

VIETNAMESE BANKS IN THE CONTEXT OF INTERNATIONAL INTEGRATION AND GLOBALIZATION

NGUYỄN ANH TUẤN (*)

1. Globalization and International Economic Integration

Globalization is a typical feature and unavoidable trend of the present age, visible in the increase in magnitude and forms of goods and service exchange, in international capital movements, and cross-country and cross-region technological transfers, enhancing the interdependence of countries in the world economy. Policy-making processes have also experienced changes: the use of macroeconomic adjustment instruments is not decided unilaterally based on national benefits, but is agreed upon and implemented on the basis of guaranteeing the multilateral benefits and goals of the countries concerned. Moreover, policy has to be adjusted over time, based on domestic and international situations.

In the banking and financial system, modern technology has allowed commercial banks and other financial institutions to expand the size and range of their services to allocate capital. Lending through the banking system has decreased concomitant with the development of direct lending through stock markets. Transactions through network has assisted the expansion of operation scope towards internationalizing

and integrating the principles of monetary transactions, integrating financial activities on the basis of cooperative building of policies, management mechanism and supervision of banking activities, forming international and regional monetary alliances. The expansion of operational scope also induces the expansion of market share through mergers and acquisitions to form large financial institutions, leading to stringent global competition among commercial banks. Worldwide, the profitability of businesses decreases, since the volume of capital transaction surpasses capital demand for investment and trade, increasing the risk of bank collapse and the instability of world financial markets. Banks are more dependent on liquid accounts. Developing countries are exposed to the volatilities of financial markets, especially to the threat on international reserves and financial assets due to outward flows of savings and investment.

In this global context, each country must implement reform, building up a financial management system and a mechanism of protecting itself against international

(*) M.A. Foreign Trade University.

financial risk, enhancing transparency in the banking system and tightening regulations on capital adequacy. The exchange rate policy has to be transformed towards a floating exchange, following the rules of market supply and demand. International financial institutions have strengthened financial market supervision, and the central banks of the ten most developed countries in the world established the Basel Committee in 1975 to work out principles of bank supervision. These principles were developed based mostly on market fluctuations and the operations of commercial banks in those countries, but have subsequently become the norm in the management of large banks with a high ratio of international operations.

2. The Impact of Integration Commitments on Vietnam's banking system

In the process of accelerating globalization, early and active participation in the globalization process becomes an indispensable requirement for Vietnam if the country wants to survive and develop. At present, the most important task is to become an official member of the World Trade Organization (WTO). In the accession negotiations, Vietnam must sign a great number of bilateral and multilateral agreements with most of the WTO members, conforming to the basic principles and opening roadmap stipulated in the General Agreements on Trade and Services (GATS) of the WTO, such as National Treatment (NT), Most Favored Nation (MFN), and transparency in policies concerning trade and services. The Vietnam - United States Bilateral Trade Agreements (VN - US BTA) and ASEAN Framework Agreement on Services (AFAS) include several elements of

GATS, differing only in the commencement of validity.

According to the VN-US BTA, the commitment to open banking services would be implemented within nine years, by which time all restrictions on American banks would be removed. Beginning in December, 2010, American banks can establish 100% owned subsidiaries and provide all services in Vietnam.

In the nine years following 2001, American financial service providers will be allowed to provide twelve groups of services, following a seven-step roadmap. According to the roadmap, Vietnam must gradually remove restrictions on American commercial banks, permitting their increased participation in banking services in the market, including services that are currently provided by Vietnamese banks, such as international payment, project investments, and trade lending, as well as those that have not been provided by Vietnamese banks, such as currency brokering, derivatives, merger and acquisition consultation, etc. In general, American banks have superior technology and management. Competitive pressure on domestic commercial banks will increase following the relaxation of regulations on the operations of American commercial banks, especially those restrictions used as entry barriers, such as restrictions on Vietnamese Dong deposit, credit card issuance, and ATM services. Domestic banks' market share will decrease gradually, especially in big cities, highly-populated areas, industrial and export processing zones, etc. Additionally, competitive pressure on the domestic banking system will be concentrated in the following areas:

- Credit market (both retail and wholesale). Competition in lending will stiffen when foreign banks have

knowledge about Vietnam's market and legal environment, it's the guarantee for their reclaiming debts when necessary. The permission that foreign banks can participate in refinancing, rediscount, SWAP and FORWARD operations from the State Bank of Vietnam provide these banks with capital in Vietnamese Dong which is still restricted according to the roadmap;

- Payment and remittance. This is the area where foreign banks have absolute advantages in technology and capital.

- Consultation, currency brokering, business support and restoration. This is the area where foreign banks have advantages in experience and expertise compared with Vietnamese banks.

The international integration of the Vietnamese banking and financial system has brought about opportunities for Vietnamese banks: a more developed market and more diversified, convenient, safer and more effective banking services; reorganized clientele and improved asset portfolios; the adoption of advanced banking technology and management experience from foreign countries; enhanced financial capacity from the government, domestic investors, and foreign sources; improved management skills through the comprehensive establishment of risk supervising institutions; a move towards liberalized trade principles, separating policy credit and commercial credit; autonomy in lending, reducing loans under the direction of the government; categorizing debts and evaluating debts using market principles; liberalizing exchange and interest rates; reforming monetary policy towards the use of indirect instruments; and opening the banking system to the participation of foreign investors.

Along with the above opportunities, the Vietnamese banking system faces many challenges in the process of international integration: domestic banks face the threat of losing market share and good clients to competition from foreign commercial banks with superior capital, technology and management; the labor market is falling behind in terms of the expertise of personnel in domestic banks; the economy is still weak, the financial market underdeveloped, and macroeconomic variables are not yet sustainable and contain hidden risks of instability; the per capita income, financial capacity and competitiveness of bank clients are low, leading to a permanent risk of client default and large non-performing debts in the Vietnamese banking system.

