In the process of changing from the centrally planned economy to the market economy, Vietnam has reformed its policies on exchange rate and tax to liberalize export activities.

Policy on exchange rate: From October 20,1988 to implement Decision 271/CTHĐBT, the State Bank of Vietnam (SBV) set the official exchange rate based on the market price instead of using the fixed exchange rate and the internal accounting rate. As a result, the value of Vietnamese đồng dropped during the period from 1988 to 1995. This depreciation helped stabilize the trade balance in 1992 and helped export rise from 21.6% in 1988 to 34.4% in 1995. However, the effect of capital flows into Vietnam as well as increased earnings from oil export promoted the real value of Vietnamese đồng by 22% from 1997. In late 1997, the Government allowed commercial banks to fix their buying and selling prices of US dollars within the trading band (from r – r.t% to r + r.t% and r: the official rate). The proportion t% is determined by the SBV in each period. This proportion was first 1%, then 5% and 10%. This has boosted export, increased revenues in foreign currency and is thus beneficial to exporters. On Aug. 7, 1998, the SBV reduced the proportion from 10% to 7%. On Aug. 17, 1998 the Government promulgated Decree 63/1998/NĐ-CP on forex control. Accordingly, the exchange rate between Vietnamese đồng and other currencies is based on foreign currency supply and demand in the market with the Government's regulation. The SBV announces the average exchange rate in the interbank foreign currency market between Vietnamese đồng and US dollar and the trading band for commercial banks every day.

Tax policy: The Vietnam tariff was first issued in 1988 after the Law on Import and Export Duty for 124 items with the tax rates ranging from 5% to 50%. The revenues from the export and import duty came mainly from state-owned enterprises. Imported and exported goods were planned by the State. Most of regulations on foreign trade were managed by central agencies in accordance with the Government's protocols with other countries in the Council for Mutual Economic Assistance (CMEA). Export activities were conducted by a number of state trade organizations and tightly controlled by licensing for each shipment. Export and import quotas were granted to selected state enterprises and cooperatives. In late 1980s Vietnam began to reduce tariff and non-tariff barriers. The removal of trade barriers was implemented earlier in export activities with the aim to expand and diversify export markets because of loss of markets in CMEA. Nevertheless, some limitations, quotas and export duty remained effective. There were still discrimination between state-owned enterprises and private ones.

PROCESS OF REFORMING TRADE POLICY IN VIETNAM

by LÊ NGỌC UYỂN

When the USSR and the socialist bloc collapsed, the Vietnam Government was required to undertake comprehensive reforms including export activities.

From 1989 with Decree 64/NĐ-HĐBT and 114/NĐ-HĐBT issued on June 10, 1989 and April 7, 1992 respectively, the Government started overall renovation of its export-import policy from centrally-planned mechanism to the market mechanism along the socialist line. For the first time, all enterprises are allowed to directly export their products and import materials for production. Cumbersome procedures were abolished step by step. In 1989 the quotas for all items excluding rice, coffee, peanut, rubber, coconut, wood, mineral, and scrap were removed. At the same time, the export tax rates were cut from 30% to 12% and export subsidies cancelled. State enterprises had no longer obligations to export their products to CMEA countries before shipping to countries having convertible currency. In 1989 the maximum tax rate for luxury goods was 120% but the average tax rates dropped for 80% of items. The import tax rates were also reduced but still high, 69%, especially 100% for imported autos.

In early 1990s, those enterprises wishing to engage in export were required to have a minimum capital of US$200,000, business license, export-import permit and transport license,

From January 1994, in addition to allowing direct export, most of limitations on quantity and permits have been removed, various kinds of tariff reduced and abolished and imported materials for exports production exempted from tax. However, the protectionist rate is still at medium degree.

In 1996, most of export-import permits for each shipment were cancelled (Decree 89/CP dated Dec. 15, 1995) not mentioning items concerning environment, security and health. There were five items subject to quotas including cement, petroleum, fertilizer, sugar and steel.

Private enterprises' rice export was restricted. The quotas were applicable to textiles and garments exported to EU, Norway, Canada, and Turkey. These quotas were allocated mainly to state enterprises. The quotas were expanded to the two more items including building glass and paper. The aim was to balance the demand with local and overseas supply and protect large state businesses. State-owned businesses were also given priority in import activities. In early 1997, the Government shifted from licensing to taxing but this practice was not successful. It strictly maintained import licensing for many kinds of consumer goods. It increased limitations on import due to serious trade deficit. Those goods including cement, glass, paper, steel, 12-seat autos, motorbikes, bicycles, fans, confectionery ...were banned from import from July 5, 1997 due to surplus in local production.

In 1998, those exporters which have already registered business could export their products without permit (Decision 55/TTg) excluding some items under the Government's special control. However, the tariff was still complicated with 12 rates ranging from 0% to 100% together with regulations on tax rates depending on the proportion of localization. This causes difficulties in the country's tariff cut to 0-5% when Vietnam undertakes its commitments in the CEPT program with the deadline of 2006.

The Law on Commerce was adopted by the National Assembly in May 1997 and effective from January 1998.

On July 31, 1998 the Government issued Decree 57/1998/NĐ-CP to expand export-import business rights for all enterprises via policies on tax and preferential credit. The number of enterprises permitted to do export-import business soared from 50 in 1996 to 2,250 in July 1998.

In 1999, Vietnam began to apply the new Export-Import Law. Tax rates are cut and non-tariff barriers removed. This is a large challenge to local producers and goods in the process of integration. The maximum tax rate dropped from 60% to 50% excluding sensitive goods. The import tax system includes three kinds: common rate, preferential rate based on MFN status, and specially preferential rate for goods imported from the member countries of AFTA. Vietnam still applies additional charges (from 2 to 10%) for items including steel, fertilizer...with the aim to offset price fluctuations in the world market and avoid losses to state enterprises which have to import these goods with higher prices.

In early 1999, some private businesses were allocated rice export quotas. Twenty percent of quotas of garments exported to Europe were put up at auction. All products excluding oil and scrap were exempt from export duty.

In 2000, the export mechanism was more liberal as follows:

- All enterprises are permitted for direct export.
- Exports are not subject to quotas, not mentioning textiles and garments according to requirements of importing countries.
- Enterprises need only registration for export and no shipment permit.
- All exported items are subject to an export tax rate of 0%.
- Many measures and forms of export incentives are undertaken, including bonus given to those producing new exports or finding new export markets.

However, there remain many problems to solve: to boost goods circulation in rural areas, strengthen trading activities of state businesses and cooperatives, perfect the mechanism for export-import management, especially customs procedures and grant transport subsidy to agro-forestry-fishery products in mountainous areas and islands ■