Value Recorded from 1960-1971	1968	1969	1970	1971
Burma	271 (1963)	111	131	106	104
Ceylon	409 (1965)	342	322	342	320
India	2,042 (1971)	1,753	1,835	2,026	2,042
Indonesia	946 (1971)	751	831	811	946
Korea, R. of	940 (1971)	455	622	835	940
Malaysia	1,680 (1970)	1,347	1,651	1,680	1,618
Philippines	1,072 (1971)	848	855	1,062	1,072
Thailand	792 (1971)	658	708	697	792

Sources: International Monetary fund, International Financial Statistics, November 1971.

the contraction in export earnings caused by the deterioration in primary exports' price. Data in Table II, for instance, showed that the price of rubber decreased by almost 2.5 times from 1965 to 1971. Export earnings were, therefore, badly hurt!

Indeed, besides those two main trade products, tea, duck feathers, and oil seed cake have had a modest, but relatively stable, shares of the value of exports. On the contrary, certain trade commodities such as cinnamon, salt, beer and scrap iron got high export values in the 1950's, but then either declined or disappeared entirely from the list of exports! Additionally, some other export commodities began to develop since 1960 but were slowed or halted

completely in 1964 or 1965; this is the case of duck eggs, sesame, peanuts, fresh fruits, kapok, and glass sand.

### 3. Export Market

Vietnam has had trade dealings with a rather large number of countries, but most of its exports have concentrated on a few of them only! East Asia and Western Europe have been the principal regional markets for exports from Vietnam. Table III, however, shows that France has been the most important national market which consumed over 45 per cent of the total value of exports. In the recent years, Japan and Singapore have increased their shares but they have still been irrelevant.

Obviously, such a concentration on export market is the very important weakness of an economy. Any disturbance happening in the importing country is going to reciprocate strongly on the exporting country and to dampen the fluctuation of the latter's export earnings.

The case of Vietnam is, in fact, unavoidable! The main part of produce exporting to France has been the natural rubber which is mostly the product of the French-owned rubber plantations.

To sum up, the Vietnamese export performance in the recent period not only reflected completely the symbolic weaknesses of the backward economy, but also showed evidently the downward trend in exports of a war-torn economy. This view becomes more pessimistic if the import performance is counted. In the late of the 1960's, export earnings of the

whole year, 365 days, could only support the imports for 5 days, as symbolically argued by some. Hence, at this point, analyzing the causes of the situation becomes necessary.

## B. THE CAUSES

Naturally, nobody can reject the fact that the endless war is the principal cause of the export's contraction in the last two decades. Besides it, however, lack of an appropriate export policy is also another important one!

### 1. The War

Traditionally, Vietnam is an agricultural country in which almost 80 per cent of the population earned their living by the land. South Vietnam, for a long time, has been a very fertile soil area so that it was named the South-east Asia's rice bowl sometimes.<sup>51</sup> In 1939, there existed already over three millions paddy planted hectares and over one million tons of rice exported.<sup>52</sup>

Unfortunately, the war ruined that prosperous agriculture. At least, the war's destruction can be viewed through two aspects: changes in labor forces and the stagnation in planted areas.

#### a. Labor Force in the Agricultural Sector

During war time, the population employed in agricultural sector decreased significantly. The reasons are as follows:

- the insecurity in the countryside forced a lot of war refugees out of their land, moving to cities where they have been more secure!

-- through the total mobilization program, most of the young and healthy men have had to engage in the military forces of one side or the other. For only the government side, armed forces strength increased from 640 thousand; of personnel in 1965 to over 1,150 thousands in 1971.<sup>53</sup> If police forces and civilian employment were included, those figures became 818 and 1,415, respectively.

-- the presence of crowded foreign troops in the country created a prosperous service sector with higher income earnings. Hence, this sector attracted many employees from other ones, especially the agriculture where income is usually low.

According to the United Nations' survey, in 1971, the manpower employed in agricultural sector was only 60 per cent of the total labor force, comparing to over 80 per cent in the 1950's.<sup>54</sup>

#### b. Planted Areas

Along with the war expansion, planted areas were reduced substantially. Besides the lack of manpower to exploit, planted areas were destroyed by war materials, in particular herbicides.<sup>55</sup> Table V presents the planted areas for two main agricultural export goods, paddy and rubber, during the war time. The data of this table shows that the recovery in paddy planted areas is noted evidently since 1967-1968, however the declining trend in the areas for rubber is still continuing in recent years.

TABLE V  
PADDY AND RUBBER, PLANTED AREAS, 1963-70  
(in hectares)

Year	Areas for Paddy	Areas for Rubber
1963	2,537,520	142,770
1964	2,561,800	134,700
1965	2,428,640	129,660
1966	2,294,780	126,340
1967	2,295,800	115,735
1968	2,393,800	105,730
1969	2,430,000	104,950
1970	2,510,700	105,800

Sources: Agricultural Economies and Statistics Service  
(Vietnam Statistical Yearbook 1971).

Because of these two main weaknesses caused by the war, the production of the agricultural sector had to be decreased. This declination could be presented by the agriculture production's index per capita. If the index of 1961-65 was selected as the base, it became only 80 in 1966 and even 74 in 1968. Although there existed an increase at the end of the 1960's, the agricultural production index per capita was still only 92 in 1971.

In fact, many governmental programs have been promoted in the efforts to boost the agricultural production. Land reform programs and the expansion of farm credit and loans were the most important, along with the mechanization

and the popularization of the new high-yielding seeds,<sup>56</sup> in particular rice production. Rice, however, has not been enough for the domestic consumption.

In summary, the war has created the shortage of production, particularly in agricultural sector; domestic demand, therefore, exceeded supply and finally the declination of exports is inevitable!

But war has not been the whole thing which caused the sharp exports' contraction. It is argued that lack of an overall economic policy, in general, or indeed an appropriate export strategy, in particular, was the other reason of that situation.

## 2. Lack of an Export Policy

It is likely that there existed a paradox in the performance of the Vietnamese foreign trade: even though it is a backward country, Vietnam had some patterns of a highly developed country's foreign trade, according to Kindleberger's model.<sup>57</sup> These patterns could be simply explained as follows. Although the balance of trade's deficits have been enormous and lasted for years, the Vietnamese balances-of-payments were almost equitable.<sup>58</sup> Moreover, imported commodities are mostly composed of consumer goods.

The permanent and enormous inflow of foreign military expenditure and stabilization aid were the magic power to create and will nourish that paradox.

During the war, besides the existence of almost 600 thousand military men of allied forces in its peak, the

amount of American civilians contracted, and third country nationals employed by U.S. contractors to military exceeded the number of 30,000. Moreover, over 150,000 Vietnamese were employed in U.S. military sector - for U.S. military authorities as well as for U.S. contractors to military. The U.S. military expenditures in Vietnam, therefore, included all above-spending as well as the purchase of local goods. In order to fund these expenditures, the U.S. government had to exchange U.S. dollars for Vietnamese piastres, therefore a service called "U.S. piastre purchase" was created from 1965. Such official purchase varied between U.S. \$74 million in 1965 and 403 million in 1971. This source of foreign exchange was evidently a substantial fund to finance imports.

