

When the exchange rate is referred to, only its relations with import and export can be seen, leading a simple conclusion: depreciating Vietnamese đồng will be favorable for export. At present it is suggested VNĐ12,000 or VNĐ12,500 to the USD will enable export and restrict import. This is right only in some cases and commodities because in the field of external economic relations, the change of exchange rate is not only related to trade balance but also international payment balance of each nation, that is, all flows of goods, services and capital of that country from and to the world, including: exports, imports; services; aviation, navigation;

French franc is 1/5. In case of inflation in America, prices in America increase by two times, while prices in France are still stable, then the exchange rate will be \$US2/FF5 or \$US1/2.5FF.

The theory "purchasing power parity" made a proper forecast about the exchange alteration in case of high inflation, but in case of floating exchange rate and inflation in developed countries are at acceptable level, then the forecast of exchange alteration reveals many shortcomings.

In the world money history, there are three different systems of exchange rate: that is, one is under classic gold standard, second is flexible and floating and third is float-

plied the floating of flexible exchange rate without the State intervention. This system was restrictive to changes in balancing the international payment balance. As a result, it was changed into another system of exchange rate.

The system of controlled floating exchange came into being, that is, the exchange rate formed in accordance with supply and demand on the market, but having the State interference in order that it cannot cause big changes in domestic economy and international economic relations as well.

In the fixed exchange mechanism, the government takes the initiative in devaluing or revaluing its currency; in the con-

SOME ISSUES CONCERNING THE COUNTRY'S CURRENT EXCHANGE RATE

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telecommunications; inbound and outbound tourism; borrowings from and lendings to foreign countries; remittances from overseas Vietnamese; foreign investment capital and principals and interests from foreign investment, the country's investment in foreign countries, exporting labor...All of these factors make the relationship of the exchange rate with them more complicated.

To see clearly the issue, we should analyze its characteristics to have the same mind about the exchange rate.

The exchange rate is the amount one currency will buy another currency at a particular time, exactly, it is nominal exchange rate; the practical rate is "the price calculated by the same currency of the exports compared with the imports".

Practical exchange alteration may originate from nominal one, but also from the change in relations between prices of domestic and foreign goods. This case is explained by the theory "purchasing power parity" put forward by David Ricardo at the beginning of Century XIX and developed by Gustav Cassel in early Century XX.

An example for this theory: if an amount of goods is sold at US\$10 in America and FF50 in France, then the exchange rate of US dollar to

ing and controlled.

Due to effects of the world Great Depression in early 1930s, the US and its alliance agreed on the establishment of the International Monetary Fund (IMF), the World Bank (WB) and the Bretton Woods system of exchange: it is the system which is fixed, but can be adjusted. This system determines the exchange rates between currencies, not only based on gold, but also on US dollar.

In addition, after the World War II, the US implemented the Marshall plan: from 1945 to 1950 offered irretrievable aids worth US\$20 billion to West Europe and Japan to speed up these countries' economic growth. From then, the US dollar has been considered key currency in the international trade and financial relations. It is also used to fix equivalent price in official exchange, causing US dollars to flow increasingly overseas, the belief in a hard currency step by step declined. Therefore, in early 1970s, the fixed exchange rate based on US dollar became outdated, consequently in August 1971, US President Richard Nixon had to sign a decision on the termination of the exchange of dollar into gold according to the fixed exchange rate, putting an end to the era of the Bretton Woods system.

Afterwards, many nations ap-

plied the floating mechanism the currency is appreciated or depreciated according to the supply and demand condition of the international market.

Is the export of goods favorable or not when the currency is devaluated or revaluated? As a master of fact, the exchange problem is only a factor in foreign trade which includes input factors for production and output prices on the international market, along with import, export duties, transportation fee...

Recently, concerning exchange rate, international price is used to explain the increase in prices of domestic goods and services. The term of international price is extremely complicated and vague, since each nation has a very different system of prices. When someone decides on importing or exporting an item, firstly he should compare the cost of producing that item in his country with the selling price on the world market at a particular time to see the comparable advantage for his decision.

The system of prices of each nation is formed on the basis of production cost, natural resources and the government's economic policies. For example, the American petrol price is much lower than that of Asian nations; Japanese rice price is many times higher than that of

the world market...As a result, raising local prices of some commodities and services to make them proportional to international prices and not to put them in the relationship with the whole system of prices along with macro-economic factors will cause bad socio-economic effects.

