Investment by Foreign Banks in Vietnam

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In implementing the policy to attract foreign investment to Vietnam in the past two decades, the banking sector has obtained encouraging results that are as follows:

- Creating favorable conditions for foreign investors who are customers of holding banks in their home countries and want to seek for business opportunities in Vietnam.

- Supplying capital to investors who want to carry out their projects in Vietnam. In fact, the registered capital of these foreign-invested projects are supplied for the most part by branches of foreign banks or banking joint ventures; or financed by financial leasing companies in various forms.

- Providing various banking services (international payment, money transfer, currency exchange, export and import financing, advisory services, etc.) to foreign investors in Vietnam because they are usually customers of the holding banks in their home countries.

Up to the end of 2006, there were 35 branches of foreign banks, five banking joint ventures, four financial leasing joint ventures and one foreign financial leasing company. These financial concerns come from 14 countries and territories. In addition, there are 49 rep offices of foreign banks in Vietnam. Through the stock market, nine foreign banks and financial groups have bought from 10% to 30% of equity capital of local commercial banks.

Foreign banks doing business in Vietnam are all in the top 100 or top 500 lists, including Citi Bank, Chase Manhattan Bank, America Express, Tokyo and Mitshubishi Bank, Fuji Bank, Deutsche Bank, Berlin Bank, ABN-Amro Bank, Hongkong and Shanghai Banking Corporation, Standard Chartered Bank, UOB, Keppel Bank, OCBC, Calyon, Socieùteù Geùneùral, Natexis Banques Populaires. BNP, ANZ, Hanil Bank, Korea Exchange Bank, and many others from Thailand, Malaysia and Taiwan.

Up to the end of 2006, foreign banking institutions have put some US$1 billion in their projects and shares from local commercial banks, not including deposits sent from their home countries. Total assets of branches of foreign banks and foreign-invested banking institutions amounted to some VND200,000 billion equaling 20% of the total assets of the banking sector making an increase of 50% as compared with 2005.

The total loan and investment by branches of foreign banks and banking institutions in Vietnam up to the end of 2006 amounted to some VND60,000 billion (some US$4 billion) increasing by over 20% as compared with 2005. Regarding the past 10 years, foreign banks and financial institutions have put some US$10 billion in foreign-invested projects in Vietnam. Some banks also bought various kinds of government and private bonds.

At present, they are interested in expansion of their businesses in Vietnam by building more branches, buying shares, entering into partnership, offering financial leasing services, co-financing major projects, underwriting issues of bonds at home and abroad for local companies, etc. This effort not only increases the foreign investment in Vietnam but also encourages fairer competition in the banking sector.

Besides lending and investing in Vietnam, foreign banks also have advantages of expanding their shares in modern banking services (such as international payment, trade in foreign exchange, immigrant remittance, etc.) supplied to foreign investors and foreigners living in Vietnam. Some branches also start offering services to investors in the stock market.

In 2006, the pre-tax income earned by foreign banking and financial institutions reached VND1,700 billion accounting for 18% of the total pre-tax income of the banking system.

As a WTO member, Vietnam has to open its banking and financial sector to foreign competition. This means that customers could enjoy more banking services from foreign banks and local banks could suffer some contraction of their market shares if no effective measures are taken. According to WTO commitments made by Vietnam, American and foreign banks are allowed to foreign –owned branches in Vietnam as from April 1, 2007. They will enjoy the national treatment after Vietnam becomes a WTO member. They are entitled to handle deposits in the VND and issue credit cards without limit.

Thus, the competition in the banking sector will be keener. Some experts even predict that foreign banking services will flood the market because export, capital movement and international payment services are on the increase.

In 2005, The Cathay United Bank from Taiwan opened a branch in the Chu Lai Open Economic Zone. The Hongkong and Shanghai Banking Corporation opened its second branch with a legal capital of US$15 million in Hà Nội (its first one is in Cần Thơ. It also bought 10% of equity capital of the Joint Stock Bank for Technology and Commerce (Techcombank) in 2006. Thus, the HSBC becomes the foreign bank with the biggest legal capital in Vietnam (US$30 million) not including its investment in the Techcombank. At present, some 30% of sales earned by HSBC – Vietnam come from the international payment service. Three years ago, local companies accounted for only 3% of its customer base and this figure rises to 50% now.

May Bank from Malaysia also inaugurated its second branch in Vietnam last year. In January 2006, Standard Chartered Bank opened its second branch in HCMC (its first one is in Hà Nội). In June 2006, General Electric Money – a division of the GE Group – got license to open its rep offices in Hà Nội and HCMC in preparation for operations at large scale for the Group in Vietnam. GE Money is good at supplying consumption loans and has gained remarkable success in China where it helped customers buy new cars.

In July 2006, Hua Nam Commercial Bank, Ltd. from Taiwan received the license to open its branch in HCMC with a legal capital of US$15 million. From 2005 on, many Taiwanese banks have opened their rep offices in Vietnam. The branch of Chinfon Bank has operated well in Vietnam for 10 years. Exchange of goods and services, investments, and money transfer between Vietnam and Taiwan is increasing fast, which encourages Taiwanese banks to find footholds in Vietnam.

The third field that attracts many foreign banks is investment in local joint stock commercial banks. ANZ from Australia, IFC under the WB and Dragon Financial Holdings in England have bought 30% of equity capital of Sacombank; Standard Chartered Bank bought 10% of equity capital of ACB while two other investors bought 20%; HSBC bought 10% of equity capital of Techcombank; and OCBC from Singapore bought 10% of equity capital of VP Bank and has planed to buy a 10% more. Many banking groups from France, the U.S., Singapore and Germany have made plan to do the same with other local banks such as Phương Đông, Phương Nam and Habubank. This is an effective way to expand their operation and market shares in Vietnam by making the best us of existing network and public image of local commercial banks. This approach is also less costly than the building of new branches.

Many foreign finance companies are studying procedures for establishing foreign-owned finance company in Vietnam. They are specialized in operational leasing, supplying consumption loans and issuing credit cards.

Expanded operations of foreign banks in Vietnam produce both favorable and unfavorable effects but the former are more prevalent because they help attract more foreign investment, encourage developments of modern banking services and accelerate reforms in local banks and companies, especially in state-owned ones.■