In addition, the Commercial Import Program (CIP), a kind of economic aid of the United States to the Vietnamese Government was the other important source of dollars. This aid fund grew from the average of U.S. \$150-200 million during 1957-1964, to double the amount in the following years. As piastres, this fund covered most of the government's budget deficit, and as dollars, it made possible, and indeed encouraged, massive imports.

If these funds are used as a counter-balance to trade deficits, the so-called "balance-of-trade after foreign aids" turns out to be magically surplus most of the time. The Vietnamese economy is thus an extraordinarily dependent economy in which "the external resources - the foreign

military expenditures and stabilization aid - overwhelmingly determine the level of income," as noted by Buu Hoan.<sup>59</sup>

In such an artificially prosperous environment, the exportation was not considered as a necessary activity and naturally, there was no reason to promote export policy.

In connection with this weakness, war also created a situation in which exporters didn't have the motivation in their affairs.

### 3. Lack of Motivation in Export Activities

The Vietnamese economic system, in the wartime, facilitated the abnormal expansion of the service sector which in 1969 accounted for 54 per cent of GNP, at the expense of the primary and the secondary sectors, as described in table VI. It favors in particular economic activities in import trade and in the supply of goods and services to allied forces and American civilian personnel. The business environment is such that it tends to encourage the non-productive sort of entrepreneurial ingenuity.

Along with these facts, a highly overvalued exchange rate has accentuated the disadvantages in export activities. This unrealistic rate, reflected on the difference between official and black market rate, as noted in Table VI, kept down the basic cost of imports but also undermined the competitiveness of Vietnamese goods on overseas markets.

Summarizing, as Myint put it:

In such circumstances, a businessman's primary thing is that he gets so much profit by trying to get import license from the government, particularly with overvalued currency, that he tends to devote all his energy in

**TABLE VI**  
**THE TRUE FACE OF VIETNAMESE ECONOMY**

	<u>1964</u>	<u>1966</u>	<u>1969</u>
<u>National Budget</u> (as % of revenues)			
- Customs duties	39	57	54
- Budget deficit (excluded foreign aid)	140	60	71
<u>Economic Activities</u> (as % of GNP)			
A. Expenditures Flow			
1. Consumption	102.5	97.4	102.1
2. Investment	11.0	14.5	8.5
3. Import Surplus	-13.1	-19.2	-15.2
4. Net factor income from abroad	- .4	7.3	4.7
B. Industry of Origin			
1. Agriculture	28.4	23.4	24.8
2. Industry	12.5	9.6	9.7
3. Services	45.7	55.0	53.7
4. Others	13.4	12.0	11.8
<u>Exchange Rate</u> (Piasters per U.S. dollar)			
- Official rate	35	80	80
- Free market rate	130	180	208
<u>Price Index</u> (1960 = 100)	120	263	569

Sources: Statistical Year Book 1971.

getting import license or getting around government controls rather than in improving his productivity in any ordinary way. You cannot blame him; he has no incentive!<sup>60</sup>

In brief, the war - on the one hand, by its real nature - has ruined partly the productivity of the economy. Meanwhile, through its strange mechanism, it created a prosperous appearance, on the other. Such a type of prosperous economy is compared to a kite flying far away in the sky, pushed by

the wind. Whenever the wind stops, the kite falls down immediately. The wind here is the huge inflow of external resources. And this inflow will not be existed infinitely.

In the early 1970's, there were some signs warning that the war had intended to change its course. The so-called "Vietnamesation programs" were put in action, and followed the withdrawal of foreign troops. Furthermore, the political climate in the donating country became unfavorable for the easy and huge amount of foreign aid. The wind which had pushed the kite seemed to become weaker and weaker!

At that point, one may think about cutting down imports to lessen the economic dependency on foreign resources. However, such a measure was strictly bounded by many political and economic constraints. In a purely economic viewpoint, in dealing with the inflation in which prices have increased by over 30 percent annually, any reduction in imports will hurt the economy by the way of increase in inflation rate. Moreover, as table VI shows it, about half of the budget revenues came from customs duties which were positively related to import level, thus a decrease in imports will immediately worsen the budget deficit that had been bad enough during war time.

In that context, export promotion seems to be the only way which can break such structural dependency toward economic viability.

#### IV. NEW EXPORT POLICY

On November 15, 1971, the President of the Republic of Vietnam declared the determination of the country for promoting "the rapid economic development" which opened new room for exports. Export promotion, through this declaration, might be seen as the most decisive condition for the economy to be self-sufficient and self-progressive. As the President put it, "Expansion of exports is an objective of the highest priority in the national endeavor to achieve economic independence."<sup>61</sup>

Following this general declaration, a whole new export policy was issued by the government. In fact, this policy may be considered as the first one in the foreign trade affairs of the country. Previously, there existed no explicit policy at all.

##### A. THE NEW POLICY

The new export policy was formed by several decrees and laws issued after Nov. 15, 1971. Those governmental activities have created numerous structural and institutional changes in the related area. In brief, the new policy can be viewed through the following facets:

##### 1. Objectives

Since exportation is one of many activities of the whole economy, export policy should be included in the frame of the general economic plan, of which, in the case of Vietnam, self-sufficiency and self-progress are the main

goals. Following that trend, exports are considered as means to

- a. Collect enough foreign exchange to free the economy
- b. Contribute to the increase of GNP
- c. Participate to the solution of an unemployment problem.

## 2. The Principles

In order to achieve the above objectives, some principles are set as the basis for the new export policy. Indeed, right in the declaration on Nov. 15, 1971, some general guiding principles for "the economic development arena" were clearly stressed, such as "the principle of private ownership and free enterprise," or "the spirit of free trade," etc. However, in export area, the principles are set for not only the private sector but also for the government.

According to their content, these principles may be grouped as:

- a. Principles on Producing
  - production is oriented to exports, not to import-substitutions;
  - Export diversification, as well as the expansion to new foreign markets, are urgent requirements to promote the exports;
  - manufactured products should be paid more attention than the primary ones;

- the spirit of free trade is advocated, however the transaction period should be considered as necessary in order to transform the domestic production from the protective state to a competitive one;
  - in the short run, in order to increase exports, domestic consumption should be tightened!
- b. Principles on Pricing
- "domestic infant industries" will be provided a "flexible and rational protection" for growth while enhancing the competitiveness of their products at home and abroad. However, this kind of protection will not support inefficient industries with no prospect for progress.
  - many kinds of taxes are partly applied, or furthermore, in some cases, not applied at all, to the export commodities in order to reduce their prices, i.e., to increase their competitiveness on the overseas markets.
  - for the same purpose, special low-interest rate short-term credits are provided to exporters.
- c. Principles on Overseas Markets
- the main consumer markets for Vietnamese exports are developed countries where the competition has become more and more drastic; improvement in the exports' quality as well as in the supply capability thus should be considered as the constant worry of the Vietnamese exporters.

- expansion of new markets is also vital for Vietnamese exports in order to avoid the disadvantages of the export market's concentration.
- advertising should be viewed as one of the most urgent activities needed to expand the overseas markets.

