

# TO BEEF UP THE EXCHANGE CONTROL

by Dr. LÊ KHOA

The exchange control is of great importance to the planning and growth rate. To beef up the exchange control, we should at first determine desirable objectives and then organize the body responsible for controlling and regulating the exchange rate.

## I. OBJECTIVES OF THE EXCHANGE CONTROL

Objectives of the exchange control in Vietnam should be like those of a poor housewife: all foreign exchange she earns should be spent on necessities of development. At present when the industrialization and modernization program is carried out, the following objectives are preferable:

(1) importing new technologies and capital goods that we are badly in need of.

(2) importing materials needed for local production (fuel, fertilizer, spare parts, etc.)

(3) importing certain consumer goods and selling them at high prices to high-income earners to absorb exceeding spending power, prevent inflation and increase the budget income.

Earnings in foreign exchange, of course, shouldn't be used for importing things that could be harmful to public welfare and local production (heroin, spirits, cigarettes, depraved books and films, consumers goods that could be made locally, etc.). All payments made locally should be in domestic currency, foreign exchange is only used for international dealings. Only the SBV and authorized banks have the right to trade in, and keep, foreign currencies. These measures could protect the local production and prevent smuggling more effectively because import of consumer goods is well under control and no sources of foreign exchange are available for smugglers. They could also protect the economic independence because they help develop the heavy industry when the better part of earnings in foreign exchange

is used for importing new technologies and capital goods.

The mechanism for exchange control should aim at these objectives and as we see, these objectives require efforts not only from the banking system, but also from other ministries. That is, they require reforms in the macro-economic policies and the administrative machinery.

## II. BEEFING UP THE MECHANISM FOR EXCHANGE CONTROL

### 1. Obstacles

The above-mentioned objectives could be widely approved but the plan to achieve them still faces many obstacles:

-Free trade in foreign currencies: At present, everybody, especially in big cities, can buy as much foreign exchange as they wish provided that they are ready to pay a little higher price. Dealers can accumulate large sums of foreign currencies and supply them at short notice. It's these dealers who supply foreign exchange to smugglers. And these smugglers, in their turn, can make illegal goods of all kinds and prices, flood the local market.

- The army of porters, or small smugglers: Many poor people have taken part in cross-border smuggling. They could be self-employed or work for other smugglers because this activity brings in higher income than what they earn by doing farming. They can smuggle goods by motorbikes or sampans along paths or canals unknown to most customs officers. If caught, they have nothing to lose and their poverty remains a burden to society.

-Many managers of state-run banks and customs officers have connived at import of luxury goods and smuggling operations. Many companies could borrow millions of dollars from state banks to import goods and avoid duties in connivance with banks managers and customs officers.

-After getting through customs or crossing the border, illegally-imported goods are sold publicly and people can buy them without difficulty.

-In the market economy, all companies have their own way to make benefit with the result that certain companies, after borrowing from banks to invest a lot in



capital goods, couldn't compete with imported goods and ran into debt.

- The exchange rate in Vietnam is rather low while most Southeast Asian currencies were depreciated drastically after the financial crisis broke out with the result that local producers and exporters met with a lot of difficulties.

These obstacles made our growth rate fall in recent years: manufactured goods from neighboring countries became cheaper and import business more profitable while on foreign markets, prices of raw materials and agricultural products exported from Vietnam fell. In 1999,

and banking authorities, should work out a list of projects of top priority for the year, and then decide how much foreign exchange will be put in these projects and where to secure these sums of foreign exchange (export earnings, foreign aid and loans, the ODA source, foreign investment and immigrant remittances). Income and expenditure in foreign exchange should be balanced in order to link the industrialization program with the use of sources of foreign exchange.

Secondly, the Ministry of Trade makes a list of main imports and exports needed for the industrial-

tions and sale of illegally-imported goods. If companies make good profits, the tax take will increase and the banking system will develop accordingly.

All sources of foreign exchange should be concentrated in banks. The VND should be the only legal tender in Vietnam. In addition, the VND can be depreciated by degrees with the aim of encouraging personal spending and local production. Bank authorities can buy foreign exchange at high prices and petition the Government to make free trade in foreign exchange illegal. This is also a measure to fight against



neighboring economies showed signs of growth while Vietnam economy didn't.

## 2. To beef up the exchange control

Thus, the exchange control has close relations with plans for foreign trade, public finance and the planning task itself, so we need a master plan to coordinate efforts of many related ministries (banking system, Ministries of Trade; of Planning and Investment, customs authorities, companies and the police) to control flows of foreign exchange. It's worth remembering that Vietnam has its own socialist orientation, its economy is regulated by the Government and directed towards the industrialization program. To beef up the exchange control, the following measures should be taken:

Firstly, the Ministry of Planning and Investment, in cooperation with main corporations, Ministry of Trade

and banking authorities, should work out a list of projects of top priority for the year, and then decide how much foreign exchange will be put in these projects and where to secure these sums of foreign exchange (export earnings, foreign aid and loans, the ODA source, foreign investment and immigrant remittances). Income and expenditure in foreign exchange should be balanced in order to link the industrialization program with the use of sources of foreign exchange.

Thirdly, the control over customs officers and managers of state banks must be ensured in order to prevent smuggling operations and wrong lending. The banking system, after all, plays only a minor role in the exchange control. It only undertakes tasks of trading in foreign exchange, setting exchange rates and keeping foreign exchange while Ministries of Trade, of Planning and Investment and companies will decide how to use the sources of foreign exchange.

Performance of companies will depend on how effectively the Government prevents smuggling opera-

smuggling.

If the Government succeeds in stopping smuggling and illegal import, some millions of dollars can be concentrated in banks in addition to foreign investment and the ODA source, and the annual gross investment can top the US\$8 billion mark. The Government had better make plans to orient investment towards the manufacturing sector and infrastructure and the banks should give top priority to loans for investment projects.

In short, beefing up the exchange control requires a master plan to reform all related governmental bodies and coordinate their efforts to stop smuggling, concentrate foreign exchange in banks, increase import of capital goods and raw materials, reduce import of consumer goods, encourage investment in manufacturing sector and prevent trade in illegally-imported goods. ■