

On the Financial System After Accession to the WTO

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I. OPPORTUNITIES AND CHALLENGES TO THE FINANCIAL SYSTEM

The global integration of an economy could include many levels: (1) Expanding the foreign trade in order to make the best use of comparative advantages, removing tariff barriers and liberating trade; (2) encouraging and attracting international sources of investment (direct, indirect sources and ODA), reforming the financial system and integrating it more fully into the world's finance market.

After the 1997 Asian financial crisis, Asian countries have made excellent progress in restructuring their financial sectors in order to prevent crises and improve their competitiveness and ability to deal with the increasing trend of globalization. The financial globalization has given rise to many financial centers. In East Asia, in spite of being considered as the dominant financial center in the region, Tokyo has realized increasing competition from other financial centers in Singapore and Hong Kong. In South-east Asia, the rise of Bangkok and Jakarta financial centers has led to a keen competition against Singaporean one for the control over domestic finance markets and international trade in currencies.

In such a situation, the Vietnamese financial system is still in its first stages of development:

- The finance market has a low starting point.

- Capital and monetary markets are not diverse enough; their scales are very small and their operations focus more on speculation than on supply of medium-

and long-term capital. The monetary market lacks necessary laws and regulations while the business climate is not transparent enough.

- There is no link and cooperation between the capital and monetary markets with the result that the banking system is still the main supply of medium- and long-term capital.

- Members of the financial system have various weaknesses: equity capital of most banks is small; facilities and technologies are obsolete; its services are simple and of low utility; there is no alarming system; and human resource is not well trained enough to carry out medium- and long-term development strategies.

Such a situation allows the following estimates of its opportunities and challenges:

1. Opportunities

Changes in domestic and international situations offer many opportunities to Vietnam. Above all, markets for Vietnamese goods and services have expanded considerably. Development of the information technology at a global level proves to be a precious resource that requires only a small cost for exploitation. This means that Vietnam can get access to advances in the information technology and keep pace with the world's progress. Development of the information technology facilitates trade between countries and regions expanding the scale of finance markets and financial services. This progress leads to sea changes in the financial business.

Integrating into the world finance market, Vietnam gets

chances to attract and develop banking services, insurance business and stock broking services from international financial intermediaries. Presence of the foreign institutions means that (1) The Vietnamese finance market, to a certain extent, is attractive in the eyes of foreign investors; (2) Demand for financial liberalization and fair competition (removing limits on operations by foreign financial institutions; lifting barriers to competition between finance market and traditional sectors; limiting government intervention in the finance market; etc.) become more urgent; (3) Foreign financial institutions will help modernize the financial system by introducing new products and technologies; and (4) Development of the financial sector will help attract more FDI, and the FDI, in its turn, stimulates development of the financial sector.

Finally, financial integration provides local companies with new opportunities to get long- and medium- term loans without limit. They could secure capital from international finance markets at low costs while local financial institutions could enter into the world finance market to look for new customers and business opportunities.

2. Challenges

The greatest challenge to the Vietnamese financial system is the Vietnam's poor growth competitiveness. In the World Economic Forum GCI ranking for 2005, Vietnam ranked 81st with 3.37 point down by four places compared with 2004. This means that Vietnam's competitiveness was much lower than many re-

Table 1: GCI ranking of some Southeast Asian countries in 2005

Country	Growth Competitiveness Index		Technological readiness		Public institution		Macroeconomic environment	
	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score
Singapore	6	5.48	10	4.93	4	6.25	1	5.82
Malaysia	24	4.90	25	4.22	29	5.36	19	5.12
Thailand	36	4.50	43	3.69	41	4.88	26	4.94
Indonesia	74	3.53	66	3.13	89	3.58	64	3.89
Philippines	77	3.47	54	3.43	104	3.30	71	3.69
Vietnam	81	3.37	92	2.72	97	3.43	60	3.96

gional countries. This ranking is based on estimates of three following aspects:

a. Technological readiness: This sub-index reflects developments of basic infrastructure, technological and scientific infrastructure, managerial level, education, health care and environmental protection. Vietnam ranked 92nd while Indonesia took the ranking of 66th, Thailand 43rd and Singapore 10th. To become a financial center, therefore, Vietnam should reach the medium level for technological innovation, that is, higher than 3.0.

b. Public institution: This sub-index reflects efficiency of the government by assessing the fiscal policy, legal infrastructure, social framework and improvements in financial standards and financial system. With a score of 3.43 for this sub-index, Vietnam was ranked 97th while Indonesia achieved the ranking of 89th, Thailand 41st, Malaysia 29th, and Singapore 4th.

