

FOR A SOCIALISM-ORIENTED STOCK EXCHANGE

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When the National Securities Commission (NSC) was established and the Government issued Decree 48/1998/ND-CP on securities and stock exchange in 1998, the Asian financial crisis had spread through other continents although the World Economic Forum held in Davos (Sweden) in January 1998 had warned about a third financial-monetary crisis in many countries, especially in Brazil and Russia in six to nine months. Many governments of developing countries had to review their control over the money market and stock exchange, and introduce many new regulations, such as taxing the capital outflow when investors sell off their securities to avoid a monetary crisis and thus causing a financial crisis. Hong Kong, returned to China then, could wage a war against the army of international speculators. Hong Kong authorities, on Aug. 23, 1998, bought 71 out of HKD76 billion worth of securities and futures sold off by speculators, thereby avoiding a monetary-financial crisis and helping bring to bankruptcy many hedge funds, such as the LTCM with a working capital of US\$4.5 billion. Scholes and Merton, two 1997 Nobel-prize winners who had written a book on methods and means of making financial speculation and were on the Board of

Directors of this fund, couldn't save their bacon and got into debt to the tune of US\$105 billion. The U.S. Government had to grant subsidies to prevent a chain reaction in other funds. George Soros, the notorious speculator who broke the "backbone of the pound sterling" in 1992, had also to sell his Quantum fund at a loss of 30%.

The 1997 Asian financial crisis that spread over other continents in 1998 allows us to realize the dangerous side-effect of the finance market. Thus, the coming Securities Law of Vietnam could include an article prohibiting futures sales which many developed countries have failed to prevent because they couldn't realize the adverse impact of these sales when they first made their appearance. I want to mention the Asian crisis here because it seems to me that stock exchange authorities in Vietnam have forgotten the side-effect that could even cause great damage to Asian dragons when their macroeconomic management isn't good enough. That is why they opened the HCMC Securities Trading Center with only a secondary market, without the primary market where companies could receive money from investors and put it in business.

The opening of the HCMC STC was postponed for over a year and to prepare no commodities for the primary market was a great case of negligence. Full attention hasn't been paid to the fact that the main role of the stock market is to mobilize capital in the public. In many workshops on the stock exchange, a lot of experts have warned about the appearance of an underground stock market but their opinions have gone unnoticed, and there was no discussion on bad effects caused by speculation in the underground stock market. Those speculators have bought, many months before, all shares sold by equitized state companies at their face value. These shares that produce dividends of 1-2% a month, from two to four times higher than the bank deposit rate, are much sought after because they are sold at the SACOMe

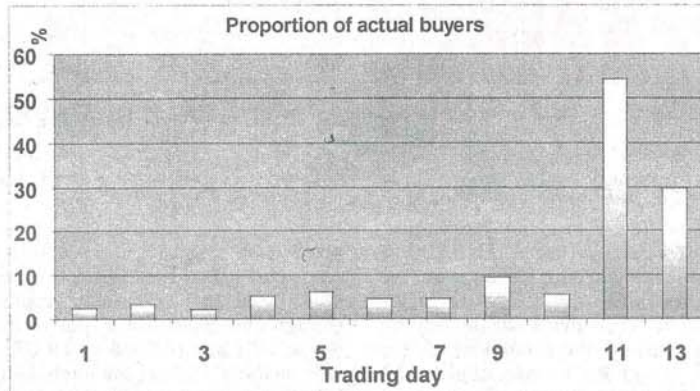
price as shares producing a 0.5% dividend and everybody knows these shares will generate big profit when being resold on the stock market. In fact, in the first trading day, the REE securities bore a 60% interest and SACOM securities a 70% interest. In comparison with selling prices on the underground market in June 2000, an REE share generates a profit of VND3,000, or 23% a month; and an SACOM share gains VND1,800 or 11.8% a month. Such a super-profit, from speculation permitted in the stock market, has made a lot of stock exchange experts praise buying securities as "the easy way to become a dollar millionaire."

