



Saying good-bye to the mandarins.

That night, as darkness falls on Hue's flooded streets, I make my last trip to the Post Office, unashamedly called "La Poste". A television set is on the counter, there for everyone one to listen to. The BBC-Asia presenter spells out in English the new developments in the Canadian election campaign. No one listens, except me. Hue is already used to its new openness.

Tomorrow, Vinh goes back to HoChiMinh City. We will not go north to the demilitarized-zone (DMZ) where young bikers run a brisk business taking tourists around the fire zones of the recent past. Neither of us saw much interest in the long ride. We also did not go to My Lai, site of the much publicized American war atrocities. The past we were looking for, the past Vietnam seems to want to build its future on, was a different one.

Carole Beaulieu
Hanoi, November 24, 1993

PS: The names of our three travelling companions have been changed.

INSTITUTE OF CURRENT WORLD AFFAIRS

CB-17

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DONG, DOLLAR OR GOLD? SAVINGS ACCOUNTS, BONDS OR STOCKS?
What to do with your money in Socialist Vietnam

Part 1 - Countdown to Vietnam's first Stock Exchange

Peter Bird Martin
ICWA
4 West Wheelock Street
Hanover, NH 03755 USA

Dear Peter,

Dusty, pot-holed, sun-drenched Ben Chuong Street, on the banks of the polluted Saigon River has little in common with Wall Street and the fashionable blocks of New York highrises the world regards as the symbol of capitalism. Soon it will.

Number 17 Ben Chuong Street, a four-storey colonial building in the heart of still communist-ruled Ho Chi Minh City (HCMCity), has been chosen to be home to Vietnam's first *Thi Truong Chung Khoan (TTCK)*, or stock exchange. "We borrow the symbol of capitalism to achieve our socialist aims," explains 39-year-old Vo Thi Vuong, Communist Party member and Hanoi-based deputy director of Vietnam's recently created Capital Market Development Board. "We need capital to expand production of goods and enhance the welfare of our people."

- "Can communism and a stock exchange co-exist?" I ask. "Is the opening of a stock exchange not the end of communism?"

For a few seemingly eternal seconds, Vuong stares ahead in silence. Earlier on in our interview, she shied away from telling me when she joined the Party, brushing the question aside as irrelevant, simply saying "I was young then." Now again, she is locked in her silence, her right hand absently twisting the fine silver bracelet encircling her wrist. *Un ange passe*. I drink some green tea. Then, with a vague shrug of the shoulders Vuong looks at me and says: "We need it." That's all.

I am fascinated by Vietnam's project to open a stock exchange in 1994 (or 1995, 1996 or 1997 depending on the sources I talk to). I must say this fascination comes at my own surprise. I know little about stock markets. In fifteen years of reporting in Canada and abroad, I never gave much thought to them. I never bought shares and never visited the Montreal Exchange although I grew up minutes

Carole Beaulieu is an ICWA fellow writing about the countries of former French Indochina, with a focus on Vietnam.

Since 1925 the Institute of Current World Affairs (the Crane-Rogers Foundation) has provided long-term fellowships to enable outstanding young adults to live outside the United States and write about international areas and issues. Endowed by the late Charles R. Crane, the Institute is also supported by contributions from like-minded individuals and foundations.

away from it. No one in our neighborhood had money, so what's the use? Generally speaking I never thought about stock exchanges. They were there, that's all. Just like my right to vote.

Then, in Hanoi, I sensed the interest and the excitement of some Vietnamese whenever the stock exchange issue came up in conversation. The way they talked about it, the thing sounded better than Disneyland. People perused their newspapers for the latest details on the privatization of Legamex, the Saigon-based garment manufacturer and Vietnam's first state-owned company to sell shares to the public.(1) Even Tu, my Vietnamese teacher, who has no bank account and not much money - as far as I can tell-said the TTCK was "a good idea" because "apart from buying land there were no other good investments available right now and the rich Vietnamese did not know what to do with their money."

I wish I had had a video camera that day. Nothing else could render the expression of awe I saw on Tu's face when she said the good thing about the TTCK was that you could "earn money without working". Then she told me about this piece of land her family had bought in Haiphong in 1991. Three years later, its value had now tripled. "We made 2000 dollars without working at all," she repeated twice, not quite believing it herself.

