MULTIPLE EXCHANGE RATE SYSTEM AND THE SOURCE OF FOREIGN EXCHANGE FROM IMMIGRANTS AND TOURISTS

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After the introduction of tax on immigrant remittance, the amount of money sent by immigrants to Vietnam has been on the decrease by some rate between 30% and 50%. Many people are of the opinion that the Ministry of Finance has killed the goose that lays golden eggs for the sake of budget income.

I. Characteristics of sources of foreign exchange

Foreign exchange could come from many sources: foreign aid, foreign investment, immigrant remittance, external loans, tourism receipts... but each source has different characteristics from the banking and monetary aspects.

- Foreign aid: This source of foreign exchange, in principle, is very precious because Vietnam, in principle also, receives it for nothing. However, hardly a nation gives aid for nothing like what the USSR did for Vietnam from 1950 to 1990. South Vietnam received aid from the US from 1954 to 1975 but the giver made it a condition that Diệm's government had to mobilize all resources to struggle against the communist regime. On such a condition, the US has given aid, not in cash, by allowing Saigon government to buy goods from the US: importers from South Vietnam would pay in Saigon đồng to the US counterpart fund and this money would be used for paying to the Saigon Army. The Saigon government had to buy goods in a list made by the US, including rice in spite of large output which South Vietnam could produce in certain years.

At present, foreign aid given to Vietnam isn't tied to political or military conditions, but it's usually tied to loans (usually tied loans): only 13% of Japanese aid is donation, and 87% is payable. This aid must be used for buying goods from the giver. Thinking through, giving donation or aid or tied loans is only a way for givers to promote exportation to Vietnam.

These are conditions for securing loans or aid from foreign countries.

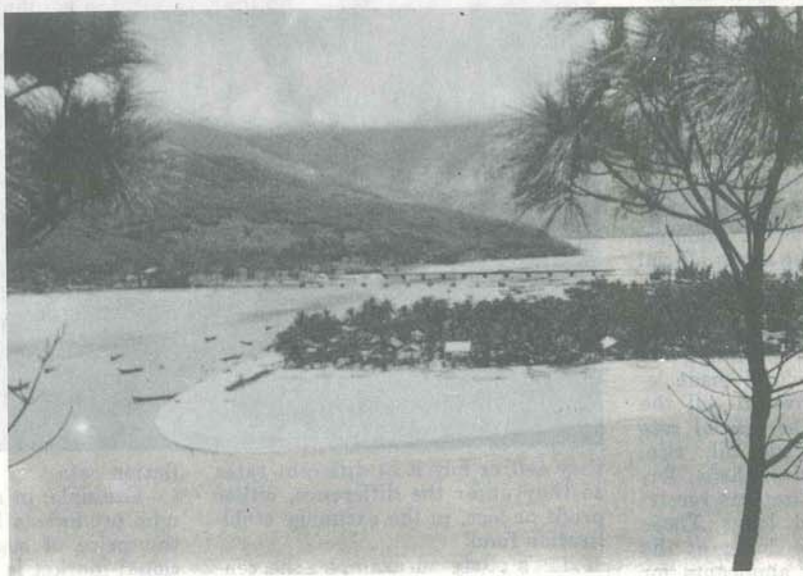
- Foreign loan: We have certainly to pay both interest and principal for loans. These loans could be of long or short terms, with high or low interest rates. Certainly, long-term loans of low interest rate are very helpful and it's very dangerous to use short-term and high-interest loans to import consumer goods. A government could use loans to import machines and raw materials needed for production of goods for export (therefore it could repay debts when due) or consumer goods and products which could be made locally (and it could fail to repay debts in time) therefore when thinking of securing foreign loans, we should answer the following questions: what are these loans for and how can we repay debts when due?

- Foreign exchange from exportation: This source of capital originates from domestic production and it is very valuable because exportation could create new jobs, help to develop the economy and create a precondition for economic and political independence. Export surplus will help to repay external debts. Foreign exchange from export is totally under the nation's ownership. That is why all nations have tried their best to promote exportation. However, this source of foreign exchange is held by companies, the central bank had better force exporters to get L/C from foreign banks before they are licenced to export and they have to sell foreign exchange to the central bank.