The Asian financial crisis shows that financial systems in the region were weak and lacked financial criteria, which led to instability of finance markets. Even countries with leading financial centers, such as Japan, lacked strict financial regulations needed for their stability. Vietnam's financial authorities should pay attention to the following tasks: restructuring financial institutions and state-owned

companies; dealing with bad and doubtful debts; and working out standards for accounting and auditing businesses. The reform in the financial system also requires a large fund that will need time to accumulate.

c. Macroeconomic environment: This sub-index is based on estimates of economic growth, foreign trade, international investment, labor and market prices. Vietnam was ranked 60th in this terms compared with the ranking of 26th for Thailand, 19th for Malaysia and 1st for Singapore.

At present, the scale of Vietnamese financial institutions is very small in comparison with their counterparts in the region. Competing against them seems to be beyond reach of local institutions.

II. MAIN TASKS OF THE STRATEGY TO DEVELOP THE FINANCIAL SYSTEM

1. Developing the domestic finance market

a. Bond market: T-bills of maturity of 10 years or longer could be issued regularly until they account for 20-30% of this market. Procedures for issuing bills and bonds should be reformed according to international practices in order to encourage foreign participation.

b. Securities market: Its transparency and efficiency must be improved, the role of organized investors beefed up, trans-

action cost reduced and a customer-oriented market established.

c. Monetary market: Trade in foreign exchange must be liberated by adopting a new exchange rate system with a view to encouraging flows of foreign exchange. The domestic market must be connected with regional ones.

2. Developing management of assets

Modern methods of managing assets must be applied to pension fund of the social security system. Methods of asset liability management should be applied to national debt. Foreign asset management companies could be allowed to take part in the local finance market.

3. Developing financial services

All banking, insurance and finance market services should be developed. Full attention must be paid to services of fund management, and bad debt management.

4. Beefing up the global network of financial technologies

To attract foreign financial institutions, the domestic markets must be made more attractive by offering incentives and implementing reforms in financial regulations. To enhance the competitiveness of local financial institutions, authorities must encourage them to expand its operations and scopes.

5. Strengthening supervision mechanism and financial regulations

In the coming years, the Government should enhance efficiency of the supervision mechanism and enforcement of financial regulations. This effort can make financial regulations more flexible and effective and encourage full participation of market forces. The supervision mechanism must comply with international standards and aim at preventing and controlling risks.

III. STAGES OF THE DEVELOPMENT OF THE FINANCIAL SYSTEM IN THE POST-WTO PERIOD

The financial system should aim at fulfilling the following functions:

- Preventing risks and increasing liquidity of the market
- Supplying a wide range of financial services
- Mobilizing local and foreign sources of capital for all customers

The development of the financial system is based on:

- + Economic growth and international trade
- + Favorable macroeconomic environment: political stability, tax incentives or deregulations, etc.
- + Improvements in social factors: living standard, labor force, etc.

The following table shows the planned stages of development of the financial system.

1. Period 2006-2010

Full attention will be paid to tasks of developing the finance market and local financial intermediaries that could smooth the flow of funds between "savings surplus units" and "savings deficit units" supporting the economic growth. To achieve this aim, the Government should deal with the following problems:

- Size and scope of financial activities should be consistent,

Development stage	Period
Strengthening and building the infrastructure, including some strategic technologies used for the system	2006- 2010
Building a financial center specializing in asset management	2011 – 2020
Developing into a major financial center of the region	From 2021 on

large and well- expanded in order to attract more and more individuals and organizations. Range and quality of financial services must be increasingly improved with lower costs and more suitable to international practices.

- System of financial institutions, technical facilities, supporting services and human resource of the system must be modernized and improved in both quantitative and qualitative terms. Direct and cooperative relations at both national and international levels must be developed.

- The capital market will be modernized by improving the transparency and efficiency of securities and bond markets. Asset management should be considered as a leading field that could attract more foreign financial institutions to Vietnam. Good asset management could (1) help distribute and employ effectively sources of capital on the finance market; (2) create close connections between business circles, stock market, insurance companies and banks in the asset management field; and (3) create a

risk preventing mechanism in order to stabilize the market and protect interests of investors.

- State control over financial services must be beefed up with a view to ensuring both international practices and commitments; and safety and profit for the whole system.

2. Period 2011-2020

Efforts must be made to establish a developed financial system regarding the following aspects:

- A center for asset management with the presence of international asset management companies.
- The increasingly important role of foreign financial institutions in supplying capital to local customers.
- Initial ability of local financial institutions to supply capital to foreign customers.

3. From 2021 on

Vietnam becomes an important financial center in Asia, specializes in asset management and acts as an intermediary between foreign suppliers of capital and foreign users of capital.■

Pho to by Huỳnh Thơ

