

PREPARATIONS FOR FORMING STOCK MARKET IN VIETNAM

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Experience of foreign countries shows that all developed countries have to obey the economic laws (value, competition, supply and demand, etc.). In the market economy, all factors of production are goods and there must be markets for these goods. Therefore in

developed countries, in addition to the market for consumer goods, there are producer market, labor market, information service market, and stock market. This shows that the stock market is an important component of the market economy and it has all characteristics of a market. That is why the stock market comes into being and exists objectively in the economy.

The stock market is an organized market where securities are bought and sold. Securities are documents or certificates showing ownership of certain sums of money. They could be shares, stock or bonds issued by the Government or businesses and bear fixed interest.

In the past, the Government issued long-term bonds. They are first securities being sold in Vietnam. But because of their low interest rate and strangeness to the public, so there is no considerable demand for them. Moreover, the Government used administrative measures to persuade the public to buy them, so buying government bonds was considered as an obligation or a poll tax. These bonds couldn't lead to the formation of the stock market.

Recently, the Government has issued T-bills at high interest rate and 500 KV line project bonds whose value was made equal to a fixed weight of gold. Many state-run banks and joint-stock banks have also issued bonds of high interest rate and provoked a lot of interest from the public.

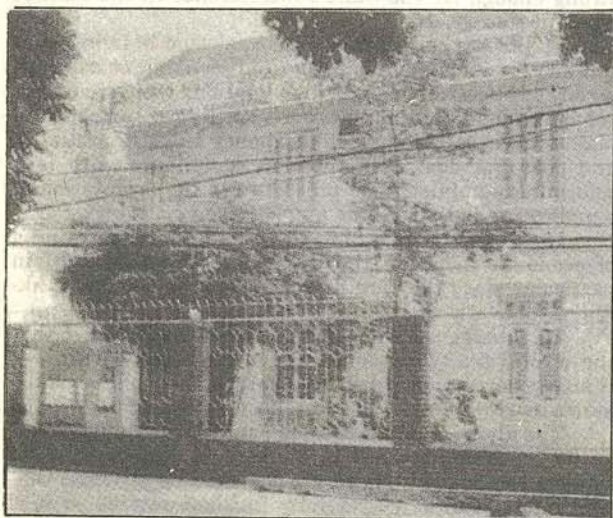
When the Government said yes to the multi-sector economy, the private sector developed, the Company Law was promulgated. According to this law, joint-stock companies are allowed to issue shares and bonds which could become commodities for the stock market. These shares and bonds, however, were sold only to company personnel and economic concerns, not to the public at large. If the stock market comes into being and securities are traded easily, large sums of money can be mobilized.

In order to facilitate the formation of the stock market, we had better make the following preparations:

1. Determination and mechanism for management

Recently, the Government has pay a lot of attention to the formation of the stock market, that is, theoretically, the Government's mind has been firmly made up. In July 1995, the PM decided on formation of a Stock Market Preparatory Commission which is responsible for: drafting a decree on forming the Securities and Exchange Commission and its statute; assembling an army of managerial officials specialized in the stock exchange; co-operating with foreign experts and organizations in organizing Vietnam stock market.

Thus, we have the legal infrastructure. What remains to be done is to organize a mechanism for management



which could absorb professional knowledge and skill, and control the stock market. In this task, we had better have our cadres study overseas, or invite foreign experts to come to our help by organizing workshops, seminars or giving training courses. This army of well-trained cadres will control the stock market effectively.

2. Commodities for the stock market

Like other markets, the stock market needs its commodities, that is to say, securities. So there must be supplies of securities.

At present, in Vietnam, there were some supplying sources:

- Shares of joint-stock companies with a total value of over VNĐ1,000 billion. They are issued by over 100 joint-stock companies, including 47 commercial banks, two finance companies and one insurance company.

- Bonds: Hoàng Thạch Cement Plant bonds were sold at VNĐ44.4 billion. Nguyễn Tất Thành street projects bonds collected VNĐ24.7 billion, bonds of the Bank for Investment and Development attracted VNĐ200 billion and US\$1 million; bonds of Bank for Agriculture VNĐ500 billion and US\$1 million; T-bill and 500KV line bonds over VNĐ100 billion. According to the Decision No 139/QĐNH signed by Mr. Governor on May 18, 1995, the State Commercial Bank will issue bonds in foreign countries.

