

From the commodity aspect, I think that for the establishment of a stock market in Vietnam, the most essential thing is the supply of commodities to this market, and then, the demand and supply relation, or the exchange of these commodities, must become commoner in the socio-economic life.

1. Commodities traded on stock market

Securities, main commodities traded on the stock market, are documents that identify legal ownership of investments put in or lent to an economic concern for interest. Securities include two principal classes: shares and bonds.

Share is a document of ownership of a company's shares which are parts or portions into which the capital of the company is divided.

suer. Stock buyers are in fact persons who look for the future of the joint stock company.

In spite of these differences, both shares and bonds have the following common characteristics:

- They aren't money and have no value in themselves, but they are certificates of ownership of capital.

- Although they couldn't be used directly in production and life, but they give holders the right to obtain certain income.

- This right becomes the object of exchange.

- The price of this right is regulated by the interest rate (the interest rate of a bond is also affected by the bank rates, whereas the interest rate of a stock depends also on the prospect of the company).

These characteristics show that securities are commodities. At first they are sold by issuers. Later, they are traded on the market and lead their own life and become objects of exchange.

Those who trade in securities not only have interest in regular income coming from them but also want to speculate in them and make big profits. Due to the attractiveness and profitability of this business, the stock market comes into being. Realities show that the stock market couldn't come into being and exist without securities, or when securities aren't well circulated according to laws of the market economy.

2. Supply of and demand for securities in Vietnam

At present, although securities have made their appearance in Vietnam, many problems, especially ones concerning securities themselves, need to be solved before a stock market can be formed. These problems are as follows:

- *Quality of securities:* As stated above, securities are sheets of paper or documents. The exchange of them doesn't aim at obtaining these sheets, but the ownership of income which these documents could bring about. This possibility forces buyers to pay attention to the financial situation of issuers. They will want to gather information about these concerns (business performance, price of securities issued, members of the directorate and board of directors, plans to employ share capital, banks that give guarantee, etc.) before deciding on buying shares. This information must be examined carefully as required by law and proved to be trustworthy. However

SOLUTIONS TO THE SUPPLY OF COMMODITIES TO STOCK MARKET

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The shareholder is supplied with a certificate called share. In short, share is a kind of securities issued by a company.

Bond is a formal document promising to pay a sum of money. It acknowledges the existence of a debt owed by issuer to holder. The bond bears a fixed interest rate and will be repaid at a fixed date. Unlike shares, bonds could be issued not only by a company, but also a government (central or local ones). Shareholders have the right to share in the management of the company, but bondholders don't have this right. On a bond, the interest rate is stated clearly, as for stocks, the interest rate depends on the business performance of the is-



in Vietnam, there is no organization supplying credit rating, so information about companies and businesspersons is very limited.

- *Quantity of securities:* Besides T-bills, bonds issued by banks, project bonds... many securities are also issued by joint stock companies in Vietnam, however the number of these securities is small. According to the Department of Business under the Ministry of Planning and Investment, up to mid-1996, of 34,616 companies all over the country, there are only 173 joint stock companies (or 0.5%). Securities from these companies were sold mainly to founders and those who buy them at the issuing day, that is, there is no possibility of exchanging them.

- *Face value of securities:* The face value of shares issued in Vietnam (which varies from VND100,000 to 200,000) is reasonable and able to attract the public. They are also suitable to international practices, however the face value of bonds is rather high (from VND1 million up to 100 million), moreover most of them are payable after one year so it's difficult to exchange them. Certain bonds even required approval from the issuer before they could be traded. This regulation makes it more difficult to exchange them.

- *Knowledge of the public:* Most Vietnamese people have only a limited knowledge of securities and operation of stock market. Basic concepts of securities, stockbroker, prospectus... haven't been disseminated and theorized. The exchange of securities depends mainly on personal knowledge and evaluation. Business managers have grown accustomed to traditional ways of forming capital (practising economy, borrowing from banks or getting grant-in-aid from the Treasury...) and paid no attention to the source of capital from the stock market. Even managers of financial intermediaries (credit unions, banks, etc.) that have an important role in issuing shares or stockbroking also lack necessary knowledge of methods of managing, analyzing and trading in stock exchange business. Most issues of shares made by commercial banks recently have aimed only at forming capital and failed to anticipate the exchange of stock after the issue.

- *The public attitude:* As investors, share buyers want to be sure that their investments are not only profitable, but also safe. They usually wonder if their money put in

share is as safe as in T-bills or savings account. Up to now, the collapse of the system of credit unions some years before have made them doubtful about making investment. Perhaps bonds issued by banks seem less attractive than T-bills and savings account regarding interest rate (for example, the municipal bonds for upgrading Nguyễn Tất Thành street have attracted VND30 billion, but besides banks and companies, there are only three private persons who bought 5 million worth of these bonds). The public tend to put money in state-run banks because of high interest rate and low degree of risk. They are usually reluctant to invest in shares or stocks. In fact, accepting risk in investment isn't common among Vietnamese people.

The situation shows that there are many obstacles, from both supply and demand sides, to the development of securities trade in our country. The exchange of securities seems far from common.

3. Suggested solutions

Because securities, especially shares, are main and essential commodities for a stock market, so active and effective actions must be taken to form a stock market in Vietnam. Vietnam is a later developer so it can make use of experience of many developed countries.

The following are our suggestions about how to improve the supply of and demand for securities:

Firstly, to increase the amount and enhance the quality of joint stock companies with a view to making them more familiar to the public is an useful way to increase the supply of securities. Equitization of state companies which needn't be totally under the public ownership is also a helpful measure. Four years after the equitization program, only 10 state companies were equitized. This speed is too slow.

The amount of bonds issued must be increased and their face value fixed at a reasonable level in order to make them saleable.

Secondly, the demand for securities could be stimulated by popularizing exact information about companies calling for capital. This source of information must be examined as required by law. In this matter, proper attention must be paid to the role of auditing companies. Companies issuing shares must demonstrate that income from their shares is more promising than interest paid by banks. Information



about securities and exchange of securities must be carried regularly by mass media.

Thirdly, the Government had better take measures to encourage the development of traditional financial markets, especially money and capital markets and the formation of brokerage firms and investment institutions. Commercial banks have to become more involved in exchange of securities.

The development of securities and the stock market is totally suited to our Constitution. The Companies Act promulgated in December 1990 allowed the issue of bonds and shares and the exchange of bearer shares. Other relating law documents are being perfected and amended. The Decree 59/CP issued by the Government on Oct. 3, 1996 allowed state companies to issue bonds and receive investments of all kinds. These documents provide a basis for increasing the supply of securities. However, we need a securities act to make them circulate easier and become real commodities. Other relating law documents also need to be amended and perfected with a view to making them a complete system.

Fourthly, there must be programs to provide the public with knowledge of securities and stock market and train managers and brokers for the stock market. This knowledge, for the time being, must be available in all universities and colleges (instead of in colleges of economics only), and then, in high schools as what was done in other countries.