Controlling Flows of Capital in the International Integration

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Facing the need to mobilize all sources of finance foe the economic development and ensure the stability for the finance market, policy makers in Vietnam should examine the pros and cons when introducing measures to control the flow of direct investment that is relatively stable and the changeable flow of indirect investment. To control these flows, we need suitable legal infrastructure that doesn't make the business climate less attractive.

Most developing countries lack healthy macroeconomic policies and banking systems and well-organized institutions, which leads to sudden changes in directions of flows of capital. The fiscal policy is also an effective instrument for controlling the inflow of capital because we could increase the budget surplus to reduce the pressure on the real exchange rate. In addition, reduction in the public expenditure could lead to cuts in the interest rate.

The control over flows of capital suitable to the financial and monetary situations will bring about more positive than negative effects. Besides applying flexible instruments, the policy to control flows of capital must identify what it should keep under control and what it should attract in order to facilitate the development of the local finance market.

To attract the stable flows of capital needed for the economic development, and protect and stabilize the finance market without creating barriers or unnecessary costs, financial authorities could take the following measures:

- Reducing debts in foreign exchanges and setting time limit on these debts: The required reserve ratio could be employed to limit the supply of credit. The sum of required deposits held by the central bank could help the Government control a reliable reserve when facing fluctuations in the market. Changing reasonably from this currency to others could make the inflows compensate for the outflows. Limiting transactions between domestic and overseas accounts and the supply of credit to foreigners could prevent the outflows. Imposing taxes on short-term outflow could limit both the outflow and the long-term inflow. In the integration process, Vietnam should expand the domestic investment in order to encourage foreign investors to keep their investment in Vietnam longer, and more importantly, turn their profit into new investment. However, limiting the outflow only means understanding operations of these flows.

- The policy to control the outflow should complete two tasks at the same time: limiting the outflow and encouraging the inflow. In the integration process, the competition for foreign investment is increasingly keen. Vietnam's business climate isn't attractive enough and the competitiveness of its products isn't high, so it is hard to avoid balance of payment deficits. That is why an increasing inflow could help deal with this problem.

- All transactions of capital, foreign exchange and money transfer must be under SBV control. A well-developed stock market could serve as an instrument for attracting and controlling effectively flows of capital. A safe financial policy is also another method of controlling foreign flows of capital and domestic transactions – these risks relate to the use of foreign exchange and differences in financial policies between countries. Realistic rules of financial safety must be set forth while paying necessary attention to the banking system because of its role in supplying credits. All flows of capital and changes in their directions relate to the banking system, therefore a well-devised mechanism is needed for controlling them and avoiding crises. Operations of financial institutions should be kept under control but this practice could lead to various risks. Therefore, financial institutions must establish clear and equal policies to maintain good relations with the banking system before carrying out transactions. Transparency also helps reduce credit risks and relevant matters originated from flows of international capital. Exchange of flows of capital between countries always brings about great benefits for both recipients and suppliers.

The international integration will bring about many benefits for Vietnam. It also poses many challenges and difficulties that must be solved in order to enhance the Vietnam's position in the international arena.■