

Foreign Indirect Investment in Vietnam

by BÙI THỊ TRÚC QUI

The foreign indirect investment, besides bringing about capital and new drive to the finance market, involves more risks than other sources of foreign capital do. From 2002 on, the FII has increased steadily and up to June 2006, 16 foreign investment companies and mutual funds with a total working capital of US\$1.9 billion have made their appearance in Vietnam. Foreign investors have bought shares from equitized companies and commercial banks. However, the FII equals only 2% or 3% of the foreign direct investment while this figure in some neighboring countries varies between 30% and 40%. In recent years, the capital market hasn't developed and negative effects of the FII on the 1997 Asian financial crisis prevented policy makers in Vietnam from paying full attention or appreciating this source of finance. At present, Vietnam's got enough conditions to manage the flow of FII although it is still new to most governmental bodies.

Up to January 2007, 41 companies have listed their shares in the HCMC Securities

Trading Center and 11 in the Hào Nội Securities Trading Center. Data in July 2006 show that the HCMC Securities Trading Center was capitalized at VND44,442 billion and the Hào Nội Center at VND15,000 billion.

The total capitalization of the stock exchange equals some 7.6% of the GDP (around US\$3.8 billion). In the near future, at least seven companies will be licensed to list their shares and the stock exchange will equal some 8.5% of the GDP this year.

Listed companies attract not only capital from private and state-owned companies but also the FII. Presence of organized investors, and mutual funds in particular, will help increase the market demand and liquidity of the market. More importantly, they can help establish the market price of securities professionally, thereby reducing non-market effects caused by speculation. As experienced shareholders, organized investors can help improve the management of listed companies and affect their business performance.

Although the Securities Law is to be introduced, the quality of financial statement and audit reports are not satisfactory because of differences between local and international accounting standards. This situation makes it difficult for foreign investors to read financial statements audited by local companies. Moreover, there is no credit rating agency and statistics supply service in Vietnam.

The legal infrastructure is also a problem. The Investment Law and Companies Law, promulgated in 2006, couldn't be applied because of the lack of decrees and circulars from relevant ministries.

Foreign investors find it difficult to gather necessary information about investment opportunities. Few brokerage firms can supply information in such common languages as English, French, Chinese or Japanese.

To improve the situation, we suggest the following measures:

- Making necessary guidelines on implementation of the Investment Law and Securities Law with the liberation of both indi-

rect and direct foreign investment in mind.

- Making information for the investing community transparent, and encouraging international rating agencies, such as Standard & Poor's Moody, to open their branches in Vietnam.

- Encouraging foreign financial institutions to buy shares from leading banks or local brokerage firms by loosening limits on foreign ownership of equity capital of local companies; or removing totally this limit on the ownership of companies in industries where the State need not hold under its control.

- Introducing policies on equal opportunities for local and foreign investors and putting foreign investors' assets under protection by law.

- Liberating current accounts in order to facilitate both inflow and outflow of investment and leaving the control over them to the banking system.

- Beefing up the task of maintaining security for the financial sector in order to keep flows of capital under control by enhancing cooperation between banking, financial and stock exchange authorities.

Because the flow of indirect investment runs through many countries, the security for the financial sector must be based on cooperation with foreign counterparts. ■