A French banker based in Hanoi since 1989 even went further to say the Vietnamese "would buy stocks before opening a bank account because they love to gamble." So it was, that I became interested.

Some Saigoneses businessmen complained Hanoi was dragging its feet to have the exchange in the North, but no one in Hanoi ever mentioned that possibility. For all the officials at the Hanoi headquarters of the State Bank, it was obvious: Vietnam's first stock exchange could only be in HCMCity, the country's commercial and financial hub. The only real questions were "when?" and "how?".

Some, mainly in the South, defend a strategy of "learning-to-swim-by-diving-in-the-deep-end." "We will learn by doing," argues Lam Vo Hoang, an ex-banker from the South who spent years in reeducation camp and now sits on a special economic advisory committee to Premier Vo Van Kiet. "The Chinese did not know more than us when they started their own stock market. If we wait for a perfect situation there will never be one. Let's do it. We will make mistakes and we will correct them."

(1). Shares of Legamex International Corporation, also called Lega Union, sold for about \$10 a piece in July 1993. Over 2000 shares were sold in the first five days of the operation. Rumor has it most shares were bought by friends and family members of the media-darling, city-councillor and company director Mrs Nguyen Thi Son. Many complain the operation did not take into consideration the heavy foreign debt of the enterprise which has a total work force of nearly 7000 people. Last fall, local communist authorities accused Mrs Son of being "arrogant" and rebuked her for the "scorning comments" she was said to have made concerning the Vietnamese people.

Others are more careful. "Only a few state-owned companies have been privatized," says a skeptical Saigon businessman "The government bonds are worthless; the new private firms are too small to sell shares and the accounting practices are so bad no investors could make a guess as to the worth of the state-owned companies. We have nothing to sell. And even if we did, who would buy? It's suicide."

A BOND MARKET BY THE END OF 1994

But the government plan is not to have a full securities exchange by the fall of 1994. The "let's-do-it-and-learn-from-our-mistakes attitude" has clearly lost out to the more careful approach promoted by foreign experts.

First, Hanoi wants to establish a bond market. In interviews with the local press, State Bank Governor Cao Si Kiem said in January that treasury bonds and promissory notes would be traded at the exchange as early as 1994. A full-fledged securities market is slated for the end 1995. In a similar interview to a local newspaper, Nguyen Doan Hung, director of the Bank's Capital Market Development Board also said 1995. But his deputy director Vuong, tells me in an interview the deadline could be as late as "1996 or 1997". "Many people do not know about the stock exchange," she insists. "We must be very careful."

Trained at the Ministry of Finance College, Vuong admits to know little herself about capital markets. (Her boss Hung was trained at the Foreign Language College and speaks wonderful English. He got his financial training "on the job" and proved to be a brilliant student at various World Bank seminars and training sessions.)

In HCMCity, 45-year-old Bui Nguyen Hoan, director of the City's branch of the stock exchange project, also learned "on the job." Trained in Romania, Hoan admits he saw his first real stock exchange only two years ago. "But I have seen many more since," he adds laughingly. The stairs to Hoan's office, 17 Ben Chuong Street, are crowded with workers moving furniture, cleaning up junk. The whole building is in the midst of a spring-like cleaning. People are busy moving furniture down to the first floor's cavernous hall, while a crowd of curious onlookers watch from the railed mezzanine above. Large ceiling fans languidly swash the air. Heavy dark-wood counters are dwarfed by the cathedral-like ceiling. "We are hoping to open the bond market in the summer of 1994," says Hoan. "At the latest, in the fall. Then we will need two years before a full stock exchange opens."

To some, like Fernando Senaka of Ernst and Young in Hanoi, even this sounds precipitous. To him, a full-fledged Vietnamese securities market is unthinkable "before five years". "There is no investment protection at all right now," says the 29-year-old Sri Lankan, shaking his head. "None at all. They are learning fast but then they also have a lot to learn."

The obstacles certainly look formidable. Vietnam has no brokers, hardly any auditors and few accountants familiar with international methods and standards. Most state-owned companies use a mixture of Russian and French accounting techniques. Private companies hardly keep any books and often doctor those they do to evade taxes. A

bankruptcy law was adopted at the December meeting of the National Assembly and is not yet in application. Public confidence in domestic firms is appallingly low. The list of problems is endless. "The Chinese were in the same situation when they opened their stock exchanges," argues a restless Saigon banker. "The foreigners are too careful. They are slowing us down. We need a stock exchange to mobilize long-term capital and we need it fast."

