

The fast development of the Vietnam's economy after the introduction of *đổi mới* policy adopted by the VCP has attracted foreign financial and banking circle strongly. We can say that Vietnam has never seen the presence of most big-name banks of the world, including Crédit Lyonnais, Banque Francaise du Commerce Extérieur, Banque National de Paris, Banque Indo-Suez, Bank of Tokyo-Mitsubishi (the biggest bank established by the merger between two giants - Bank of Tokyo and Mitsubishi Bank), Deutsche Bank, Standard Chartered Bank, ING Bank, ANZ Banking Group, Bank of America, Citibank... According to a report made by the State Bank, up to the end of 1996, there were four joint venture banks, 23 branches of foreign banks and 71 rep offices operating in Vietnam, especially in Hà Nội and HCMC.

Foreign banks usually open rep offices before their branches are officially opened. These offices often operate for two or three years, or even longer. This is an important period in preparation for the activity of the bank later. Main tasks carried out by these offices are: studying market, investment environment and related laws; establishing relations with governmental bodies and existing banks; and above all, approaching potential customers in preparation for official relations in the future. In this period, marketing will determine the success or failure of a foreign bank at the later time. Objects of market researches carried out by these banks are sometimes totally strange to Vietnam banks, for example, a foreign bank has made a study of Vietnamese expatriates, including the history of main com-



AN OUTLINE OF THE OPERATION OF FOREIGN BANKS IN VIETNAM

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munities of Vietnamese expatriates, the list of successful expatriates, the potential for their investment in Vietnam, etc. What are their studies for? They simply think that with Vietnam's open policy, Vietnamese expatriates' role will be an indispensable part of the country's socio-economic life, therefore this community certainly becomes one of objects of their studies. Foreign banks never consider themselves as lenders, but as suppliers of credit facility, so they usually look for new customers, are ready to give customers the red-carpet treatment if need be instead of waiting for borrowers. I was told an interesting story about the market research of another foreign bank. In an agriculture fair held in Cần Thơ recently, the bank has registered as a participant. Many businesspersons in the Western South were surprised at the presence of a foreign bank in this fair because they thought that the fair was the meeting place for trading companies and their customers. They didn't know that, being present at the fair, that bank has had chances to research carefully into potentialities of trading companies (their output, marketing methods, marketability of their products, etc.). After the fair, it's told that the bank has persuaded some famous companies to have their names put in the list of customers of the bank.

So it's easy to see that foreign banks have quickly integrated into the Vietnam economy. Their business policies vary according to their financial strength, experience, skills and integrating method. French banks seem to prefer trade financing by supplying import financing or giving packing loans to exporters based on export letter of credit. Japanese banks,

who came to Vietnam after French banks, prefer making medium and long term investments. However, short-term credit represents the better part of credit balance of foreign banks. Most of them seem reluctant to supply medium and long term loans. According to "An Outline of the Operation of Foreign Banks and Financial Institutions in Vietnam", a report made by the State Bank on Dec. 19, 1996, the proportion of medium and long term loans supplied by these creditors increased from 31% at the end of 1995 to 36% at the end of 1996. The total debits at the end of 1996 also increased by 79.2% compared with the corresponding period last year. The report also remarked that the operation of foreign banks in Vietnam has made good progress in most fields. Around 90% of their deposits were turned into loans. This ratio shows that they have employed well their capital.

A problem that has escaped observation for a long time is that loans from foreign banks have become an important part of total foreign investment in Vietnam today. As we know, in order to limit risk degree, foreign investors tend to have their legal capital registered at a level lower than their investment capital. For example, according to the *Saigon Newsreader* (Feb.17, 1997), in 1996 the total licenced investment capital put by foreign investors in Vietnam amounted to US\$8,486,012,239, while the total registered legal capital was US\$2,937,811,912 only. The difference is very remarkable: US\$5,548,200,327. This difference will made up by foreign debts or loans from foreign banks in Vietnam through arrangement made by foreign



parties (if the case involved is of a joint venture) or through traditional relationship between them and banks in their home countries. Foreign banks will share the risk involved in this difference with investors. Unfortunately, there has been no numerical data

about this problem so far whereas these loans are usually long term investments which we are badly in need of. The press have written a lot about measures to accumulate medium and long term capital as a knotty problem for Vietnam banking system today, therefore

the role of foreign banks in this field needs to be studied more carefully so the banking authorities could find out appropriate incentive schemes.

Besides credit relations, foreign banks in Vietnam could act as intermediaries in the development of corresponding banking relationship between Vietnam banking system and international banking circle and help foreign investors approach Vietnamese partners. Foreign banks can also help to introduce electronic banking facilities to Vietnam.

By the way, it's necessary to mention difficulties in the foreign banks' process of integrating into Vietnam. There has been no commercial law in Vietnam so far. The lack of regulations on mortgage and pledging has led to careless interpretation of laws by related governmental bodies, especially in notary public's services. Procedures for being declared bankrupt are too complex and difficult for banks to recover debts. And above all, the bureaucracy is still an obsession with foreign bankers although the open door policy has been adopted by Vietnam for over 10 years.

In 1997, the economic environment seems more favorable for the operation of foreign banks. The expansion of diplomatic relations, amendments made to the Foreign Investment Law, improvements of legal infrastructure and the promulgation of law documents regulating banking business have constituted necessary preconditions for the integration of foreign banks into the Vietnam banking system with a view to attracting more investments from these banks, especially long and medium term ones which are of great importance to our industrialization and modernization.