Year	Nominal exchange rate at year's end	Price index over previous year (%)		Price index compared with 1992 (%)		Real exchange rate compared with 1992
		Vietnam	U.S.	Vietnam	U.S.	
1992		117.5	103.1	117.50	103.10	10,800.0
1993	10,800.0	105.2	102.9	123.61	106.09	11,041.4
1994	11,041.4	114.4	102.5	141.41	108.74	12,323.3
1995	12,323.3	112.7	103.0	159.37	112.00	13,483.8
1996	13,483.8	104.5	102.9	166.54	115.25	13.693.5
1997	13,693.5	105.6	102.33	175.87	117.94	14,130.7
1998	14,039.1	109.2	101.61	192.05	119.84	15,185.6
1999	15,185.6	100.1	102.52	192.24	122.87	14,826.7

lems, many authorities have expressed their views on the exchange rate. For example, the postal service authorities worried about potential losses when the USD price rises because they owed a lot of foreign debts, and the Ministry of Finance shared the same opinion. In fact, they paid too much attention to their own interests and didn't know how to compare loss and profit based on increases in the price index. In 1998 for example, the rise in the price index allowed the tax take to increase by 9.8% in comparison with 1997 and 92.05% in comparison with 1992, while the increase in the USD price made repayment of foreign debt rise only by 7% compared with 1997 and 29.4% compared with 1992. In other words, the Ministry of Finance could gain profit from the difference of 2.8% (compared with 1992), or 62.6% (compared with 1992). The postal service secured foreign loans before 1996 at LIBOR rate plus a 1% rise in the USD price (about 7% a year) while other companies had to get loans from domestic sources at an interest rate of 25.2% a year. Thus, the postal service gained a lot of profits while exporters suffered loss after loss.

Because the argument against the effort to prevent overvaluation came from ministerial level, it should be studied and discussed thoroughly and we hope decisions on the exchange rate will be based on full attention to the real exchange rate.■

Notes:

(1) Vũ Ngọc Nhung, *Những vấn đề tiền tệ và ngân hàng* (Monetary and banking problems), HCMC Publishers, HCMC, 1998, p.123.

(2) Vũ Ngọc Nhung, ibid, p. 135 (the figure showing daily fluctuations of the USD price in the first three months of 1993)

In June 1998, PM Phan Văn Khải issued Decree 44/CP, as a replacement for Decree 28/CP, on changing state companies into joint stock companies (or equitization for short). This was a sign showing the Government's determination to reform the system of state companies – a major policy in the economic reform after 1988.

The most noteworthy in the decree was the permission to sell shares to foreign individuals and organizations. However, it took a year for the PM to issue Decision 145/1999/ QĐ-TTg on June 28, 1999 on the method of selling shares to foreign investors. And until recently, the Ministry of Finance issued Circular 132/1999 TT-BTC on Nov. 14, 1999 providing guidelines on this method.

Thus, besides the FDI, foreign capital in Vietnam, from now on, could take the FPI form (Foreign Portfolio Investment). If the FDI is hard to find and hard to be taken away, the FPI is much fluider, that is, foreign investors could put in and withdraw their money at any time they wish. Certain sensitive information could make foreign investors make important decisions, orders will be given and millions of dollars will be transferred from this country to another. The high fluidity of FPI could easily not only lead to wide fluctuations in stock prices but also upset the stock market.

To deal with this problem, all governments have set certain limits on flows of foreign capital, both FDI and FPI, in order to protect not only home industries but also foreign exchange and stock markets from troubles.

The said decree also set limit on the number of businesses done by equitized companies from which foreign investors could buy shares. The fact that the Decree 145/1999 allowed foreign investors to put money in 12 businesses engaging in ligh industry, road and water transport, and service industry showed that the Government was very cautious about opening the door to the FPI flow. This cautious approach, however, proved to be ineffective since 1996 when the banking authorities allowed foreign investors to become shareholders of joint stock commercial banks. Thus, the FDI and FPI could be found in the banking system -the backbone of the economy- and from which they could find their way to other industries. This situation makes efforts to limit the FPI to 12 businesses meaningless.