This hurried approach has determined opponents. "There is no room in this game for learning from your mistakes", comments an irate E. Gayle McGuigan Jr., senior investment officer with the International Finance Corporation (IFC), the private arm of the World Bank and the world's largest source of financing for private enterprises in so-called "emerging economies."

McGuigan has been advising the Vietnamese authorities on the stock market since June 1993 and has made frequent visits to Hanoi. According to him, the failure of an ill-prepared stock exchange would kill any confidence investors may have in the Vietnamese securities market and set back for years the country's economic development. "Too much is at stake," he says. "It would be foolish to rush ahead. In the South, where credit schemes have often failed and people have little confidence in the banking sector, it would be a catastrophe if the stock exchange failed too." (2)

BANKS: A LEGACY OF MISTRUST

McGuigan seems right to worry. Vietnamese banks have a serious legacy of mistrust to overcome. In the past, depositors frequently could not get their money back when they needed it and such memories linger on despite banking reforms. The stock exchange, by contrast, has no unpleasant past, only a future and the attractive flavor of the unknown and the once forbidden.

With the mistrust of banks keeping savings under mattresses or invested in real estate - therefore out of reach of borrowers in both private and public businesses - the government is gambling on its best option: a securities market. Businessmen are interested too. "We need to be able to borrow mid-term and long-term capital to develop our production capacity," insists Saigon construction businessman Tran Van Bay. "The banks are not giving out those kinds of loans. Maybe the people will through the stock market." (3)

(2) The 1993 "Bamboo garden scandal" is only one example of the problems in the South. Only a few months ago, people who had deposited their savings in a Cholon-based network of credit cooperatives called the Bamboo Garden lost tens of millions of dollars when the network collapsed. The cooperatives operated without official controls. They attracted capital by forming groups of people who pooled their money and then lent out sums to those members who pledged to pay the highest interest. A similar collapse also took place in 1990.

(3). Until very recently most bank loans went to state-owned enterprises and most of them were short term loans. The situation is improving though. In 1993, according to State Bank statistics,

But people's interest in the stock market could also be only a "flare", warns Erich Spittaller, International Monetary Fund resident advisor in Hanoi, "a gadget in which people's interest will wear off quickly if it is not set up in a very democratic way."

But how? How does a communist government set up a stock exchange in a country that never had one and where almost no one has a bank account. (One needs one million dong to open a savings account, that is US\$100, nearly half the country's official average annual income). Despite the impressive banking reforms of the past few years (more on this in CB-18), only 40% of commercial transactions are made through the banking system; 65% of credits are made outside the banking system; personal checks were just allowed on January 1st 1994 in three major cities but the checks have not been printed yet; money transfers between cities are still difficult.

At the State Bank, no one denies the problems. "We will face them one by one," says a very prosaic Hoan. "They are of three kinds: legal, regulatory and institutional."

WRITING THE LAWS FOR A VIETNAMESE STYLE STOCK MARKET

"We need a legal framework," insists 45-year-old Tran Ba Tuoc, vice president of Cholimex, the largest state-owned import-export company in Cholon, HCMCity Chinese quarter and financial center. "We must make sure investors's rights are protected."

A banker before 1975, Tuoc has turned down at least two job offers with foreign banks, saying he is more useful to Vietnam where he is, even though that means a smaller income and more headaches. With colleagues and friends, Tuoc writes about financial questions for Vietnamese publications. He often chides the authorities for badly written laws. "Take the bankruptcy law for example," says Tuoc handing me a Vietnamese copy of the draft law. "This is the 14th draft. It introduces exceptions for companies facing 'difficult circumstances'. Nobody knows what this means. That law could be written in half an hour. Either we want to play soccer or we do not. If we do, the rules are the same for everyone."

No one knows yet how many drafts of the Securities Law will be required. Up in Hanoi, the Capital Market Development Board was created in November 1993 to supersede the ad-hoc Committee created in February 1993. The Board has drafted the first of two decrees for the establishment of an equities market.

The first decree, presently awaiting government approval, details the operational framework of the securities exchange. It specifies, among other things, the listing and disclosing requirements for companies and the trading rules. The second decree will codify the operations of a new Security Exchange Commission.

the non state-owned enterprises received 28% of the loans against 15% in 1992 and 7% in 1991. The proportion of mid-term and long term loans given out by banks also increased from 16.2% in 1992 to 22.4% in 1993.

