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Obstacles to the Foreign Direct Investment to Viet Nam – Implications for Resolving Conflict between High Economic Growth and Equality –

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I. Introduction[1]

This paper aims[1] to point out obstacles to foreign direct investment (FDI) to the Vietnamese economy, 2) to analyze the Government policies and laws and regulations from the view point, not only of increasing FDI, but also of decentralizing FDI and fostering domestic industries, and 3) to discuss issues unsolved. The Japanese Federation of Economic Organizations (KEIDANREN) submitted a document titled "Requirements by KEIDANREN to the Vietnamese Government for Further Development of Economic Relationship between Viet Nam and Japan" dated February 10, 1995. The contents can be divided into the following categories:

1) issues on deficiency of laws and institutions
2) issues on distortion of economy
3) issues on inefficiency derived from bureaucracy

On the other hand, US and Euro- based multinational enterprises (MNEs) complain that their intellectual rights have not been protected properly in Viet Nam and that the Vietnamese arbitration process is unfair.

The Vietnamese Government intends to achieve the average annual GNP growth rate of 9-10% during the next five years (1996-2000). To achieve this goal, it is necessary to introduce (FDI) into Viet Nam as well as to get Official Development Aid and to mobilize the domestic savings to obtain the source of investment. The Government plans to get 13-14 billion USD of FDI for the source of investment[2].

During the period of 1991-1995, about 13 billlion USD of FDI was introduced on the commitment base and about 1.4 billion USD was disbursed during 1991-1994[3]. The amount of licensed FDI commitments is large enough, but from the viewpoint of the disbursement base, there seems to be a room to discuss. Furthermore, 64.8% of the total FDI of 1988-1995 is concentrated in the Southern part, especially, 53.7% in Ho Chi Minh City [4].

It is necessary for the Vietnamese Government to improve the disbursement level by removing obstacles. It is also important to decentralize FDI by adjusting tax incentives, creating special zones and building national roads. Creating special zones and national roads may also be promoted by adjusting tax incentives.

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1) This paper was originally written for the purpose of an appendix of "Mobilization of Foreign Saving, External Debt Management and Foreign Exchange Control" authored by Dr. Toshihiko Kinoshita.
2) Socialist Republic of Vietnam, *Socio-Economic Development and Investment Requirements for the Five Years 1996-2000: Government Report to the Consultative Group Meeting*, Paris 30 November to 1 December 1995, Hanoi, October 1995.
3) Internatinal Monetary Fund, *Viet Nam-Background Papers*, IMF Staff Country Report No. 95/92, Washignton, D. C , 1995, p. 28.
4) *Ibid.*, p. 27.

In addition, it is important for the Vietnamese Government to bring about domestic parts industries or supporting industires by introducing foreign core organizations, which may lead to increase employment. Fostering domestic parts industries and introducing foreign MNEs sometimes conflict each other, for foreign firms sometimes prefer to import parts from their home countries or neighbour countries. In order to resolve the conflict, the Vietnamese Government have to study how to adjust import duties.

II. Requirements by KEIDANREN

1. Issues on deficiency of laws and Institutions

(1) Lack of tax incentives for special zones

Generally speaking, MNEs are interested in investing in special zones when they enter developing countries because of tax incentives and well equipped infrastructure. KEIDANREN required on October 1995 to issue detailed regulations on the Investment Act for Exporting Processing Zones (EPZs) issued on January 1, 1995. To this requirement, Mr. Vo Hong Phuc, vice director of State Planning Committee (SPC), answered at Keidanren Office, Tokyo in January 1996 that the Vietnamese Government has already issued the Decision 192CP on December 28, 1994 and ordered related ministries to draw detailed regulations.

As for EPZs, Viet Nam has licenced six EPZs. Among them, one, developed by The Very Good Company Ltd., failed and its licence was withdrawn[5].All but one of the other five are facing substantial difficulties, though common problems tend to exist in developing countries which operate EPZs[6]. It is mainly caused by insufficient incentives, especially tax incentives[7], lack of sufficient infrastructure and unappropriate location[8]. If special zones are located in an inconvenient area, more attractive and flexible tax incentives are needed.

In order to attract more investment into Viet Nam's special zones, the SCCI issued on 24 October 1995 circular No. 2374/UB/KCX on the conversion of EPZs to Industrial Zones (IZs). Under this Circular, both EPZs infrastructure development business and those companies established in EPZs can transform themselves into companies developing or operating in IZs. In an IZ, companies can sell goods and services directly on the domestic market in addition to exporting them[9]. Thus, companies engaging in EPZs and EPZ infrastructure development business will be able to get broader range of clients. Furthermore, if more infrastructure development business enter in EPZs, and if their businesses become profitable enough, EPZs could be better equipped and widened, which in turn would attract more FDI.

EPZ enterprises which will change status should note that their tax position will naturally change. Profits tax on production enterprises in EPZs is levied at the rate of 10%. In an IZ, the tax rate will be 18 percent, but will be reduced to 12 percent if the enterprise exports over 80 percent of its products. With respect to enterprises in the area of services sector, profit tax which has been levied in an EPZ at 12 percent will be levied in an IZ at 18% [10].

In Decisions No. 758/TTg and No. 751/TTg, the Prime Minister recently established Management Committees for EPZs'and IZ's situated in the Hanoi and Song Be provinces, respectively[11]. Since exceptionally successful EPZ is located in Ho Chi Minh City, this Decision seems to intend to diversify FDI geographically outside of Ho Chi Minh City. It is important to set more attractive tax incentive for EPZs and IZs in the northern and central part.

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5) Freshfields, *Indochina Note*, November 1995, p. 2.
6) *Ibid*.: Mr. Nguyen Gia Hao, Chamber of Commerce and Industry in Viet Nam, personal interview, March, 1996.
7) Richard Irwin, Price Waterhouse Viet Nam Limited, Personal interview, March, 1996.
8) Mr. Nguyen Gia Hao, Chamber of Commerce and Industry in Viet Nam, personal interview, March, 1996.
9) Freshfields, *op. cit.*, p. 2.
10) *Ibid*.
11) Freshfields, *Indochina Note*, January 1996, p. 1.

(2) Land

<Clarification of criteria for land evaluation>

KEIDANREN has requested clarification of evaluation criteria of prices of the land thereby reduce rent for the land. Responding this request, the Vietnamese Government issued Decision 1417/TC-TCDN dated on 31 December 1994 which prescribed:

1) Reducing land rent
2) Clarification for concrete criteria for pricing land rent
3) Special treatments for investment to remote areas

Decision 1417 specifies the land rent to be paid by foreign investors in Viet Nam. It specifies different rates and coefficients applicable to various types of land using the following formula:

Land Rent = rental rate * location coefficient * infrastructure coefficient * industry coefficient[12]

According to this formula, the land rent varies owing to allocation, infrastructure and industry type. It is important to specify appropriate coefficient rates in order to make good use of this formula. On 6 September 1995, Ho Chi Minh City's People's Committee issued Guidelines No.2510/UB/KT implementing Decision 1417 with respect to land in the Ho Chi Minh City province[13]. The Guidelines first modify and clarify which areas of the Ho Chi Minh City province belong to which rental category. It can be highly evaluated that the Guidelines also clarify the rates for certain areas not mentioned in decision 1417 but surrounding Ho Chi Minh City[14]. It is desirale that the Guideline should expand the area of which it clarifies the rates.

<Proper understanding of "land" for business use>

After various amendment and setting of rules on land including introduction of compensation for clearence of land for foreign investment project, KEIDANREN still requests further disclosure on land information. In addition, KEIDANREN desires simplification of the process of obtaining land use right. KEIDANREN also requires clarification of land lease procesure. The General Department of Land Administration has provided details on land lease procedures with Circular No. 1124/TT/DC issued on 8 September 1995. KEIDANREN complains that there is no registry book in Viet Nam. Notice No. 2314/CT/NgV of the Ho Chi Minh City Taxation Department, issued on 6 July 1995, prescribes the registration of transfers of property[15].

Thus, the Vietnamese Government issued a series of rules, which are appreciable. These rules are expected to make the concept of property right of land use right clearer. However, there is still a problem to be solved. According to member companies of KEIDANREN, Vietnamese side often provides land without infrastructure. Land without infrastructure cannot be used as "land" for business use. It is true that land rent is somewhat decreasing due to increase of land supply, however, it still costs much to convert land without infrastructure to be usable for business use. For this reason, land rent is regarded to be still very expensive compared with those in neighbour nations.

Land use right is a property of an enterprise. It is an asset for the firm. Assets are defined as "probable future economic benefits"[16].If it is difficult to get benefits by using land, the land has no economic value. It is desirable for Vietnamese side to get proper understanding of "land" for business use.

(3) Foreign currency purchase

<Clarification of criteria for currency purchace and remittance>

In general, under the foreign investment laws and regulations in Viet Nam, foreign investors must

12) Freshfields, *Indochina Note*, December 1995, p. 5.
13) *Ibid.*
14) *Ibid.*
15) Freshfields, *Indochina Note*, August 1995, p. 3.
16) Financial Accounting Standards Board, *Statements of Financial Accounting Concepts No. 6: Elements of Financial Statements*, para. 25.

balance their foreign currency requirement with their income in local currency. Under the present system, member companies of KEIDANREN requested on October 1995, ① clarification of foreign currency exchange and remittance system, ② guarantee of stable foreign currency exchange, and ③ creation of financial market for fund raising.

The exception to the general rule for foreign currency balance exists in favour of businesses which manufacture import substitutes listed by the SPC, or which construct infrastructure projects. This exception is prescribed by the official document of the central bank No.152/CV/NH7 issued on 5 April 1995. This document is in the form of recommendation to the Government[17].

On 9 September 1995, the new list of import substitutes was issued which has been substantially expanded and includes 30 goods. Enterprises producing one or more of the 30 products listed may purchase foreign currency with Vietnamese Dong. The maximum amount of foreign exchange that will be sold to a foreign-invested enterprise upon such conversion privilege is the amount that would have been required to import the goods sold by the foreign-invested enterprise for Dong[18].

<The Establishment of the financial market>

Thus, the Government favours import substitutes manufacturers and infrastructure construction firms as for the rule for foreign currency balance. However, it is necessary for firms to get short-term finance easily to operate daily operation and get long-term finance to invest in facilities. It is less risky to raise funds in local financial markets than foreign markets because of exchange risks.

The Prime Minister issued Decision No. 361/TTg which decides establishing a preparatory board for the establishment of the stock exchange[19]. At the early stage of the economic development of transforming economies, banking system seems to be more useful for firms to get funds. However, secutiries market contributes to upgrade managerial efficiency. Securites market is necessary not only for fund raising. Securities are also useful to separate ownership from management. The separation of ownership and management is expected to contributes to improve efficiency of management.

Securities market does not function well unless firms are evaluated properly. It is almost impossible for firms to be evaluated appropriately if financial accounting system which meets the demand of market economy does not exist. At present, there are accounting standards which meet the requirement of market economy only for foreign firms. We cannot find the accrual principle and concept of capital in the accounting regulation for state owned enterprises (SOEs). Under the current situation, it is extremely difficult to evaluate SOEs properly. Securities market would not function actively unless large scale SOEs are evaluated properly. Thus, it is necessary for the Vietnamese Government to introduce basic accounting concepts which satisfy the requirement of market economy into the current accounting standards for SOEs step by step.

(4) Infrastructure

<National Road No. 1>

Under Official Correspondence No. 700/TC-TCT issued by the Ministry of Finance on 5 May 1995, organizations, including foreign invested business, carrying out construction or renovation work on National Road No. 1 are qualified to an exemption from turnover tax and a reduction in income tax[20]. This prescription is expected to encourage the entrance of firms to the National Road No. 1 Project. The National Road can be expected to distribute income of people more equally by offerring the mobility.

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17) Freshfields, *Indochina Note*, October 1995, p. 3.
18) *Ibid.*
19) Freshfields, *Indochina Note*, August 1995, p. 2.
20) Freshfields, *Indochina Note*, August 1995, p. 4.

<Plan for industrial and infrastructure development>

On 10 July 1995 the Government issued Announcement No. 91/TB setting out the Prime Minister's views on industrial and infrastructure development. The announcement states that future industrial zones are to be situated outside Hanoi and urban areas generally. In Central Viet Nam, development is to be concentrated in the Dung Quat, Van Tuong and Van Thanh areas, and alongside the main roads[21]. The announcement may have an effect of decentralizing FDI[22]. Too much concentration of FDI in Ho Chi Minh City and Hanoi tends to expand unequality of income.

