OPPORTUNITIES AND CHALLENGES FROM THE LIBERATION OF FINANCIAL SERVICES

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The liberation of financial services is inevitable on the way to international integration. This process brings about many benefits and quite a few risks when the domestic financial system is defective, the law system imperfect, the supervision mechanism still lacking, transparency of the policy-making process limited, performance of local managers and experts poor and badly affected by the old thinking way.

1. Opportunities

WTO researches show that the liberation of financial services, including the presence of foreign financial institutions, can help reduce distortions and damage to sources of investment and facilitate the economic stability. The liberation also makes domestic and foreign capital movements effective and active channels for fund mobilization.

An open financial service business helps diversify choices and improve customer services. The foreign participation encourages reforms and helps customers get access to modern products and technologies, and maintains stability and development of the financial market. Researches on the financial crisis in South America show that during the crisis, foreign banks in this region increased credits for domestically owned businesses. In the financial advisory service, ability to get access to this service allows local trading companies to estimate potential opportunities to increase investments, customers to choose their retirement plan and investors to diversify their investments. Some governments also decided that the social welfare system should be supplemented with programs to create new jobs and increase savings for retirement. This provides conditions for the development of the capital market and requires better management of pension funds in the private sector.

For a country, a strong and healthy financial system is important to its integration into the world economy and the development of trade in goods and services. Ambitious financial commitments will help suppliers of financial services and the whole country as well, attract foreign investment through e-commerce and supporting technologies. Tourism, for example, can't develop without insurance services needed for reducing inherent risks. The tourism business need access banking services and credits to expand or adjust its operation and credit card system. Farmers benefit from access to financial information, including the newest about changes in prices on the world market needed for their decisions on time and scope of production. The insurance service helps farmers protect themselves and avoid risks caused by diseases and changes in the weather. These producers also benefit from banking services, cuts in production cost and diversification of credits. The liberation of the financial sector provides new opportunities for related industries. For example, banks, insurance companies and stock brokerage firms always feel a need to process data, which therefore encourages the de-

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velopment of new markets and the demand for computer-related services.

The liberation of financial services also creates new jobs. Both financial services and supporting ones – such as accounting, legal advisory and computer-related services- demand skilled labor and accelerate the development of skilled employment.

The liberation also leads to access to new technologies. It has encouraged online banking, stock brokerage, insurance and financial information. As time passes, cross-border services contribute more and more to the financial sector. Many countries, such as China, Hong Kong, Singapore, Mexico and Brazil have supplied various financial services of regional and international standards.

Many researches show that the liberation of the financial service affect first and foremost the banking system. In comparison with foreign banks, Vietnamese banks enjoy an advantage of a widespread network, close relations with customers and knowledge of customers' psychological aspects. That is why the presence of foreign banks in Vietnam gives fresh impetus for local banks to improve their ways of supplying financial services and reform the banking services and management according to international practices before they can go into cooperation with foreign partners based on their advantages.

In the insurance business, the liberation provides customers with more choices and limits asymmetric information between buyers and sellers, including the foreign ones. On the stock market, the presence of foreign investors will make the Vietnamese stock market busier.

2. Challenges

- Instability and complexity of derivative products: Many researches show that the trade in derivative products is a dangerous field although it helps reduce risk for investors because they could easily lead to speculation. However, this doesn't mean that governments should ban derivative products, quite the contrary. The problem is how to get full knowledge of them to use them effectively and usefully.

- A stable financial policy as a basis for the liberation of the financial sector: From 1990 on, the Vietnamese monetary policy has become less dependent on the fiscal policy and more independent in regulating the macroeconomic activities. Market forces, although they aren't strong enough, have been taken into consideration be the SBV when adjusting macroeconomic objectives. From 2000 on, the SBV has replaced direct regulating instruments with indirect ones. And recently, the SBV has allowed the Eximbank to carry out a pilot scheme to use options as a measure to prevent the exchange risk. This could be considered as a new development in implementing the monetary policy.

The interest rate in Vietnam was really liberated in June 2002 when the lending rate was based on agreement between related parties. The liberation of the interest rate should have been in parallel with the implementation of exchange control if the SBV hadn't been too cautious. Although officials from the SBV always affirm that the exchange rate is regulated according to signs from the market but this affirmation has failed to persuade the public and investors.

Such an inconsistent monetary policy could lead to inflation and crises in the banking system. If the government decides to increase the money supply to save the banking system, the inflation mat become more serious. And this vicious circle offers no exit.

- Contradiction between Vietnamese laws and the agreement on liberation of financial services: If there are contradictions of this kind, priority will be given to regulations set by the agreement. This means that the Vietnamese law must be changed or amended. As for the banking system, the SBV has launched a program to make law documents needed for the liberation. It's planned that in 2003, the SBV will issue 13 documents relating to ATM, limit on deposits in foreign exchange and domestic currency kept by foreign banks, proportion of short-term deposit used for supplying medium- and long-term loans by foreign banks, supply of banking information, control over foreign exchange according to the BTA, guidelines on monetary brokerage service, etc.

- Transparency of the policy making process and policy implementation: Before introducing a new policy or an adjustment to an existing policy, the government must publicize it and ask for opinion from the public. All regulations, procedures, rules and court judgements must be publicized as required by GATS. This requirement forces the government to make a lot of law documents presenting these problems in detail and send to local governments. This is no easy task because, as everybody knows, in comparison with the administrative reform that has been carried out too slowly in such big cities as HCMC and Hà Nội, regulations and law documents relating to the financial services are much complicated. In our opinion, the lack of transparency is the greatest obstacle to the liberation of the financial sector.

- Supervision mechanism: The financial market can't operate without supervision. Many researches estimate that the direct loss during the financial crisis caused by the lack of supervision and precautions could reach 10% of the GDP, as shown in 15 crises in the past two decades. In addition, indirect losses and social cost are even bigger.

The liberation of the financial sector couldn't cause crisis by itself but the lack of a supervision mechanism could lead to malpractice that, in their turn, causes confidence crises and the economic crises break out. The situation will be more serious in developing countries where the financial markets aren't well organized. That is why GATS allows governments to take precautions and put temporary limits on the trade in services.

Another measure is to set a slow track for the liberation of capital accounts by using capital control practices in order to prevent crises in the balance of payments although this practice can damage the confidence of investors in the long run.

To establish the supervision mechanism in Vietnam, the Government should perfect the law system and make financial information available for the public. For the time being, Vietnam should adopt safety regulations of international standards for banking and financial institutions, and ensure fair competition and opportunity for all entities. In this aspect, the SBV regulation that require different reserve ratios for state-owned and joint stock banks is unacceptable.

In spite of these challenges, Vietnam should pursue the liberation of the financial sector in an effort to expand its economic relation with foreign countries and integrate into the world market according to a track suitable to domestic conditions, and provide the financial sector with a transparent, equal and healthy environment.■