Stock exchange officials would not give me details on those projects, except to say foreigners will be allowed to buy shares and the Vietnamese stock market will not resemble the Chinese one with A and B shares, the later reserved to joint venture with foreign partners. "We want to follow the international model, not the Chinese one," says Vuong, her snappy tone reminding me once again of the so-often-voiced wish of the Vietnamese to differentiate themselves from China.

There will be limits to how many shares of a Vietnamese company foreigners will be allowed to own, but Vuong would not discuss that number saying it is "being prepared". Debate could be fierce as many Vietnamese are likely to argue that their country's most profitable assets should not be owned by faceless, far-away institutions or be at the mercy of speculators moving their funds around the globe at a moment's notice. (Taiwan and Korea, for example, limit foreign ownership to 10 and 15% respectively)

Both private and state-owned enterprises will be listed on the stock exchange. "Conditions for being listed will be included in the decree," says Vuong, refusing to say more. The government will decide which state companies will be listed "because the companies do not know enough to decide themselves," she adds.

- "Why a decree instead of a law?" I ask.
- "Too few people know what a stock exchange is," answers Vuong. "Once it is created it will be easier to explain it and have it adopted by the National Assembly. People need time to learn."

She would not identify the potential opponents of the project. According to Vuong, the only people opposed to it are those "who do not know". "They are against it because they find it too difficult to understand," she says. She would not discuss the likelihood of a rebuttal by the National Assembly nor would she say which country has most inspired the Vietnamese project. "We are interested in country's whose economies more closely resemble ours," she says, naming specifically Indonesia, China, Malaysia and Thailand.

"Hong Kong is too modern for us," comments Director Hoan, adding that Malaysia "interested him a lot" and that he was closely watching the Chinese experience.

Some say three models are presently being discussed: one prepared by the State Bank, a second proposed by IFC and a third prepared by the HCMCity People's Committee with the advice of Peregrine financial consultants from Hong Kong. But I could not confirm that.

French banker Jean-Pierre Fouché, of Société Générale, the first French Bank to have open a representative office in Hanoi, believes the Vietnamese prefer the very centralized French model over the American one, but IFC advisor McGuigan says the Frenchman is wrong on both counts. "The Vietnamese do not want anybody's system," he says, while sipping his coffee in the bar of Hanoi's Metropole Hotel. "They want their own, their very own Vietnamese model."

One thing for sure, HCMCity's trading floor will not have the mass shouting and flailing hand-signals most foreign exchanges are famous for. According to State Bank officials, it will be a quiet

electronic exchange like the Shanghai's Security Exchange where all trades are done on computers.

FIRST, A BOND MARKET BUT ARE THERE ANY BUYERS?

Establishing first a bond market is a careful strategy endorsed by all foreign experts I meet. "An equities market requires more sophisticated regulations because of the public participation," says Jean Plamondon, Canadian advisor to newly set-up exchanges in Ghana, Romania and Hungary. "Trading in bonds is usually done by institutions. They know the rules of the game. Control is easier. It can all be done in a small room, no need for fancy equipment"

But the government may have difficulty raising interest in a bond market. "The government bonds sold in the past are not worth the price of the cyclo-ride to exchange them," says Huynh Buu Son, deputy managing director of the Saigon Bank for Industry and Trade. "You will have many sellers but no buyers."

According to Tran Ba Tuoc of Cholimex, many people did not buy these bonds willingly. "Every time we received money from abroad, we had to buy some government bonds with it," recalls Tuoc. "It was compulsory. Otherwise you did not get any money." Many of those bonds are coming to term in 1994.

In Hanoi, Vuong admits there are "some problems" with the old bonds. "Their conditions were not good," she says. The new bonds Hanoi will issue have "better conditions" such as higher interest rates and easier rules for transaction and exchange.