Investors who visit the securities trading center for the first time see on the quotation board that buying orders increase second after second while the selling orders remain unchanged for hours. In the first ten trading days in the HCMC STC, the amount of buying orders was from 33 to 1,540 times higher than the amount of selling orders. This situation makes investors understand that they have to accept the highest bid available on a security. Many investors are of the opinion that within 10 trading days, they could sell securities they buy now at a 20% profit because in recent trading days, the bid always rose by a permitted maxi-

mum rate of 2%. The supply and demand relation on the HCMC STC during its first month of operation is as follows:

- Volume of transaction is too

- Publicizing the asked price ceiling in the first trading day, thereby preventing speculators from raising the quoted prices of two listed securities to VND21,000 and 26,000.



small to create a new channel for capital.

Trading day	Value traded (VND mil.)
1 st	70
2 nd	77
3 rd	52
4 th	73
5 th	239
6 th	291
7 th	240
8 th	213
9 th	324
10 th	207
11 th	696
12 th	2,209
13 th	1,921
Total	6,612

The value traded of VND6,612 million after 13 trading days is only considered as equal to the value handled by a big commercial bank in an ordinary day. Thus, the habit of exaggerating the role of stock market and speculation found in many experts has produced so great effects on the NSC that they forgot organizing the primary market while not a few joint stock companies want to go public.

However, there is no denying that the NSC has succeeded in opening the HCMC STC and working out measures to limit speculation, such as:

- Reducing the fluctuation band from 5% to 2% in the second trading day.

- Offering for sale the amount of securities held by the Treasury in the tenth trading day to regulate the supply and demand relation: this measure made the selling orders increase faster than the buying orders and in the 13th trading day, the asked price was lower than the price ceiling (VND19,000 as compared with 19,600 on REE securities and 20,500 compared with 20,600 on SACOM securities).

These are efforts to control the stock market, but the NSC should find out new ways to develop a socialism-oriented stock market, that is, a stock market free from periodical crisis. In my opinion, besides two defects of the capitalist economy (periodical crises and unemployment) which were realized by J.M. Keynes, the third defect is the financial crisis which has taken place at short intervals: 1987 and 1989 in the U.S. and developed countries, 1992 in England, 1994 in Mexico, 1997 in the East Asia and 1998 in East Europe and Latin America.

To develop a socialism-oriented stock market, it's necessary to eliminate the possibilities of financial bubbles that could lead to crises. The first thing to do is to eliminate the underground stock market by putting out to tender all securities of equitized companies according to the price mechanism. It's unwise to force all companies to sell their shares at a fixed price because it makes these companies lose a lot of equity capital they deserve to get. If the REE for example had been allowed to sell their shares at the market price of VND19,000 instead of 10,000 as

fixed by the equitization authorities, its equity capital would have increased by VND90 billion (or VND68.4 billion when the amount of preferred shares are taken away). If all four listed companies were allowed to do it, they could increase their capital by VND216 billion.

The sale of securities at market price can also stimulate the stock market to develop. The face value of shares is very cheap when the dividend paid by companies is from two to three times higher than the bank deposit rate, so it's unreasonable to have these securities sold at their face value. That is why after the HCMC STC came into operation, asked prices of SACOM securities on the third market increased by 152% and Bông Bạch Tuyét securities by 450%. It's this super-profit that pushes a lot of people into speculating in securities, or taking part in the underground stock market in the hope of making a 20% profit in the near future. Up to the 13th trading day, those who had bought shares at fixed price, or at face value (most of them are insiders) could make a profit of 90% for REE securities and 105% for SACOM securities without paying any tax. Some persons, at the 13th trading day, sold 5,000 securities and earned tax-free VND50,25 million. This situation leads to social inequity because those who earn a monthly income of over VND2 million should pay income tax.

The second task is to open immediately a primary market. A company or commercial bank that wants to go public could issue an amount of shares whose value is twice the value of all transactions in 13 trading days, and the proceeds of sales actually go to the issuing company.

Putting out to tender all four listed securities could also help the supply make a tenfold increase. If 764,850 REE securities are offered at the price of VND19,000 as in the 13th trading day, their value which is VND145.3 billion is 15.4 times higher than the peak value of buying orders of all 13 trading days (VND4 billion). The increase in the supply of securities will allow more people to buy securities. This work is difficult but it could make the public believe that the Government is determined to put things to rights.

Thinking through, to develop a socialism-oriented economy only means correcting adverse shortcomings of the capitalist economy and build a better society. We must learn from mistakes committed in the first month of operation of the HCMC STC. ■