Chapter IV VIETNAM´S TRADE POLICY REFORM

4.1. TRADE POLICY BEFORE ECONOMIC REFORM

During the period before Economic reform, foreign trade was the state´s monopoly and was placed under the management of the central government. Trade policy was implemented under the bureaucratic, centralistic and irrational state-subsidy mechanism. The main objective of trade policy was to increase export so as to import material for industrial development and essential consumer goods.

According to the policy, only state-owned sector was permitted to export and import. Each branch, locality, and establishment had the responsibility and obligation to engage in the business of exporting and to strive to meet their own needs of import and actively contribute foreign currency to the central government. They were entitled to conduct import-export operations in line with the principles, policies and regulation stipulated according to the centralized management by the state. All import-export activities were controlled firmly by the government and through plans and norms of the state, trade licenses were issued centrally for most export products which required the enforcement of quotas. Local authorities were authorized t export agricultural products so as to import necessary materials for agricultural and industrial production as well as some consumer items essential to the people's livehood.

The policy was also concerned with ensuring the fulfillment of export contracts with the socialist countries. During this period, Vietnam's imports have been largely financed by loans and aid from the USSR and CMEA.

In addition, Vietnam has applied the "international accounting exchange rate" which was the maintenance of an official exchange rate below the free market rate. This meant that the Government has obligations to pay export subsidies as exports increased but they were not paid on time.

There were some policy issues in the period before Economic reform.

(i) There was no efficient interaction of import, export and domestic investment. Imports which were financed by foreign aid and loans were mainly import of producer goods, but these goods have not been used effectively. While as estimated by some economists, at that time, the national supply of producer goods met only half the demand. Many imported machinery, plants were either underused or not utilized at all. The utilization rates of imported machinery and facilities were low, about 30 to 40 per cent. It did not create significant change in industrial structure, although imports of produce goods expanded, as a result, but export structure was not changed.

(ii) The goverment has introduced the law on export and imports tariffs, but tariffs policy has not been designed to promote industrial development. Some imported products that can be produced domestically have been allowed to enter domestic market. This was a disadvantage for domestic industry to develop because the domestic industry was not strong enough to compete with foreign producers. Furthermore, because of the budget deficit, the goverment tried to get more revenue from exporters through high tariffs on exported goods. It was a restriction and hindered export expansion. The law on export and import tariffs was revised in 1988 but 12 groups of commodities were still levied by export tariffs.

(iii) Under subsidized regime, the imported goods as well as other products were distributed (not sold) according to the predetermined plans and control of the government. As a result, the exporters were not concerned with quality, delivery and after-sales services. It led to reduced in competitive ability of export goods in international market and consequently, led the expanding imbalance of trade.

(iv) The exchange rates were at level that was not favorable to exports. The transferable roubles that were used to settle trade within CMEA could not be transferred to other countries. So the ability to make payments in hard currency was very limited. The imbalances of trade remained serious.

4.2. CHANGES IN TRADE POLICY AFTER ECONOMIC REFORM

Since 1986, Vietnam has carried out drastic reforms in the political, economic and social fields under the banner of "doi moi", in which there was very important basic policy that was an open door policy. The open door policy as a international economic policy is one of the major achievements of "doi moi". This policy opened the door to the outside world with a view to integrate the national economy to the world economy. It is intended to open up Vietam´s market in many directions and to transform economic operations and relations into a diversified economy, applying in a liberal way all forms of cooperation ad economic joint venture with foreign countries.

Objectives of the policy are:

i) To liberalize the right to establish relations with the exterior

ii) To abolish the mechanism of centralized, subsidized and bureaucratic management, to shift all economic operations concerning foreign countries to an economy of accountability guaranteeing concrete results.

iii) to increase the management capability commensurate with law and policies, and clearly distinguish between state management and business management.