3. General guidelines to develop the Vietnamese banking system to 2010, and the outlook towards 2020

Vietnam has identified the basic content in the development strategies of the Vietnamese banking system, including a strategy for developing the State Bank of Vietnam, and strategies for developing Vietnamese commercial banks. These are:

- Reforming and developing Vietnamese commercial banks so that they are modern, multi-functional banks comparable to moderately advanced banks in the region, diversified in ownership and forms, large in operational scope, financially healthy and able to compete with other regional banks.

- Developing an effective and safe Vietnamese commercial bank system based on advanced technology and management, applying international practices and standards in commercial banking with a high quality, reasonably-organized network in order to provide banking services adequately, conveniently and promptly to the economy. Forming a

healthy, competitive credit market that is fair across credit institutions, allowing every individual and organization doing business legally and capable of repaying debts access to credit in a convenient manner.

- Equitizing state-owned commercial banks while increasing their capital, applying capital adequacy requirements pursuant to international practice (Basel Treaty), increasing scale, incorporating modernizing technology, and enhancing management skills.

- Strengthening and developing joint-stock commercial banks by increasing financial and management capability; and carrying out liquidations, mergers and acquisitions of weak joint-stock banks.

The motto for commercial banks is: safety - effectiveness - sustainable development - international integration.

4. Applying international standards (Basel Framework II) to the operations of Vietnamese commercial banks; enhancing institutional capacity, and restructuring organizational and operational models towards greater compatibility with international practices

Rearranging the organizational structure of state-owned commercial banks from their headquarters down to their branches in line with technological trends and the business strategies of the banks. Transforming from organizational models based on functions and administrative locations to those based on groups of clients and groups of services.

Reforming structures in headquarters in line with international practice: clarifying the functions, responsibilities and rights of the board of management and board of executives. The board of management is the most powerful standing body, representing the owners of the banks, and is responsible for comprehensively

supervising the banks' operations and the board of executives, while assuming the final risks of the banks' operations. Establishing a risk management council or committee under the board of management.

Constructing business strategy in compliance with international standards, including product, financial and market strategies. Enhancing the strategic management capacity of the commercial banks' leaders.

Diversifying, and enhancing the quality and usefulness of banking products and services, meeting clients' demands. Developing and enhancing the quality of capital mobilization, credit and non-credit products. Promoting the development of new products based on advanced technology.

Standardizing management procedures and tasks towards synchronization, modernization, automation and centralized integration.

Expanding size while enhancing the capacity of risk supervision and management, ensuring both safety and business results. Developing a centralized information system and independent risk management system to strengthen the capability of commercial bank headquarters to manage operations, and supervise and manage risks. Separating risk management from the transactional operations of banks. Developing a system of strong management units: risk management, credit management, asset management, accounting, financial and internal spending management, human resource management, payment and clearing management, technology management, and strategic management; along with a management information system (MIS), and internal supervision system.

- Strengthening financial capacity

Increasing ownership equity in commercial banks by retaining profits, issuing stocks and bonds, and through mergers and acquisitions. Ensuring ownership equities in credit institutions are in line with the size of assets and risks, within a capital adequacy ratio of 8%.

Enhancing the quality and profitability of assets, reducing the ratio of risky assets to total assets. Fully resolving overdue debts and cleaning up the balance sheet of commercial banks. Constructing a mechanism for prevention, early detection, and resolution of bad debts.

- Enhancing the capacity for applying information technology in both transactional and management operations.

Modernizing the banking technology system step-by-step, combined with direct short-cuts to modern banking technology.

Quickly accessing, effectively operating, and mastering advanced technological applications in payment, risk management, business management, banking service development, accounting and finance, supervision, and basic banking operations.

Seeking long-term sources of finance for the technological modernization of commercial banks, based on applying information, telecommunication and digital technology to improve the degree of automation and the usefulness of bank services. Developing an automatic transaction system, online connections, and a 'one-gate' transaction system.

Officially, the Vietnamese government has not yet adopted Basel Framework II. However, the State Bank of Vietnam has been examining the content of Basel Framework II, to make a proposal to the government for applying a selective, step-by-step approach, appropriate to the

degree of development of the Vietnamese banking system.

REFERENCES

1. State Bank of Vietnam. Report to the Central Economic Committee on mechanisms and factors helping Vietnamese banks adapt when joining the WTO. H: 2005
2. State Bank of Vietnam. Report on summarized activities in 2005 and plan for 2006. H.:2006.
3. State Bank of Vietnam. Annual Report 2004. H.:2005.
4. State Bank of Vietnam. Vietnamese banking system's international integration plan, Decision 663/QD-NHNN dated 26 June, 2003, Hanoi, 2003.
5. Nguyen Thi Quy. The Competitiveness of commercial banks in the process of integration. H.: Political theory, 2005.
6. Nguyen Van Tien. Risk management in banking. H.: Statistical Publishing House, 2005.
7. David Cox. Modern banking operations. H.: National Political Publishing House, 1997.
8. Peter S. Rose. Commercial bank management. National Economic University. H.: Financial Publishing House, 2001.
9. Edward W. Reed. Commercial Banks, H.: Statistical Publishing House, 2004.
10. 10. Basel Committee on Banking Supervision: The History of the Basel Committee and its Memberships. Basel, 2005.
11. 11. Basel Committee on Banking Supervision: International Convergence of Capital Measurement and Capital Standards, a Revised Framework. Basel, 2004.