In our country's foreign trade, if we lift the exchange of Vietnamese đồng to US dollar from 11,000 to 12,000, then what will happen to agro-forestry-fishery products? We herein take rice, the item gaining the biggest export turnover and impacting on 80% of farming population, into consideration. Suppose farmers enjoy the 7-10% increase of rice price, they will meet with the following issues:

Those having commercial rice for sales (not all farmers) then raise their income when selling rice. But all farmers (from rice sellers to those having no rice to sell) have to pay an additional cost of production due to high rise in input factors: petroleum, fertilizer, insecticide, labor...In addition, millions of workers will suffer from the sharp increase in food prices. Meanwhile, their practical income drop by 30-40% as compared with 3 years ago. This causes difficulties to the public living.

The exchange alteration will make a direct impact on imported materials and home materials and labor; but not much influence on unprocessed goods such as crude oil, coal, rubber...

Every exchange alteration has an immediate direct effect on prices of imports: petroleum, steel, cement, fertilizer, raw materials for production such as: food, pharmaceuticals for people and animals, insecticide, industry, capital construction, and interior decoration, electronic components, computers...

For example, when the exchange of VNĐ to \$US is from 12,000 to 12,500, the price of petroleum must be lifted by 8-10% and leading to the rise in transportation fee, prices of services and many other commodities, making the people living become more difficult.

In the controlled mechanism of floating exchange, the exchange alteration is obvious, but because the alteration will impact on the national economy and economic relations with foreign nations, governments must make timely intervention via banks. Even in strong economies of America, Japan, and West Europe, whenever these

nations have great changes, there are banks' interference to regulate at once the money supply and demand on the market.

In recent years, the trade war between the US and Japan has burst out due to Japanese trade surplus far higher than America, mainly Japanese cars exported to America and other commodities. As a result, the US applied the policy of devaluating US dollar and revaluating yen, making the exchange of yen to \$US drop from 200 to around 80 and currently 110. Japanese banks in this period interfered many times to keep yen not to appreciate too sharply, since its rise will increase domestic production cost calculated in US dollars and Japanese exports would lose their competitiveness.

In our country, although the current economy is operating in the market mechanism, but our internal power is embryonic in many sides as follows:

- Vietnamese đồng is not a kind of freely convertible currency.

- Our country's export is small as compared with other nations in the world.

- Large investment capital, multilateral and bilateral ODA are needed.

- The country is borrowing foreign loans, buying equipment under deferred payment terms, so it has to think of repayment when due.

- In the condition of attracting foreign investment, investors will remit abroad their profits annually and transfer their capital at the end of the operation term.

- Although the economy grows with an average rate of 8%/year, there are still many factors causing unrest, enterprises are still in their early stage of development, especially State-run enterprises, banking system and imperfect credit and payment apparatus, small reserve of foreign currency.

- Economic policies are not synchronized, not unified to manage the economy in order and effectively.

- There is no perfection yet in the legal system, national administration and especially an operating mechanism for the national economy.

In those conditions, the most decisive target of the economic management, including issues of money, finance, credit, and exchange rate, is how to keep stabilization to steadily increase economic growth rate and develop foreign economic activities.

The stabilization of floating exchange under the State control must be based on the money supply and demand, not only in trade balance, but also in international payment balance. Domestic prices should be paid attention to when making exports in comparison with the world price. Home prices of input factors must be calculated to the lowest level for production. Regarding the world prices, we have to make assessment to and commercial relations with the original markets including the participation in international economic blocks and take every opportunity in signing economic agreements favorable for export. The Government should find the way to enjoy MFN status from developed nations with a view to gaining benefits concerning tariff, technical standard when our country's technology is far behind other nations.

Our country's exchange stabilization in recent years originated from many-sided effects, although in 1995 trade deficit was around US\$2.2 billion (export worth US\$5.3 billion, import US\$7.5 billion) and in 1996 estimated trade deficit is some US\$4 billion (export worth US\$7 billion, import US\$11 billion).

From the time the renovation and open policy were introduced, especially Vietnam-USSR trade suddenly deteriorating in 1991 has made our country encounter serious challenges. But with great resolution, Vietnam has surmounted difficulties to develop. So far, its socio-economic portrait has been bright, but new problems have arisen, requiring solutions to speed up growth rate, better the process of integration in the world and the region. Vietnam should intensify its relations with the ASEAN countries, take advantage of joining AFTA, APEC and WTO and the MFN status of developed countries...

Macro-economic issues including policies on finance and money, tax system, exchange policy, interest require a systematical viewpoint on the whole interactive relations, on this base plans are made to decide the best answer to the economic management.

Situational, local, and urgent solutions which do not have strategic meanings to economic growth rate can hardly lead to good results, not to mention bad effects could take shape. Therefore, exchange adjustment should be based on the whole thinking and uniform solutions as mentioned above ■