According to the new policy, the right to conduct forei[illegible] trade has been liberalized. The monopoly in trade sector w[illegible] removed and the previous strict central control over foreign trade has been decentralized by giving economic units greater freedom to trade directly with foreign partners and by devolving state regulation and control over trade to local authorities. The process of decentralization is also to apply to all economic "component", which should be treated equally in foreign trade regulations. The discrimination against the non-state sectors has ended.

The right of local government in the foreign trade field has been strengthened. Trade licenses are issued locally rather than centrally. Most trade quotas have been abolished. All enterprises belonging to different economic sectors, producing export products or only importing for their production needs, are to have their interests guaranteed and are duty-bound to fulfil their obligation according to the State´s policies and mechanism on export-import. The irrational State subsidy system applied to foreign trade is to be abolished.

The goverment encourages all branches, localities to increase the prefabrication of export goods, wide foreign exchange attracting services. Export processing zone and special economic zones have been opened in some localities on an experimental basis. The "internal exchange rate" was abolished and the commercial exchange rates for all foreign trade activities was applied. However, the State still is to have a firm hold on the utilization of foreign currency, especially , hard currency.

4.3. THE CURRENT TRADE POLICY

This section will present in detaily the trade policy as applyied in Vietnam. In Vietam the Ministry of Trade is the principal agency responsible for formulating, recommending, reviewing and controlling the implementation of trade policy.

4.3.1. Objectives of trade policy

Trade policy is to broaden and raise the effectiveness of external economic activities, to increase quickly the value of exports and improve its structure in the direction of increasing processed and sub-contracted goods, reducing the percentage of raw products.

The policy is also to diversify and multilaterize external economic relations. The import structure should effectively serve the development of production and renovation of technology, protect and stimulate domestic production, enhance the quality and competitiveness of domestic commodities, restrict the import of non-essential goods.

It is necessary to retain and create more positions on habitual markets, penetrate new markets. The economic ties with the Soviet Union, Laos, Cambodia, Cuba, Eastern European countries, China, India... will be consolidated and broadened. Establishment of economic and market ties with northern and southern Asia now is very important for Vietnam in expanding regional cooperation and economic development.

The government policy encourages exports, controls imports to attend efficiently as well as protect and develop domestic production and consumption. It enhances import-export efficiency and contribute to implementation of socio-economic objectives of the country.

4.3.2. Import-export licenses and permits

All commodities are permitted to be freely exported and imported and are controlled by import-export tax with exception of some commodities below that are under the administrative management of the government.

1.Commodities are banned by the government.

2.Commodities require the enforcement of quotas.

3. Specific commodities.

4. Commodities that are related to large adjustment of the economy.

List of these commodities are issued by Minister of Trade under the Decision No 294/TMDLXNK issued on 9/4/92 that replaced Decision No 431/TN/XK issued in 1991.

In order to import and export, business must have import-export license issued by Ministry of Trade with some conditions as follows:

i. Business has to be established under the government law, for instance, share-holder company and company limited are established under company law, private business under private business law.

ii. Operating capital at the time of registration is at least US$ 200,000.

iii) Doing import-export business according to the list of goods permitted in the license.

iv) Enforcing law of Vietnam consistent with trade habits of the world.

The manufacturing units of all economic sectors are permitted to export their products and import necessary materials for production.

4.3.3. Export incentives

The government encourages and promotes business that seeks and expands new markets and business that exports products encouraged by the government to be exported, even some commodities apart from the list registered can be examined to export if business sought market to export efficiently.

The manufacturing units that produce exported goods are exempted from revenue tax and remitted income tax if their export proceeds are invested into production of export goods.

4.3.4. Protectionism

The government policy protects and promotes domestic production, especially, agricultural products which are protected at high level by policy of import-restrictions(adjusting quantity or through customs barrier). The government encourages all business to produce import-substitution products. Income tax can be remited in the initial period if it produces import-substitution goods.

