ON THE MARKET ECONOMY AND STOCK MARKET

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In Vietnam, the legal infrastructure for the development of the stock market isn't perfect. That is why the public aren't interested in financial investment and they tend to keep their money unproductive or put it in commodity market (real estate, gold, etc.). Many people who want to make money have to be content with depositing their savings with banks although the deposit rate is lower and lower. Only a small number of savers think of buying securities and bonds issued by either the government or companies.

However, as everybody sees, the money and stock markets in Vietnam have come into being and operation without being planned. The unruly operation leads to a danger of financial crisis. For the time being, they fail to supply a reliable source of finance while most local companies are badly in need of capital. Many experts have agreed that in current conditions, an amount of capital equaling from 30% to 35% of the GDP, instead of some 20% as realized now, is needed to industrialize and modernize the economy. More exactly, if the GDP in 1999 is estimated at US$28 billion, the gross investment will be something between US$8.4 and 9.8 billion but in fact, the gross investment reached only US$5.3 billion.

The free market economy couldn't solve this problem, especially in a period of recession. At present, banks in Vietnam are meeting with difficulty in supplying loans and suffering a fund surplus although the lending rate have been reduced remarkably. Reasons for this situation are numerous: lack of good entrepreneurs, lack of policies to encourage private investment, poorly- developed key industries and poorly- devised protectionist policies. Even if these problems are solved, the private sector still faces the shortage of funds while state-run companies could easily secure loans from state-run banks. In certain state-run companies, the interest payment is even bigger than the labor cost. That is why most of them couldn't make new investment or cover the replacement cost.

The right policy now is to lower the lending rate and concentrate soft loans in major infrastructure projects or production of goods for export. However, this policy isn't received enthusiatically by both banks and businesspersons because they didn't believe what they produce would sell like hot cakes on the domestic market, let alone entering foreign ones.

Besides the need to reduce the interest rate, J.M. Keynes also noted that companies are reluctant to borrow money during the recession, he therefore suggested big investment projects by the government. Keynesian economists also suggested debt relief for companies with good track record. It's worth noting that many foreign creditors (the Paris Club for example) have agreed to write off or give debt relief to Vietnam with a view to facilitating the economic recovery, but the Government refused to take the same measure to help local companies. A suggestion about this measure when first made had encountered strong protest from the banking authorities. This suggestion, however, was approved in recent years by many economists, including Cao Sĩ Kiêm, former SBV Governor. Unluckily, it hasn't been carried out properly to support companies with good track record and stimulate the economic growth.

Keynes also advises governments to carry out major investment projects during the recession when private persons don't want to get loans from banks. This advice could be applied to Vietnam to deal with fund surplus in banks today. Major investment projects can produce good results through the money and stock markets.

On the money market, these projects help attract foreign investment (in foreign exchange or machines) and thus help save foreign exchange needed for importing machines and materials. These projects are also financed by local investment sources. This approach, however, is favorable when the local heavy industry is well developed. Otherwise, a lot of foreign exchange is needed to import machines and materials. If the source of foreign exchange is limited, these projects have to aim at producing goods for export and all capital movements be well under control. The best solution to this dilemma is to invest in the heavy industry with a view to realizing these projects using local materials.

Gross investment could rely on different sources of finance:

+ The banking system turns deposit from the public into loans to companies.

+ The central bank increases the money supply to encourage private investment.

Those two sources generate new investments through the money market. Companies, after borrowing from banks, will be in a bad financial position. To avoid this, the bank can invest directly in companies.

+ Companies issue securities on the stock market in order to increase their assets thereby keeping the capital- liability ratio at a reasonable level. After capital is supplied to companies, the production will increase. Goods they produce should be saleable and bring in good profit. The best way to achieve this aim is to stimulate demand for capital goods by starting major projects that consume large quantities of locally-made materials and machines. However, most projects in Vietnam aren't large enough to change the market demand.

If new projects are large enough, companies can employ more laborers or offer better pay, thereby stimulating the spending power. In the market economy, most of basic needs of the working class, especially for housing, health care and better education, aren't fully satisfied because workers' disposable income is small. Large-scale projects can help solve this problem.

Thus, both money and stock markets, including three said sources of finance, could be used for stimulating the spending power and producing multiplier effect of investment. As was stated above, the increase in investment made in domestic currency should be realized in parallel with development of local heavy industry. The market for capital goods will be enlarged when new projects are big enough and use locally-made machines and raw materials instead of foreign ones.

Of the three said sources of finance, the banking system can cause the inflation rate to rise by increasing the money supply while the stock market and commercial banks can reduce the inflation by attracting the idle money. When more bank notes are in circulation, they will produce the multiplier effect. When bank deposit and proceeds from the sale of securities are put in circulation again, the multiplier effect will be bigger, and so on.

The nature of money is its mobility, the higher the velocity of circulation, the bigger the value of goods and services supplied. This situation brings in higher sales and profits for companies, and more jobs for laborers.

Consumption of local goods and services can help with reducing the inflationary pressure when realizing big investment projects, so the Government should take measures to protect local industries by asking them to supply goods and services to public investment projects, raising non-tariff barriers, encouraging people to consume local goods, etc.

To achieve high velocity of circulation and thus limiting bad effects of high inflation, many problems should be solved: financial disclosure, reasonable taxation and interest rate, import control, exchange control, struggle against smuggling, etc.■