(5) Rules for joint venture

KEIDANREN requires the following matters as for formulating joint ventures:

1) abolition of the requirement of unanimous vote to decide important matters
   Though equity share exeeds fifty%, important issues are often not resolved in absence of unanimous vote.
2) abolition of limitations to choose partners
3) disclosure of information on partners
   creation of accounting system which meets the requirement of the market economy
   unification of the format of financial statements
   promotion of disclosure for the exact feasibility studies
4) disclosrue of information on domestic banks
5) permission for setting more than two bank accounts
   It is necessary to have more than two bank accounts when sales area expands.
6) introduction of direct employment system
   Employing through FOSCO costs very high.

As for unanimous vote, Mr. Phuc responded that it is important for both parties of joint ventures to have equal position and mutual reliance. According to him, it is unfair that a party who possesses more than fifty% of the share can solely decide important issues.

As for disclosure requirement, it is difficult for domestic firms and banks to provide financial statements which satisfy market economy demands, for the accrual principle has just been slightly introduced into the accounting rules for domestic enterprises. The journal system for double bookkeeping has just been created. The accounting principles for foreign invested companies are subject to internationally accepted accounting practices, however potencial joint venture firms are still domestic firms. Mr. Phuc stated that each firm must prepare financial statements and get them audited, which are offered for public inspection. It is neccessary that Vietnamese potencial partners improve accounting ability and, in keeping pace with the improvement, the standard setting body improve the accounting principles themselves.

2. Issues on distortion of economy

(1) Smuggling

KEIDANREN required to strengthen the Government's control over smuggling. Mr. Phuc deeply agreed with this opinion, but no additional measures were announced yet.

As Viet Nam has over 2,000 kilometers of coastline, most smuggled goods come in by sea. At the end of October 1995, the Government issued Instruction No. 701/TTg. This Instruction lists the fight against smuggling as one of its priorities for 1996[23].

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21) *Ibid.*
22) As for geographical distribution of FDI, see anonymous report, *Foreign Direct Investment by Province in Vietnam as of Dec. 31, 1995*, Hanoi, 1996.
23) Freshfields, *Indochina Note*, January 1996, pp.1-2.

The Government is also attempting to control smuggling of motorbikes overland through Viet Nam's western border. Official Correspondence No. 6720/KTTH issed on 22 November 1995 requires owners of illegally imported motorbikes to register them before 31 December 1995. Those not registered before this date are to be confiscated[24]. Thus the Government tries to control smuggling by land by strengthening registration system.

(2) Payment of bad debts and the return of requisitioned assets

This is a very important problem, though Vietnamese Government seems to lack proper understanding. KEIDANREN has required to solve issues on bad debts to foreign private sectors and requisitioned assets, of which the latter were not referred to by Mr. Phuc.

Mr. Phuc replied that, for Viet Nam, the bad debts issue is quite a hard problem to solve. Bad debts to Japanese private sector are as follows on October 1996:

1) Bad debts to Japanese banks:
   The total principal amount: $310.6 million
   Bad debts including interest and penalty: $650 million
   Results of the negociations at London Club are unknown.
2) Bad debts to Japanese enterprises : $279.6 million
   Rescheduling is under negociation as for large block debts.
   Small amount debts to small and medium sized enterprises are being paid according to the schedule mutually agreed.

Viet Nam has also been introducing measures to assist with the repayment of outstanding foreign debts (principally owed to its former COMECON trading partners) through the provision of Vietnamese goods and services. In July 1995 the Government enacted Decree No. 40/CP on Repayment Foreign Debts with Goods and Services paid for in foreign currency[25].

Circular No. 87TC/TCDN issued on 23 November 1995 provides guidance on various matters such as the selection of Vietnamese companies to fill export orders for such debt-offset deals, and for the setting of prices that will be applicable[26].

3. Issues on inefficiency derived from bureaucracy

KEIDANREN required the following matters to the Vietnamese Government on October 1995 concerning the licencing process of proposed FDI.

1) Further clarification of criteria on screening and licencing FDI
2) Quick notice to foreigners in English when laws and tax codes are amended
3) Consideration for Vietnamese comparative advantage to neighbour nations when laws and rules are amended
4) Consistent attitude to licencing FDI projects (attitude often differs according to staffs' position)
5) Obtaining consistency between former laws and amended laws (licenced projects are sometimes rejected based on amended laws)
6) Improvement of ability for licencing practice

Concerning this requirement, Mr. Vo Hong Phuc, Vice Director of SPC, stated that the Government issued Decision 191CP on December 28, 1994 which prescribed (1)reduction of institutions which are enrolled in screening proposed projects, (2)shortening the screening period, and (3) clarification of each role of the central government and local governments. Furthermore, personnel, especially executive members, in charge of screening and licencing proposed projects are being trained to improve efficiency.

As for licencing proposed FDI projects, the Goverment has issued the following rules recently.

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24) *Ibid.*, p. 2.
25) Price Waterhouse, *Viet Nam: A Guide for the Foreign Investor*, Price Waterhouse, Hong Kong, 1996, p. 79.
26) *Ibid.*, p. 80.

<Criteria for amendment of licenced FDI project>

On 4 May 1995 SCCI issued Circular No. 910/UB/QL on the amendment of investment licences (Circular 910), since many investment licences have had to be amended, often because the investor discovered that further capital was needed[27].

<Preparation and implementation of FDI project>

On 8 April 1995 Hanoi's People's Committee issued Decision No. 727/QD/UB on FDI projects in Hanoi (Decision 727), implementing Decree No. 191. Decision 727 specifies various application documents which the Hanoi People's Committee wishes to examine in addition to those submitted to the SCCI, including the land allocation agreement, the planning certificate, if property is contributed as capital, and a valuation of the property[28].

KEIDANREN highly evaluates the adoption of one-stop shop and expects the improvement of efficiency in screening and licencing procedure. KEIDANREN suggests that the Ministry of Planning and Investment (MPI) should deligate a part of screening and licencing jobs to foreign accounting firms until MPI staff are trained enough to respond to efficient screening and licencing demand by foreign enterprises.

KEIDANREN additionally requires the following matters:

1) permission for importing second hand machinary
2) tariffs system for parts
   Since tariffs are set individually for parts and kits, it costs much to import individual part more than to import by kit.
3) deregulation of the limitation to loan amount (currently the amount of 30% of assets is permitted)
4) clarification of laws and regulations for labour union
5) reduction and abolishment of export sales tax
6) a bulk application of licence and loyalty
7) deregulation of conditionalities for loyalty

III. Requirements by US- and European-based multinational enterprises

1. Issues on deficiency of laws and institutions

(1) Intellectual right

There has been legislation protecting most forms of intellectual right property in Viet Nam, including the Ordinance on Trademarks in Viet Nam of December 1982. However, infringements are widespread. It seems partly due to a lack of knowledge of the law and partly due to lack of knowledge of the concept of intellectual property[29].

Intellectual property rights include brands. Brands have a nature that customers remind a certain image as soon as they perceive brands. Brands have a function to distinguish certain products from others. Thus brands embody market-percieved qualities of goods and services. The market perceived qualities become bases for extra revenues[30]. The market perceived quality has no substancial body, so it is sometimes infringed also in developed market economies where intangibles have less importance in business.

The Ordinance on Trademarks in Viet Nam of December 1982 was widely amended in March 1990. Under this ordinance, a trademark may be registered with the National Office of Industrial Property (NOIP) in Hanoi, which is governed by the Ministry of Science, Technology and Environment[31].

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27) Freshfields, *Indochina Note*, July 1995, p. 1.
28) *Ibid.*
29) Price Waterhouse, *op. cit.*, p. 79.
30) Gale Bradiy, "The Importance of Market Perceived Quality", in: Stobart, Paul, *Brand Power*, Macmillan, London, 1994, pp. 65-68.
31) Price Waterhouse, *op. cit.*, p. 79.

It is worth to note that, since March 1993, Viet Nam has adopted a "first to file" rule. This rule means that the first company or individual to register a trademark with the NOIP is prima facie the owner of the property, while most other countries adopt a "first to use" basis[32].

In the Civil Code which is to be in effect in this July, explicit definition of individual property rights including the ownership rights for individuals and juridical persons to patents, utility solutions, industrial designs, trademarks, the right to use an appellation of origin and other objects that may stipulated by implementing legislation[33].

The Code prescribes that if an entity wishes to obtain a licence to use the property and no agreement can be reached between the owner and that entity, or if the State needs the property for national defence, security, health care or other urgent demands of society, the owner is forced to sell the industrial property[34]. US- and UK-based Multinationals wish to clarify what kind of cases are assumed under this provision.

(2) Dispute resolution

As for dispute resolution, the foreign business could opt for Viet Nam courts or arbitration before the Viet Nam International Arbitration Centre, or the Economic Arbitration Centre. However, foreign enterprises felt to be treated impartially. Alternatively they could specify a non-Vietnamese court or arbitration, which seemed more impartial[35].

With the exception of a few Eastern European countries, no treaties existed for the enforcement of any judgement or award received[36].

It can be highly evaluated that, on 28 July 1995, Viet Nam's President issued decision No. 453/QD/CTN authorising Viet Nam to join the New York Convention of 1958 on the recognition and implementation of foreign arbitral awards[37].

Following to this action, the Ordinance on the recognition and enforcement of foreign arbitral awards was signed by the Standing Committee of the National assembly on September 1995. Under the Ordinance, a defendant can object to recognition and enforcement for such reasons as the law of Viet Nam does not permit resolution of the dispute by arbitration, or recognition and enforcement is inconsistent with Vietnamese public policy[38]. There may be still a room in this prescription that foreign entities feel unfair at dispute resolutions.

2. Others

<Automobile and motorbike assembly>

It is desirable for the Vietnamese Government to bring about domestic parts industries and, at the same time, introduce foreign core organizations, that is, assembling entities. Sometimes both requirements conflict each other.

Circular 215 states that proposals for automobile and motorbike assembly projects must include a plan for local production of parts and accessories. However, limiting imports of parts by the Ministry by various measures including tariffs and quota raises manufacturing cost in Viet Nam[39]. KEIDANREN also complains that the present tariff system for parts which imposes tariffs for individual parts costs much.

The SCCI recently requested that the current quotas on the import of spare parts and components for car assembly joint ventures be lifted, and replaced by appropriate taxation of imports[40].

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32) *Ibid.*, p. 80.
33) Freshfields, *Indochina Note*, January 1996, p. 3.
34) *Ibid.*, p. 4.
35) Freshfields, *Indochina Note*, September 1995, p. 2.
36) *Ibid.*
37) Freshfields, *Indochina Note*, October 1995, p. 7.
38) *Ibid.*
39) Freshfields, *Indochina Note*, September 1995, p. 1.
40) *Ibid.*

In response to the SCCI request, on 16 September 1995, the Government Office has issued Official Correspondence No. 5168/KTTH addressed to several Ministries and recommended that for hi-tech spare parts and components which are not produced in Vietnam, import quotas should be cancelled. The Ministries of Finance should study how to adjust import duties so as to encourage the manufacture of hi-tech spare parts and components in Viet Nam[41].

IV. Implications

To sum up, it would be recommended to the Vietnamese Government 1) to adjust tax incentives and import duties, and 2) to combine controling tax incentives, infrastructure development and establishing special zones, in order to decentralize FDI and to resolve conflict between bringing about domestic industries and introducing FDI. It would be also recommended 3) to promote education which fosters those who understand concepts of market economy and management, and 4) to introduce elements of modern accounting theory which meet the market economy into the accounting standards for domestic business units in order to promote joint ventures.

It may be easier for the Vietnamese side to get rid of obstacles which derive from deficiency of laws and inefficiency of bureaucracy. However, it is difficult to handle obstacles which derive from differences of recognition of managerial events.

For example, the Vietnamese side sometimes offers land without sufficient infrastructure. It is because they do not recognize that property must have a characteristics to produce benefits in the future at a high possibility. Intellectual property rights are often infringed in spite of the regulation partly because the Vietnamese people have no recognition that they cause a huge loss against owners of the intellectual property right. It is rather easy to set rules formally, however, it may be difficult to understand the substantial meaning of the rules.

It would be important for the Vietnamese side to make prevalence of managerial, economic and regal education which meet the demand of the market economy. Under the current situation, interpretation of laws and regulations may vary among areas depending on the degree of development of the market economy. FDI may concentrate in an area where the degree of freedom of interpretation of laws is larger.

It is important for the Government to design the economic plan which aims to reach the goal of economic growth, and at the same time, to resolve conflict between high economic growth and equality as much as possible, not by restricting FDI, but by decentralizing FDI with several policy tools.