Some measures are used to protect domestic production and consumption are as follows:

i) Using customs barrier and tax instrument to adjust supply-demand relations for imported goods and keeping price of imported goods and domestic goods of the same quality to be equal.

ii) Enhancing competitive ability of domestically produced goods in term of kind, structure, quality, and price.

iii) Fighting against smuggling, especially at the border.

iv) Introducing policy that Vietnamese should consume Vietnamese goods.

v) Exemption from tariffs is applied for non-returnable commodities and commodities that is imported temporarily an reexported. Commodities that are imported for joint ventu companies and commodities that are used for reasons defence, security and research will be examined to rec tariff.

vi) Preferential tax that equals 70% of normal tax applied for :

a) import-export commodities under the trade agreements with provision on preferential tax.

b) Export commodities that are produced in Vietnam and import commodities that are produced in the country which has signed provision on preferential tax with Vietnam.

4.3.5. Exchange rates

Trade policy also examines adjustment of price and exchange rate so that to encourage production and expand export market. In order to reorganize the management of foreign currencies, all foreign currency transactions must be carried out through the bank and it should be kept close to the market exchange rate.

4.3.6. Price policy

Price of import and export commodities are under the regulation No 298/TMDL/XNK issued on 9/4/92 on price management in foreign trade activities. All business are permitted to make decision on price by themselves.

Price on the trade contracts has to enforce the following principles :

i) in consistent with world price.

ii) consistent with the government policies.

iii) For a small number of important goods, the government regulates the level of maximum price for import goods and the level of minimum price for export goods.

4.3.7. Other aspects

Trade sector has to find new markets for export, especially for exports of agricultural products, processed foods, light manufactured products, handicrafts and to speed up the process of linking up the domestic market with the world market.

It is also very important to organize good services of information and forecasting on the world market trends. It helps domestic economic units to make direct transactions with foreign partners, broaden trade relations, increase capacity to keep the initiative in dealing with the fluctuations of the world market.

Chapter V

HOW CAN VIETNAM LEARN EXPERIENCE FROM MALAYSIA?

5.1. THE SIMILARITY BETWEEN VIETNAM AND MALAYSIA

Vietnam and Malaysia are two developing countries, it can be said that the economic situation now in Vietam is similar to Malaysia in the past when the economy of Malaysia depended mainly on primary commodities with a narrow export base. Vietnam today is still an agricultural country with agriculture occuping 46% of GDP, while industrial contributing about 21%. The Vietnam Government has directed resources to the manufacturing sector to promote industrialization and introduced incentives to attract foreign investment, implemented export promotion programme to encourage export oriented industries as well as exporters to seek opportunities for exports of manufactured and agricultural products. It was the same situation to Malaysia in 1970s.

Although the level of economic development is still low compared with Malaysia, Vietnam has adopted an "open door" policy. The government permits a market economy based on commodity production and policy liberalisation. The privat sector is expected to develop and to play an important rc in the economic growth.

Furthermore, as Malaysia, Vietnam has some competitive advantages such as cheap labour cost and natural resources, Vietnamese like the Malaysians are hardworking and intelligent. With these similarities, Vietnam can benefit from the Malaysian experience.

5.2 - LESSONS FROM MALAYSIA'S EXPERIENCE

Experiences and successes of Malaysia in trade policy are valuable lessons for Vietnam. Some useful lessons for Vietnam's trade policy can be summarized as follows:

1. Experiences of Malaysia shows that in the initial period of economic development, export orientation does not mean an abandonment of import-substitution. Both have to be pursued together. Despite many limitations, import substitution in the initial period of the economic development has made significant contributions to output growth and it could protect infant industries through tariff system. However, import substitution could no longer provide a viable basis for industrial expansion, so that stronger emphasis has been placed on the export orientation. Actually, Vietnam is in the initial period of development with weak economic base. It has a large domestic market with a population size of more than 70 million. Protection and development of import substitution industries is very important, but in order to expand and develop rapidly the economy Vietnam should adopt

industrialization strategies. Import substitution and export orientation should be in a parallel fashion. Tariff should be reduced step by step and export oriented industries should be enhanced

2. In the process of involving trade policy in Malaysia, tariff is the main trade instrument and its structure is reviewed and revised regularly in line with the overall objective of the government to liberalize trade. Malaysia has taken measures to lower tariff and offered many items for tariff reduction. On one hand, it is to promote trade liberalization, on the other hand,it creates convenient condition to attract foreign investment. This is an issue that Vietnam can concider. Vietnam should review its trade policy and examine ways to reduce tariff at reasonable level in consistent with each period.

