

# VIETNAM'S IMPORT DUTIES SOME INADEQUACIES TO DEAL WITH

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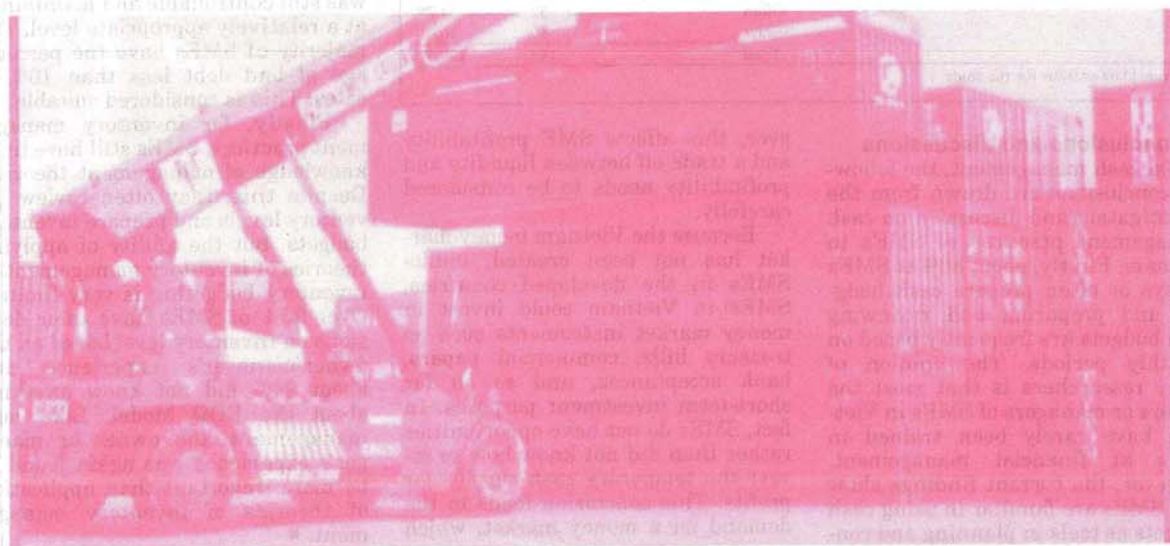
## I. INADEQUACIES IN THE TARIFF POLICY

To realize the open policies adopted by the Government and VCP to integrate into the world community, the tax system, including import duties, should be reformed basically. Until recently, the import duties have played an active role in protecting the domestic production and helping increase the national budget income. However, the current system of import duties contains certain inadequacies and fails to fulfil its functions and role in accelerating the economic development and international integration. The current

mediately protected against foreign competition because tax rate on the like imported product is raised. The schedule of import duties promulgated along with the 1991 Tariff Act, after being amended in 1993 and 1998, is adjusted regularly. In this schedule, all products, whether they are newly introduced to the market or not, could be charged different tax rates depending on interpretation of customs officers. This leads to corruption when importers connive with customs officers to have imports charged low tax rates. In addition, there are too many low tax rates: the 0-5 percent tax bracket includes 3,228 items (equaling some 50% of

bicycle used for racing pays a rate of 7.5%. Similarly, high duty rates are imposed on farm products used as raw materials while the same products used as seeds enjoy lower rates.

3. The list of merchandise doesn't include all goods and it isn't suitable to the goods classification and commodity code introduced by the Harmonized System, therefore, it usually causes troubles for both customs officers and businesspersons. The Vietnamese Tariff Schedule includes only 6,400 items as compared with 10,515 items included in the HS list. This situation also leads to many disputes between the Customs and businesses.



system only aims at increasing the budget income and fails to encourage improvements in competitiveness of local producers. Its main inadequacies are as follows:

1. The current import duty system is based on the protectionism and only allows low duty rates on principal machinery and raw materials that local producers couldn't supply. As a result, most local industries enjoy this protection. When a new factory comes into operation, it is im-

mediately protected against foreign competition because tax rate on the like imported product is raised. The schedule of import duties promulgated along with the 1991 Tariff Act, after being amended in 1993 and 1998, is adjusted regularly. In this schedule, all products, whether they are newly introduced to the market or not, could be charged different tax rates depending on interpretation of customs officers. This leads to corruption when importers connive with customs officers to have imports charged low tax rates. In addition, there are too many low tax rates: the 0-5 percent tax bracket includes 3,228 items (equaling some 50% of

items listed) while the tax schedule is divided into too many small brackets (for example, the 12% tax rate includes only two items; the 18% rate: one item; the 25%: two items; the 45% rate: 12 items and the 55%: one item.)

2. Imposition of tariffs is based on purposes of goods imported, instead of their nature. This leads to false declaration for tax avoidance purposes. For example, a common bicycle is charged a rate of 75% while a

4. In determining the value of imported goods, customs officers could use either transaction value (as required by the WTO) or the minimum price list set by Vietnamese customs authorities. Statistics show that the latter is used for determining some 70% of imported goods and the former for the remaining 30% (most of which are goods used as fixed assets included in the lowest duty bracket, from 0% to 5%). This practice leads to unfair treatment and



isn't consistent with international practices and agreements.