41) Freshfields, *Indochina Note*, November 1995, p. 3.

9
Capital Inflow and Exchange Rate Policy in Viet Nam

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I. Recent capital flows to developing countries — background —

A conspicuous phenomenon since around the start of the 1990s was the deterioration of the current account balances of developing countries, implying that capital inflow into developing countries has increased. The background to this is that many indebted developing countries have improved their economic situation through structural adjustment. A more important point is, however, that economic reform and external opening have become global trends, thereby improving the economic performance of many developing countries. Reform and opening measures which have been widely observed include privatization, attempts at fiscal discipline, measures to promote market mechanisms such as domestic price liberalization, an easing of capital controls, and trade liberalization. Many countries have also started to promote the improved functioning of domestic financial and capital markets and the infrastructure level.

In response to this development,direct investment from industrialized countries and some middle-income areas (such as South Korea, Taiwan, and Hong Kong) to other developing countries increased, and foreign investment in the securities markets of developing countries also became active. Capital raising in the international financial market by the governments and private companies of developing countries resumed. In order of magnitude we have witnessed foreign direct investment, private debt flows (bond issues, bank loans, etc.), and portfolio investment. In view of the size and the development stage of capital markets in developing countries, the last route has been a limited one in most countries, except for a small number of countries such as Mexico and Brazil. Compared to the capital flows to developing countries centering on bank loans prior to the debt crisis, the capital flows, mainly foreign direct investment, in the 1990s are considered to be relatively long term and stable. Further, according to World Bank materials, capital that once left has returned to the original countries, particularly in Latin America since around 1989.

The above features do not apply to certain developing countries, in particular Sub-Saharan African countries. They depend largely on official grants and loans from industrial countries and certain middleincome developing countries. Many of them have been in arrears in repaying past debt and have had to repeatedly reschedule, with a portion of debt being pardoned. This group of countries will have to keep relying almost entirely on official flows. Private capital flows to former Soviet republics will depend largely on their political and economic development, and for the time being, neither the timing nor size of such flows is certain.

Capital inflows alleviate constraints in the international balance of payments, reduce interest rates and induce high investment and high growth. However, if inflows become excessive, foreign exchange rates can rise, eroding export competitiveness. But, if capital inflows thereafter stop or reverse, disorder could result.

This is why monetary authorities try to absorb foreign currencies to stabilize and maintain the real exchange rate, thereby increasing foreign exchange reserves (Chart 1 ~ 3). However, when the central bank absorbs foreign currency, an equivalent amount of domestic currency is supplied. In order to avoid excess supply of the domestic currency, money supply has to be absorbed through "selling" operations. This step has the effect of reducing prices of bonds and discount bills and raising interest rates. Even if the authorities resort to raising reserve requirements or regulating bank credit instead of conducting "selling" operations, the effect is similar. There are inevitable limits to just monetary measures.

While capital inflows boost domestic demand and create inflationary pressure, fiscally stringent measures can be considered, and import demand can increase through liberalization of trade and service transactions. Furthermore, assuming that capital inflows are not to be regulated, inflows can be partially offset by liberalizing capital outflows. Many Asian countries have regulated short-term capital inflows. Capital inflows are also controllable by expanding exchange risk, for example, by widening the range of exchange rate fluctuation. If capital flows are stable, the appreciation of real exchange rates can also be acceptable. This could improve productivity through corporate rationalization and upgrade real living standards. Against the background of recent capital inflows into developing countries lies the progress in their economic reforms and external opening rather than something that is reversed in the short run like monetary tightening.

In fact, many countries have recently allowed the real exchange rates of their currencies to rise against the US dollar (Chart 4 ~ 6). At the same time, most of them have adopted a blend of various policy measures mentioned above (See Table 1). (A note on various exchange rate definitions is found on the last page · · · Various Exchange Rates -A Note-.)

However, if net capital inflows drop suddenly while the current account surplus is widening, the currency will experience downward pressure. A sudden drop in capital inflows can result from expectations of the correction of currency overvaluation or a decline in confidence in economic policy. The larger the relative dependence of capital inflows on portfolio investment, the more sudden and larger the decline tends to be. The currency crisis in Mexico beginning in December 1994 was just such an example. If a country tries to stabilize the exchange rate, the authorities will have to intervene in the market by selling foreign currencies and buying domestic currency, along with effecting changes in economic policy. As a result, foreign exchange reserves decline. If they fall to an uncomfortable level, the authorities will have to employ a tighter policy to reduce the current account deficit.

II. Exchange rate policy in Viet Nam

It was reported that the aggregate amount of inward direct investment on a contract basis in Viet Nam came to $20.4 billion as of early February, 1996, almost equivalent to GDP in 1995. In the case of China, for example, the aggregate amount of inward direct investment on the same basis came to $220 billion as of the end of 1993. Even if the amount of newly contracted inward direct investment in 1994 is simply added to the aggregate amount without subtracting the amount implemented in that year, the total amount, $301.4 billion, is less than 60% of China's GDP in 1994. Taking into consideration the fact that the United States, the largest investor in the world, has not yet started to invest in Viet Nam in any substantive way, direct investment in Viet Nam is likely to increase further. A large amount of capital inflow has obvious implications for the exchange rate of the Dong.

Reference to responses formulated by other Asian and Latin American countries that confronted similar upward pressure on their currency suggests that monetary authorities in Viet Nam must consider the following factors in their consideration of exchange rate policy : (1) the size of foreign exchange reserves; (2) the extent of change in the real effective exchange rate; (3) a phasing out of US dollars, gold, and other commodities such as rice as media of exchange and stores of value; (4) need for the use of the exchange rate as a nominal anchor to promote price stability; (5) relationship to an interest rate policy; (6) the extent that sterilization (absorption of Dong liquidity supplied in connection with foreign exchange market intervention by SBV) does not cause serious problems; (7) the readiness to take stringent fiscal measures; (8) the feasibility of effective capital control; and (9) the relationship between a fall in the Dong's exchange rate and the country's foreign debt burden.

When the sum of net capital inflow and domestic conversion of US dollars to Dong exceeds the current account deficit, the Dong receives upward pressure in the foreign exchange market. Part of the recent capital inflow and domestic currency conversion may be attributable to relatively high interest rates on Dong deposits and the recent stability of the Dong exchange rate against the US dollar. If the Vietnamese monetary authorities try to suppress such upward pressure on the Dong, they will have to intervene in the market by buying US dollars and selling the equivalent amount of Dong, thereby leading to an increase in foreign exchange reserves. It is understood that the total amount of foreign exchange reserves, which has recently been on the rise, is still short of the target imposed by the IMF in connection with the ESAF (Enhanced Structural Adjustment Facility) arrangement. From this point of view, a further increase in foreign exchange reserves can be regarded as necessary and desirable at present. It is also desirable as a buffer against a sudden drop in capital inflows.

Due in part to foreign exchange market intervention, the nominal exchange rate of the Dong against the US dollar has been stable since 1992. But, because of that stability in the face of a relatively high rate of inflation in Viet Nam, the real exchange rate of the Dong against the US dollar has been on the rise, creating fears of a continuous decline in the international price competitiveness of not only existing export industries but also emerging ones in Viet Nam.

In this connection, however, it should be noted that the real exchange rates of currencies of many main trading partner countries against the US dollar have recently been on the rise as well, although the extent depends largely on the choice of base year in calculating real exchange rates. It is possible that the extent of the rise in the real effective exchange rate of the Dong (a trade-weighted average of real exchange rates of the Dong) has not risen as much as the real exchange rate of the Dong against the US dollar. As a matter of fact, the real effective exchange rate of the Dong calculated by the IMF did not rise as much as its real exchange rate against the US dollar for the 1990 to 1994 period (See Chart 7). However, since Japan is the largest export market for Viet Nam and the Japanese yen has depreciated against the US dollar since mid-1995 and also since the rate of inflation in Viet Nam has been around 10%, which is still higher than inflation rates in many main trading partner countries, the real effective exchange rate of the Dong may have risen faster in 1995.

Here, we have chosen 1990 as the base year in calculating real exchange rates of the Dong, without any examination about the extent to which this choice is appropriate for Viet Nam. The official exchange rate of the Dong against the US dollar was merged with the rate that prevailed in the parallel market in March 1989 and the unified exchange rate subsequently depreciated until 1991. The Dong-dollar exchange rate has been stable since then, as mentioned above. The real effective exchange rate of the Dong calculated by the IMF is based on March 1989 as the base. However, allowing for some time to adjust following the change in Viet Nam's exchange rate management policy, 1990 can be considered as a reasonable starting point for the comparison of movements of the rate in the subsequent period. Obviously, we need a more detailed analysis of the price competitiveness of Vietnamese industries to judge how appropriate this choice of base year is.

The negative aspect of a stable nominal exchange rate of the Dong against the US dollar, which has just been discussed above, has to be assessed by giving due consideration to several positive aspects. One such aspect is related to the presence of presumably large amounts of US dollars and US dollar deposits. Basically, people hold US dollar assets against the fear of possible devaluation of the Dong. In forming an exchange rate management policy, it is necessary to infer how Vietnamese people will react to an increase or a decrease in the value of the Dong with regard to their choice of Dong, US dollars, and gold. Stability of the Dong exchange rate is important in order to promote conversion of US dollars to Dong. Without such conversion, control of domestic liquidity and mobilization of domestic savings for productive use will remain difficult.

In a country where inflation is substantial, a depreciation of its currency pushes up import prices and leads to an increase in general prices, which in turn makes further depreciation inevitable. This vicious circle often creates built-in mechanisms by which people try to prevent their income from lagging behind inflation, which makes the circle hard to break and prices drift upwards. Some countries, including Argentina since 1991 and Brazil since 1994, have fixed their exchange rates against the US dollar or limited their movement, thereby using the exchange rate as an anchor to stop a price drift by breaking such a vicious circle. Since price movements have inertia, the inflation rate does not usually come down to a level comparable to that of the United States overnight. Therefore, the real exchange rate of the currency of such a country against the US dollar tends to rise. The rise in the real exchange rate may be regarded as a cost of stabilizing prices in a country that had a high rate of inflation in the past.

The inflation rate in Viet Nam was substantial not so long ago. Viet Nam has had stronger needs for exchange rate stability as compared to other Asian countries. A certain rise in the real exchange rate of the dong against the US dollar may be considered as a cost of promoting price stability today.

Price and exchange rate stability can contribute to lower domestic interest rates. Lower inflation naturally leads to lower interest rates by making inflation premiums embodied in nominal interest rates smaller, but at the same time, in a country like Viet Nam where US dollars are widely used and held, higher local-currency deposit rates are necessary to induce people to convert US dollars to local currency. The degree by which higher deposit rates are necessary in this regard tends to be less if exchange rate stability is maintained.

The extent to which the central bank can intervene in the foreign exchange market by buying dollars depends on the extent to which it does not cause difficult problems. When the Vietnamese central bank buys dollars, it is also supplying an equivalent amount of Dong in exchange for dollars. It appears, however, that the money supply has not been affected by foreign exchange market intervention because the central bank has not altered its credit supply targets, previously determined on the bases of the prospective economic growth rate and rate of price increases, etc. A successful separation of money supply from intervention is attributable in part to the fact that the scale of intervention has not yet reached an extreme level.

The Vietnamese central bank has been buying dollars primarily from the Foreign Trade Bank of Viet Nam, and the central bank's credit has been supplied primarily through that bank. To that extent, only a limited amount of central bank credit has been supplied through other commercial banks. Recently, however, Dong deposits have been substantially growing, leaving commercial banks with surplus funds, and the central bank has been selling State Bank bills in order to absorb these surplus funds. Given this situation, unevenness in distribution, vis-a ` -vis commercial banks, and instability in the central bank's supply of credit may not have surfaced as a problem. If conditions change, however, they will likely develop into problems. Many countries attempt to implement a policy of full sterilization in order to prevent intervention in foreign exchange markets from disrupting money supply policies. It would probably be advisable for Viet Nam, also, to examine the ways of sterilizing the central bank credit supplied through intervention. It would be desirable for the central bank to diversify the parties from which it buys dollars as much as possible. At the same time, it would be desirable if a short-term money market were developed so that the central bank could engage in open-market selling operations whenever necessary, i. e., selling short-term securities through the market (and thereby absorbing Dong liquidity). There is a risk, of course, that security prices could fall, and interest rates rise, if the scale of open-market selling operations were to grow too large.

