

Restructuring the Vietnamese Stock Market

TRẦN ĐỨC SINH*

ABSTRACT

The past few years have been favorable to the Vietnamese stock market as the country has enjoyed economic, political and social stability. In spite of efforts to develop the stock exchanges, the Vietnamese stock market still lacks competitive advantages and fails to meet international standards. The paper aims at examining the situation of the Vietnamese stock exchanges and its competitiveness and suggesting a merger of stock exchanges as a feasible measure to restructure the stock market in Vietnam.

Keywords: Competitiveness, liquidity, Vietnamese stock exchanges, restructuring

The past few years have been favorable to the Vietnamese stock market as the country has enjoyed economic, political and social stability. Growth targets are highly regarded. Despite efforts by stock market authorities to build a legal framework for the stock market, develop infrastructure, promote supplies of commodities and services, etc., admittedly, it has yet to create competitive advantages on its own. Vietnam can satisfy only eight out of the nine necessary conditions for being classified by FTSE as an emerging market like other stock markets in Southeast Asia. Thus, it will remain a frontier market if its low liquidity is not improved. In addition to liquidity, many other problems should also be addressed to create synergies with economic attractiveness and attract investors. Of these, a core problem is the restructuring of the stock market.

1. INFLUENTIAL FACTORS IN STRUCTURE OF THE MARKET

The stock market is an advanced financial market and therefore substantially influenced by technological progress and globalization. These factors have shaped the global stock market.

a. Technology:

The operations of stock exchanges worldwide are under great influences of technological advances, especially IT. With the IT advances, geographical distances are narrowed, which makes cross-border and transcontinental transactions easier. Technology also lies behind innovative ideas and becomes a competitive factor between stock exchanges. Therefore, they make continuous investment in modern technology solutions to increase capacity, decrease delays and boost transaction efficiency. This is an indirect way to save transaction costs and promote competitiveness because modern technology can engage investors in transactions and minimize transaction costs that are incurred by the bid-offer spread.

b. Merger trend between stock exchanges:

*Doctor of Philosophy, Chairman of Board of Directors of HCMC Stock Exchange

Email: trandacsinh@hsx.vn

Overall, many stock exchanges have small sizes, poor liquidity, and serve only a limited community of regional investors. The merger of stock exchanges has recently become a trend for creating a larger stock market with high liquidity by means of promoting cross-listings, attracting foreign investors, and strengthening cooperation with other stock exchanges as well as financial and banking institutions. Several recent mergers of stock exchanges in the world include CME-CBOT in 2006, NYSE-Euronext in 2006, NASDAQ-OMX in 2007, LSE – Borsa Italiana in 2007, and some merger negotiations in 2011.

In the ASEAN, in order to fulfill a PM commitment to build an integrated ASEAN capital market by 2015, merger initiatives are being realized among the regional stock exchanges. The link between seven ASEAN stock exchanges are being established in turn with SGX (Singapore) and BM (Malaysia) tying up in June 2012, SET (Thailand) in August 2012, and other exchanges at a later time.

2. SITUATION AND CHALLENGES TO VIETNAMESE STOCK EXCHANGES

a. Performance:

Generally, the main revenues of the Vietnamese stock exchanges come from the charging of stock transactions. Hanoi Stock Exchange (HNX) in particular obtains extra revenues from the auction of government bonds. Transaction fees accounted for 80% of Hochiminh Stock Exchange (HOSE) receipts in 2009. Other revenues that are technological-intensive, of high added value and resistant to market fluctuations make up a modest share of the total revenues. Examples of these are listing fees, membership fees; fees for selling information products, fees for derivatives market activities, etc. This leads to passive reactions by the stock exchanges to market fluctuations. Especially, when the market goes down, their revenues will heavily depend on liquidity.

Among other ASEAN stock exchanges, Singapore Exchange receives half of its revenues from stock market activities and the remainder from derivatives market activities and other regular revenues. These revenues can make up for its operation costs for the whole year. For Bursa Malaysia, revenues from stock market activities account for 67% of its total revenues while other revenues from derivatives market activities and other regular revenues make up the rest. The main receipts of these stock exchanges are obtained in turn from transaction fees on the stock market, transaction fees on the derivatives market, listing fees, after-transaction service fees, and information- and IT-related service fees.

The Vietnamese stock exchanges can hardly achieve a stable and sustainable structure of revenue as more developed exchanges did if they keep following their current operating models. Their financial sources will be fragmented and wasted while R&D activities will be scattered. This entails a waste of human and material resources while the Vietnamese stock market is still small.

b. Competitiveness:

- Size: The Vietnamese stock market is rather small-sized. The market cap of HOSE and HNX altogether reached VND651 billion or US\$31 billion in August 2011. Compared with other ASEAN stock exchanges, the Vietnamese two stock exchanges combined still have the lowest market cap, not to mention if one is separated from the other.

Table 1: Market capitalization of some ASEAN stock exchanges (US\$ million):

Stock exchange	Market Cap (August 2011)
Bursa Malaysia	409,692.3*
Indonesia SE	406,458.3*
Philippine SE	167,824.3*
Singapore Exchange	620,371.3*
Thailand SE	294,262.7*
Hochiminh SE	26 ,515
Hanoi SE	4 ,484

(*) Source: WFE Focus No. 223, Sep 2011

Transaction fees: Vietnam has the highest transaction fees among ASEAN countries.