Those principles have been the roots of many privileges and incentives provided for exporters in order to push exports.

### 3. Export Privileges

Export privileges preserved in the new policy range from the governmental monetary subsidy to the exporters to the simpler procedures provided for them in going abroad.

#### a. Export Subsidy

Export affairs are enjoying the highest exchange rate. For example, in Nov. 1973, the official rate was VN \$535/US \$1, but for export affairs, exchange rate was VN \$575/US \$1, i.e., for each dollar earning, the exporter is provided VN \$40 subsidy from the government. From January 14, 1974, this export premium was replaced by a subsidy consisting of direct payments to the exporter equivalent to the cost of financing the export for 3 months at an interest rate of 26 per cent per annum.

Moreover, the newly exported commodities yield more gains to their owners. An additional amount of VN \$25 is provided to the exporter for each dollar earning; it means that the exchange rate in the previous case became VN \$600/US \$1. This special subsidy - viewed as a measure

to diversify exports - is, however applied to new exports in the first 12 months only.

New export products, in the scope of this subsidy, included:

- commodity which was never exported prior to the export declaration on 31 Dec 1971,
- commodity which was exported in the past but meets both the following conditions:
  1. It has to have one of the characteristics described below:
    - new basic raw materials are used in its production,
    - new manufacturing process is applied,
    - commodity is put in new form
  2. its value is higher than before and its foreign exchange earnings is also higher.

b. Exchange Privilege

Exporters are permitted to keep 10 per cent of their foreign exchange earning in order to pay the expenses relating to the export operation in foreign countries. This amount of foreign exchange should be deposited in a special account - the so-called "subordinate expense account" - opened at the intermediary banks recognized in VN.

c. Credit Privilege

Special short-term credits can be provided to exporters to help them in financial aspects. Their maximum is six months, but it can be prolonged. Their annual interest

rate is 17 to 19 per cent comparing to the usual rate of over 30 per cent in other affairs.

d. Taxes Privilege

Export industries enjoy completely the special privilege clauses prepared in the new investment law No. 03/72 which was issued on June 2, 1972. By the terms of this law, important privileges in taxes included

- permanent exemptions for mortgaging fees of fixed assets, for income tax on dividends distributed to shareholders, etc.
- 5 year exemptions for registration fees and stamp duty on deeds, for real estates acquisition fees, for taxes on royalties and patents, etc.<sup>62</sup>

Moreover, export duties are completely exempted, and value added taxes are not applied to exports!

e. Other Privileges

Besides above mentioned privileges, export sector is also supported in many other ways.

- Export industries are receiving all the ease to import equipments and machinery as well as raw materials needed. They are also in the highest priority to enjoy the so-called temporary import regim, i.e., those industries are exempted for import duties for their imported materials in manufacturing the re-exported commodities!
- Exporters are allowed to go abroad easily to seek for export markets; very simple procedure

in the administration is preserved for those movements. If their foreign exchange earning exceeded US \$100,000 per year, they can go abroad successively, in the so-called "visa-multiple regim." If their earning falls between US \$50,000 and \$100,000, they can go to 4 times each year.

-- Exporters are encouraged and fully supported to attend international fairs and displays in order to advertise their products.

In addition, monetary policy which has played a vital role in shaping the export performance was also changed.

#### 4. Exchange Reform

In common with other improvements, exchange reform laid its foundation on the Nov. 15, 1971 declaration which said: "the Government will implement a program of fundamental reforms to eliminate irrationalities and inefficiencies in the exchange system. . ." <sup>63</sup> The great and grave turning point of the Vietnamese exchange policy was the devaluation of the domestic currency from an official rate of 118 to a new rate of 410 piasters per U.S. dollar, right after this declaration. Following that step, in order to keep the realistic rates of exchange, an exchange system, mostly like the floating system, was applied, in which exchange rates were revised by the monetary authorities every two weeks or so, based upon the demand and supply on the foreign exchange market. Needless to say, this reform could also be viewed as a measure to remove much of the excess demand for imports, toward disbanding the disequilibrium system of the Vietnamese foreign trade.

Some major changes in the exchange rate during the recent years are chronologically listed in Table VII, particularly emphasizing on exports' rates.

**TABLE VII**  
EXCHANGE RATE CHANGES FROM OCT. 1, 1967 TO JAN. 14, 1974

Date	Official Rate	Merchandise Export Rate
Oct. 1, 1967	118 <sup>a</sup>	118
Oct. 5, 1970	118	275
June 7, 1971	118	350 <sup>b</sup>
Nov. 15, 1971	118	410
Apr. 1, 1972	410	410
Apr. 29, 1972	420	420
May 22, 1972		500
July 28, 1972	430	550 <sup>c</sup>
Jan. 3, 1973	465	565 <sup>c</sup>
Jan. 26, 1973	475	575 <sup>c</sup>
Apr. 27, 1973	485	d
Jan. 14, 1974	560	560 <sup>e</sup>

Sources: Vietnam Economic Data, A.I.D., Feb. 74.

Notes:

- a. Official rate of 80 plus an Economic consolidation surtax of 38 piasters on foreign exchange transactions
- b. includes the 275 parallel rate plus a subsidy of 75 piasters
- c. plus an additional 25 piasters export subsidy for the first year on new products
- d. effective Apr. 27, 1973, export subsidy reduced from 100 piasters per dollar to the difference between the changing GVN rate and 575:\$1. The additional 25 piaster subsidy will continue to be paid on new products.
- e. Export premium replaced by a subsidy consisting of direct payments to the exporter equivalent to the cost of financing the export for 3 months at an interest rate of 26 per cent per annum.

Along with these institutional improvements, organizational changes also took a great part in the new export policy.

#### 4. New Organizations for Export Promotion

In order to create an appropriate frame for the export promotion programs, the governmental structure in the export sector is reorganized and these changes rooted in the following principles:

- universality of the export promotion's importance to mobilize all efforts for exports,
- unification of command in order to get sufficient outcomes in planning, coordinating and promoting export activities,
- simplification in the administrative procedure relating to exports to encourage the export activities.

Based upon those principles, new organizations are set up, as well as some old ones are consolidated. Following are some examples.

##### a. National Export-Development Council (NEDC)

Established by the Decree-Law No. 677 on Nov. 15, 1971,<sup>64</sup> the National Export Development Council is the nucleus of the new export programs. This council is composed of a good cross-section of higher government officials and the representatives of the private sector, and is put under the chairmanship of the Prime Minister. NEDC is given the responsibilities for setting goals and designing plans for the export programs as well as strengthening the cooperation between the government and the private sector for the export

drive. In other words, this council represents the broad basis of the export policy which previously concentrated on the sole responsibility of the Economic Minister.

b. Export Development Center (EDC)

This center was originally established in 1964. After the birth of the new export programs, EDC was reorganized to undertake efficiently programs set by NEDC. Its principal activities include the following:

- the survey and exploration of overseas markets for specific commodities, the dissemination of information about overseas markets, and the promotion of the export trade,
- the promotion of export industries and their products to facilitate their entrance into overseas markets,
- the encouragement of export industries and the preparation of merchandising plans for export goods,
- participation in international trade fairs, exhibitions and displays,
- publication of export trade data and of other literature for the promotion of exports,
- providing loans and credits to exports.

c. Export Processing Zones (EPZ's)

EPZ's are preserved by the Decree-Law No. 043 on Dec. 23, 1972<sup>65</sup> and have the purpose to make use of labor advantage to increase exports. Enjoying mostly the autonomy

in administration, these production centers are expected to be financed by foreign capital and oriented especially to manufactured export goods. To encourage the foreign investments, many privileges and guarantees have been assured, such as tax exemptions, guarantees of non-competitiveness and non-nationalization, etc.