Vuong and her boss Nguyen Doan Hung acknowledge that foreign advice has been instrumental in persuading authorities to first develop a domestic bond market. "Anyway, what Vietnam most intensely needs right now is capital for infrastructure," explains one of the numerous foreigners now advising the Vietnamese State Bank. "Hanoi is not likely to get that kind of capital from shares and equity. Treasury bonds with an appropriate structure of interest rates are a much better vehicle." (4)

Foreign advice comes from both the French and the German central banks, as well as from IMF and the World Bank. In March of 1993, the State Bank of Vietnam contacted IFC asking for help. In June a first trip to Hanoi took place. IFC provided information on legal, institutional and regulatory framework. A second mission in September worked on the draft of a national securities decree. In October, a third delegation provided details on a National Securities Exchange as well as codes of conduct and codes of trading. At the same time, State Bank officials worked on computer simulations and visited numerous stock exchanges in other

(4) The latest development strategy worked out by the country's leadership gives top priority for the next seven years to infrastructure, particularly power and water supplies, air and sea ports as well as road and sea transport and communication networks. The plan is being prepared for the Communist Party half-term national meeting which has already been delayed twice and is scheduled to take place this month.

countries. IFC plans to spend close to a million dollars to help the Vietnamese. Most of the money comes from the United Nations Development Program (UNDP), the World Bank, the European Community and the Canadian International Development Agency (CIDA).

"The Vietnamese are working very hard," admits Ernst and Young's Hanoi-based manager Senaka Fernando. "Every government official I know is studying: English, banking, computers, you name it."

Codes of conduct and codes of trading will be big issues. Many Vietnamese already worry that separation of powers between the State and the state-owned enterprises may not be clear enough. Some form of national securities commission will have to be established to regulate the market. Writing in Nhan Dan, the usually very conservative Party daily, Doctor of Economics Nguyen Dai Lai, expressed fears that without controls "cheating and malpractice will flourish."

Erich Spittaller, IMF resident advisor in Hanoi, worries that although Vietnamese state-owned enterprises have more autonomy now, they are not yet accountable for their decisions. A lot remains to be done to insure potential investors of true reliable financial information.

Vietnamese firms are certainly a long way from printing the glossy financial reports large western companies publish each year to for their shareholders and customers. Most do not publish any information at all. "To know the financial secrets of a state-owned company is to know the secrets of the State," comments Saigonese retired-banker Lam Vo Hoang mischievously, "Information is power. They will not let go of it easily. It will take time."

AUDITING FIRMS FIGHTING THE SECRECY BUG

Auditing is another problem. Audits were unknown before 1986, the period Vietnamese now call "the time of subsidies". Vietnamese companies are slowly becoming familiar with audits but it will be a while before all businessmen are aware that a healthy balance sheet is their best collateral.

Fernando Sedaka of Ernst and Young, the first foreign accounting firm to open offices in Hanoi, says few Vietnamese companies agree to give precise information. The ones that do rarely update it. The government request only those enterprises with foreign capital to have their financial sheets audited but many think this requirement will soon be extended to other sectors, especially state-owned enterprises.

"Knowing the truth about a company's finances is very difficult," adds 48-year-old Ta Hong Gioi, Finance Director of Saigon Finance Corporation (SFC), a Saigon-based firm hoping to become a trader on the future stock exchange. "Our accounting practices are terrible. Knowing the real profit or loss of a company is almost impossible."

According to Gioi, both private and state-owned companies often doctor their books to avoid paying heavy taxes on profits. "Its the biggest problem for investors," he says. "Knowing the truth, finding out the right numbers."

State Bank deputy director Hoan admits "secrecy" used to be a policy of the Vietnamese government, a "necessity" he says in a planned economy but a hindrance in a market-oriented one. "Good information will be a condition of success," he says.

In Vietnam, only three auditing companies are currently licensed to operate. Two belong to the Ministry of Finance: Vietnam Auditing Company (VACO) and Accounting Auditing Service Company (AASC). The third firm is Ernst and Young Vietnam of HSD Castel Jacquet, a French audit firm member of Ernst and Young International. Price Waterhouse has also done some audits in Vietnam but always in cooperation with VACO which personnel they also train. There are no private Vietnamese auditing firms. "The government's firms have a big handicap," deplores Gioi. "No one sees them as independent. Private firms would have a better chance of attracting clients. But the government refuses to give them permits."

A supporter of the revolution in his youth, Gioi says he was hurt in the past to see incompetent directors of state-owned companies wasteful spend the country's resources. Gioi, who received a master degree in finance before 1975, now takes every opportunity to make up for his "18 years of isolation" and upgrade his knowledge. He fears the reformers might not prevail over the more conservative wing of the leadership which opposes the sale of state-owned companies for fear of "loosing control". "To the conservatives socialism still means state-ownership. To me, it means a fair distribution of resources."

