Financial Issues to Vietnam Integration in International Economy

by Dr. VŨ THỊ MINH HẰNG

The economic globalization is strengthened through establishment of regional financial and monetary alliance such as EU, ASEAN and WTO. In that process, financial liberalization occurs to spur growth in trade and investment of member countries. The integration process results in formation of international institutions including International Monetary Fund (IMF), World Bank (WB), Asian Development Bank (ADB), which combine financial and monetary markets and transnational banks into a global market working around the clock via Internet. Joining the World Bank, most of countries implemented their investment policies toward liberalization of international capital mobility and investment with the aim to attract foreign direct investment (FDI) and foreign portfolio investment (FPI) in the 1990s. FDI has so far always increased faster than trade value from US$800 billion in 1999 to US$1,222.5 billion in 2006; especially FPI has steadily reached more than US$10,000 billion of global financial flows in search of short-term profits.

Table 1: The global direct and indirect investment flows in the 2005-2010 period

	2005	2006	2007	2008	2009	2010
Foreign direct investment (FDI) (US$bil.)	954.8	1,222.5	1,285.3	1,407.3	1,470.6	1,541.2
Growth rate (%)	19.1	22.0	4.9	5.1	4.5	4.8
FDI in developing countries (US$bil.)	399.2	410.6	407.7	404.7	413.9	427.
Growth rates (%)	26.5	2.8	-0.7	-0.7	2.3	3.
Foreign indirect investment (US$bil	10,317	12,639	13,888	15,192	16,560	11,450
Growth rate (%)	7.2	11.0	10.4	9.9	9.4	9.0

Source: World Investment Prospects to 2010, IMF, UNCTAD

Table 2: FDI in Vietnam from 1988 to 2005 (US$mil.)

Industry	Number of projects	Registered capital	Realized capital
Manufacturing	3,983	30,670	18,455
Farmin	772	3,723	1,816
Service	1,163	16,134	6,693
Total	5,918	50,527	26,964

Source: Ministry of Planning and Investment

The trends of international economic integration also have spillover effects on Vietnam – a developing country in Asia which is drawing special attentions from foreign investors. The investment waves have overflowed Vietnam since late 2005 and become a boom since Vietnam organized the APEC summit successfully and was admitted to the WTO in November 2006. Foreign direct investment into Vietnam this year has reached a record US$15.03 billion, highest from 1988 until now.

Along with FDI capital flows, FPI also shows an upward trend. This flow is mobilized through the Vietnam stock market since 2006. The market has allured 1,700 accounts of foreign investors. Until July 2007 there were 23 foreign investment funds capitalized at US$2.3 billion and some 50 foreign institutions opening accounts or entrusting money for investment, including famous entities like J.P Morgan, Merill Lynch, Citi Group.

Although US$2.3 billion is not a large number as compared to Vietnam's demand for total investment capital of US$140 billion in the 2006-2010 period, the flow has been one of the market stimulators increasing the market liquidity.

In addition, the ODA flows have made significant contributions to the country's development needs. Vietnam has gained confidence of international donors because of its political stability and achievements in the process of economic renovation. Until late 2006, Vietnam had established relationships with 28 bilateral donors, 23 multilateral donors and more than 350 non-governmental organizations including large donors such as Japan (US$11 billion), WB (US$8.5 billion), ADB (US$5.5 billion)...In the 1993-2006 period Vietnam received total commitments worth US$37.016 billion, so it has become one of the countries receiving the largest ODA fund.

In respect of financial service trading, globalization both liberalizes business climate and enhancing merger/corporation for higher competitiveness. This results in foundation of multi-purpose financial groups based on the merger between banking and non-banking institutions, for example, the US Citi Group with total assets valued at US$1,097 billion(December 2002) and the Japan Mizuho Financial Group capitalized at US$1,030 billion (March 2003). These conglomerates step by step change into the multinational and transnational models to provide best services for their customers in their internationalization process. In Vietnam, the Government has decided on promoting cooperation in the banking sector as follows:

Table 3: Official development assistance (ODA) for Vietnam in the 1993-2006 period (US$mil.)

Capital	'93-'95	1996-2000	'01-'05	2006
Committed	6,131	11,546	14,889	4,450
Signed	4,859	9,003	11,706	3,066
Disbursed	1,875	6,142	7,887	1,780

Source: Ministry of Planning and Investment

New institutions are established such as agency in import and export business and joint venture banks including Indovina Bank, Vid Public Bank, Vinasiam Bank, Vietnam-Laos Joint Venture Bank, Vietnam-Russia Joint Venture Bank, etc.

Especially several Vietnamese joint stock banks sell stocks to foreign strategic partners, including Sacombank with ANZ, TechcomBank with HSBC. In addition, VCB, BIDV and IncomBank also plan to attract foreign banking in their IPO.

Vietnamese commercial banks also cooperate with global money transferring organizations including Western Union, Moneygram, so the amount of money transferred from overseas Vietnamese soared from US$351 million in 1991 to US$3.4 billion in 2005 and more than US$4 billion in 2006. Currently local commercial banks hold market share of more than 70% in this kind of payment.

In spite of facing the pressures of integration, Vietnamese commercial banks recorded noteworthy achievements such as: heightening financial power (increasing total value of assets 15 times from 1994 to 2006); innovating banking technologies in the development of modern banking services, for example, providing online and mobile services and transactions, promoting the use of ATM cards (increasing 3 times from 2003 until now; and already issuing 3.5 million cards against 21,000 cards in 2002). These achievements have boosted up the integration of Vietnam's banking sector.