#### c. Free Tariff Ports

In order to exploit the sea ports located near the international water routes - Vung Tau and Cam Ranh port in particular - the "free tariff ports" regulation is set up to permit domestic and foreign commodities, including raw materials, semi-products, as well as finished products to entrance in order to manufacture, finish, wrap up or even store in waiting for exporting with no tariff or other taxes at all. Production activities in these ports are also provided many privileges and guarantees.

#### B. SOME CONSIDERATIONS ON THE NEW EXPORT POLICY

Through the above brief presentation of the new policy's figure, some relevant points are worth mentioning here.

First, this is the "outward looking policy." In contrast to many developing countries which follow the inward looking policy through import-substitution, as noted in the previous chapters, Vietnam strives to expand exports. Reasons for this attitude can be easily recognized. Since the habit of consuming foreign goods has become deeply rooted in a great part of the Vietnamese population, it can not be wasted in a short time. In the meanwhile, the ideological struggle

happening in the country doesn't permit the public authorities to apply freely "strong" measures to cut down sharply the demand for foreign goods, even though they are facing a critical difficulty in balance-of-payments. In such contexts, as mentioned previously, export expansion is the only feasible way to maintain a relatively high level of imports and to avoid a complete dependency on foreign resources.

Secondly, manufactured products are specially emphasized in the new policy. This trend can be seen through the creations of export processing zones and free tariff ports. With this consideration, the question may be raised as to why Vietnam renounces its traditional agriculture and follows the other way, in which there exist many disadvantages. In fact, besides the reason that like other developing countries, Vietnam wants to industrialize its economy, there is another one: the insecurity in the countryside puts a limit on the agricultural expansion! The case of rice has strongly supported this fact.

The role of the government is also worth mentioning. The governmental intervention and stimulation have played the greater part in the export promotion programs. This feature reflects on the institutional as well as on the structural systems. This trend is also familiar in the developing world where economic development became an intensely political matter, a business for the governments. Moreover, the endless war has created a confused and surfeited climate which, in turn, gradually undermines the investment activities as

well as the production in the private sector. Export promotion, therefore, can not be relied upon by private initiative!

Finally, in general, the measures composed in the new policy are not originally established by the national public authorities. In fact, the new export policy might be seen as a model imitated from the experiences of other developing countries, in particular the East and Southeast Asian ones. The National Export Development Council (NEDC), for instance, is mostly similar to the Korean's Joint Export Development Committee established in 1963 and known later as the Export Promotion Subcommittee, or EPSC. This steering committee has successfully operated because the Korean president has personally attended to its meeting and has been reported to directly.<sup>66</sup>

In addition, Export Development Center, after being reorganized, is also similar in its organization and functions to Korean Trade Promotion Corporation (KOTRA) or to Japan's External Trade Organization. The Vietnamese EDC's efforts to organize the so-called Trade Missions are almost the same as KOTRA's experiences in the activities of Trade Centers.

The concept of Export Processing Zones in the new policy is certainly adapted to the Taiwan's experiences, in which the development of industrial zones is the major factor in the rapid growth of Taiwan's exports.. Kaohsiung Export Processing Zones, located in Southern Taiwan, is exactly the model for the future EPZ's in Vietnam: autonomy in administration, no import duties on machinery and equipment brought into it, no restrictions or duties on raw materials and

semi-finished products brought into it for processing, loans provided at low rates of interest for plant construction, etc.<sup>67</sup>

Needless to say, the regulation of Free Tariff Ports is completely imitated from the models of Hong Kong and Singapore.

In summary, the new export programs in Vietnam can be described as a combination of many developing countries' experiences. The result of this imitation is, however hard to be evaluated right now because time is not long enough to judge its performance. In fact, after almost two years in application, some short-term results of the new policy could be realized.

#### C. SHORT TERM RESULTS OF THE NEW POLICY

The Vietnamese export performance in the period following the declaration of export promotion seems to be in an optimistic trend. Values of exports in 1972 and in the first ten months of 1973, presented in Table VIII, have strongly supported this observation.

This table shows that there existed an increase by 80 per cent of export items in 1972, compared to those in 1971, and export value in the first ten months of 1973 doubled that of 1972.

The upward trend of export activities also reflects on the other facets of export sector. Due to the favorable conditions for exporters such as abolition of complicated procedures, giving easy conditions to the in-country transport of goods, etc., the number of exporters in Vietnam recorded

TABLE VIII

VALUES OF EXPORTS OF PRINCIPAL COMMODITIES IN 1972 AND  
IN THE FIRST 10 MONTHS OF 1973  
(in thousands of U.S. dollars)

Commodity	1972		1973	
	<u>Value</u>	<u>%</u>	<u>Value</u>	<u>%</u>
Rubber	7,219	31.8	6,454	14.0
Fish products	5,493	24.2	9,220	20.0
Woods	2,951	13.0	10,695	23.2
Discarded Iron	2,497	11.0	5,763	15.5
Others	4,540	20.0	13,968	30.3
TOTAL	22,700	100.0	46,100	100.0

Source: NBVN

as of October 1973 amounted to 1047 in comparison with 11 in 1971.<sup>68</sup> The quantity of exported goods also increased from 64 tons in 1971 to 152 in 1972 and 197 tons in the first ten months of 1973. Customers of Vietnamese products also rose from 22 countries in 1971 to 37 in 1973.

Based on that optimistic trend, public authorities in the country estimate that exports can reach the 100 million mark in 1974 - the double of the 1973 and some 400 per cent higher than the 1972 total.<sup>69</sup> According to that estimation, woods and wood manufactures will be the leading export items which share 25 per cent of the total value. Fish products will be the next ones with 20 per cent

Obviously, this estimate is based upon the assumption that the military condition is stable throughout the period.

The above results are, indeed, only the short-term ones. In long run, the total picture can turn out to be not as optimistic as the current estimations. Reason for this is the fact that some main items of the current export list do not have the strong and long-term stands. For instance, discarded iron and waste military gears which, in total, share over 20 per cent of the export value are very temporary and can be exhausted very soon. So do the pine woods, of which, as of now, there exists no replanting program.

Moreover, it has been argued that these recent government efforts to promote exports have been excessive - that they were inefficient because they provide unnecessarily large awards to the exporters, that they encouraged exports of commodities in which Vietnam did not have a comparative advantage. This is also the case of Korea in a recent period.<sup>70</sup> There is, however, ample justification for such measures because Vietnamese exports have been so low in relation to import levels. It would be unreasonable, of course, to suggest that such strong incentives should be carried on indefinitely.