In the 90 minutes I spent with Gioi, I could not quite figure out what SFC does except give loans in foreign currencies to Vietnamese businesses. Gioi says SFC "finds promising private companies and helps them get ready to go public when the stock exchange opens". The firm was set up, with municipal funds, as a joint-stock company and present itself as "private." SFC's main mandate is to "prepare the formation of a capital market" and "try to mobilize credit funds for Vietnam". Rumors have it SFC is involved in some illicit activities but I certainly could not tell.

LEARNING THE A-B-C OF WALL STREET AT THE BANKER'S CLUB

The establishment of all the different "institutions" financial markets require and the related training are high on the government's agenda. "We want to have at least 10 brokerage houses established before the market opens," says Hoan. "Some of those may be foreign." Vietnamese commercial banks presently have about 30 financial firms which could become brokers. Hoan says domestic brokers will be chosen among them.

In Hanoi and HCMCity, seminars on finance-related issues abound. In November, I stumbled onto a German-sponsored seminar on the stock exchange while looking for a Canadian one being held the same day in the same Guest House on the same question. (A third seminar was also taking place there that day but the military-clad French officer who was speaking to ten or so assembled Vietnamese officers was clearly not talking about the stock exchange and I was swiftly, although politely, escorted out.)

Training events come in all forms. The best I saw took place one night at the Haiphong Maritime Bank's new office in Hanoi. Young and inexperienced stockbroker Buddy Fox, played by American actor Charlie Sheen, is being "d.k.ed on when his clients options take a bath" and there is not enough light for me to consult the stock market jargon list I have been given.

Its 9:30 p.m. in Hanoi. I am at the Bankers's Club watching "Wall Street", the Hollywood movie. Over 80 members of the Club, most of them younger than I, are sitting in plush chairs, sipping Coca-Cola and watching Buddy Fox get accused of insider trading. It is the second meeting of the newly-formed Banker's Club, part of a five-year US\$4 million training program financed by the World Bank and the Swedish International Development Agency. It's dark in the room but no one is falling asleep despite the long day they all had at their respective banks. "I did not understand everything," admits my friend Loan, looking a bit dazed as we walk out of the Bankers's Club. "I did not expect them to work so fast. I am not sure I could do it." Loan is not yet 25 years old. She works as a clerk at the local branch of Exim Bank, the semi-private Vietnamese financial institution where I bank.

- "Would you want to work in something like that?" I ask.
- "Maybe," she says after a few seconds of silence. "But I have a lot to learn before."

French professor Jean-Pierre Aumiphin who teaches in Hanoi says his adult students struggle through his classes. "Graduates of local business schools are not prepared at all," he says. "The country has very few specialists. The idea of a financial market is a new concept for Vietnam."

Jean Sinna, director of Ernst and Young's Hanoi Office, says training staff has not been easy. First, the firm hired people fluent in English and tried to teach them accounting. Then, it hired Vietnamese-trained accountants and put them through English training. "The first method turned out to be more efficient," says Sinna. "The Vietnamese accountants had too much to learn at the same time: learn English and also forget their bad methods."

At a banking conference held in HCMCity in the fall, the stock exchange monopolized the question period. "Many Southerners seem to think the stock market is like a big casino, a way to quick money," recalls Ruth E.Horne, director of the Hong Kong Bank's Hanoi office. "Northerners sound more cautious and rigorous."

In HCMCity, many people I meet complain of "lack of information". "The government tells more to the foreigners," says Gioi, pleading for any useful information I can provide. (I do not think the problem is intentional. Often, I find Vietnamese assuming the government will not tell them and do not ask. While it is still true in many cases, there are some remarkable openings.)

Taking all those problems into consideration, why does Hanoi want a stock exchange so badly?

The main reason is Vietnam's urgent need of capital. The country needs, between now and the year 2000, an estimated US\$40 to \$50

billion to invest in electricity, communications, water projects and the development of key economic zones. "We want private capital to be the main thrust of development, not foreign aid or debt," says Hoan. "The securities market will be the key vehicle for raising foreign capital and mobilizing domestic savings."