NEW POLICY ON EQUITIZATION OF STATE COMPANIES

by TRẦN TÔ TỬ

The second noteworthy detail in the decree was the definition of "foreign investors" being allowed to buy shares from equitized companies. The Circular 132/1999 considered as "foreign investors" all financial institutions or organizations operating outside Vietnam *including economic concerns with investment in Vietnam*; foreigners in Vietnam as residents or non-residents; and Vietnamese expatriates in foreign countries. Decree 145/1999 also stipulated that the total value of shares sold to foreign investors shouldn't exceed 30% of the company's legal capital.

Many people were of the opinion that there was still a loophole in this regulation: it's about foreign-invested companies in Vietnam. Joint ventures with foreign parties and foreign-owned companies have legal entity in Vietnam, therefore they aren't included in the above-mentioned category of "foreign investors". Thus, they couldn't be prevented from holding more than 30% of the company's legal capital when they have a second way, besides the said commercial banks, to invest in local companies through foreign-invested companies. That is why we think the phrase *"including economic concerns with investment in Vietnam"* isn't clear enough.

When the Government allows foreigners to invest in foreign-owned companies in Vietnam, the 30% limit on local companies' legal capital couldn't be used for restricting foreign control over local companies. When the Vietnamese currency becomes convertible in the trend of international trading liberation, the foreign control over local companies could cause bad effects on the Vietnamese financial market. Experience from the recent Asian financial crisis proved the need to be cautious about using the FPI.

Another controversial problem is the price of share sold to foreign investors. According to Decree 145/1999, shares are sold at the same price to both local and foreign investors. Circular 132/1999 allows shares to be sold to foreign investors at prices *equivalent* to, but *not lower than*, what local investors pay for the shares. When the value of share subscribed by foreign investors exceeds the 30% limit, the amount of shares will be sold by auction.

Some experts have argued that regulations set by those two documents were against the Companies Law that defines a share as the smallest portion into which the legal capital of a company is divided. Moreover, the face value of a share, according to Decree 44/CP, is fixed at VND100,000, then what price will the foreign investor pay for the share? (*Đầu tư* Weekly, Dec. 16, 1999).

Apparently, concepts of share, stock and face value of stock aren't well defined. The face value is used mainly for account purposes. In fact, the company can sell its stocks or shares at face value (that is, the value of the company as shown in its account books) or market value (the price that could be obtained when selling shares or stocks by auction in the market at a certain time). The market value may be different from the face value but the former always has a tendency toward the latter as stated in the Marxist- Leninist law of value.

Thus, regulations set by the two documents on the sale of shares and stocks to foreign investors aren't against Vietnamese laws and common practices in the market mechanism.

In the near future, however, when a stock exchange center is opened in Vietnam, shares or stocks from a company could be sold at two prices that reflect the demand and supply forces exerted by either local or foreign investors. This situation makes it difficult to avoid a case in which those two prices change in opposite directions because local and foreign investors don't share the same opinion about the value of these shares or stocks. To deal with this problem, two kinds of shares, or stocks, are issued by companies in China and some other countries, and named share A and share B for foreign and local investors separately.

The last problem we want to discuss here is a minor one: the way governmental bodies carry out legal regulations. In an equitized company where the State held more than 50% of shares, a foreign company is meeting with difficulties in acquiring 5% of the company's legal capital. The authorized body refuses to submit this matter to the central government because they think the foreign party wanted to buy "only a small amount of shares", then how should we think of the 30% level? Is it a maximum or minimum limit?

Such a way to realize a policy has discouraged a lot of foreign investors from doing business in Vietnam. They couldn't understand why there is a gap between a policy and its realization.■