There is no doubt that recent central bank dollar-buying intervention has served to expand sales of State Bank bills. This is one type of sterilization, but it is a type of operation that carries with it a large burden for the central bank. Given that the Dong's exchange rate is stable against the dollar, even if the central bank deposits overseas the dollars it has purchased, the interest it will receive on such deposits is significantly lower than the interest paid on State Bank bills. In certain Latin American countries the spread between this interest received and interest paid has widened to an almost unbearable degree.

Assuming that there are limitations on solely monetary responses to the problems related to intervention and sterilization, consideration should perhaps be given to fiscal responses. Namely, in the event that the money supply were to grow excessively because Dong liquidity supplied through intervention could not be completely absorbed through sterilization, cutting fiscal spending might alleviate upward pressure on prices and interest rates. Consideration should perhaps be given as well to the possibility of regulating capital inflows. In an extreme situation, it would be conceivable to control the timing with which foreign direct investment is actually implemented and / or set ceilings on foreign borrowings.

Viet Nam is a country with considerable foreign debt. A drop in the Dong's exchange rate increases the country's debt burden in Dong terms. If the Dong's exchange rate falls, a borrower with debt denominated in a foreign currency need additional Dong, in direct proportion to the extent of the drop, to repay its debt. Because the borrower's income is usually in Dong, this means a heavier repayment burden.

When upward pressure on the Dong strengthens, can the central bank temporarily stop buying US dollars and let the market determine whatever level the exchange rate should be? In the case of Viet Nam, this kind of policy is dangerous. Unlike developed countries and some middle-income developing countries, the role played by short-term hot money (speculative money) or international portfolio investment is limited. So, an increase in foreign exchange rate fluctuation risk is not likely to slow capital inflow. Also, an appreciation of the dong exchange rate, once allowed, will not be easily reversed.

When excessive capital inflows centering on foreign direct investment appear to continue and the size of sterilization as well as its associated cost appear to remain large, however, the real exchange rate of the Dong may be allowed to rise. But, there should be a limit to the rise in order to restrain deterioration of the current account. A rise in the real exchange rate of the Dong creates the fear that export competitiveness will be eroded. It is thus natural that there is an argument to maintain the stability of the real exchange rate of the Dong against the US dollar. However, there are also positive or inevitable aspects of the stability of the nominal exchange rate of the Dong against the US dollar. Assuming the rate of inflation in Viet Nam at around 10% and that of the United States at around 3%, and also assuming stable real exchange rates of currencies of main trading partner countries against the US dollar, the rate of depreciation of the nominal exchange rate of the Dong against the US dollar should be somewhat lower than 7%. If the appropriate rate of depreciation is considered to be 1-2%, however, it would be better to maintain the nominal exchange rate of the Dong against the US dollar for the sake of simplicity. In either case, however, a cumulative rise in the real exchange rate of the Dong expands with time. Therefore, when conditions change or permit, the monetary authorities should be prepared for a downward adjustment of the nominal exchange rate.

Various Exchange Rates - A Note -

The real exchange rate (index) of the Dong against the US dollar in 1995 using 1990 as the base year, $re_{95,90}$ is calculated by

$$re_{95,90} = (P_{US,95,90} / P_{VN,95,90}) (e_{95} / e_{90}) \times 100 \quad \cdots (1)$$

where $P_{95,90}$ is the price index in 1995 with 1990 being the base equal to 100.

The purchasing power parity (PPP) rate of the Dong against the US dollar in 1995 using 1990 as the base year, $pe_{95,90}$, is calculated by

$$pe_{95,90} = (P_{VN,95,90} / P_{US,95,90}) e_{90} \quad \cdots (2)$$

From (2),

$$(P_{US,95,90} / P_{VN,95,90}) = (e_{90} / pe_{95,90}) \quad \cdots (3)$$

Inserting (3) into (1), we get

$$re_{95,90} = (e_{95} / pe_{95,90}) \times 100$$

Therefore, $re_{95,90}$ indicates how much e_{95} deviates from $pe_{95,90}$. When $re_{95,90}$ is lower than $re_{94,90}$, the Dong becomes stronger compared to its PPP rate.

If we prefer that the real exchange rate rises when the Dong becomes stronger than it's PPP rate, the exchange rate data we use must be converted from Dong units per one US dollar to US dollar units per one Dong. In that case, however, the real exchange rate is calculated by

$$re_{95,90} = (P_{VN,95,90} / P_{US,95,90}) (e_{95} / e_{90}) \times 100$$

This is the method that we have used here.

The nominal effective exchange rate (index) of the Dong is the ratio, expressed as a certain base year equal to 100, of an index of the exchange rate of the Dong to a weighted (geometric) average of exchange rates for the currencies of selected trading partner countries, and the real effective exchange rate (index) of the dong is the nominal effective exchange rate adjusted for relative movements of prices in Viet Nam and trading partner countries.

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Table 1 Policy responce to increased capital inflow — Experience of East Asia and Latin America during the first half of the 1990's

Policy Response	Flexible Exchange Rates	Tight Fiscal Policy	Intervention with Sterilization		Limitation to Capital Inflow	Easing of Capital Outflow Control
			Open Market Operations	Other Means		
East Asia					O	
Korea			O		O	
Indonesia				O		
Malaysia	O	O	O	O		O
Thailand		O	O	O		O
Philippines	O		O	O		O
Latin America						
Mexico			O			O
Argentina						
Chile	O	O	O		O	O

Notes:

1. This table summarizes policy response by some East Asian and Latin American countries to an increase in capital inflow.
2. Flexible exchange rates point to transition of rigid exchange rate systems such as the fixed rate system to flexible systems by a widening of the fluctuation band, limited use of swap facilities, employment of a currency basket, etc.
3. Other means of sterilization include a lifting of reserve requirements and a lifting of capital adequacy ratios of banks.
4. Limitation to capital inflow points to taxation on capital inflow, provision of reserves to foreign currency borrowing, provision of a ceiling on foreign currency borrowing, etc.

Source: Economic Planning Agency, " White Paper on the World Economy, 1995 edition", p.289.

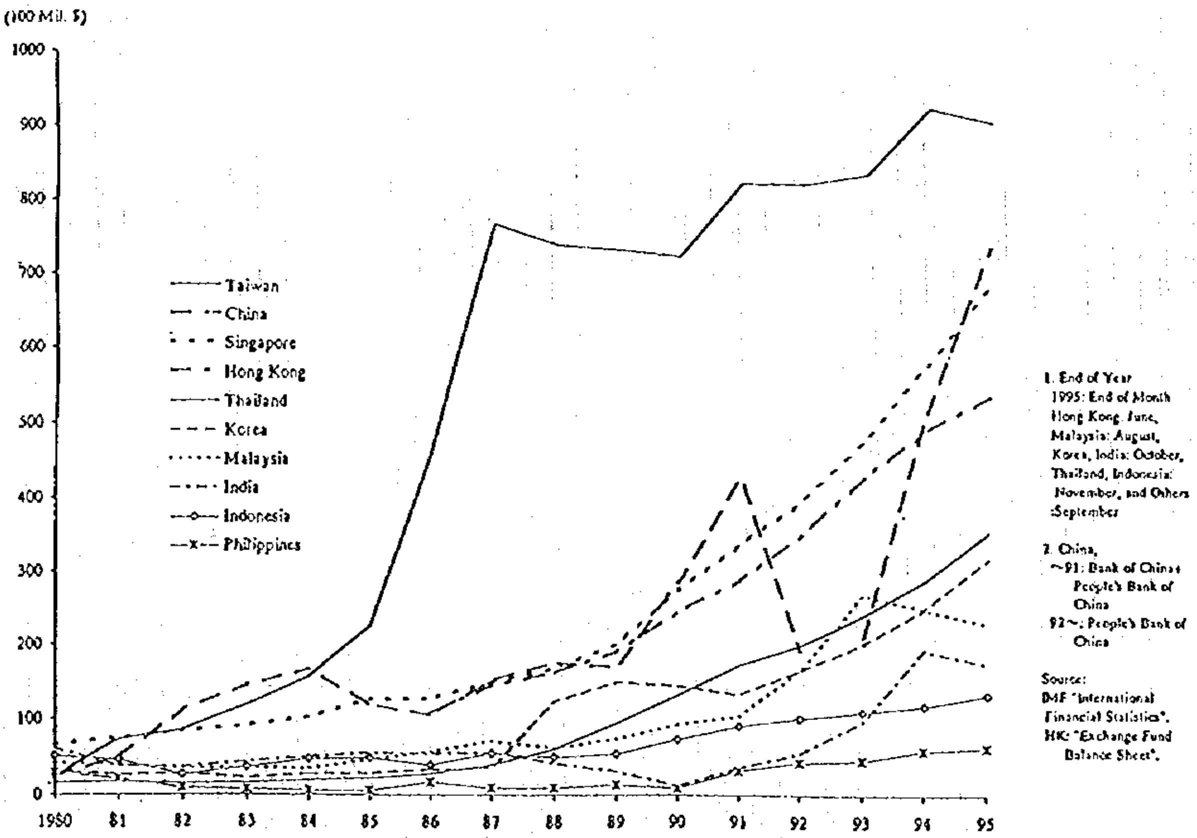


Chart 1 Foreign exchange reserves in Asia(End-year)

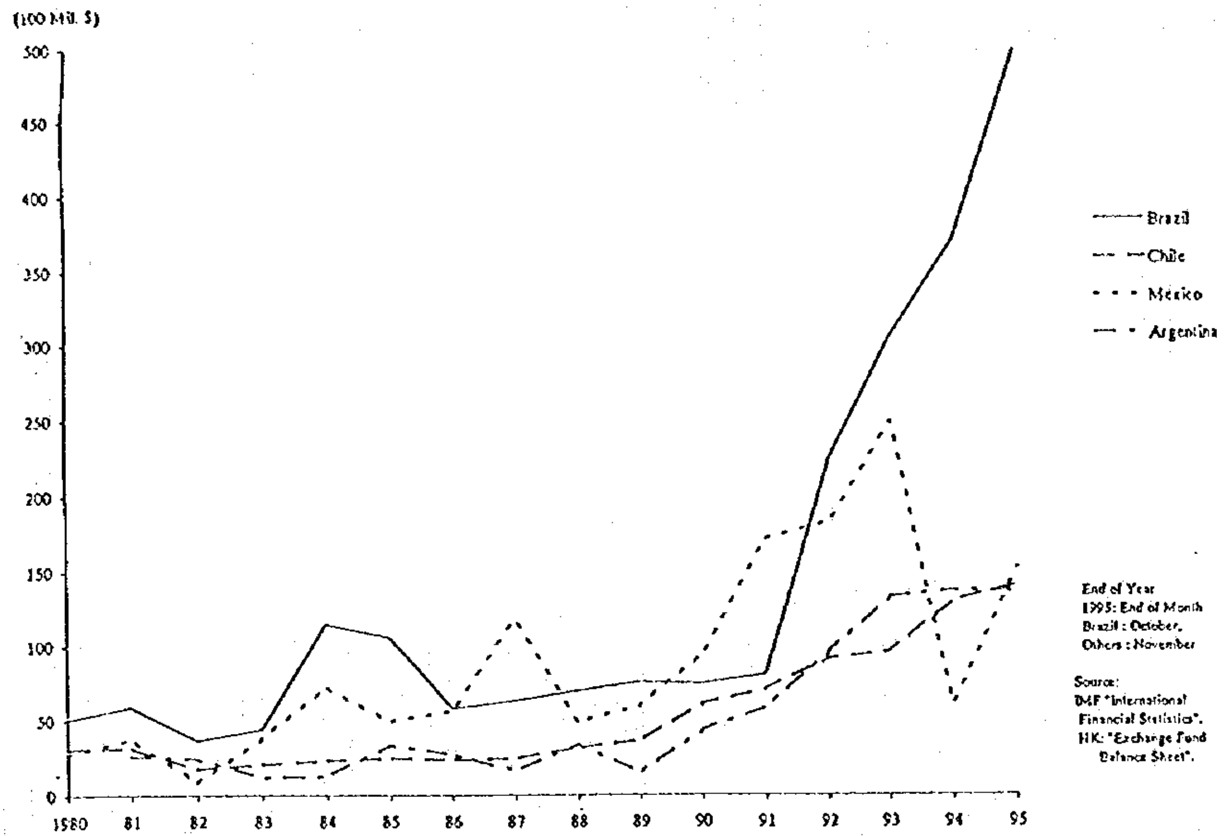


Chart 2 Foreign exchange reserves in Western Hemisphere(End-year)