The above-mentioned considerations allow us to conclude: The current trends of globalization and economic integration cannot lack financial and monetary liberalization. This helps enhance capital inflows for economic development. Especially this process encourages competition in the financial sector, so the pressure of competition forces financial institutions to make great efforts for survival and expansion. On the other hand, In the process of establishing alliance and partnership, member countries tend to set regulations and playing rules to spur economic activities in the alliance. As a result, it is a must to change institutions of member countries and even non-alliance if these countries want to sell goods and services to these markets. Furthermore, when Vietnam joins the international institutions, it has also seized valuable opportunities to reform its legal system and enhance its macro managerial capacity for capital inflows and outflows and global rules in the financial sector.

Nevertheless, deeper and stronger integration will increase the dependence of Vietnam's economy on the world's. Therefore, it's hard to control its inflation rate due to a lot of external impacts, from political-economic events in the world to investment inflows eating away ownership and control of local investors. On the other hand, in case the economy faces sudden changes, local financial market is easily vulnerable due to effects of short-term capital outflows, especially when the central bank has not enough experience to deal with this event efficiently, it is inevitable to escape the danger of losing control in foreign exchange and money supply and demand.

Vietnam has been considered as non-market economy until its accession into the WTO and it is required to really turn into this institution by 2018. As a result, opportunities and challenges arising in the process of international integration will be development dynamic if the country knows how to take best advantage of them.

Table 4: Total outstanding loans, GDP and total deposits of the Vietnam banking sector (Unit: VND 1,000 bil.)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total outstanding loans (1)	50.7	62.2	72.6	88.6	155.7	189.1	231.1	296.7	420.3	553.1
Total deposits (2)	41.5	56.5	74.1	119.1	170.7	218.5	245.9	320.6	427.1	559.6
GDP (3)	272	313.6	361	399.9	444.1	418.4	536.1	605.6	713.1	838.5
(1) / (3)	18.6	19.8	20.1	21.7	35.1	45.2	43.1	49.0	58.9	65.9
(2) / (3)	15.3	18	20.6	29.8	38.4	44.3	47.5	52.9	59.9	66.7

Source: The State Bank of Vietnam and the General Statistics Office

In the 2006-2010 period the Ministry of Planning and Investment has drafted the plan to attract FDI flows over one-third of gross investment. This reveals this kind of flow continues to play an important role in economic development. Regarding ODA capital, the Government forecasts to receive total pledged capital of US$19-21 billion in the 2006-2010 period, including new funds estimated at US$12 -15 billion and disbursement ranging from US$11 billion to 12 billion. However, the authorities have not yet made a specific plan to mobilize FPI. In short, it is urgent to secure safe conditions necessary for the integration process as follows:

First, perfecting the legal framework and implementing the system of capital control in accordance with integration requirements.

This is an essential practice which not only facilitates attraction of foreign capital inflows, but more importantly creates free and fair business environment, and prevent monopolist behaviors. In particular, portfolio foreign investment must be controlled effectively by using two kinds of tools: administrative orders (direct control) and macro-regulatory tools (portfolio control) in order to keep financial security, restrict adverse speculation and market manipulation. In respect of sensitive financial services, although Vietnam steadily opens its door to foreign investors in compliance with bilateral and multilateral commitments with the AFTA, BTA, EU and WTO. As a result, it is a prerequisite to complete legal reformation in such sectors as banking, insurance, and securities in accordance with integration requirements.

Second, securing banking activities safe and healthy.

Banking services implement an important role in speeding up liberalization, but the safety of the banking system has great influence on the national financial security. As a result, right from 1974 when banking activities tended to expand beyond national borders, the BASEL committee was established with representatives from 10 typical banking-developed countries in the world. The BASEL committee has set standards to examine safety of the banking sector and recommend the central banks to adopt these standards in accordance with each country's financial system.

The State Bank of Vietnam has adopted basic principles to supervise banks in accordance with the 1988 Basel Accord – Basel 1. However, some commercial banks have not met a lot of safety standards due to their small capital, high overdue debts, incapability of deduction for reserve fund, especially poor rating of financial transparency in banking activities and risk management. Therefore, in addition to the central bank's supervision, the authorities should help banks understand and meet the standards of Basel 1 and Basel 2 by 2010. Moreover, the State Bank needs to cooperate with the Ministry of Finance and the General Statistics Office to examine safety more exactly. It is noteworthy that the World Bank has recommended governments should employ inspection systems of the bank's owner and the securities market when banks are listed on the securities market.

Third, securing sustainable development of the securities market.

The securities market of Vietnam has steadily made progressive steps. Recently the HCMC Securities Transaction Center becomes the Securities Exchange to meet requirements for expansion. In the integration trend, the Vietnam securities market is required to set up an effective machinery including systems for market supervision, information processing, transaction linking, and clearing to satisfy necessary standards of the market: uninterrupted transactions, high liquidity, low costs of transaction, transparency and high creditworthiness.

Fourth, promoting the central bank's macro-management capability.

The pressures of financial liberalization, changes in interest rates, foreign exchange, and inflation always require the central bank's flexible and smart solutions to currency stabilization. In Vietnam, from 1990 until now, the central bank is not an independent agency, but directly under the Government, so it cannot avoid certain limitations in operations.

As a result, the State Bank must be reformed into a modern model with streamlined apparatus and professional staff as well as transparent and effective policies.

In addition, the State Bank should have autonomy in the process of making and implementing monetary policies. This will reduce its liabilities in the Government's financing programs. Besides various tools of monetary management for each development period, the State Bank's policies must be related to the market through the feedback information system, which both creates flexibility in management and allows the bank to regulate operations of commercial banks in accordance with market changes.

In short, the integration is not only a "red carpet" to Vietnam, but also generates a lot of pressures in the world's ever-changing market. These oncoming difficulties can become dynamics for development only if the Government is capable of reducing and overcoming these pressures.■