3. In Malaysia, trade policy is a liberal and outward-oriented trade policy. Malaysia trades with a large number of countries, especially with ASEAN countries through closer economic and trade cooperation. Malaysia has been a contracting party to many trade agreements (GATT, MFA, DTA, BPA, PTA, CEPT). It is very important not only for maintenance and expansion of Malaysia´s trade with trading partners but also for development of Malaysia´s trade sector itself. Under these agreement the developing countries can get help from other developed countries . Vietnam now is

adopting an "open door policy", enhancing itself to expand its economic relations, especially its regional economic relations and to penetrate into the world market.

4. The establishment of the Free Trade Zone is also another fact, Vietnam should examine this problem because FTZ can be as an instrument to expand manufactured exports and to attract FDI.

5. In Malaysia, export incentives are implemented and reviewed and revised, so that it promotes export expansion, encourages companies to seek opportunities for exports of manufactured and agricultural products. Vietnam has also introduced export incentives but some forms of export incentives can be considered fot adoption such as Double deductions of export credit insurance premiums.

6. Malaysia has shown that in order to implement trade policy successfully, the country has to introduce trade related regulations and laws which have to be stable and efficient. They contribute to trade liberalization such as exchange rate policy, exchange rate control and policy on foreign investment.

In addition, successful implementation of trade policy is based on background such as the level of economic develop ment, the government´s adjustment policy measures and privatisation. Furthermore, it is very important to collaborate Minis-tries such as MITI, Ministry of Finance and other related authorities in formulation, review and revision of trade policy.

5.3. HOW COULD VIETNAM LEARN EXPERIENCE FROM MALAYSIA?

Vietnam now is in initial period of development, the transformation from bureaucratic and subsidized economy has faced many difficulties due to shortage of experience, so that Vietnam should take study and learn experiences from other countries, especially from Asian countries like Malaysia.

5.3.1. Vietnam has also some backgrounds for learning experience as follows:

i) The economy has changed and operated in accordance with the market mechanism, although it is still in the early stage.

ii) Vietnam´s natural resources are relatively rich and diversified such as forestry, fishery, oil and gas.

iii) Vietnam is located at a major international crossroads and has favourable outlets to the sea, and Vietnam is vested with advantages for expanding foreign economic relations and attracting foreign investments.

iv) Due to "open door" policy, Vietnam has great possibilities to maintain and develop a mutually beneficial interflow and cooperate with countries having traditional relations with Vietnam and also to broaden relations with other countries and regions, especially with ASEAN countries. In the near future, Vietnam will enjoy the Association of South-East Asia Nations (ASEAN). It will then be convenient for Vietnam to penetrate into new markets and to integrate into regional and world market.

v) The Vietnamese are traditionally patriotic, hardworking, intelligent and creative.

5.3.2.How could Vietnam learn from the Malaysian experience?

Experience of Malaysia is very useful for Vietnam, Vietnam should learn and apply these experiences, but the most important thing is that Vietnam should apply creatively these experiences in consistent with the apparent economic conditions of Vietnam and with each period of economic development.

In order to apply the experience effectively, Vietnam should create convenient economic environment and conditions for it. They are :

i) to ensure stability and liberalization of policies.

ii) to formulate trade and trade related regulations and laws that Vietnam now still does not have such as commercial law and other Laws.

iii) to formulate and operate efficiently labour market, monetary market, reorganize the management of foreign currency, exchange control, to allow a number of foreign banks to open branches in Vietnam operating under the control of the State bank and establish branches of Vietnam State Bank overseas.