

Our country has implemented *doi moi* policy and made progressive steps in accordance with the new situation changing from the centrally-planned to market economy under the State management and socialist orientation since 1996. As a result the reform of tax system to improve incentives through taxation and integrate into the region

7. Ordinance on Income Tax for High-income Earners

8. Ordinance on Resource Tax

9. Ordinance on Housing Tax

In addition to these taxes, there are taxes on registration, slaughtering, transferring profits abroad and some fees involving registration, flying in the sky, transport, and ferry transport

The tax system has spurred up investment and economic restructure, economic growth; rearranged state-owned enterprises, and developed the multi-sectoral economy under the State management and socialist orientation. In particular, along with the expansion of economic relations with ASEAN countries, and the world, the tax system and policy have steadily made an access

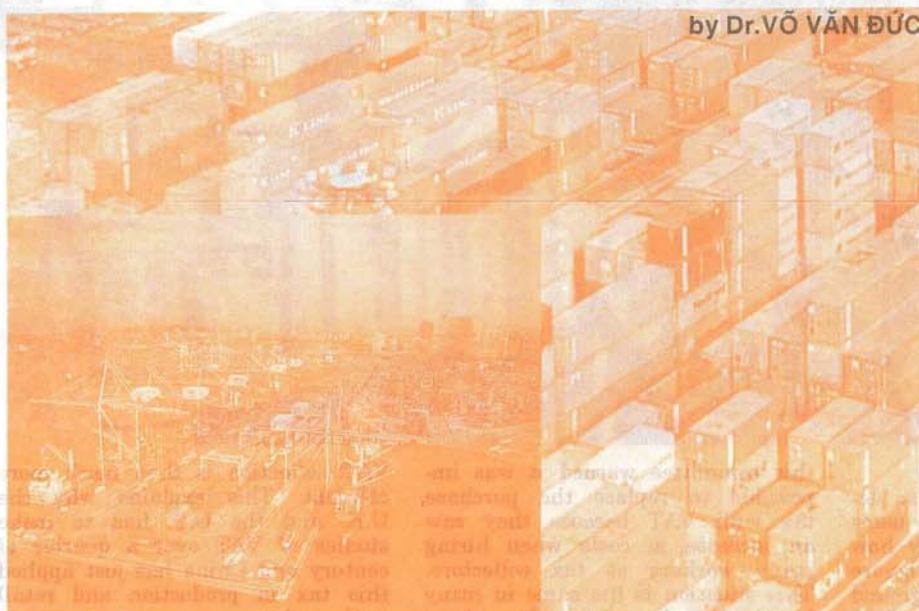
effective. Vietnam tax authorities have cooperative relations with foreign partners, thereby obtain favorable conditions for strengthening cooperation, disseminating our tax policy with a view to encouraging foreign cooperation and investment in Vietnam.

Although the tax system has been adjusted many times but it also reveals many defects. It remains many points incompatible with international practices, so it has adverse effects on the process of regional and global integration, the evidence can be seen in the tax policy for foreign direct investment, import and export duties

The National Assembly thus passed the three new tax laws: Value-added Tax (VAT), Corporate Income Tax and Personal Income Tax with the aim to reduce and overcome shortcomings of the tax system and strengthen the capability of our country's integration.

A thorny problem to Vietnam when joining AFTA is that we have to pledge to remove most of tariff and non-tariff barriers to other ASEAN members by 2006. The free trade area aims at the execution of common effective preferential tariff program including gradual reduction of import duty between 0% and 5% among ASEAN countries with a view to stimulating the trade between member countries. Our country is preparing conditions for taking part in the World Trade Organization (WTO) which requires every member to simplify its import control and alleviate import protectionism. Moreover, our country has unilaterally conducted trade reforms with the assistance from the International Monetary Fund (IMF), the World Bank (WB) and other international donors (this is a very hard problem, the

TAXATION WITH REGIONAL AND GLOBAL INTEGRATION



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and the world is a must and an urgent task.

From 1990, the National Assembly has promulgated tax laws and ordinances including:

1. Law on Import and Export Taxes

2. Law on Sales Tax

3. Law on Special Consumption Tax

4. Law on Profits Tax

5. Law on Farm Land-use Tax

6. Law on Land-use Right Transfer Tax

Thanks to this system, the tax and fee revenues increased quickly year after year, representing a large share of the total receipt in the State budget (over 90%). They have met basically the requirement for increasing regular spending from the State budget. They also reduced budget deficit; helped curb and lower inflation; stabilize prices and money value and earmark for investment and debt pay-

to, extended cooperation with and integrated into these countries' system. In 1995, Vietnam became a full member of ASEAN and joined AFTA and implemented the Common Effective Preferential Tariff (CEPT). By November 1997, Vietnam has made negotiations of agreements on avoiding double taxation with over 40 countries and signed agreements with some 30 countries, including 16 agreements being

IMF and the WB always set such conditions as trade reform, tariff reduction, etc. to the lending country).