In the long term point of view, export prospects for Vietnam should, therefore, be viewed through the real capability of the Vietnamese economy, as well as through the demand for Vietnamese goods on overseas markets.

## V. EXPORT PROSPECTS FOR VIETNAM

The recent increase in exports from Vietnam may be viewed as a good signal for its export prospects, on the one hand, but it may also be interpreted as an artificial boom in the export sector, caused by the excessive governmental subsidies to exporters; meanwhile, the export production mechanism hasn't had a comparative advantage.

In order to get a real and broad view on the Vietnamese export prospects, studies should, therefore, be made on the Vietnamese exportable commodities, as well as on the potential export markets for them.

In fact, there were not lacking such studies. Some of them were the products of professional groups or organizations,<sup>71</sup> and, in general, their values have been undeniable. However, because they were completed at the end of the 1960's, these studies did not include recent events which should be taken into consideration to estimate the future.

In the context of this paper, only some principal patterns of the Vietnamese export prospects are going to be presented, in order to avoid the repetition of what has been described in previous studies. The sole exception is that updating corrections will be clearly pointed out.

Generally, the export prospects of the agricultural sector are emphasized the most. However some promising prospects of other activities are also considered, but to a lesser extent.

## A. AGRICULTURAL PRODUCTS

Even though several governmental efforts have been devoted to the manufacturing sector, agricultural products are still going to share the main part of the export earnings of Vietnam for a very long time into the future. In that trend, needless to say, rice and natural rubber are still the logical candidates for export in the near future, especially during the post war era. Along with these two principal products, some other agricultural goods, including woods, sea products, etc., are also promising exports.

### 1. Rice

As noted, Vietnam was a traditionally rice-exporting country. At its peak, in the early 1960's, Vietnam exported over 300,000 tons of rice, at a time when exports from Far Eastern countries were about 3.8 million tons. The market share was slightly under 10 per cent, and the principal markets were in the same region, notably Hong Kong and Singapore. Rice exports, however, ceased after 1964 due to the heavy fighting in the countryside, and since then, Vietnam has been a net importer. This country has, indeed, the production capacity to become a rice exporter again, even though the war has not completely finished. The fertility of soil and the recent improvements in the agricultural sector could be used as proofs.

Despite the war going on, several measures have been carried on to improve the rice production. The Land Reform Program, the expansion of agricultural credits, the application of new high-yielding "miracle" rice seeds, and the

modernization in agricultural sector have contributed to the increase in rice production. Taking the period of 1959-61 as the base, the index of paddy production fell from its peak at 112.0 in 1963 (or 5.3 million metric tons) to the lowest point at 88.8 in 1966 (or 4.3 million). Following those mentioned improvements, this index increased up to 117.0 in 1970 (5.7 million), and only lightly decreased during the disastrous battles in 1972. Even though this growth in rice production hasn't been enough to meet the domestic demand, it is strongly believed that when the war ends, this increase is going to speed up, due to the security in the countryside, as well as to labor force increasing in that sector.

The growth of world demand for rice and of rice production also presents Vietnam with promising prospects for rice exports.

Although, through Engel's law,<sup>72</sup> as income grows, the demand for rice grows less than proportionately, this demand, especially in all of the Far Eastern countries, will continue to grow significantly, owing to the high population rates of growth and to high income elasticities of demand for rice.<sup>73</sup>

On the supply side, world rice production increased continually during the later half of the 1960's. Apart from the increase in the acreage planted, continuing technological progress, and in particular the growing use of the high-yielding varieties, contributed to the increase.<sup>74</sup> Import demand for rice, therefore, was limited, owing to better

crops in many importing countries, while export supplies were considerably increased. As a result of this fact, the price of rice decreased, along with the fall in value of world rice trade, despite higher volume. Most developing exporting countries earned less from rice exports for the years during the late 1960's and the early 1970's.<sup>75</sup>

However, the recent droughts in some parts of India and China and floods in Pakistan inverted this optimistic trend.<sup>76</sup> Moreover, the so-called current "energy crisis" which strongly affects the chemical fertilizers which, in turn, have had detrimental effects on the result of the "green revolution," has accentuated the food problem. Import demand for rice, in that context, should be expanded. In fact, Vietnamese peasants are also being hurt by the sharp increase of prices of chemical fertilizer. However, like some other countries in the eastern Pacific Basin, the natural fertility of land in Vietnam has, in some instances, partly reduced this bad effect, and rice is still a promising export for Vietnam.

For the export rice markets, Vietnam could easily reestablish itself in traditional markets, such as Hong Kong and Singapore, due to the fact that there still exists a close relationship between the "Chinese" rice exporters in Vietnam and the Chinese importers in these countries.<sup>77</sup> In the future, Vietnam should look to other markets, particularly to Indonesia and possibly to India. Japan was once viewed as a potentially promising rice importer in the region,<sup>78</sup> but

recently, the self-sufficient rice policy of Japan has been incredibly successful, and it turned out in some years, due to the high price of world rice, Japan became the net exporter of rice.<sup>79</sup>

In summary, rice, in all likelihood, is going to regain its leading role in the export earnings for Vietnam when the war ends. Competition in the rice supply can, however, increase in the future and the country may be faced with the problem of new markets for its rice exports in the distant future. In that case, emphasis on quality grades of rice, as demand is upgraded, should provide a guide to production policy in Vietnam.

## 2. Natural Rubber

In the past, rubber shared a major portion in the Vietnamese foreign exchange earnings from exports. In the mid-1960's, when production was at relatively high levels, rubber represented almost three fourths of Vietnam's total export earnings. This level, however, shared only 5 per cent of the total world production.

During war time, rubber production has suffered more than rice has from war destruction. Battles have taken place on many plantations. The shortage of labor and the lack of care of the trees reduced the yield sharply. Index of rubber production has been drastically decreased, from 100 in 1959-61, to 84.1 in 1965, then at only 55.2 in 1967, and 40.0 in 1970.<sup>80</sup> As noted, even though no estimation exists yet, this index has fallen more and more, due to the recent and current battles concentrated on production areas.

Although present conditions are depressing, there are favorable prospects for future natural rubber in Vietnam. In the past several years, world production of this product has not kept pace with expanding world consumption, even though the competition of synthetic rubber has increased in intensity. Natural rubber stocks have been drawn down, and in 1968, the gap between consumption and production reached about 200,000 metric tons.<sup>81</sup> This gap certainly is expanding more widely in the current period, owing to the high price of oil, from which the synthetic rubber is derived.

In addition, Vietnam's rubber has the relative superiority as a result of favorable soil and climatic conditions, its freedom from serious disease, and the skill and productivity of the Vietnamese labor force, derived from over seventy years' experience of rubber cultivation.<sup>82</sup> Furthermore, Vietnam has a tradition of exporting natural rubber and trading channels have been established, even though they are currently disrupted. Because of the French ownership of most plantations, there is a ready market in France for virtually all the foreseeable production expansion in the near future.