Table 2: Transaction fees of ASEAN stock exchanges

Stock exchange	Transaction fee (2008)*
Bursa Malaysia	0.0025%
Indonesia SE	0.0300%
Philippine SE	0.0050%
Singapore Exchange	0.0075%
Thailand SE	0.0050%
Hochiminh SE	0.0300%
Hanoi SE	0.0300%

* Data supplied by stock exchanges

- Commodities: the Vietnamese stock market is dealing in simple and traditional commodities, namely stocks and bonds. Besides, it lacks premium goods for transaction, investment and risk prevention, such as derivatives and EFT. This considerably restricts the competitiveness of the stock market, for there are insufficient tools for investors to carry out their various investment strategies.

- Transaction facilities: Transaction commands used on the market are simple. Advanced transaction facilities are absent, such as DMA, going short, going long and securities lending. Furthermore, Vietnam Securities Depository operates independently of the stock exchanges, making the implementation of services in the value chain of the stock market fragmented.

To sum up, although it has been attracting the attention of worldwide investors in recent years, the Vietnamese stock market is poorly competitive regarding factors for its sustainable development, not to mention the competition between the two local stock exchanges to attract listed companies and investors. Therefore, a clear orientation has yet to be determined to deal with foreign competition.

c. Unclear images of the Vietnamese stock market:

The small size and separation of the two stock exchanges have made a bad impression on investors, especially foreign ones. Some of them find it hard to understand why there need to be two stock exchanges while the distinction between them on the listing market is blurred in terms of listing standards and transaction modes. Some index calculators have difficulties working out an index for the Vietnamese stock market because they have gather information from both floors. It also deters international financial organizations from using the index to build their investment portfolio as they will have to approach different information sources and transaction modes. In consequence, Vietnam has unintentionally installed a technical barrier to foreign investors.

For international cooperation, Vietnam has to make two bilateral agreements with partners who wish to cooperate. Concerning regional linkage, there needs to be a special connection model to link the two exchanges with ASEAN counterparts.

3. AIMS OF RESTRUCTURING AND BENEFITS OF MERGER MODEL

a. Aims of restructuring:

The restructuring model for the Vietnamese stock market needs to achieve the following two goals:

- Competitiveness: The intended competitiveness is not only regional but also international. Because of its global economic and financial integration, Vietnam will have to face growing competition from regional markets in attracting investment globally and even locally. The restructuring of the stock market should give top priority to its competitiveness. Exposure to international standards will also help improve the local market. The restructuring model should raise the competitiveness of the Vietnamese market in both Southeast Asian and global markets.

- Liquidity: Liquidity is reflected in transaction fee, transparency and market size. However good the standards for building the market are, its goals cannot be achieved without liquidity. Concerning transparency, it is the clear sorting of assets invested in the market, such as the markets for stocks and bonds, and the markets of large-caps, mid-caps, and small-caps, potential start-ups, etc.

b. Benefits of a merger:

The unification of the two stock exchanges is highly desirable because of its considerable advantages. The merger model has solved outstanding and arising problems with the Vietnamese stock market that other models could not address thoroughly.

- Enhancing performance and competitiveness of the stock exchanges

With this model, the stock exchanges can improve their performance. The concentration of resources will help distribute human and material resources effectively, particularly in the fields of IT and research and development. Thereby, more products will be introduced to the market, changing the revenue structure for sustainable development. Enhanced performance can help solve the problem of competitiveness. The expansion of the market and removal of technical barriers between the two floors can increase transactions and liquidity, therefore indirectly cutting transaction costs. The balancing and development of revenues will help reduce the stock exchanges' dependence on transaction fees. This leads to reduced costs and increased competitiveness among ASEAN counterparts. The establishment of one sole stock exchange with high liquidity and diverse commodities is the basis for developing derivatives and other products that meet investors' needs.

- Helping the stock market accomplish well its role as a long-term capital mobilization channel

After the merger, investors can have a clearer view of the Vietnamese stock market due to its clear-cut structure consisting of the markets for listed stock, listed bonds and unlisted enterprises. The merger also helps investors who are familiar with one market approach other markets easily, thereby increasing liquidity and market depth. Additionally, enterprises can attract more investment for business development, which helps the stock market play well its role as a channel for long-term capital mobilization as well as short-term mobilization from banks. As a result, the goal set by the government to restructure the economy including the stock market can be achieved.

A well-functioning long-term capital market can speed up the equitization of state-owned enterprises, thereby promoting investment for enhancing enterprises' performance. It also helps small and medium enterprises mobilize capital at lower costs from local and foreign investors. Foreign investors with large capital stocks and high technology will contribute to improving the quality of products and business administration. Consequently, the stock market will make positive effects on the Vietnamese macroeconomic environment.

- Suitable for development trends of international markets

The model is fit for development trends of international stock exchanges where technology is playing a fundamental role, and globalization and linkage for competitiveness and development are influencing their operations. Regarding ASEAN stock exchanges, they also carry out tie-up projects to expand their size, improve competitiveness, and transmit a message about ASEAN investment properties. Therefore, the merger of the Vietnamese floors is considered the clearest message on Vietnamese investment properties. The model of one sole stock exchange can unify and develop a technological basis to compete against another one. This is hardly accomplished with separately developing markets.

With a clear and reasonable structure, the Vietnamese stock market can promote its attractiveness from the country's economic growth and obtain fundamental factors to attract more investments and contribute to the development of the Vietnamese economy ■

References

- FTSE, *Country Classification Engagement Questionnaire*.
- Claessens, S., D. Klingebiel & S. L. Schmukler (2004), "Stock Market Development and Internationalization: Do Economic Fundamental Spur Both Similarly?", *Journal of Empirical Finance*
- Yartey, C. A. (2008), "The Determinant of Stock Market in Emerging Economies: Is South Africa Different?" IMF Working Paper,
- SGX (2009), Annual Report.
- BM (2009), Annual Report.
- WFE Focus No. 223, September 2011.