

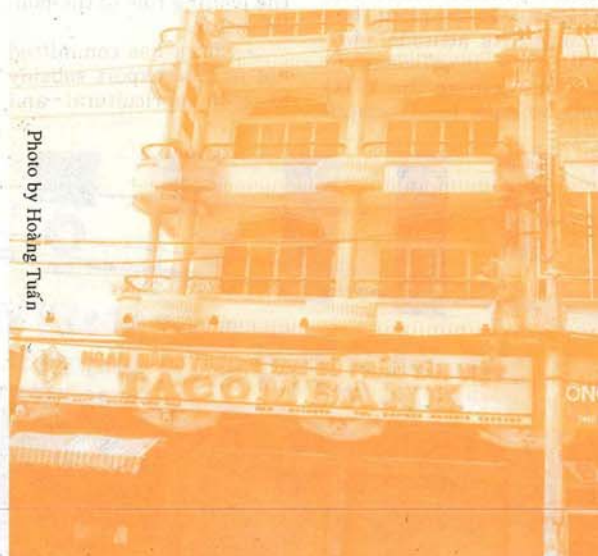
SOME PROBLEMS WITH THE LIBERATION OF FINANCIAL SERVICES IN THE PROCESS OF INTERNATIONAL INTEGRATION

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The process of trade liberation in a country could be divided into three parts: liberation of capital accounts, liberation of finance and reform in competition laws. Generally, most countries carry out the liberation process along with the economic development process at different rates and degrees. All three parts of the financial liberation are considered as efforts to support the development of the financial sector, make it more stable and improve chances to access financial services. When the competition is fairer, financial institutions are forced to reduce overheads, improve service quality, diversify their products and pay more attention to retail markets.

One of worries during the negotiation for Vietnam's admission to the WTO is the degree at which commitments to liberate the financial services will force Vietnam to allow the movement of capital. Of 55 WTO members committed to liberating the insurance business only five agreed the full liberation for cross-border supply. In the case of the banking service, the figure is 19 out of 64.

In principle, commitments to trading presence only ask Vietnam to allow foreign capital flowing into Vietnam and limits on the capital outflow aren't considered as contrary to GATS regulations. In the WTO framework, 19 countries committed to liberating fully the insurance



business and 26 countries committed to liberating the banking business. Some others put limit on the trading presence and in a few cases this practice is entirely refused. Some countries, such as Poland and Slovenia, put limit on the overseas investments by insurance funds, Tunisia limited foreign debts by local companies while Chile protect its right to take measures to "ensure the monetary stability and normal operation of local and foreign settlement."

From the above-mentioned experiences, we think that in the negotiation for WTO membership in terms of financial services, Vietnam had better make the best use of WTO rules to realize measures relating to protection for Vietnam's balance of payments. Predictions by IMF experts show that the Vietnam's foreign exchange reserve from now

to 2006 will stay at 9-week export, a very low level compared with the standard of 4-month export. Therefore, making the best use of measures to protect the balance of payments with a view to stabilizing the financial sector may slow down the liberation of the financial sector but this practice is reasonable when Vietnam suffers continuous trade deficit because of its effort to modernizing and industrializing the economy.

Experience from developing countries trying to liberating the financial services shows that when banking and financial products become less special, the dissemination of knowledge and protection for investors and customers become more important. Like other products, investors and customers must realize potential risks of financial services. This requires the Govern-

ment to adopt consistent regulations appropriate to international practices relating to such problems as Fraud, personal liberty and transparency. Foreign experience tells us that suppliers of financial services always make the use of mechanisms for protecting investors more complex. When most problems with the finance market become global, the task of conforming to practices and standards with a view to protecting investors and customers become more urgent. When financial services and products are expanded, the question of what legal body has the authority to apply these standards must be made clear.

One of difficulties for Vietnam is the task of supplying information to help the public realize benefits and risks involved in financial services. In Vietnam, three years after the stock trading center came into operation, most investors have almost no knowledge of stocks and shares and don't know how to read the prospectus. And as a result, they couldn't protect themselves when they only buy or sell by instinct and this practice produces bad effects on the safety of the financial sector. Although difficult to deal with, it isn't the only barrier used for protecting investors and customers, according to WTO experts. Vietnam's legislative bodies have a lot of things to do if we want our law system suitable to international practice. ■