To sum up, due to the quality of the product, as well as to the trend of its world consumption and production, natural rubber should be a very promising export for Vietnam when the fight ceases. However, to regain the production level of the early 1960's, the rubber plantations will need extensive investment in rehabilitation. It is worth noting

that, along with the prospects for exporting, natural rubber is expected to become one of the major raw materials for the domestic industries in the post war era. One source estimated that between 30 and 40 per cent of the rubber produced could be utilized locally.<sup>83</sup>

### 3. Wood and Wood Products

The increasing shares of exported wood and wood products in the foreign earnings in recent years have proved the promising role of these goods in the export prospects of Vietnam.

In fact, up to the 1960's, in Vietnam, all lands with trees whose crowns cover more than 20 per cent - or 12 million hectares - of the area were not used primarily for purposes other than forestry.<sup>84</sup> Even though not all of these trees could be used in industries, tropical hardwoods and conifers have an established place in the world market.

In addition to the abundance of wood resources, the international market conditions also presented Vietnam with a good opportunity to market its wood resources abroad. World consumption and international trade in wood and wood products is growing substantially. During the last decade, the rate of expansion in world trade has been almost three times that of world production, or 10 per cent vs. 3.5 per cent, respectively.<sup>85</sup> There are, however, substantial differences in market trends for each category of wood and wood products. In recent years, the market for log and sawed woods has declined in the more developed countries, but it

still has a vigorous and expanding market in Asia. On the contrary, there is an inverse situation in the world trade for wood panels. The developed countries are big markets for these products - especially the United States. Wood pulp products are also concentrated in the developed nations' markets. However, as the rate of growth and level of income per capita determined the consumption of paper and paper products, as in the past, the Asian market - in percentage increase - is among the highest of the geographic regions.

In brief, Vietnamese resources of wood are abundant and varied, and the international market condition shows that these resources have the promising potentials in export. Yet, in order to keep a continuing forestry resource, planning the rehabilitation of the nation's forests should be considered as a high priority in the economic development plans.

#### 4. Fishery Products

In the first ten months of 1973, foreign exchange earnings coming from fishery product exports reached the level of 9.3 million dollars, or equal to the total fishery export earnings during the entire period of 1958 to 1966. This amazing increase is partly due to the fact that, along with a coastal length of 2,500 kilometers, the numerous internal ponds and rivers in the mainland provide a wide variety of fishery products to Vietnam. The export prospects are going to be more promising if the current over 270,000 fishermen force is well trained and well equipped.

Trends in production and trade of world fishery products also present Vietnam a good prospect for export. During the past decade, both world production and trade of fish and fish products have increased steadily. Over 70 per cent, by value, of world exports of these products is destined for markets in six major developed countries: the United States, the United Kingdom, West Germany, France, Italy, and Japan.<sup>86</sup> In Asia, Japan is the dominant importing - as well as exporting - nation, whose major imports are fresh and frozen shrimp, seaweed, and fish meal. For years, Japan, Hong Kong, and Singapore have been the major importing countries of Vietnamese sea products, especially frozen shrimp. In 1973, the United States entered this list.<sup>87</sup> With the recent and current success in this activity, sea products became some of the most promising exports for Vietnam in the future.

##### 5. Other Agricultural Products

In addition to the commodities covered in the previous sections, there are many others that have been exported in the past, plus new commodities that may be added in the future. For any one such commodity, the market demand or the potentially available supplies are relatively small in comparison to rice, rubber, wood products, or fishery goods. They may not add large amounts to export earnings individually, but collectively, they sum up to a significant total value. A brief summary of this varied list of commodities is presented as follows.

Because of its continuity, tea has been Vietnam's largest source of export earnings over the past decade, except for rice and rubber. Its prospect, however, is not very bright, because supplies have outstripped demand and prices have fallen steadily.<sup>88</sup> For the export markets, over 90 per cent of tea exports from Vietnam went to the United Kingdom in the past, and it is strongly believed that in the future, this market will be the largest single one. The only other markets of significance to Vietnam tea are Singapore, Hong Kong, France, and Germany.

On the other hand, vegetable oils and their by-products, oil cake and meal, have never ranked as major exports of Vietnam, but still, they have provided a significant source of foreign exchange in the past that might be increased in the future. Coconut and peanut oil are the two major oils exported from this country and the Japanese market, although much smaller than that of developed countries in Europe, is the major one in Asia and has been growing rapidly. The outlook for oil cake and meal is brighter because the world demand for them is expected to grow much faster than that of vegetable oil. This probably presents an export opportunity for Vietnam to the two major import markets, Japan and Western Europe.

Cinnamon is also a traditional export from Vietnam. While there appears to have been some deteriorations in the competitive position of Vietnamese cinnamon in the United States market over the past years, due to the discontinuity in supply, it is concluded that Vietnam still can sell 2 to

3 million dollars worth per year, if the security in exploitation has been improved.<sup>89</sup> The United States is not, of course, the only market for Vietnamese cinnamon. Japan, Singapore, and South Korea might be counted upon for future sales of this product.

Fruits and vegetables are also minor promising exports from the country. The consumption of fruits and vegetables, particularly in the Asian areas, is increasing considerably. This expansion in the foreign markets, together with Vietnam's capacity to produce fruits and vegetables, offers a promising opportunity for Vietnam's entry into the trade. Some parts in the highland of central Vietnam, in particular the Dalat area, have the extremely favorable physical condition for growing vegetables, and production can be expanded at least two or three times the present levels without great difficulty. This area can concentrate production especially on the high-value products, such as asparagus, artichokes, strawberries and melons, which are in greatest demand in export trade. The traditional customers for Vietnamese vegetables have been Hong Kong and Singapore, and in recent years, Japan started to be interested in Vietnamese fruits, particularly in bananas.<sup>90</sup>

Along with these products, duck feathers, duck eggs, peanuts, coffee, jute, kenaf, salt, pepper, kapok and sesame are other minor commodities that should be able to supplement Vietnam's foreign exchange earnings in the post war period.

Export prospects for Vietnam, however, are not bounded by those agricultural products alone. There are other possibilities of export earnings in manufactured commodities.

#### B. EXPORT PROSPECTS OF MANUFACTURING SECTOR

In the viewpoint of some Vietnamese planners, the manufacturing sector is going to play a major part for the export prospects of this country. This implication is reflected on the following statement, quoted from the President's declaration on investment and export promotion on November 15, 1971:

All necessary measures will be undertaken to foster an invigorating business climate and lay the foundation for a growing and healthy industrial sector capable of meeting the challenge of domestic and international competition.<sup>91</sup>

The new investment law, and laws regulating export processing zones and free tariff ports are certainly some "necessary measures" to create good opportunities for the growth of manufacturing sector.

In fact, as noted, the insecurity in the countryside hasn't permitted the development of the agricultural sector. Hence, the expansion of the manufacturing sector could be viewed as an effort to fulfill this weakness.