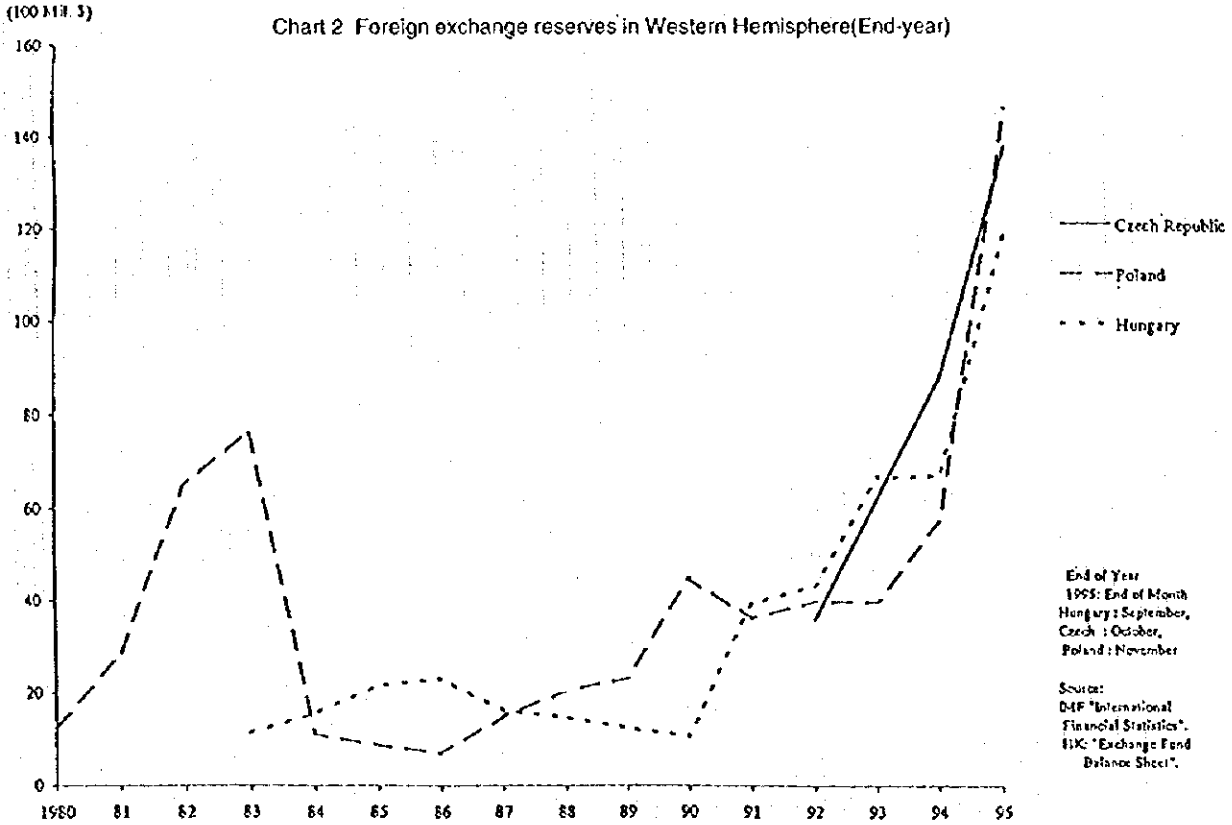


Chart 3 Foreign exchange reserves in Eastern Europe(End-year)

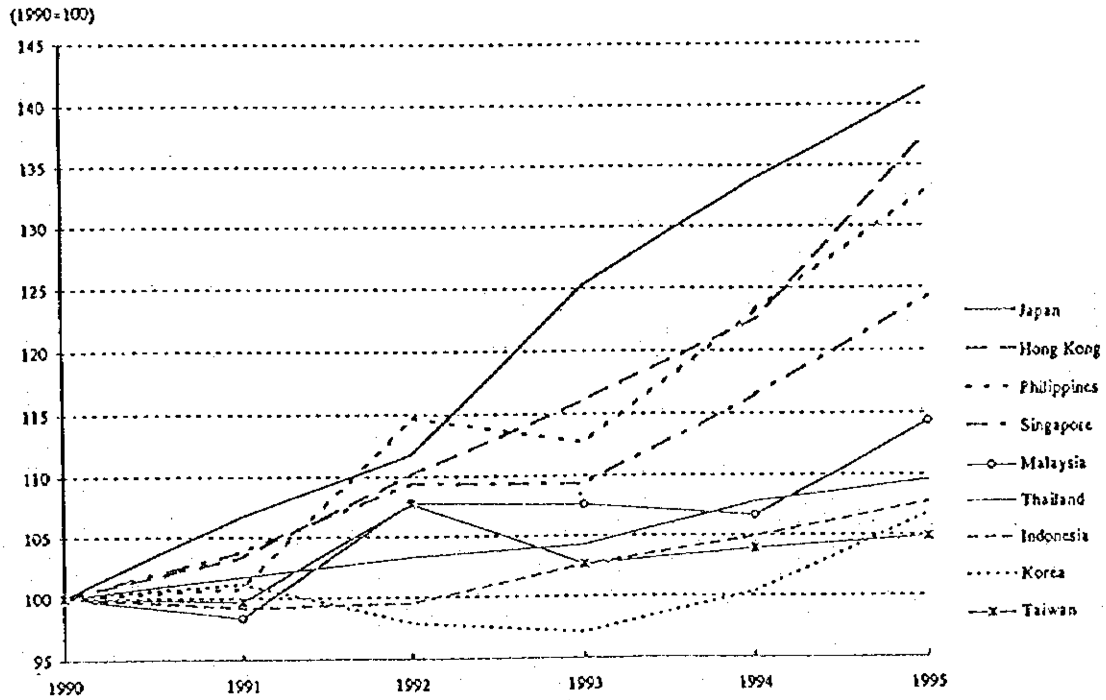


Chart 4 Real exchange rates in Asia(against US$)

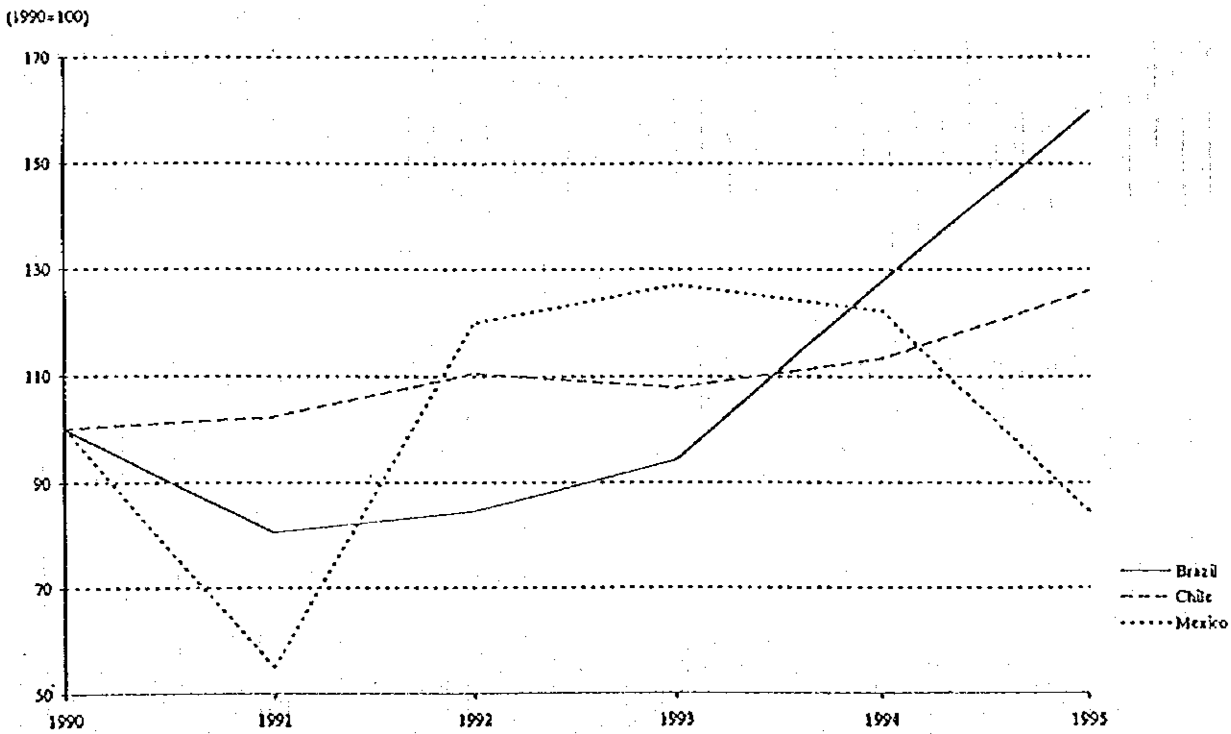


Chart 5 Real exchange rates: Brazil, Mexico, Chile(against US$)

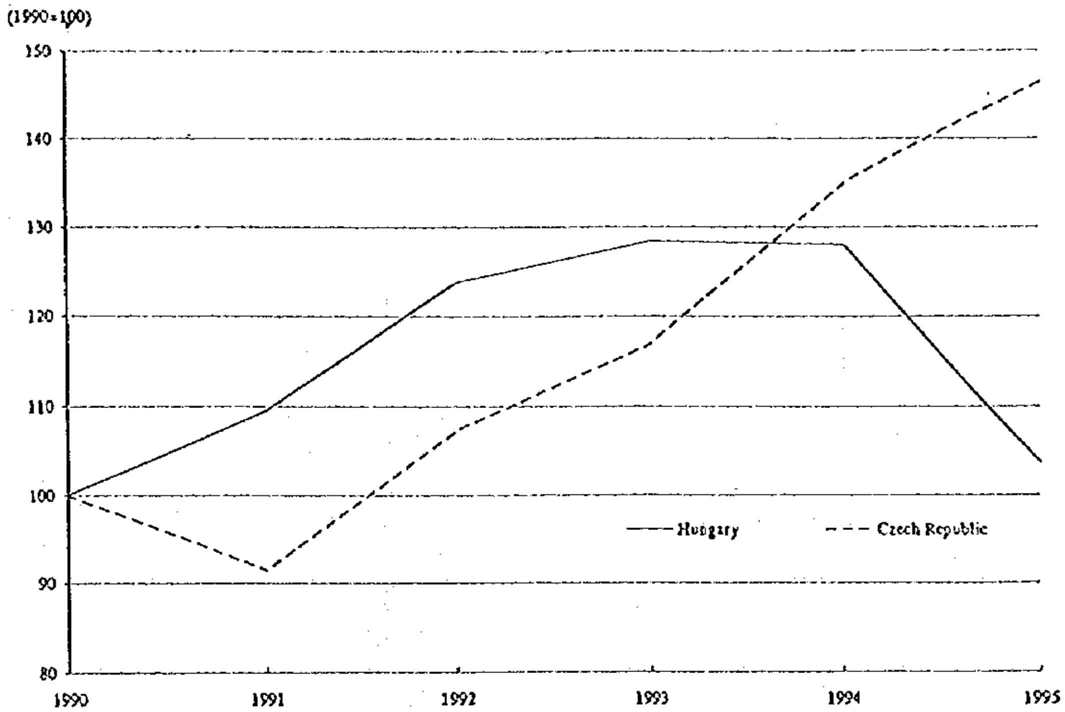
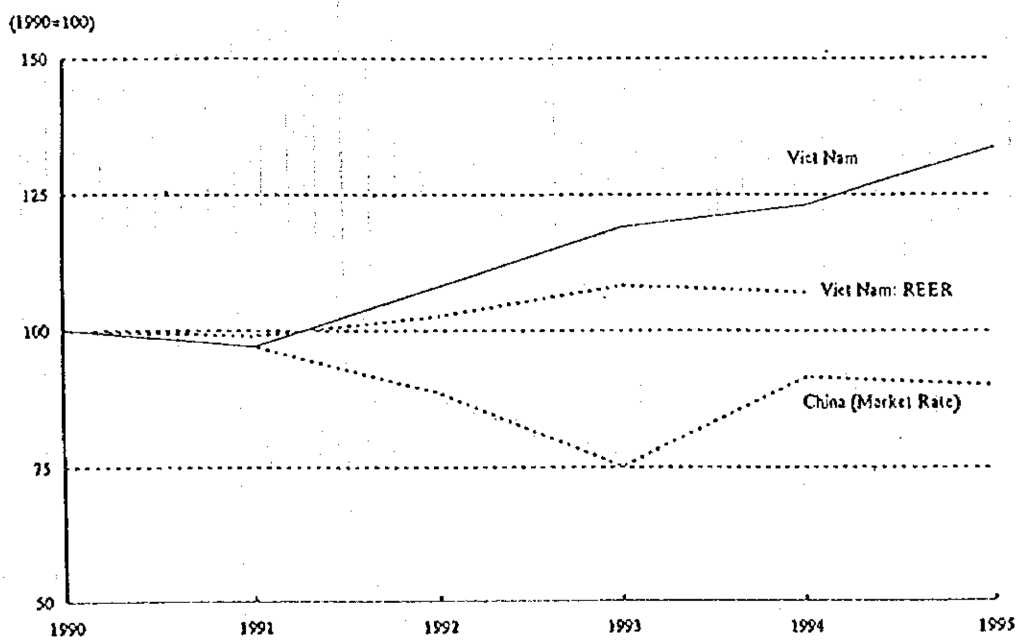


Chart 6 Real exchange rates: Eastern Europe(against US$, 1990=100)



Note: China unified exchange rates of the yuan on January 1, 1994 and changed the system of exchange rate determination from one of exchange rates determined by a basket of currencies to flexible exchange rate system based on demand and supply in the market.
The yuan market rate for the period from 1990 to 1993 is the rate that prevailed at the Shanghai Foreign Exchange Swap Center.
Viet Nam: REER is the real effective exchange rate of the Dong adopted from IMF, "Viet Nam-Background Papers," September 1995.

