

will act as an instrument for mobilizing capital without causing crises. To achieve this aim, an appropriate macroeconomic policy is needed and the stock market should be of service to this policy.

1. First of all, there must be a macroeconomic policy to develop the economy fast.

As Lê Khả Phiêu, the VCP Secretary-general put it, Vietnam is striving to become an industrialized nation by 2020. Not all developing countries achieve this aim within two or three decades. For this aim, the stock market should obtain the following standards:

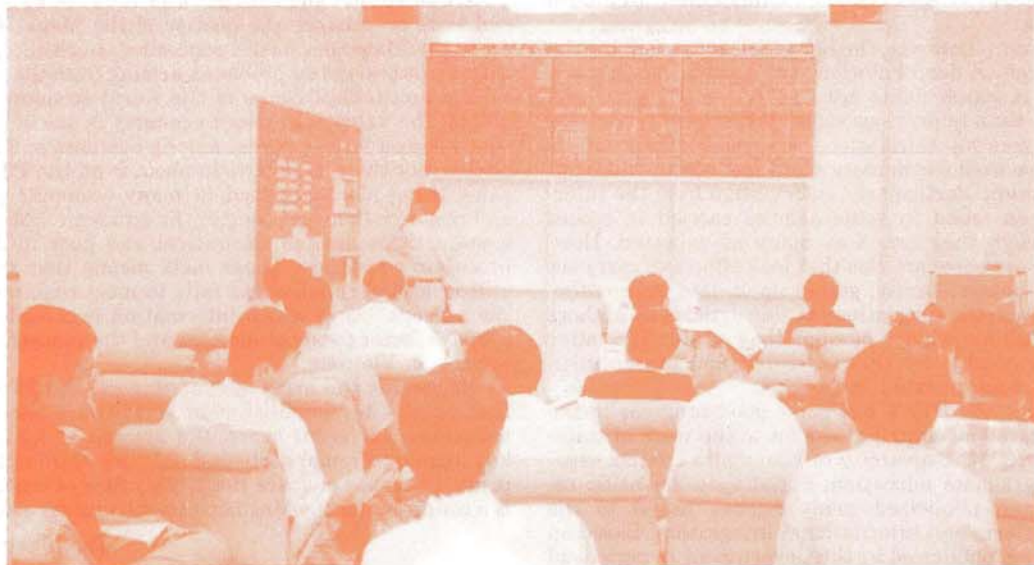
a. Mobilizing billions of dollars every year: To industrialize the economy, from 30% to 40% of the GDP must be turned into gross investment. In case of Vietnam, from US\$9 to 12 billion out of the GDP of US\$30 billion will be turned into invest-

After years of preparation, a stock exchange made its appearance in HCMC on July 28, 2000 and raised some interest from the public. The amount of buying orders exceeds selling ones for all four listed securities and prices of securities showed an upward tendency.

In developed countries, the stock market helps mobilize enormous sources of capital needed for large-scale projects. Many people are of the opinion that such large-scale projects as Suez and Panama Canals or transnational railroads couldn't be realized without joint stock companies and stock markets. However, wide fluctuations in prices of securities usually bring the finance market into crises. Therefore many specialists hope the Vietnamese stock market

STOCK EXCHANGE AND DEVELOPMENT OF FINANCE MARKET IN VIETNAM

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ments, and the stock market should supply from US\$3 to 4 billion, the rest will be obtained from foreign aid and investment, the banking system, budget income and private investment. If it fails to develop into such a large scale, the stock market can't play its role in the national industrialization. Regarding the HCMC Securities Trading Center in its first month of operation with only four listed securities from companies whose total capital was VND302 billion, it could help mobilize only a small sum of money.

b. The gross investment will be turned mostly into fixed investment: this isn't an easy task because capital from the finance market is usually used for importing high-quality consumer goods, building holiday villas, investing in real estate, producing such luxuries as tobacco and spirits, or supplying first-class services. Capital is sometimes used for importing contraband goods, heroin and depraved cultural materials.

Mobilized capital should be used for developing heavy industry that provides the whole economy with capital goods of all kinds or importing capital goods that couldn't be made locally in order to produce high-quality consumer goods for export and expensive raw materials.