5. The Vietnamese tariff policy fails to present valuation measures acceptable to the WTO and other international organizations, such as tariff quotas, specific import duties, etc. The Vietnamese Tariff Act also provides for countervailing, anti-dumping and retaliatory duties. These measures, however, haven't been applied.

In addition, the tariff system isn't consistent when allowing duty exemption and reduction, and lacks mechanisms for assessing origin and quality of goods, determining the term of tax payment, and applying sanctions against violations with the result that efficiency of the tariff system is poor.

- Customs authorities have no measures to educate the public in obligation to pay tax and provide companies with information about customs formalities.

### III. MEASURES TO PERFECT THE TARIFF SYSTEM IN THE PROCESS ON INTERNATIONAL INTEGRATION

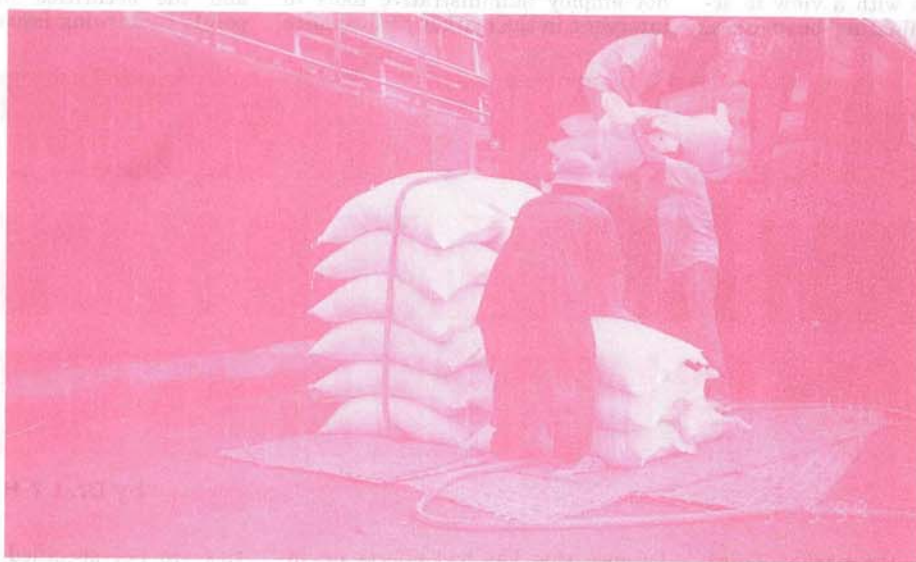
In the coming years when Vietnam has to integrate into the world economy, the tariff policy should be an important instrument for developing the economy and changing the structure of industry, promoting the foreign trade, reducing risks and enhancing the competitiveness. To achieve these targets, the following measures are useful:

1. Changing the tariff: The new

(about prices, origin of goods, trading terms, etc.) and facilities for controlling flows of commodities before, during and after customs clearance in order to encourage companies to observe customs rules and formalities and deal with violations opportunely.

3. Identifying cases of duty exemption and reduction: This measure could help encourage development of sciences, technology and investment but it should be limited to specific duration and fields. All cases of exemption and reduction should be made clear and kept under control with a view to giving reasonable encouragement to industries and activities with comparative advantages.

4. Replacing tax arrears with bank guarantee: Allowing tax arrears is a measure to save importers



## II. CAUSES OF THE INADEQUACIES

The main cause of the whole situation is the fact that too much attention has been paid to revenue generation and protection for domestic industries while the tariff policy should have aimed at both protecting domestic industries and enhancing their competitiveness, thereby changing the structure of industries. Other causes are:

- Supply of information and facilities for collecting and investigating information aren't perfect;
- Cooperation between customs authorities and other public services isn't good enough;
- Most provincial customs agencies are understaffed and lack necessary facilities for checking imports and exports;

tariff should be based on the HS and the national development strategy with simpler and more consistent rates for each listed article, ensure the national treatment for all foreign individuals and firms, impose duties based on the nature of imported goods and become more consistent with trading agreements between Vietnam and other countries.

2. Applying the WTO Customs Valuation Code: One of requirements posed by the international integration for Vietnam is to ensure equal opportunities for all firms and individuals by using the transaction value as the principal basis for valuing imported goods under normal trading conditions and fair competition. To achieve this aim, customs authorities should have the system of international trading information

from cash shortage but it is also a loophole usually exploited by companies. International practice is to demand that importers have to secure bank guarantee for their tax arrears. This practice could avoid losses to the budget income and ensure quick customs clearance.

5. Applying effective sanctions against violations: Effective sanctions could ensure rights for honest companies and give proper warnings against tax evasion or exploitation of legal loopholes.

To perfect the tax system with a view to facilitating the international integration is an urgent task when carrying out the foreign trading policies set by the Government. We hope the above-mentioned measures could be helpful to customs authorities. ■