Export surplus could lead to inflation because the central bank has to increase the money supply to buy foreign exchange from exporters. On the other hand, import leads to deflation because importers have to use domestic currency to buy foreign exchange from banks. Deflation occurs when there is an import surplus. In 1996, the price index (which is usually identified with the inflation rate) fluctuated between

4% and 5% because it's affected by the import surplus of US$4 billion.

- Foreign investment: This source of capital is also helpful, especially to such a developing country as Vietnam. If foreign parties invest machines instead of money, these machines could be of old generations or technology or their prices are marked up too much. It's clearly desirable that foreign parties make investment in hard currencies and use them to import modern machines by tender. In this case, foreign exchange invested could be changed into Vietnam đồng in order to buy land, raw materials, labor or services from local markets, so the foreign exchange invested will pass to Vietnamese owners. This investment could be considered as foreign exchange induced by foreign investment.



Foreign investment could cause negative effects if foreign parties invest in such industries as beer, solf drink or tobacco (which are inessential and could be made locally). We had better orient foreign investment towards new industries which Vietnam isn't in condition to develop. Putting it in production of goods for export is preferable, because after investment, the factory is owned by foreigners and they are allowed to transfer profit to their home countries and their have rights to disinvest if they find investment in Vietnam unprofitable. A sudden withdrawing of money by many foreign investors could cause such a financial crisis as what happened to Mexico last decade. This crisis is avoidable if foreign invested factories produce goods for export only: exportation will generate a source of foreign exchange for them to transfer to their home countries and save Vietnam from a financial crisis.

- Immigrant remittance: In Vietnam where the population is big, unemployment rate is high and technical level is low, the exportation of labor (having laborers go abroad as guest workers and encouraging them to send money home) is of great benefits:

+ Reducing population growth.

+ Laborers going abroad have chances to improve their skills and knowledge.

+ Immigrant remittance is as under Vietnam ownership as foreign exchange from exportation and could be used for investing, importing or repaying external debts at will.

However, immigrant remittance is also held by private persons, not by banks. These persons can send it home through banks or not, and they can send goods home instead of money (in the past, many immigrants have sent goods exported by Vietnam to their relatives). Thus, it's desirable that immigrants send money home. In the market economy, the banking system can only attract foreign exchange outside the system by buying it at a higher price. When the Ministry of Finance charged tax on immigrant remittance, many immigrants reacted by sending goods, stopping to send money or stopping sending money home through banks.

- Tourism receipts: This source of foreign exchange has the same characteristics as that from exportation and immigrants. The tourism business could generate on-the-spot exportation and bring about a lot of tourism income. Tourism receipts are also under ownership of the Vietnamese and outside the banking system. If banks buy foreign exchange at high prices, tourists will sell it to banks, otherwise they will sell to persons who could use it for importing goods prohibited by law or contraband goods which could be sold at high prices in the domestic market.

Thus, purchasing tourism receipts and immigrant remittance is one of the best ways to stop smuggling because smugglers couldn't find foreign exchange needed for their business.

2. The multiple exchange rate system and the purchase of tourism receipts and immigrant remittance

Because sources of foreign exchange have different characteristics and most of them are outside the banking system, so in some countries, the multiple exchange rate system is introduced to control them.

In this system, a foreign currency could be bought, or sold, at different prices. To organize this system, the following matters must be dealt with:

+ The difference between official and parallel rates.

+ The purpose for which the foreign currency is used.

+ The presence of an exchange stabilization fund.

Let's analyze these three matters.

a. The difference between official and parallel rates.