"We are trying to provide an alternative to debt," adds IFC advisor McGuigan. "If Vietnam can not raise its own capital, it will have to borrow heavily." For French financial expert Jean-Pierre Aumiphin, the creation of a Vietnamese capital market is simply unavoidable. "In the past, because of the command economy, capital has been badly used and badly distributed," says Aumiphin who left a prestigious career to teach at the Centre Franco-Vietnamien de formation à la gestion opened last year in Hanoi. "The same way Vietnam has a market for labor, and a market for goods, it now needs a market for capital."

Chinese growth also seems a powerful incentive. "We are certainly at the same level as the Chinese," boasts Gioi. "And they already have three stock exchanges."

Although comparisons with China seem to be an unavoidable element of any conversation on the stock market, not everyone agrees. "China was more stable and had not been as isolated as Vietnam," says Fernando Senaka. Others argue Vietnam is more advanced than China was ten years ago, because the dong is freely traded with the US dollar and the Vietnamese have more experience in dealing with foreign and western notions of business and law. "We should be able to move even faster than China," insists a Saigon banker.

"But China's market also crashed after the initial fanfare," says Desmond Dodd, Hong Kong bureau chief of Emerging Markets Week a specialized subscribers only financial market newsletter. Some more politically-minded Vietnamese reformers are using the stock market as a way to speed up a lagging privatization movement. "With a deadline for the opening of the stock market, the government has a good reason to push the dinosaurs of the state-owned companies to become competitive," says a Saigon banker. "If they want the state sector to remain prominent in Vietnam's economy, they have to act, otherwise the state companies will be swamped by the private sector." (Private sector, despite not so favorable conditions, already accounts for 60% of GDP)

A survey done this fall by the General Department of Statistics concluded that close to 45% of Vietnam's 7000 state-owned enterprises should be closed or turned into private enterprises, most of them being too small, ill-equipped and operating at a low production level.(5) About 23% of them are operating at a loss and in 1992 only lost US\$45 millions.

In Vietnam, privatization is called equitization. And it is a tricky issue. The words themselves give some people heartburns.

(5). "Study recommends disbanding 45% of State enterprises", in Vietnam Investment Review, 4-10 October 1993, p.5

"Before 1975, privatization was called *tu huu hoa*, explains Cholimex director. Now it is *tu nhan hoa*. The most often used word is equitization or corporatization, *co phan hoa*."

But "equitization" is a story in itself. Most people I speak to regard it as the most difficult task Vietnam will have to tackle on the road to a successful stock market. "If you do not have shares to trade, you do not have a market," says John Theaker, of the World Bank training program. (Some small private share-holding companies have been established in Vietnam in the past two years but shares are not held by the public. They are held by small groups of investors who have cartel-like connections and are not interested at this point in selling to the public.)

After a month of "stock market" talk, the glossy US\$80 1993 Emerging Stock Markets Fact Book published by IFC, sounded very much to me like a "siren song", softly humming promises of money, investments and development. I found myself struggling to think up any perverse effects the market might bring.

At a recent party meeting in Hanoi, leaders from impoverished central and mountainous regions began to push harder for a share of the new wealth, asking for more funds and incentives to develop their areas. Would the new capital market help them in any way? It is clearly too early to tell.

IFC is busy promoting the idea to developing countries that selling shares to foreigners makes sense. Vietnam has clearly bought it. Hard not to, when IFC documentation shows how well the so-called "emerging markets" have done in the past decade. Last year the top performing share markets were Jamaica, Peru, China and Israel. Nine of the ten bottom performers, however, were also emerging markets.(6) In the second half of the 1980's, emerging markets as a group generally out-performed the OECD stock markets, often by a spectacular margin. No wonder a group of American institutional investors, representing huge pension funds, is now visiting Hanoi, as I write this, to discuss "portfolio investment". A few weeks earlier, another group of European and Asian representative of pension funds also visited Hanoi.

But for many, like McGuigan, Theaker and Spittaller, who insist on the not yet completed banking reforms, the stock-exchange project is like a cherry on a sundae, a sundae that is far from ready yet.



Carole Beaulieu
Hanoi

PS: For those interested in the fate of the Nha Trang Oceanographic Institute whose problems I described in CB-16, the Worldwide Fund for Nature is now raising funds to create a marine reserve around an island off the coast of the Institute.

(6) Emerging Stock Markets Factbook 1983, p.3