The total value of these shares and bonds are worth around VNĐ2,000 billion. It's only a small sum in comparison with foreign stock exchanges, but it's considerable to a newly-born one as Vietnam's.

One of the characteristics of these bonds and shares is their big nominal value (no less than VNĐ1 million). Most of them are bearer bonds. One could sell or buy these bonds but with some difficulty. The sellers are mainly businesses or economic concerns, not the people at large.

In forming a stock market, supplies of commodities should be abundant, securities should be changed hands easily and attract both investors and the people.

In order to have reliable supplies of securities and meet above-mentioned demand, we had better take the following measures:

- Pushing ahead with equitization of state enterprises which the Government needn't control according to the Directive No 204/TTCP.

- Creating conditions favorable for issuing shares of joint-stock companies.

- Allowing healthy businesses to raise long-term capital by issuing shares.

- + Limited companies could issue mortgage bonds.

- + Joint-stock companies could issue mortgage bonds and transferable bonds.

- + State companies could issue ordinary shares with guarantee of the Ministry of Finance or the Bank for Investment.

- Circulating all kinds of securities, that is to say, they should be traded freely and insured by the law.

- Issuing project bonds by the Government with a view to raising needed capital for infrastructure projects.

3. Firms of stockbrokers

In the stock market, there must be stockbrokers, or firms of stockbrokers which we are lacking. If there are some stockbrokers now, they can't do business well because they haven't won trust of the people. The Government had better allow commercial banks, joint-venture banks, finance companies and investment advisory firms to do stockbroking business, because these organizations have had close relations with both investors and the people, had an army of experts in analyzing and predicting development of companies and of the economy as a whole,

so they are the most competent to act as advisors on issuing and trading securities.

4. Auditing

All companies, before issuing shares, should publicize their financial statements and related documents about their issuing shares. These statements and documents should be examined and verified by auditing firms. Based on conclusions of auditing firms, the National Securities and Exchange Commission could decide what share could be traded in the stock exchange. These documents will be publicized in the stock market.

In Vietnam today, there are many auditing firms including three state-run ones (VACO, established 1991; ASSC, 1993; and Auditing and Information Service Company, 1994) along with many foreign auditing companies (E&Y, KPMG, Price Waterhouse, Deloit Touche Tohmatsu, Arthur Andersen, Copper...) and rep offices of others. These companies will be a great help to us in equitizing state enterprises and forming the stock exchange.

5. Economic information

The managing bodies of the stock market aren't responsible for supplying economic information, but this task is necessary for the operation of the stock market, because the public and investors only buy shares or bonds from the stock market if and when they ever learn what should be learned about companies making issue. The economic information could help the National Securities and Exchange Commission decide on, or against share issuing of certain companies. Moreover, the public need to be kept informed about social, economic or political events which could have effects on stock trading.

6. Investment company

It's a financial intermediary investing the pooled funds of investors and businesspersons in securities. Companies of this kind will buy securities from the stock market. If they run short of funds, they can mobilize more capital from its participants. Their act of investing in the stock market is indirect investment.

There is no company of this kind in Vietnam now. In foreign countries, these companies could help investors find out the most profitable investment. In forming the stock market, the Government had better allow these companies to be established by issuing an act on this kind of company. At present there are 5 investment companies having rep offices in Vietnam. We can learn many lessons from them and make preparations for forming Vietnam investment companies and help foreign investors feel assured about investing in Vietnam.

Moreover, because our legal infrastructure hasn't been perfected, we had better soon make necessary economic laws such as National Budget Law (Finance Act), Bank Law, Accounting and Auditing Law, etc. These laws are necessary for the healthy and effective operation of the stock market.

In short, the formation of the stock market depends on the transition process to the market economy. In this transition, the promulgation and realization of practical policies and programs on economic development designed by the Government are of great importance. The formation of the stock market is attached to the task of building new economic mechanism. In order to attract both foreign and domestic investment, the Government has to map out a scientific and realistic plan to form the stock market which is considered as a way to realize the strategy for socio-economic development from now till 2000■