In addition, these activities also have the purpose of taking advantage of Vietnam's cheap labor cost. At the current rate of exchange, labor cost in Vietnam is only about half that of Singapore and about four-fifths that of Korea.<sup>92</sup> Moreover, along with the fact that Vietnamese armed forces have been a huge training school whose "graduates," the

demobilized soldiers, will be able to adapt themselves more readily to the industrial sector; it is also believed that some 300,000 Vietnamese have received some skills training - mechanical, secretarial, professional - as a result of their on-the-job training received in working for U.S. contractors and U.S. or other free world government agencies.<sup>93</sup> In brief, an abundant supply of industrious and low-cost work force is ready for the manufacturing sector's employment.

However, due to the problem of economies of scale and the technological quality, the near future export prospects for Vietnamese industrial products are not as favorable as they are usually believed, except in some industries described below.

Manufactured food products industry is ranked among the most promising export industries. Even though economies of scale are very important in the fruit and vegetable canning, Vietnam is believed to be successful in competition on the overseas markets - mostly Singapore, Hong Kong, and probably the United States and Japan - to supply those commodities, owing to the cheap raw materials.<sup>94</sup>

Wood products industry is also a good field for post war export activities. As previously mentioned, the wood products sector is one of real potential growth because of the abundance of raw materials, both coniferous and hardwoods. Modern mills of economic size are required, and exports could augment domestic markets and help to establish low cost industries at an earlier date than domestic sales alone would

allow. Plywood, which developed rapidly in sharing export earnings in both Taiwan and South Korea during the last decade, gives a bright prospect for Vietnamese exports.<sup>95</sup> For paper and paper products, it is concluded that economically sized pulp and newsprint units must produce a minimum of 100,000 tons per year, and 200,000 tons per year would be a better target if an efficient export trade is to be achieved.<sup>96</sup>

Pharmaceuticals, which have grown rapidly during recent years, may also present Vietnam with a bright export prospect. Moreover, if efficient wage costs can be kept low - relative to other neighboring countries - Vietnam may be able to emulate the experience of South Korea and engage in subcontracting, which is the practice of importing a raw or semi-finished product, processing it one stage further, and reexporting for final fabrication. The creation of export processing zones and free tariff ports is certain to promote these activities. Japanese industry has entered such arrangements because of rising wage costs in Japan, and the rapid increases in wages in neighboring countries<sup>97</sup> can help Vietnam to compete successfully with these countries in such activities.

It is worth noting that, in addition to the country's abundant natural resources and its low cost-labor force, there are a vast war-inherited infrastructure and a host of other assets. A genuine cease fire would permit the conversion of all of these into incentives for industrial development.

### C. OTHER POSSIBILITIES

There are other possibilities of export earnings in activities or commodities whose future is more speculative. Three of these will be considered briefly: petroleum, other raw materials, and tourism.

It is strongly believed that the discovery of Vietnamese petroleum is going to change the whole economy of this country. In fact, the oil dream of the Vietnamese started over a decade ago with seismic survey off the southeast coast of Vietnam, conducted by the Committee for Coordination of Joint Prospecting for Mineral resources in Asian offshore areas (CCOP). With equipment and technical personnel provided by Great Britain, the study concentrated on an area in the vicinity of Panjang Island. This survey concluded that there was a sedimentary layer up to three miles thick between the west coast of Vietnam and Panjang. This initial study was soon followed by a regional sparker survey, which was carried out by CCOP and covered 10,000 line miles in the Gulf of Siam and the South China Sea, which aided in defining several basin areas as well as showing the presence of thick sedimentary sections and favorable structural developments in the offshore area.<sup>98</sup> During 1969-70, further seismic surveys off the eastern and southern coast were conducted, and in order to regulate the oil concessions, as well as the oil explorations in the future, the Petroleum Law - law No. 011/70 - was issued on December 1, 1970 and opened a new era of the oil history in Vietnam.<sup>99</sup>

The oil prospects of Vietnam have become, indeed, really promising since July 1973, when four oil firms out of 15, won the bid of exploration rights to eight offshore concessions of some 7000 square miles each.<sup>100</sup> Upon signing the contracts awarding the above-mentioned concessions, the government expected to receive a composite signature bonus of 16.6 million dollars. Furthermore, the oil firms are planning to spend 60 million dollars on exploration within the next five years, mostly for the services provided by the Vietnamese.

However, these amounts of foreign exchange earnings were expected for only the very first phase of the oil yield in Vietnam. The concession contracts also specified that as soon as oil is found in commercially explorable quantity, the petroleum companies must pay in a lump sum of 10 million dollars. Then, due to the Petroleum Law, royalties equivalent to 12.5 per cent of production must be paid, and corporate income tax applied to oil producing firms of 55 per cent.<sup>101</sup>

Obviously, such incomes will take time, but even a modest commercial discovery could dramatically change the export picture in Vietnam.

In addition to that, in the future, Vietnam may have export opportunities in other raw materials, principally metallic and non-metallic minerals. Although little study has been made on the mineral resources of the country, the general geological structure and age appears favorable for

the existence of a range of minerals.<sup>102</sup> Kaolins and clays represent one product family that may exist in deposits; nonferrous are another possibility. Furthermore, recent studies showed that many natural sources of mineral water exist throughout the country.<sup>103</sup> Many springs are known to provide mineral water of high therapeutic value which promises a very good export prospect. However, generally speaking, until systematic geological exploration, mapping, and analysis are undertaken, particularly in the highlands, the potential mineral resources of the country cannot be assessed.

Finally, there are very real possibilities in tourism. Situated right on one of the most heavily travelled tourist routes, Vietnam has a number of physical attractions that, in any other country, would provide a base for tourism. These include a number of beach areas, big game hunting, and cool highland areas, all within a short distance from Saigon, its capital. It is also believed that the war has given Vietnam publicity that would be helpful to tourism industry of this country. In brief, when peace comes, the tourist sector will no doubt be one of foremost importances because it can be developed quickly and can perhaps earn more foreign exchange than any single export item.

In summary, for a future projection of Vietnamese export prospects, it is true, to be sure, that when the war ends, the agricultural sector will continue to be the leading one, in which - besides the traditional leading goods: rice and

natural rubber - fisheries products and wood products are going to be the most promising exports. For the export markets, Japan, Hong Kong and Singapore are still the main overseas markets of Vietnamese goods. Apart from those, the United States, France, West Germany, and the United Kingdom continue to present Vietnam with many opportunities to export. In addition to the traditional activities, petroleum and tourism are the most promising possibilities to improve the foreign trade of this country.

## VI. OBSERVATIONS AND CONCLUSIONS

The analysis mentioned in previous chapters clearly proves that exports might accomplish their role in guiding the Vietnamese economy to a viable condition. Apart from the abundance of resources, including the relatively low-cost and well-trained labor force, the new export programs have provided a convenient climate for export activities. Yet, the process of export expansion is certainly not an easy and simple one. It is true that the temporary good will of the government and a large amount of resources are only the necessary, but not sufficient, conditions to drive exports. Several other internal and external factors have strongly affected and will continue to affect export performance. In other words, the success of Vietnamese exports relies upon numerous aspects, of which some vital ones are mentioned below.

