COMMODITIES FOR THE FUTURE STOCK EXCHANGE IN VIETNAM

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Stock market was first mentioned in 1994 and many people thought a pilot stock exchange would be established in HCMC by that year's end. Four years have passed now and when there was a decision to establish two stock exchanges in HCMC and Hà Nội, the problem of commodities for these stock exchanges made their appearance.

The equitization of state companies has been really carried out slowly, only 29 ones have been equitized so far and other 150 are planned to be equitized this year (a newpapers reported that there were 536 state companies in the list of companies to be equitized in 1998-maybe this list was made at the end of 1997). News of the decision on two stock exchanges has made many people eager to buy shares because dividends paid by equitized companies are very attractive: REE declared a dividend of 24% a year; price of its stocks increased by 650%, prices of stocks of Shipping Agency increased by 10 times, of Honey Company by 14%, of Gemadept by 18% and of Việt Phong by 36%. This situation is favorable for the establishment of pilot stock exchanges. Of equitized companies, only 10% of them had dividend whose value is lower than interest rate on savings accounts. So the prominent tendency is to buy shares.

Total capital of equitized companies was VNĐ121 billion in January 1998, of joint stock banks was 1,637 billion in June 1996. They will constitute sources of commodities for the secondary market. In addition, there are T-bills and bonds which are saleable commodities. Now we had better picture activities in two stock exchanges and try to work out solutions to the problem of commodities for these stock exchanges.

There are two markets in the stock exchange:

+ Primary market is for new issues of securities. This market is of great service to the equitization of state companies. By 1999, companies to be equitized will be able to issue their shares in this market, instead of selling them at face value to a limited number of buyers although dividend they pay is higher than interest rate on savings account. By then, this market will determine prices of securities.

+ Secondary market is the place where securities and bonds are bought and sold subsequent to original issuance. In this market, shareholders can resell shares for want of cash (without this market, they will meet difficulties in selling them), many others can trade in stocks and bonds for profit. The supply-demand relation in this market will determine prices.

In developed countries, stock index is usually higher than the consumer price index: in the U.S. for example, the stock index in 1997 was 284.8% as compared with 1990 while the CPI was 129.5%. Fluctuations in the stock index are usually wider that those in the CPI. That is why foreign stock exchanges become much busier. A limited number of shares that changes hands over and over can produce billion after billion worth of commodities in the stock exchange. Companies that want to issue shares or bonds to increase their capital will also supply more commodities to the stock exchange.

The shortage of commodities comes from the fact that only companies that have capital of at least 10 billion, make profit in the last two years and sell 20% of their shares to 100 shareholders are allowed to ssue securities on the stock exchange. Up to Jan.1, 1998, thirteen out of 18 equitized companies didn't meet the first requirement. In addition, there is no OTC market for securities from companies that didn't meet all those three requirements. Thus, the Government, instead of changing the policy on equitization, had better equitize as soon as possible state companies of group A that the government has to hold 100% of capital as required by regulations. Companies that didn't meet the first and third requirements aren't certainly of low credibility. To meet the third requirement, they need only issue on the primary market 20% of their shares at low face value. Thus, in our opinion, a pilot OTC market can solve the shortage of commodities for the stock exchange.

We had better not think that commodities traded on the OTC market are less creditworthy or investment in companies with capital of over 10 billion is less risky. In capitalist countries, stock exchanges made their appearance first in cafés, and then, stock exchanges were organized by governments especially after the Great Depression. Allowing the OTC market is a means of helping traders get accustomed to stock exchange regulations. If this isn't done, a street market will certainly come into being beside the stock exchange because there are too many securities that can't be traded on the organized market.

There must be a pilot stock exchange because in this market speculation takes place so regularly that it can cause great damage to the economy as a whole. Financial bubbles made by speculation have brought international stock exchanges to many crises since 1933. So the Government had better allow only stocks and bonds issued by small and medium-size companies to be traded on the pilot stock exchange and prevent big state-run corporations from entering this market in order to avoid unpredictable risks■