In the early 1998, we participated in the ASEAN Free Trade Area (AFTA) and implemented the CEPT and became a full member of APEC in November 1998. Our country has announced four commodity lists for tariff cut in accordance with CEPT agreement. These lists adopted by the National

benefits little from CEPT in the reality of current export. The competitiveness of local goods remains poor as compared with other members' counterparts including food, processed and manufactured commodities. Vietnam goods can compete only by their originality and designs due to its lower technological level.

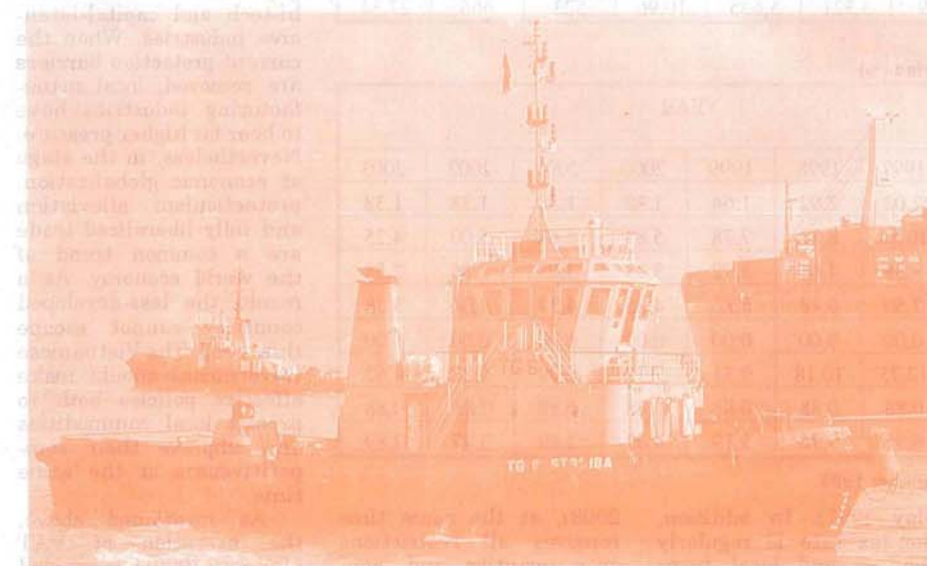
In respect of customers, currently the two-thirds of Vietnamese sales in-

yet put a lot of their unprocessed agro-products in the list for tariff cut. In recent years, we have exported only additional goods in accordance with their plans, not competitive ones.

Regarding export markets outside ASEAN, Vietnam could benefit from AFTA by reducing production costs due to lower prices of input materials purchased from ASEAN. However, similarly, the

Vietnam. We import mainly raw materials for local production and construction such as aluminum, cement, chemicals, insecticides, plastics, steel, and transport means. More than half of current imports are subject to an import duty rate under 5%. They include goods and materials serving local manufacture or essential consumer goods. The difference in production and export structure between Vietnam and other ASEAN members is small. If Vietnam does not have proper trade policies, our country will be a consumer market for other ASEAN countries' goods, while the country is now badly in need of export earnings for the national industrialization and modernization.

Due to its low starting point and competitiveness, Vietnam will face huge challenges when joining AFTA. Currently foreign imports are flooding the local market, causing not a few difficulties to some domestic industries such as textile, footwear, mechanical engineering, home electric appliances, ceramics, glassware, rolled steel while the tariff bar-



Assembly are based on the principle: Not greatly affecting the budget revenues; making favorable conditions for technical transfer and local technological innovation; making the best use of CEPT to expand import markets and attracting foreign investment. Nevertheless, the facts of local production pose problems to solve as follows:

Theoretically, our country's participation in AFTA could create good conditions for our exports to ASEAN members because their import barriers are also raised accordingly. However, Vietnam is now in the stage of trade deficit. Although the export shows signs of growth, but the prospect of exports to ASEAN countries still has no sharp rise. Regarding product structure, Vietnam

involve ASEAN countries. Vietnamese goods are exported to these countries (including Singapore) and re-exported to other countries. Singapore is an intermediary port whose tax system is low and 98% of total Singaporean imports (5,708 items) is already under CEPT with an average rate of 0%, that is duty free. Vietnamese exports to Indonesia, Thailand, and Philippines are mainly unprocessed agro-products. These countries also export a huge volume of agro-products and are competing fiercely with Vietnam. In addition, they have not

ASEAN countries also export their goods to these markets, enjoy benefits from AFTA and in the end increase their competitiveness. There are many similar products competing against each other in the regional and international markets such as food, autos, motorcycles, bicycles, electronic goods and home appliances. At present, some local goods can not compete with foreign counterparts because they are poor in terms of quality, category, and design.

The ASEAN countries are striving to enlarge their market shares in

riers remain high. As a result, when these barriers are removed, the local manufacturing industries are certainly under much higher pressure. Recent years have experienced prices of local goods far higher than foreign imports.