Chart 7 Real exchange rates: Viet Nam, China(against US$, 1990=100)

10
Introduction to the Vietnamese Tax System and the Second Tax Reform in Viet Nam

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Along with the open-door economic policy carried out to shift the Vietnamese economy from a centrally planned one to a market economy, the tax system of Viet Nam was completely reform with the introduction of tax laws and ordinances uniformly applicable in the country since 1st October, 1990. The former tax system designed with different tax treatment for public and private sectors was replaced by the one with uniform and equal tax treatment for all sectors of the economy.

The current tax system in Viet Nam comprises of 10 types of taxes, as follows:

- Business licensing tax
- Export - Import duties
- Turnover tax
- Excise tax
- Profits tax
- Agricultutal land use tax
- Natural resources tax (royalties)
- Land and housing tax
- Tax on land use right transfer
- Income tax on high income earners

In addition to the above mentioned taxes, there exist other taxes of fee nature, such as:

- Slaughter tax
- Registration tax
- Stamp tax

I. Main content of the existing tax policies

1. Business licensing tax

All business entities doing business in Viet Nam are subject to the tax.

Tax rates:

- 650,000 Dong p.a. for companies
- 425,000 Dong p.a. for subsidiaries
- From 20,000 Dong to 650,000 Dong p.a. for individuals, depending on their monthly revenue

2. Turnover tax

The turnover tax is provided in the Turnover Tax Law passed by the National Assembly in June, 1990 and has been amended twice in 1993 and 1995.

All businesses deriving revenue in Viet Nam are subject to the tax. The tax does not apply to businesses, engaging in agricultural activities and subject to agricultural land use tax ; businesses, engaging in production of excisable goods ; businesses, producing exports and financial institutions.

The tax base is monthly revenue(turnover) of a business. The deadline for tax payment is the 15th day of the following month.

The turnover tax has 11 rates, varying across types of business activities and tradable goods and services from 0% to 30%.

Tax exemption and reduction are allowed for businesses in force major or businesses applying high-tech, entities doing business in remote areas, newly established enterprises and import substitution producing ones.

3. Excise tax

The excise tax is provided in Excise Tax Law introduced in June, 1990 and amended twice in 1993 and 1995.

Taxpayers are producers of excisable goods, such as tobacco, spirits, beer, cars (except domestic car), fire crackers and gasoline.

The tax base is the selling price exclusive of tax or the CIF price plus import duties, For excisable imports, the tax is paid at the port of importation and for domestic excisable goods, the tax is paid at the manufacturing stage.

Tax rates:

- Tobacco:	from 32% to 70%
- Spirits:	from 15% to 90%
- Beer:	from 75% to 90%
- Fire crackers:	100%
- Imported cars:	from 30% to 100%
- Gasoline:	15%

Tax reduction is provided in the Law in cases of force major or newly established and loss making enterprises, but the total of reduction permitted is not more than 30% of the tax due.

4. Export - Import duties

Export - Import Duties Law was passed by the National Assembly on 26th Dec., 1991 and amended in July, 1993.

Taxpayers are all business entities and individuals, who import good into Viet Nam or export goods from Viet Nam. The tax is paid to Customs Authorities at the ports of exportation or importation. Transit goods are exempt from the tax.

There are 11 rates of export duties, varying from 0% to 45%,the tax base is the FOB price.

Import duties have 34 rates varying from 0% to 80%,the tax base is the CIF price.

Exemptions and reductions are provided for subsidised goods, transit goods, imported goods for re-export...

5. Profits tax

Profits Tax Law was introduced by the National Assembly in June, 1990 and amended in 1993 and 1995.

Business entities, deriving profit from doing business in Viet Nam are liable to the tax. Entities engaging in agricultural production and foreing invested enterprises are not subject to the profits tax under this Law.

Tax rates:

-25% applied to mining and heavy industry enterprises

-35% applied to light industry

-45% applied to trading and service entities

Profits tax is levied on annual net profit of a business, based on book keeping.

Small businesses and individuals with little income, researching enterprises, newly established... are exempt from the tax.

6. Agricultural land use tax

The tax was introduced in July, 1993 to replace the former Agriculture Tax and came into force in 1994.

This tax is levied on users of agricultural land, including cultivate land, land covered by water for aquaculture, cultivated forests. The tax does not apply to foreign invested enterprises, subject to land rental.

The tax rates are computed in rice and paid in cash in accordance with the land rank, which in turn is determined by location, quality, climate and irrigation conditions.

Several cases of tax exemptions and tax holidays are provided in the Law.

7. Tax on transfer of land use right

The tax is provided in the law on tax on transfer of land use right, coming into force on 1st July,1994.

Subject to the tax are those, who transfer their right to use land. The law provides several cases, when the transfer of land use right is free of tax. Those are alienation by the Government, inheritance, divorce, doing business in real estate...

The tax is levied on the value of and without improvements.

Tax tates vary from 5% to 20%, depending on status of landlord.

Exemptions are granted of Governmental employees, working in new economic zones or remote areas. A tax reduction up to 50% of the tax due is granted to invalids or veterans...

8. Land and housing tax

An annual tax on the use of residential, industrial and commercial land and housing is provided in the law on land and housing tax, coming into force in September, 1992 and amended in May, 1994.

All individual and organization, using land for residential, commercial or industrial purposes are subject to this tax. House and improvements are temporarily excluded from the tax base. Foreign invested enterprise liable to pay land rental are free of land and housing tax. Land used for charitable, religions and other public purpose as well as land of historical and cultural value are exempted from the tax.

The tax is calculated based on types of land. The rates vary from 1 to 32 times as much as the agricultural land use tax rates.

9. Natural resources tax (royalties)

The ordinance on Royalties was passed by the standing committee of the National Assembly in 1990.

Every person, exploring natural resources in the territory of Viet Nam is liable to pay this kind of tax.

Tax rates:

- Metal minerals:	from 2% to 10% (Gold 2% - 10%)
- Coal :	from 1% to 10%
- Oil, gas: provided in the petrol law	
- Non-metal minerals:	from 1% to 12%
- Forest resources:	from 10% to 40%
- Species; medicine herbs:	from 20% to 40%
- Sea products:	from 1% to 10%
- Others:	from 1% to 10%

The tax base is the selling price. The tax period is one month.

A tax reduction is granted in the cases of force major and several others.

10. Income tax on high income earners

Ordinance on income tax on high income earners was introduced in April, 1991 and amended in May, 1994.

Vietnamese citizens and foreign individual resident in Viet Nam deriving income from Viet Nam are subject to this tax. Taxable income includes regular income, such as salary, bonus...and irregular income, like royalties, lottery, gifts...

Tax period is one month. For irregular income the tax is due,whenever the income is received.

There are different tax treatment for Vietnamese citizens and foreigners

- For Vietnamese: 7 rates varying form 0% to 60% are applied at the threshold of 1,200,000 Dong per month.
- For foreigners, resident in Viet Nam and Vietnamese citizens resident overseas, there are 6 rates varying from 0% to 50% at the threshold of 5,000,000 Dong per month.
- For irregular income, the threshold is 2,000,000 Dong each time the income is received and the tax rate is 5% of tatal income, except 10% for lottery prize, exceeding 12,500,000 Dong.

The ordinance provides several cases, when exemption and reduction are granted.

11. Tax policy on foreign investment in Viet Nam

Basically, the foregoing tax policy system is applied to enterprises with foreign capital in Viet Nam, but the Law on foreign investment in Viet Nam provides a special profits tax treatment for foreign invested enterprises, It also provides regulations concerning withholding tax, import - export duties as well as land rental, applied only to them. The tax policy on foreign investment can be described as follows:

(1) Profits tax

1) Tax rate

- Standard tax rate: 25%. A higher rate applied for oil,gas and scarce natural resource exploitation.
- Tax incentives in form of lower rates are granted for encouragible investment projects in the beginning period:

+10% for most important sectors and industries.

+15% for infrastructure development and investment in remote areas.

+20% for high-tech, labor consuming projects or those with capital contribution of more than US$ 10 million...

2) Duration of tax reduction

+15%,20% from 5 to 7 years.

+10% from 8 to 10 years, not more than 15 years.

3) Exemption and reduction of profits tax are granted for investment projects, depending on their location, the total capital invested...in order to stimulate investment in particular areas or industries.

4) Profit used for reinvestment in a period of more than 3 years is free of the profits tax and therefore the tax paid on that profit is refundable.

(2) Withholding tax (or profit remittance tax)

There are 3 rates of 5%,7%,10% applied to the profit remitted overseas.

(3) Import tax

Exemption from import duties is applied to equipment, machinery, components, transport means, and materials imported for the establishment of foreign invested enterprises of for the creation of their fixed assets in Viet Nam.

(4) Land and water surface rental

Enterprises with foreign capital has rights to rent land during the period of their investment projects, but not more than 70 years. The rental paid by enterprises with foreign capital are higher than rental paid by domestic investors (approximately tenfold).

II. Evaluation of tax reform in 1990

The 1990 tax reform with the introduction of legal documents stipulating tax treatment uniformly applied in the whole country to all economic sectors is an important step in the economic reform process of Viet Nam, carried out in accordance with the renovation policy aiming at establishment of a market economy in Viet Nam. As compared with the proposed targets, tax policy system has obtained the following results:

	1991	1992	1993	1994	1995
Total collection of State Budge.	10,613	21,023	31,705	39,679	54,150
Increasing rate of State Budget.	32.40%	98.00%	50.80%	25.20%	36.40%
Total receipts of tax and fee.	9,844	18,514	28,623	36,410	52,400
Increasing rate of tax and fee collection		88%	55%	27%	36%
Ratio of Budget collection to GDP.	13.8%	19%	23.2%	22.8%	25.8%
Ratio of tax and fee collection to GDP.	12.8%	16.7%	20.9%	21.4%	24.9%

1. Revenue for the State Budget

Along with the economic growth, the application of a new tax system has resulted in considerably increasing State Budget:

According to the figures, we notice that tax and fees revenue is a large portion of State Budget revenue and those indices increase rapidly over years. The increase in revenue ensures current expenditure needs of the Government and results in decrease of extra expenditure ratio and inflation rate, and stabilizes prices. An increasing part of the budget is remained for savings.

2. Economic aspects

The new tax system operates more efficiently in terms of administering and controlling the economy. The introduction and uniform application of the current tax system to all economic sectors make it easy to create a fair, equal competition atmosphere for economic development.

The use of tax incentives to entrepreneurs encourages export-goods production and favors enterprises to invest in less-developed, severe condition areas, and at the same time creates good conditions for economic restructure and industrial restructure, following a tendency of increasing ratio of industries and services in the economy, simultaneously maintains growth rate of other industries.

Owing to the new tax policies, state-owned enterprises also operate more efficiently through strengthening control, consolidation and restructure of production.

3. Social aspects

The new tax system was uniformly applied to all economic sectors, classes of citizens has guaranteed fairness on tax liability of taxpayers. Income tax on high income earners not only redistributes incomes to reduce the gap among members of the society but also make the Vietnamese accustomed to a new kind of tax.

