

# A TRACK TO INTERNATIONAL INTEGRATION FOR THE PUBLIC FINANCE

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The 1996 National Budget Law was an effort to remove the subsidized mechanism originated from the 6<sup>th</sup> VCP National Congress. More than one year after, in 1998, it was amended but it still failed to meet requirements of the modernization of the economy and integrate the public finance into international community. The new Budget Law was made in 2002 and will come into

From the late 20<sup>th</sup> century, the globalization of trade, investment and banking services has paved the way the development of the private finance while a track for the integration of the public finance into the world community is still not available, especially for such developing economies as Vietnam's. This means that the public finance mechanism must be perfected in order to integrate into the world economy.

## 1. Roles of the National Treasury and central bank

Under the centrally-planned economy, the SBV acted as both the national treasury and the central bank, and was considered as an effective instrument for implementing economic plans made by the State. The SBV reported directly to the Council of Ministers (the Government now) and was responsible for issuing the Vietnamese đồng, controlling foreign exchange flow, setting the exchange rate, controlling confiscated property, to name but a few. It kept its own account books according to socialist principles and did trading as allowed by law (Decree 53/HDBT dated March 26, 1988). Its most important reform took place on April 1, 1990 when the National Treasury was formed under the Ministry of Finance and the SBV stopped acting as



Photo by Nguyễn Ngọc Đạo

the treasury. The National Treasury, as the cashier to the Government, is an internationally-accepted institution that reflects the principle of the uniqueness of the public fund and, as J. Vendel put it, "all money received and paid by the Government must be recorded in a unique budget."

The 1997 Banking Law affirms the SBV is the Vietnam's central bank. It doesn't supply banking services directly to the public, but do it with the Government, banking institutions, domestic monetary market and stock exchange, foreign banking institutions, international monetary and banking organizations, and it is the sole organization that issues the domestic currency.

Thus, the SBV has the same organization and role as the central banks in the Western world or the Fed-

eral Reserve System in the U.S. The only difference between them is the degree of independence from the government. At present, the role of the SBV to the economy is very important. One of problems facing it is what it has done in preparation for the admission to WTO, because cuts in tariffs and removal of the protectionism will intensify foreign competition on the domestic market. This also means that local companies - important customers of local banks - will be affected badly. And as a result, the banking system will face more risks and losses when overdue debts certainly increase and the competitiveness of the economy become poorer.

## 2. The National Budget Law and new directions

effect by the fiscal year of 2004. However, many foreign experts think that it is in fact a Budget Procedure Law because it stipulates "procedures for making budget plan, establishing and applying audit, budgetary clearance, duties and rights of governmental bodies relating to the national budget" (Preface of the National Budget Law 1996 and 2002). The Budget Law, or Finance Act or Budget Act, is usually made on a yearly basis and it states all planned revenues and expenditures by the government in a fiscal year.

The Government has the right to spend within limits set on the planned expenditures by using instruments provided by the national treasury or the central bank to settle national debts. However, budget expenditures and



revenues are usually abused, especially the budget expenditures. That is why legislation on the public finance in many countries demands that all government expenditures must be done according to strict procedures and the transparency of the administrative legal entities must be verified. The transparency of the public finance and of the government control over trading activity is mentioned many times in the BTA and WTO documents, which provides a track for

ness for WTO Accession" held in HCMC on June 6 - 7, 2003, many helpful opinions - especially ones from Chinese experts, were presented. The following are some of them:

- The first lesson the Chinese Government learnt is that the act of joining WTO couldn't be considered as a simply economic solution, it also includes political ones. The Chinese Government has changed its attitude radically. It's insufficient to say that joining the WTO only worries local compa-

gishness in Vietnam in 2002 is higher than the protection in South Korea in 1960. The first thing Vietnam must do is remove the protectionism in such monopolies as power supply, post and telecommunications and aviation." As we know, these monopolies are maintained and subsidized by the State because the Constitution affirms the leading role of the public sector.

- China has committed not to give export subsidy to both agricultural and

and protectionist mechanism for clothing required by other parties. China also shows intention to join the multilateral agreement on government expenditure that aims at ensuring fair competition in purchases by governments. The WTO membership forces China to reform its law system and internal policy, and ensure the transparency and safety of international standards. China has realized amazing reforms in the past 20 years.

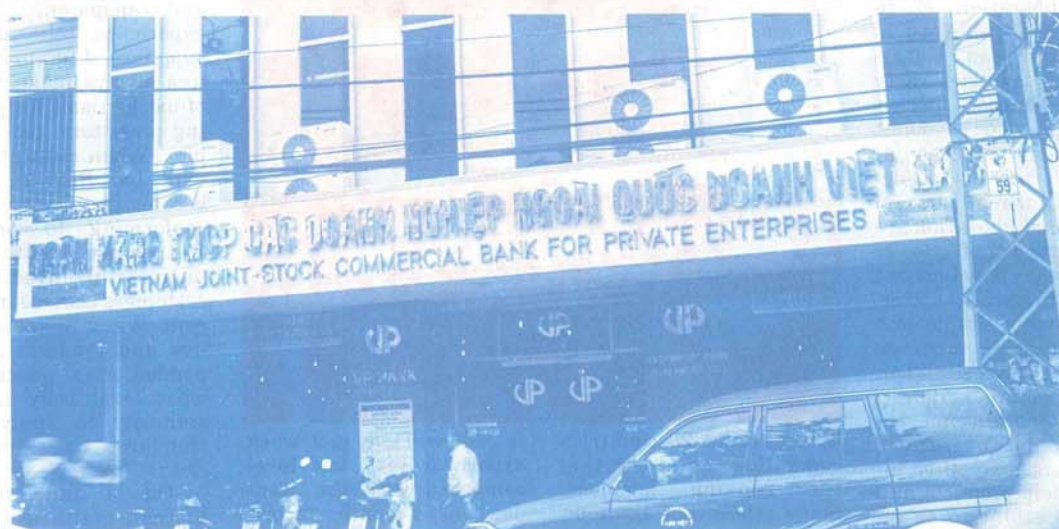


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the Vietnamese public finance to the international integration. The concept of transparency, as mentioned in the Article 3 of the 2002 National Budget Law, is introduced for the first time to the Vietnamese law system. This could be seen as the first step on a very long way to the modernization of the law system. Vietnam should study methods adopted by developed countries in this aspect and apply carefully their experience to domestic conditions.

### 3. Some experiences from China

The fact that China was admitted to WTO on Dec. 11, 2001 gave Vietnam a lot of lessons to learn. At the forum "Readi-

nies. No, the Chinese experience shows that the first body who feels worried is the government. That is why during the negotiation for Chinese membership, officials had to go to remote districts to report on the WTO to local governments and residents and why China had to join the WTO. After getting admission, the government had to give necessary training courses to officials of all ranks.

- The government protects the domestic production by using tariffs and giving price support, especially to state-owned companies, which has been mentioned too many times. Officials from WTO think that "The protection for inefficiency and slug-

**Table 1: Effective rate of protection of some Asian economies**

Country	Year	ERP
Vietnam	2002	91
Taiwan	1989	57
Thailand	1997	72
Philippines	1999	10
Malaysia	1995	13
South Korea	1990	27

Source: Kazi M. Martin & Sarath Rajapatirana

manufactured goods, accept special clauses relating to determination of dumping and subsidization as well as a special mechanism for particular goods

The Chinese experience shows that Vietnam has to accelerate the speed of economic reform, and make its public finance more progressive by 2005 when Vietnam could be admitted to WTO. ■

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