The parallel rate could be 10% or 20% higher than the official rate. For example, the official rate is VNĐ15,000 to the dollar, while the parallel rate is VNĐ16,500 (10% higher) or 18,000 (10% higher) to the dollar. In my opinion, it's reasonable to keep this difference under 20% because we had better not go far from the standard rate. The bank could inform this difference everyday (5%, 10% or 20%) because the official rate will keep on changing and the bank needn't list the price (16,500 or 18,000 to the dollar). The Saigon State Bank in the period between 1955 and 1968, has many times adjusted the official rate and forgotten to adjust the parallel rate.

b. The purpose for which the foreign currency is used

The bank will make a list telling who are allowed to buy, or forced to sell, foreign currencies at the official or parallel rates, that is, a favorable rate will be offered to certain businesses or operations and an unfavorable rate to others. For example, there are the following rates: official one (VNĐ 15,000 to the dollar) and parallel one (18,000). Those who are allowed to buy the dollar at official rate are importers of machines and materials that couldn't be made locally. Those who have to sell the dollar to banks at the official rate are exporters of crude oil, rice, clothing, maricultural products...foreign investors; organizations receiving foreign aid and loans...Those who have to buy the dollar at the parallel rate include applicants for exit visas, importers of consumer goods and materials that could be made locally, foreigners sending money to their home countries. Those who are allowed to sell the dollar at the parallel rate are any persons who want to sell the dollar to banks, foreign tourists, receivers of immigrant remittance, etc.

The above list shows that certain businesses have to sell foreign exchange at an unfavorable rate (exporters of agricultural products for example), while other persons who own foreign exchange (foreign tourists or receivers of immigrant remittance...) are allowed to sell it at a more favorable rate, because foreign exchange from exportation, foreign aid and loans is controlled by banks (if the central bank and the customs can force exporters to receive payments by L/C only),whereas tourism receipts and immigrant remittance for example are beyond the reach of banks, therefore if the bank doesn't buy them at high prices, smugglers will try to buy them.

The multiple exchange rate system also gives preferential treatment to importers of machines and materials that couldn't be made locally and discourages importers of goods that could be made locally, that is, it protects the domestic production.

c. The presence of the exchange stabillization fund

Foreign exchange from all sources will be recorded by banks under the official rate, but actually, they sell or buy it at different rates so they enter the difference, either profit or loss, in the exchange stabilization fund.

Let's study an example: the central bank buys one dollar from a tourist at VNĐ18,000 and sells it at the same price to a foreigner who wants to send money home or an importer of luxury, it will break even. But if the central bank sells it at VNĐ15,000 according to the official rate to an importer of machines, it will suffer a loss of VNĐ3,000. In principle, the government will subsidize the bank, but in fact, the government will turn the money supplied by the central bank into subsidy. The loss suffered by the bank could cause inflation.

Contrarily, when the bank buys a dollar at the official rate and sell it at the parallel rate, it will make a profit of VNĐ3,000. This amount will lead to deflation because this sum of money goes to the bank.

Thus the exchange stabilization fund can affect the inflation rate because the total amount of foreign exchange traded on the domestic market could reach about US$20 billion a year (in 1996, export and import business was worth some US$18 billion).

If we want to keep the inflation rate stable, we had better keep the sale and purchase of foreign exchange under the multiple rate system equal. In other words, the bank could adjust the list of businesses enjoying favorable rate with the aim of balancing the amount of foreign exchange sold and the amount bought. If the bank wants to raise the inflation rate, it could buy more and sell less. Otherwise, to buy less and sell more could decrease the inflation rate.

Example: in a certain year, Vietnam produces a lot of sugarcane, but the price of sugar in the international market is low, the bank could allow exporters of sugar to enjoy the favorable rate, therefore they could make some profit although they have to sell sugar at low prices.

Many countries have introduced the multiple rate system including, not two, but several different rates with a view to helping exporters to sell goods. In Vietnam for example, although the sugarcane could be grown easily and the labor cost is low, but the price of imported sugar is lower than the price of local sugar (VNĐ3,500 in comparison with VNĐ6,000). To develop the sugar business, the bank had better allow exporters of sugar to enjoy favorable rates.

The multiple rate system brings about many benefits: attracting foreign exchange outside the banking system, preventing smuggling, saving foreign currency, encouraging exportation, etc. In short, it is more efficient than the fixed exchange rate system, so we had better study and apply it to Vietnam■