The involvement in AFTA will push local firms to international competition environment. The import tax rates of foreign goods range from 50% to 60%, favorable for them to compete with foreign imports. But when the protectionism lasts too long, those industries will see no healthy develop-

	April 1992	January 1993	January 1994	January 1995	January 1996	October 1996	May 1997
Taxable categories	28	21	36	36	26	27	28
Maximum tax rate	120	150	200	200	60	80	100

Table 1: Comparison between Old and New CEPT Products

Country	Tariff cut list			List of temporary exception			Normal exception		
	Old	New	% change	Old	New	% change	Old	New	% change
Brunei	6,079	6,112	0.54	208		100.00	201	209	3.98
Indonesia	7,355	7,910	7.55	1,654	1,317	20.37	50	47	6.00
Malaysia	8,777	10,494	19.56	627	470	25.04	98	83	15.31
Philippines	4,451	4,694	5.46	714	562	21.29	28	28	
Singapore	5,722	5,708	0.24				120	123	2.50
Thailand	8,763	8,867	1.19	118	147	24.58	26	30	15.38
Vietnam		857			1,189			146	
Total	41,147	44,642	5.49	3,321	3,685	10.96	523	666	27.34

Table 2: New CEPT for All Industries (%)

Country	Taxable items	YEAR							
		1996	1997	1998	1999	2000	2001	2002	2003
Brunei	6,112	2.02	2.02	2.02	1.64	1.38	1.38	1.38	1.38
Indonesia	7,910	11.56	10.56	8.80	7.78	5.83	5.68	5.00	4.25
Malaysia	10,494	6.11	5.38	4.66	3.92	3.23	3.03	2.86	2.58
Philippines	4,694	8.24	7.50	6.48	5.86	4.85	4.37	4.36	3.28
Singapore	5,708	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Thailand	8,867	14.14	12.73	10.18	9.31	7.03	6.99	5.80	4.62
Vietnam	857	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88
ASEAN	44,624	7.66	6.95	5.76	5.19	4.02	3.89	3.47	2.89

Source: AFTA Reader; Vol IV, September 1986.

ment and have no comparative advantages for competition in the world market. Therefore, if joining AFTA or not, Vietnam should step by step reduce tariff in accordance with a given schedule. This is not only an important factor to boost firms' technological innovation and business performance, but also make them restructure production by stopping production of less competitive goods.

The significant problem to solve when Vietnam joins AFTA is its economic restructure and trade reform must be compatible with the tariff cut schedule for each Vietnamese item group in CEPT. Nevertheless, our tax system is very complicated. The Vietnamese import tax list includes 3,200 categories with 28 various tax rates from 0% to 100% (the highest rate is applied to second-hand clothes as of

May 1997). In addition, the tax rate is regularly changed and local firms enjoy high protective level.

The table above shows the changes in taxable items and tax rates in Vietnam from 1992 to 1997.

Vietnamese import tax rates range from 0 to 6%, the average rate was 19% in 1995 and 15-16% in 1996. Of 857 items in the inclusion list, there are 548 with 0% tax rate; 309 with 1-5% rate. These commodities are sorted into:

Machinery and electric appliances 39%

Basic metal and metalwork 17%

Minerals 8%

Textiles and garments 5%

Optical products and musical instruments 5%

Others 25%

The CEPT targets at the tariff cut from 0 to 5% within 10 years (1993-

2003), at the same time removes all restrictions over quantity and non-tariff barriers (in particular, the deadline for Vietnam is 2006).

Vietnam is now mapping out major plans to be included in the tariff cut system, they are:

- Plan to reduce tax for some commodities in accordance with CEPT.

- Plan to remove restrictions over import volume and non-tariff barriers attached to the tariff cut schedule.

- Plan and measures to restructure production and investment of each manufacturing industry on the condition that Vietnam joins AFTA.

However, we note that the ASEAN countries' structure of production and export is of much similarity. It symbolizes economies changing from agriculture to industry and service, in other words,

these countries are realizing industrialization, so their exports are agro-products and minerals of which raw products make up 30-50% and the consumer goods represent a large percentage. Vietnam production still lags behind other regional countries. This is in effect a great challenge when it reduces tariff within a short time without careful preparation. In particular, the gap is much wider for hi-tech and capital-intensive industries. When the current protection barriers are removed, local manufacturing industries have to bear far higher pressure. Nevertheless, in the stage of economic globalization, protectionism alleviation and fully liberalized trade are a common trend of the world economy. As a result, the less-developed countries cannot escape this trend. The Vietnamese Government should make effective policies both to protect local commodities and improve their competitiveness at the same time.

As mentioned above, the execution of VAT (January 1999) has avoided multiple taxation and reduced the number of tax rates, especially in the market economy and market expansion. Using VAT and stimulating export will make local goods more attractive to the world's market. We cannot summarize the results of VAT due to just a short time of execution. However, we can affirm its good effects on the socio-economic development (it is not surprising that over 100 countries apply VAT).

It is expected that Vietnam will repair defects in the process of applying the new tax system with a view to quickly integrating into regional countries' open economic system and implementing industrialization and modernization.