# RELATIONSHIP BETWEEN DEVALUATION AND EXPORT-IMPORT BUSINESS IN VIETNAM TODAY

by PHAN ĐỨC DŨNG

At present, one of problems most international economic analysts interest in is Thai financial crisis and its effects on Southeast Asian economies. Vietnam is nearly free from these effects because its finance market hasn't fully developed yet, its currency isn't a convertible one and there is no stock market in Vietnam. In fact, however, this financial crisis has started to affect to a certain extent the Vietnamese economy, especially its export - import business. To devaluate slightly the Vietnamese đồng in some last few months is a right policy, but the question we want to find an answer to is whether this devaluation can promote export and reduce import as expected or not.

First of all, let's review the development of this crisis. On July 2, 1997, the Thai baht was reduced by 11.94%, from 24.7 to 29.5 baht to the US dollar and this fact was considered as the first sign of the crisis. By a domino effect, the Filipino peso was reduced by some 10% on July 11 (from 26.4 to 29.0 peso to the dollar) although the interest rate was increased from 15% to 35%. In Indonesia, the rupiah was reduced by 5.5% (from 2,652 to 2,810 rupiah to the dollar) on July 14. On July 11, the Malaysian ringgit exchange rate reduced from 2.5060 to 2.630 to the dollar (or nearly 5%) and in early August it reduced by 8.4% - 10.6% (down to 2.7150 ringgit to the dollar). The SGD reduced from 1.4630 to 1.5240 to the dollar on Aug. 18. On Sep. 23, the exchange rates were 36.96 baht, 33.63 peso, 3,045 rupiah, 1.522 SGD and 3.1 ringgit to the dollar.

Southeast Asian economies depend a lot on foreign investment and export business. When the baht was devaluated, foreign speculators found it a chance to make money and they attacked to other currencies: at first, the peso and rupiah, and then, the SGD and ringgit. Singaporean and Malaysian governments knew that intervention in the exchange rate would make the value of their currencies become too high in comparison with other currencies in the region, and as a result, their exports would be less competitive, so refrained from doing so although their economic potential is strong enough to do it.

In Vietnam, in late second quarter of the year, the central bank allowed a bank margin of 5% for exchange transactions. Foreign economic experts thought that the central wanted to promote export and limit import. In fact, however, the devaluation of the VNĐ reached 6.4% by Sep 17. After this devaluation, the price of Indonesian fertilizer under the CFRFO HCMC terms reduced from US$160 to 130 per MT, the price of Thai rice (5% broken grain) reduced from US$ 330 - 320 to 260 - 265 per MT (FOB Bangkok terms), and from US$270 - 275 to 225 -230 per MT for rice of 25% broken grain.

We see that the rice price reduced by 16-18% while the baht reduced by 40-44% (from 24.7 to 36.33 baht to the dollar), Thai rice exporters could make a 20% profit in comparison with the time before devaluation. In Vietnam, with a 6,4% devaluation of the VNĐ, Vietnamese rice was still less competitive than Thai rice: on Sep 20, prices of Vietnamese rice were US$ 250 - 255 for a tonne of 5% broken grain rice and US$220 - 225 for a tonne of 25% broken grain rice in comparison with US$265 and US$225-235 offered by Thai exporters. Although Thai rice prices were slightly higher but foreign customers preferred Thai rice because:

-Thai rice is of higher quality.

-Fast loading: 3,000 tonnes per day compared with 1,000 tonnes at Vietnamese ports.

-Thai port fees are lower.

-Delivery expenses from Thailand are US$10 per tonne lower than from Vietnam.

-Easy payment terms.

Thus, regarding trade terms and quality, the difference of US$30-40 per tonne between Thai and Vietnamese rice is reasonable. This analysis shows that after September, Vietnamese rice exporters will meet with a lot of difficulty in competing with Thai rivals.

In fact, the devaluation of the VNĐ came from the fact that many companies tried to purchase the dollar to repay external debts that will become due by the year's end while the central bank is trying to put exchange transactions well under control. On Sep 19, the Vietnam State Bank declared that it would adopt a more flexible exchange rate system in order to promote export and foreign investment, and facilitate interbank transactions. This policy could bring importers that bought goods by opening L/C under deferred payment terms to the brink of ruin and bring the economy to a dangerous situation. In addition, importers want to know how much the devaluation will be so they can take appropriate precautions.

In the near future, to import goods from the outside of the region will be unfavorable because prices of these goods won't be cut and there are large unsold stocks of certain goods such as steel, cement and sugar in the local market. Importing goods from ASEAN countries will be more preferable because prices of these goods were cut to the bone after the devaluation of their currencies.

In making adjustments to the exchange rate system with a view to promoting export in the long range and making Vietnamese exports more competitive, the financial authorities must pay attention to the following problems:

-To adjust the exchange rate carefully and take other measures to ensure a reasonable growth rate.

-To consult other bodies responsible for financial and monetary policy making about this adjustment.

-To avoid sudden changes in the exchange rate system.

-To struggle against speculation that can cause damage to the domestic currency■