To mobilize large sums of capital, the stock market should offer for sale securities from companies in hi-tech industries, such as electronics; automobile, oil, computer, etc. founded and run by Vietnamese people.

Of four companies whose securities are listed in the HCMC STC, we see that REE has an equity capital of VND150 billion, SACOM 120 billion, HAPACO 10 billion and TRANSIMEX 22 billion. All of them have gained high sales and profits but none of them employ high technologies. In other words, they play no leading role in the industrialization process. To develop hi-tech industries, as we know, we need companies with a starting capital of at least US\$1 billion. The stock market has a long way to go before it could help with the industrialization process.

c. Good performance of the stock market can help enhance stability of the finance market and sustainable and crisis-free economic development.

The HCMC STC, which only offered for sale securities of profit-making companies, has made investors feel more confident and made the buying orders exceed the selling ones. Prices of securities here only

vary within a wide band of 2%, or a narrow band of 1% on either side of the price fixed by the STC Board. In other words, prices in the HCMC STC didn't move up and down according to the supply and demand relation as they do in foreign stock exchanges.

This situation discourages speculators. Although all securities have their own real value based on the net assets of the issuing company but not all prospective buyers can get full information about this real value. Most of them usually decide to buy securities based on public opinion or experts' advice. That is why prices of securities could be much higher, or lower, than their real value. Excessive rises and falls in prices could push the finance market and the whole economy into disorder. The STC Board is right when it sets a band for price fluctuation, thereby making the stock market more stable.

2. Measures to make the stock market more helpful to the industrialization:

a. More attractive commodities: These commodities, of course, are securities of hi-tech or large-scale companies with registered capital of at least US\$1 billion. The SBV and Ministry of Finance can encourage all sectors to buy shares issued by these companies in order to help them come quickly into operation. The SBV can also act as an issuing house for these coming companies.

b. During the resistance against French imperialism, the revolutionary government launched a "Week of Gold" campaign in which the people contributed gold needed for purchase of weapon. The Government, at that time, was under no obligation to repay anything to contributors, and the people did it out of their patriotism. At present, the Government can revive the patriotism of the public and urge them to invest their idle money in securities with a view to accelerating the industrialization process. Unlike the "Week of Gold", investment in securities is profitable and within the reach of small savers. In other words, the patriotism and prospective profit will be two motives for financial investment by the public. To achieve this aim, the Government has a lot of things to do: reforming all state companies and turning them into public limited companies when suitable; making Securities Law to regulate the stock market and protect interests of investors, etc.

c. Making the source of capital endless by creating the circular flow

of money: The banking system can create an endless source of capital by using many instruments. The banks can supply credit to the companies in both private and public sectors that want to develop their businesses, thereby generating more profits and incomes. High disposable income will enhance the spending power. If the stock exchange develops then and large quantities of shares are offered for sale, the public can invest their money in securities creating a flow of capital running to companies and helping them develop their businesses to higher stages. Thus, a circular flow of money comes into being.

Increases in the money supply by the central bank can lead to inflation but the sale of securities on the stock market will reduce the inflation rate. If the banking system can keep this flow running regularly, the gross investment made in domestic currency will help accelerate the industrialization process. And the gross investment could reach 30% or 40% of the GDP without causing inflation or dependence on foreign capital.

d. Regulatory barriers: To ensure this circular flow of money, we need the following conditions:

- Mobilized capital should be used for industrialization, instead of import of high-quality consumer goods, subsidies to loss-making companies or repayment of foreign debts.

- All companies and the State should disclose information about their financial situation.

- All smuggling activities should be prevented and punished severely.

When the stock market develops well and large amounts of money could be mobilized easily, these barriers become more necessary to maintain the public trust in the stock market.

3. Conclusion: In recent years, although the Vietnamese economic growth has been rather high but its gross investment never equals 20% of the GDP. That is why its growth rate showed a sign of decline in the past few years. One of reasons for this situation is the lack of a mechanism for mobilizing the capital. The stock market provides a solution to this problem but this market is also a two-edged knife. It can deal with the shortage of capital and at the same time, make this shortage more serious. The stock market authorities should orient the stock market toward the industrialization process, otherwise it will become an instrument in the hand of speculators for gaining easy money and thus bringing the finance market to crisis. ■