<Weaknesses of the current tax system>

Besides foregoing merits, new tax system also has certain weaknesses. Each kind of taxes has, in addition to the first target of creating revenue for the budget, several economical targets. Hence, the tax system becomes complicated with a multi-rate tax structure and many exemptions and reduction, which resulted in tax losses and inequity of tax treatment. Several taxes create cascading effects, in particular the turnover tax. These characteristics favor tax evasion and lessen the efficiency of each kind of tax.

The current tax base does not cover all sources, while tax rates of some taxes are too high, due to the inclusion of several kinds of taxes in one. For instance, import duties include also excise tax on imported exisable goods, what is not compatible with international practice.

Tax policies are supplemented, amended regularly to meet urgent needs, but at the same time makes it difficult for tax payers to comply, because instability of tax policies interferes business planning.

III. Trends of tax reform

To carry on the economic development strategy for the purposes of the industrialization and modernization of the country, the current tax system needs to be reformed to ensure stable sources for the state budget revenue and to mobilize more capital for the industrialization and modernization process as well as to encourage the contribution of all economic sectors to economic activities and their participation in production development. The tax system needs to be improved in order to accomplish its income redistribution function in the society. The tax reform is aiming at creating a simple, easy to understand and implement and efficient tax system.

A major step in the second tax reform is to replace the existing turnover tax by a value-added-tax (VAT), the existing profits tax by corporate income tax, and to introduce personal income tax, and to make amendments to and changes of other taxes by widening the tax base and reducing tax rates. Main goals of the reform can be described as follows:

1. To introduce a value added tax

VAT is designed to apply in 1998 on goods and services produced or imported by all business entities. Small businesses below a certain thereshold will stay out of the tax coverage. Temporarily, financial, banking, educational and public services as well as medical care will be tax exempt.

As regards tax calculation method, there is a possibility of using one of the two methods or both of them in parallel. Those methods are invoicing method and accounting method (caculation on bias between buying and selling prices).

The tax would have 3 tax rates varying from 5% to 20% and a zero rate. The tax base is price inclusive of tax.

2. Replacement of the profits tax by a corporate income tax

The intoroduction of a corporate income tax to replace the current profits tax is a measure to ensure a fair competition climate. The corporate income tax will be levied on all businesses deriving income, irrespective of the source of income earned. Households doing business will be subject to personal income tax.

The tax is designed to have a single rate of approximately 30% to 35%. Furthermore, the law will provide concrete tax incentives to encourage investment in certain industries and areas.

3. Replacement of the income tax on high income earners by a personal income tax

This kind of tax is supposed to become one of the most important sources for the budget revenue.

The tax is levied on worldwide income of Vietnamese citizens and alien residents in Viet Nam and on non-resident aliens deriving income from Viet Nam. The difference is the personal income tax coverage includes small businesses that are now subject to the current profit tax.

Taxable income will include both labor and investment incomes and other irregular income, like lottery awards, gifts...

Personal income tax is proposed to have 3 tax rates and the income tax rates are designed based on the principle, that income tax does not excess 35% of total annual income of an individual. Investment and labor income and income from other regular sources will be taxed at marginal progressive rates. irregular income will be taxed at flat rates.

4. Besides main directions of the basic tax reform, plans to promulgate Law on National Resources to replace the current Natural Resources Tax Ordinance, Ordinance on fees and premiums, Ordinance on tax structure and tax enforcement are also included in the second tax reform program.

5. Tax reform on direct foreign investment

According to the 1996 legislative program, Law on foreign investment in Viet Nam is to be supplemented, amended and the National Assembly is planned to pass it in October, 1996. In draft amendments to Law on foreign investment in Viet Nam, many problems have been raised, among them are tax problems.

With the promulgation of Corporate Income Tax Law, the current tax treatment for foreign investors is planned to be eliminated, and the corporate income tax with the same tax treatment will be applied on both domestic and foreign investors.

Furthermore,the current tax on profits remitted abroad can be replaced by a withholding tax levied on non-residents deriving income from Viet Nam.

11
Thinking about Financial and Monetary Policies and Measures in the 1996-2000 Socio-Economic Plan

Lai Quang Thuc
Ministry of Planning and Investment

I. The objectives to be pursued in the financial and monetary field during the 1996-2000 plan are

- To continue with the building up of a solid financial system which can cope with the basic demand of socio - economic development along the line of industrialization and modernization; to create stable conditions for Viet Nam's financial and monetary activitives to intergrate favourably with those of countries in the region and the world; the financial system should become one of the most efficient tools of the State in managing the economy and regulating at the macro level, various aspects of social activities.

II. Following are the concreate objectives

- To maintain and expand the sources of revenue, and efficiently mobilize capital and funds inside the country and abroad in order to meet the requirement of rapidly increasing the economic growth rate over the next five years (Average annual GDP growth of over 10%).
- To solve adequately the urgent requirements in the culture, social fields and in national defence and security...
- To firmly control inflation which must be kept below 10%.
- To continue to renovate the management mechanism in the financial and monetary field which should be in keeping with a multi - sectoral economy governed by the market mechanism, state management and international practice.
- To enhance the competence of officials involved in financial and monetary work so that they can be equal to the requirements of economic development.

To this end, some of the following major policies and measures may be carried out:

(1) To ensure the homogeneity of all financial, monetary, price, policies which should exert a uniform impact on the economy in keeping with the socio - economic objectives already laid down.

(2) The financial and monetary system must fully perform its control function by means of the currency and its role as a lever and must ensure the role of the state budget in stimulating production, in allocating resources for accumulation and social consumption, in effectively regulating income of classes of population and in restructuring the economy in keeping with the directions laid down by the 7th Central Committee Plenum.

(3) To strengthen the reserve funds, and in particularly the reserve funds relating to money circulation in order to be able to intervene in the market as and when necessary.

(4) To renovate policies and measures on investment capital for development.

If the per capital GDP in 2000 is to be twice as big as that of 1990, we must achieve annual growth rate of over 10% during the 1996-2000 period, which, through our preliminary consideration, would in turn require total investments worth US$58 to 60 billion during the same period (in accordance with average exchange rate 11,500 Dong to US$1, ICOR 3-3.5)but only worth US$41-42 billion (in accordance with average exchange rate in 1995).

This is a gigantic task, the solution of which should mainly depend on economic growth, and thrift for the sake of ever bigger accumulation. At the same time, we must actively mobilize, in diversified forms, potential capital within and without the country.

1) Potentials of internal capital

- State budget: It is projected that after deducting all current expenditures, repayment of internal and external loans and allocations for reserve funds, the remaining part of the state budget revenue during the 1996-2000 period should be channelled to development investments equivalent to 3-4% of the GDP. Further, budget bonds of various kinds may mobilize funds from the people to the tune of 1.4% of the GDP.

Thus, the 1996-2000 state budget will be able to allocate funds from internal sources for development investment amounting to about 5.0% of the GDP.

- It is estimated that various enterprises in the country would be able to use their own funds (basic depreciation of assets, profits...)amounting to 4% and to borrow from the people funds, that is a total amount equivalent to 5.3% of the GDP. The present estimate is based on the rising production and business efficiency of the enterprises in the forthcoming period and a fuller depreciation of the assets, as compared with the previous years.

- The banking system would be able, for the sake of development investments, to mobilize funds amounting to 3% of the GDP.

- The population: In addition to loans given to the state budget and to the banks and purchases of bonds issued by various enterprises, the population can directly invest a good amount of funds (6% of the GDP) to dwelling houses, production and business.

Thus, the total investment funds which could be mobilized during the 1996-2000 period amount to 19% of the GDP.

2) Stringent thriftiness diversification of funds mobilization channels.

3) Formation and development of the long - term capital market (stock exchange market, securities market).

Active preparatory measures must be taken for the organization of the long-term capital market:

- To work out and promulgate a decree on the stock exchange market, to organize the training of officials who would deal with the above market, to diffuse information among the population thereon, and to encourage the issuance of various bonds and securities, particularly those which are qualified for buying and selling in the market.

- To provide encouragement and favourable conditions for the extablishment of investment funds, insurance companies, financial companies which would attract funds from various sources (these are important fund absorbers which are able to work actively in the stock exchange market).

- To establish without delay a number of state or joint stock financial companies and stock brokers companies, and to give permission to foreign companies to enter into joint venture with state stock brokers companies.

- To set up organization which manage the stock exchange market such as those which supervise the issuance of bonds and securities, the companies engaged in stocks business.

- To promulgate the taxation system with respect to investments and business in stocks.

These preparatory measures must be urgently undertaken so that stock exchange transaction centres could take shape early in Hanoi and Ho Chi Minh City.

(5) To continue with the renovation of monetary policies

- To determine accurately the appropriate annual volume of money supply (depending on forecasts relating to the recycling of money, the economic growth rate, the inflation rate, etc...)

- Rates of interest:

+ To control the ceiling interest rate which is required by economic macro - management.

+ To bring the interest rates of Vietnamese Dong and foreign currencies closer to one another.

+ The interest rate on long-term loans must be higher than the interest rate applied to short - term loans.

+ To separate the state credits policy from the market interest rate policy.

+ To create stable conditions for a definite shift to market interest rates

- Foreign currency:

+ To proceed from an overall view of the economy in providing guidance to the rate of exchange and care must be taken to avoid sudden fever; indirect guidance must be carried out in accordance with the follwing principles: to encourage exports, to ensure the import of essential goods, to meet the demands in normal buying and selling of foreign currency...

+ To strengthen the inter - banking foreign currency market in order to develop the potentials of commercial banks, to rapidly increase the volume of transacted foreign currency in the market, and to encourage banks to engage in buying and selling competition in accordance with the signals of the market...

+ To work out scientific and practical studies which should serve as the basic for determining a realistic exchange rate, and to gradually link the exchange rate of the Vietnamese Dong with that of the group of hard currencies.

+ To build up a reasonable reserve in foreign currency in order to be able to intervene in the market as and when necessary.

(6) Renovation of activities of the banking system

- The State Bank should undergo continued renovation in order to become "the bank of banks" and be able to contribute an important part to economic macro - management through such tools as: obligatory reserves, rediscount (through resupply of capital funds), open markets...

To this end, it is necessary to gradually strengthen the relative autonomy of the Central State Bank, provide it with both responsibility and the capacity to take the initiative in planning and implementing monetary policies. We must work out and implement at an early date a law on banking which should replace the existing decree on banking.

- Commercial banks should undergo continued renovation along the following directions:

+ They must be really engaged in money trade.

+ Efforts must be continued to eliminate intermediary authorities in the banking system.

+ The commercial banks should be allowed to make capital contributions to, and enter into joint venture with other enteprises in all fields of production and business, while research and experiments must be conducted with respect to investments by various enterprises in commercial banks in order to either implement projects or cooperate in doing business with foreign countries.

+ The joint stock commercial banks and the financial companies should be organized so as to be in keeping with the requirements in development of each region and each branch regulations should be worked out to make it possible for them to growth in scale and funds.

- The activities of the joint venture banks must be reviewed and an orientation must be worked out which would allow them to develop and meet the demand of rapidly providing capital to the economy and would ensure a healthy competition in the whole commercial banking system as well as the control by the State Bank.

(7) We must continue to renovate the policies and mechanism on state budget management, and promulgate at an early date a Law on the State Budget which should be in keeping with the renovation of macro economic policies.

(8) Renovating taxation policies should involve the simplication of taxation system which should, in term of objectives, focus on and encompass all the revenue sources and do away with contradictions and duplications among various taxes... The business turnover tax should be replaced by the value added tax (TVA) and the number of tax-paying units should be further broadened. It is important to check up and closely manage the sources of revenue, and in particular the fund in construction land, the mineral resources, forests and sea expanse... Experiments should be made on the shift from the tax collection machanism to tax payment by payers in accordance with self-made declarations. We should, at a subsequent period, switch to policy of levying tax, on an equal basis, on both local and foreign investors.

(9) On budget expenditures: Strict thriftiness must be enforced in order to obtain ever bigger savings and allocates more funds to development. We should firmly carry out administrative reform which should be linked with efforts designed to reorganize the state machinery, to reduce intermediary authorities, enhance the management efficiency of the state machinery and to reduce the expenditures of the latter. It is important to amend and improve the system of quotas relating to state expenditures, and eliminate excessive expenses or experses which do not pertain to the functions of the state budget, and carry out the mechanism of controlling state budget expenditures and public funds through treasury and state auditing system.

(10)In dealing with excess budget expenditures, we must abide by the following principle: foreign loans(as also non -refundable aid) must only be devoted to development investment and must not be used for expenditures on consumption. We must limit and, subsequently, put an end to short-term loans and commercial loans secured for the purpose of financing infrustructure development and projects which have no posibility to recover the expended capital.