### A. CHANGING THE ECONOMIC STRUCTURES

As mentioned, during the wartime, the Vietnamese economic structures have been distorted in the sense that the war favored in particular economic activities in import business and in the supply of goods and services to allied troops and foreign civilian personnel. It explained the concentration of wealth in these sectors. The withdrawal of foreign forces and the concomitant reduction of U.S. expenditures in Vietnam changed the economic climate but the former

tendency still has heavy influence on Vietnamese businessmen. Consequently, in that environment, production activities were not appreciated as they needed to be.

Changing economic structures, therefore, is necessary as the primary condition to drive export. New strategies must be required to manipulated costs and rewards in such a way as to direct energies and initiatives of the private sector into more productive channels. In addition to the recent reforms in investment conditions and in the monetary sector, other strong measures have to be enacted in other areas, such as finance and imports. These actions could harm the government credit and the government has to trade off between costs and benefits of these measures. If economic viability is the ultimate goal of the nation, the government ought to consider balancing it with other objectives, such as military and political.

#### B. CAPITAL AND CREDIT

It is obvious that capital investment and credit are needed to produce commodities for export in any country, and Vietnam is no exception. It is also true that most heavy private investment is needed for the development of industry leading to the production of manufactured goods, but the exploitation and development of the country's agriculture, forestry, and fishery's potentials also require substantial capital. Apart from investment in the production plant itself, capital will be needed to finance the export operation. Moreover, with increasing competition among exporting

countries, exporters have to give credit to foreign buyers. Even though the new investment law which gives many privileges and assurances to foreigners, was applied two years ago, it did not have enough power to attract the foreign capital, owing to the risk in war time. The domestic capital should, therefore be viewed as the main financing required to produce and market the commodities that Vietnam hopes to export.

In doing so, it appears that the Government will have to take the lead in making greatly expanded credit available to producers and traders. One alternative is to set up the Export Development Bank, a separate body from Export Development Center, to efficiently finance exports. Again, cost-benefit analysis is necessary to determine how much capital resources should be withdrawn from other government sectors to devote to exports. At the same time, in order to encourage commercial banks to fund out shipments, some forms of public assurance for the credit extended by its exporters to their customers, as applied in some neighboring countries, particularly in Hong Kong through the Export Insurance Corporation, appeared to be very successful.

#### C. PROCEDURES

It is likely that, in many developing countries, the formalities and red tape involved in the conduct of foreign trade have been, in practice, the most difficult problem of export expansion. For instance, in 1964, the South Korean exporter was required to take 37 separate procedures, involving the presentation of 94 different forms, and a total of

1948 copies, for a single shipment of cotton textiles; from 84 to 121 man/days of work were necessary for this process.<sup>104</sup>

In Vietnam, prior to 1971, in order to control strictly the foreign exchange earned by exporters, heavy procedures were applied on foreign trade. After the issuing of the new program, procedural requirements concerning exports and the travel required to promote exports were relatively relaxed. However, if the decision is still left to each agency, it is probable that very little will ever be done to eliminate some of the clearance requirements and to relax some of the others. At least, it is necessary to assemble representatives of all the agencies involved in clearing exports in one location, to save a trader the time he spends in going, and in waiting, from one office to another. In addition, careful control should be paid to the procedure to prevent the corruption of some executives, who usually complicate the administrative procedures by themselves to obtain the illegal profit!

#### D. TRADE ORGANIZATIONS AND NEGOTIATIONS

Trade organizations are useful as channels for disseminating information, for sounding out opinion, and for exerting a certain amount of pressure to maintain an acceptable level of ethics. They are also a convenient means of providing certain essential services to traders, for example, price reports, trade news, commodity inspection, and information or procedures. Therefore, in any export program, there is clearly a place for the quasi-public or private

trade associations, such as chambers of commerce, boards of trade, or exporter associations.

In Vietnam, apart from the Saigon Chamber of Commerce, the principal spokesman for export business, there exist some trade associations, founded on particular commodities, but they were generally weak. The reason for this was that Vietnamese traders were substantially removed from the main stream of international trade for several years, and in addition, most of the exporting firms are relatively small in both resources and volume of business.

In the current climate of export promotion, there was a particular need in Vietnam for exporters to join trade associations. In the beginning, this might be preferable to numerous individual commodity associations because the number of traders is relatively small. Over time, however, it is expected that traders will also organize on commodity lines, as they have done in most countries.

Trade organizations also serve useful purposes in presenting a semblance of unity in dealing with prospective buyers or exploiting potential markets. In fact, with the possible exception of rubber and rice exporters, Vietnam's traders have never been particularly strong or well-organized, in the sense of presenting a united front in dealings with overseas buyers. Along with the helpful role of trade organizations in negotiations, Vietnam may find it both necessary and expedient to engage in government-to-government negotiations, in order to pave the way for

increased exports to offset the heavy flow of imports. This type of negotiation is particularly appropriate in trading with countries that have been heavy suppliers of goods to Vietnam in recent years.

#### E. SPECIAL SERVICES

As trade develops, transportation and shipping services become very important. Freight rates and frequency of shipment, and even adequacy of service are essential elements which determine the success or the failure of commodities on overseas markets. Consequently, there is a need for an organization of some sort to represent the interests of the public and traders in such matters, and at least at the start, only the government can provide or finance these services.

The need for mediation and arbitration to resolve the disputes that inevitably arise between buyers and sellers will also increase along with increasing trade flows. Services of this sort can be provided by a government agency, but in practice, they are often delegated to a quasi-public organization, such as a Chamber of Commerce or a board of trade.

The experiences of neighboring countries, particularly of South Korea, proved that export-oriented technical assistance from external public or private sources was a most valuable support to the export promotion effort.<sup>105</sup> Vietnam has certainly needed such an assistance, which can be ranked from the structurally planning level to lower

ones, including guidance in techniques of processing and marketing.

Other special services relating to the market research and information, to merchandising techniques, etc., also become essential elements in a keenly competitive world, and they should be paid more attention, as trade develops.

#### F. THE WAR

The most difficult problem for the export expansion in Vietnam is obviously the instability in the military and political situation of the country, owing to the war. As noted, the hostility eliminated not only the production capacity of resources, but also the capital investment from both domestic and external sources. It is true, to be sure, that the level of export activities was highly correlated, in the inverse direction, to the rate of fighting around the country. Consequently, the same relationship existed between export trade and the political situation. The bright prospects of exports from Vietnam, described in the previous chapter, were mostly projected from the standpoint of a peaceful environment. With this assumption, all resources - both material and human - are preserved to the production, instead of to the war effort as they have been. Lessons of the past proved that all efforts devoted to production - part of it might be oriented to exports - could become useless if the fighting suddenly increases its rate. This was the case of the TET offensive's destruction on the "green revolution" in early 1968.<sup>106</sup>

The current increasing fighting around the country implied that the opposing military forces continued to swallow up a large part of the resources and the energies necessary for rebuilding the country. In that context, expectations of "promising prospects" for Vietnamese exports seemed to be optimistically unrealistic, at least in the foreseeable future.

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