(11)To renovate the policies and mechanism dealing with financial management of enterprises.

It is important to reassess the capital and the regime of capital allocation to the state - owned enterprises. The state should exercise its ownership rights over these enterprises and the latter's must fulfil their obligations toward the state budget while the state should improve the organization and activities of Agencies responsible for budget management, state assets in order to coordinate integratively all state - owned funds in state enterprises as well as other enterprises in which the state share the contribution.

(12)To renovate policies on loans and assistance:

- The state contracts loans for the sole purpose of investing in infrustructural projects, economic and social, and in key enterprises which directly affect the development of the economy and the living conditions of the people. Meanwhile, urgent steps must be taken to approach the international capital market with a view to facilitating the sale of government bonds therein and mobilizing more funds for development.

If we are to be able to repay our debts in the forthcoming years, Viet Nam's foreign loans over the 1996-2000 period should be considered at a reasonable rate of the GDP, neither should they be below that mark as this would negatively affect our capacity to achieve the planned growth rate.

- While creating the conditions for state - owned enterprises to make internal borrowings, we should opportunities to directly contract foreign loans should be expanded to meet the demand of production and business. However, the efficiency of using these loans and the capacity of payment should be taken into consideration. It would be also allowed that foreign companies and foreigners can buy shares of stock companies of Viet Nam and equitized state-owned companies at a certain rate depending on business profile.

- We must ensure unified management and efficient use all of sources of assistance, and channel all loans and assistance to the correct objectives, to the right place and in the right time. It is important to eliminate all intermediary authorities in the receipt of loans and assistance so...as to overcome rapidly the difficulties and troubles being faced by the recipients and users.

- Repayment of foreign loans: repayment of old loans is the condition necessary for securing new and bigger loans. But loan repayments must also be in keeping with the capacity of our economy and in particular, the capacity of our State budget. It is necessary to work out a loan repayment strategy, establish a fund for foreign loans repayment in order to ensure the posibility of taking the initiative in repaying loans. The portion in the state budget which is devoted to loan repayment should be calculated at an appropriate ratio to the GDP.

(13)To work out policies and measures designed to conserve and develop the national property and assets.

(14)To bring about a basic change in the accouting and audit system which should be in keeping with international practice. To strengthen supervision and control in the financial and monetary field.

List of Members of Research Group

		Viet Nam Side		Japan Side
	Leader	Nguyen Quang Thai	Leader	Shigeru Ishikawa
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		Le Duc Thuy		Mitsuo Ezaki
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		Nguyen Buu Quyen		
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		Nguyen Dinh Phan		Masahiko Ebashi
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		Nguyen Tu Nhat		
		Nguyen Tien Hiep		
		Nguyen Quang Dung		
Agricultural and Rural Development Group	Chief	Nguyen Xuan Thao	Chief	Yonosuke Hara
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		Nguyen The Nha		

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Industrial Policy Group	Koichi Ohno	Koichiro Fukui
Agricultural and Rural Development Group	Yoichi Izumida	Seiji Shindo

Secretariat Ikufumi Tomimoto, Takaaki Ohiwa, Hiroyuki Mori

Record of the Vietnamese-Japanese Conferences in Phase 1 of the Study on Economic Development Policy in the Transition toward a Market-oriented Economy in Viet Nam

1. Preliminary Conference in Hanoi for Project Formation (May 1995)

Main academic members of the Japanese side participated in this conference. It was agreed that the project be proceeded as joint Japanese-Vietnamese study for the two year period ; the first year as Phase 1 and the second year as Phase 2. In this conference, the Viet Nam delegates requested that the Japanese academic members make, in a few months, comments and policy suggestions on the early version of the draft new Five-year Plan, which should be prepared soon. The Japanese side accepted this request, calling it as the request for "Urgent Proposal."

2. The First Hanoi Workshop (August 1995)

--- Urgent proposal for the Initial Draft of the Five-year Plan and discussion on research topics for joint study project

Monday, Aug. 28 (8th Floor, JICA Viet Nam Office)

Opening Sessions	
1. Opening remarks	Masaru Todoroki
Vietnamese side	Vo Hong Phuc
Japanese side	Norio Hattori
Session 1 (Macroeconomy)	
1. On Initial Draft Five-year Plan	
(1) Feasibility to achieve targets of macroeconomics growth	Shigeru Ishikawa
(2) State enterprise reform	Koji Haruta
2. Vietnamese presentation on the planning model	Nguyen Quang Thai
Underlying beneath Initial Draft of Five-year Plan	
Session 2 (Industrial policy)	
1. Urgent comments on the Five-year Plan	Yasutami Shimomura
2. Comments on Initial Draft of Five-year Plan on ASEAN, AFTA and APEC on the relationship	Shujiro Urata
between the economic growth of neighboring countries and that of Viet Nam	Kenichi Ohno
3. Vietnamese presentation	
Session 3 (Fiscal and monetary policy)	
1. Urgent proposals on Five-year Plan	Ryokichi Hirono
	Toshihiko Kinoshita
2. Vietnamese Presentation	Lai Quang Thuc

Tuesday, Aug. 29

Session 4 (Agricultural and rural development)	
1. Urgent proposals on Five-year Plan	Yonosuke Hara
2. Vietnamese presentation	
Session 5	
Discussion	
Session 6, 7	
Discussions	
-With the aim at clarifying priority of joint research work during phases 1 and 2	
-Questions	

3. The Consultation Meeting in Tokyo on Research Designs (November 1995)

— Discussion on the sub-topics for research groups of the joint study

Monday, Nov. 27 (Meeting Room C, 27th Floor, Shinjuku Mitsui Building)

1. Opening remarks and introduction of the members and other attendants of Japanese side	Shigeru Ishikawa
2. Introduction of the members of the Vietnamses side	Nguyen Thai Nguyen
3. Introduction of the New Five-year Plan of Viet Nam	Nguyen Quang Thai
4. Question & answer	
5. Consultation on the topics and research plan of the study (1) Review of the prior consultation of 22nd October (2) Vietnamese comments on the Japanese proposal on the research plan	
6. Presentation on the research plan & preparation of each sub-committee (1) Macroeconomy (2) Fiscal and monetary policy (3) Industrial policy (4) Agricultural and rural development (5) Question & answer	 Shigeru Ishikawa Ryokichi Hirono Yasutami Shimomura Yonosuke Hara
7. Presentation by the Japanese side on the final research plan	

Tuesday, Nov. 28

1. Sub-committee of macroeconomy (1) Growth, inflation and deficit of international balance of payment – Analysis by standard type models (2) Development and environment in industrializing Asia : An economic point of view	 Mitsuo Ezaki Shigeaki Fujisaki
2. Sub-committee of agricultural and rural development (1) Viet Nam : Agricultural and rural development (2) Issues of rural finance – Examples of Japan and Thailand	 Yonosuke Hara Yoichi Izumida
3. Sub-committee of fiscal and monetary policy (1) On the foreign saving mobilization, management of foreign debts and control of exchange rate (2) A research plan for two phases (3) Economic transition and fiscal manegement of Viet Nam – Further issues to be discussed	 Toshihiko Kinoshita Shinichi Watanabe Eiji Tajika
4. Sub-committee level discussion on the research plan	
5. Sub-committee of industrial policy (1) Proper choice of industry and technologies and the dualistic economy (2) Relation between Vietnamese economy and participation to AFTA and APEC	 Masahiko Ebashi Koichi Ohno
6. Wrap-up session (1) Discussion and agreement on the fiscal research plan (2) Consultation on the additional comments on the New Five-year Plan of Viet Nam (3) Any other matters relevant to the subject	

4. Tokyo Workshop (January 1996)

— General comments on the Draft Five-year Plan (CG Version) and agreement on Sub-topics of the joint study

Sunday, Jan. 28 (Meeting Room A, 27th Floor, Shinjuku Mitsui Building)

1. Opening remarks and overview Introduction of the members of the Japanese side	Shigeru Ishikawa
2. Introduction of the members of the Vietnamese side	Le Duc Thuy
Introduction	
1. Comments on Five-year Plan	Le Duc Thuy
2. Selected issues in the New Vietnameses Five-year Plan : Experiences of Japan and China	Shigeru Ishikawa
3. Disparity issues — Experiences of integrated regional development planning in Japan	Ryoichi Yamagishi
Macroeconomy	
1. Issues on macroeconomics in Viet Nam	Le Duc Thuy
2. Simulation analysis on growth versus stabilization	Shinichi Watanabe
3. Recommendation on industrialization and the protection of environment to Viet Nam — Based on Japanese experience	Masashi Hattori
4. Discussion	
Fiscal and monetary policy	
1. Fiscal and tax reform towards year 2000	Tran Van Ta
2. Mobilization of domestic savings	Ryokichi Hirono
3. Economic transition and fiscal management of Viet Nam : Further issues to be studied	Eiji Tajika
4. Research on mobilization of domestic savings	Shinichi Watanabe
5. Medium and long term finance in Viet Nam — Situation analysis and approach towards improvement	Kazuyuki Mori
6. External debt and FDI	Toshihiko Kinoshita
7. Discussion	

Monday, Jan. 29

Industrial policy	
1. On some issues of industrial development orientation in Viet Nam	Pham Quang Ham
2. Comments on the selection of the five capital intensive industries	Yasutami Shimomura
3. Outlook of the international market conditions and issues related to investment into the five capital intensive industries	Koichiro Fukui
4. Impact on Vietnamese economy by joining in AFTA	Koichi Ohno
5. Future direction of APEC after OSAKA meeting : Implication for Viet Nam	Masahiko Ebashi
6. Discussion	
Agricultural and rural development	
1. Vietnamese problems in agricultural sector and the possible measures	Nguyen Xuan Thao
2. On improvement of agricultural productivity in Viet Nam	Yonosuke Hara
3. Financial organizations in rural area : Asian experience and its possible application to Viet Nam	Yoichi Izumida
4. Discussion	
1. Remarks	Vo Hong Phuc
2. Wrap-up and closing remarks	Shigeru Ishikawa Le Duc Thuy

5. The Second Hanoi Workshop (March 1996)
-- Discussion on results of the Joint Research

Friday, March 1 (MPI Training Center)

Opening remarks	
1. MPI	Vo Hong Phuc
2. Embassy of Japan	Shiro Sadoshima
3. JICA	Masaru Todoroki
I. Macroeconomy	
(1) Macroeconomy and poverty in Viet Nam	Shigeru Ishikawa
Comments	Nguyen Quang Thai
(2) Macroeconomy and regional development	Nguyen Quang Thai
Comments	Shigeru Ishikawa
(3) Result of macro model analysis (Growth and stability)	Shinichi Watanabe
Comments	Nguyen Buu Quyen
(4) Environmental problems in Viet Nam	Le Dang Doanh
Comments	Shigeaki Fujisaki
(5) General discussion	
II. Industrial policy	
(1) Some issues on industrial policy	Pham Quang Ham
Comments	Kenichi Ohno
(2) Participation in AFTA and APEC	Koichi Ohno
Comments	Ho Quang Minh
(3) Small and medium size enterprises and agricultural industry	Nguyen Dinh Phan
Comments	Masahiko Ebashi
(4) General discussion	

Saturday, March

II. Industrial policy (Cont'd from March 1)	
(5) Five capital-intensive industries and possible problem for new investment	Koichiro Fukui
Comments	Ngo Dinh Giao
III. Fiscal and monetary policy	
(1) Financial reform toward 2000	Lai Quang Thuc
(2) Taxation reform in Viet Nam	Tran Van Ta
(3) Comment on fiscal and monetary policy	Vo Dai Luoc
(4) Comments by Japanese experts	
(4) - 1 Overall comments	Ryokichi Hirono
(4) - 2 Comments on the management of foreign capital mobilization	Toshihiko Kinoshita
(4) - 3 Comments on the domestic saving mobilization	Shinichi Watanabe
(4) - 4 Comments on the fiscal mobilization	Kazuyuki Mori
(5) General discussion	
IV. Agricultural and rural development	
(1) Diversification of agriculture in Viet Nam	Nguyen Xuan Thao
Comment : with special emphasis on the development of food crop	Seiji Shindo
(2) Development in the rural credit system of Viet Nam	Dang Tho Xuong
Comments from the perspective of the cooperatives and rural credit system	Yoichi Izumida
(3) Comments on agricultural improvement	Yonosuke Hara
Proposal of agricultural policy comments	Yumio Sakurai
(4) General discussion	
V. Discussion	
Conclusion	Shigeru Ishikawa Nguyen Quang Thai
Closing remarks	Vo Hong Phuc

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