CHAPTER 6

Conclusion

Over the past 20 years the Vietnamese financial sector has undergone irreversible and fundamental changes in the transition from a centrally coordinated to a market-based sector. New markets and new institutions have been established and new legislation is in place. Direct government control of the sector has been abolished and the (still persistent) indirect control has been reduced.

The reform process has been gradual and has from time to time been set on the backburner for a period. This is not unusual. Evidence from other countries undergoing similar transitions testifies that financial liberalisation and deregulation is a lengthy and difficult process. A number of factors suggest that the reform process is likely to be even more prolonged in the case of Vietnam. First, the French civil law tradition may slow down reforms. Second, and perhaps more important, the Vietnamese tradition of consensus governance, in concert with the ruling elite's preference for social and political stability, is also likely to act as a brake on reforms. Third, the extensive links between the state-owned productive sector and the financial sector may also cause reforms in Vietnam to take longer. Finally, the early crises in the process of liberalising the sector (most notably the collapse of the system of credit cooperatives) may also restrict the pace of reforms because it may take a long time to rebuild trust in the formal financial market that in turn could cause newly established markets to take longer to develop.

As a consequence, the recent gradual reactivation of more comprehensive and fundamental reforms may in many respects represent the end of the beginning rather than the beginning of the end of reforms. The majority of the fundamental and far-reaching reforms required is still at an initial stage and/or have yet to be considered. These include the non-performing loans burdening especially the SOCBs and the fact that policy lending (albeit to a lesser degree) appears to continue through the very same banks. Other recurring and still persistent problems are the lack of transparency and the failure to adopt international accounting and auditing standards.

An important decision, which has been touched upon in a number of contexts, is whether Vietnam should opt for the market-based approach (as in the US) or the German-inspired bank-based model. However, as the Vietnamese equities and securities markets are nascent or non-existing the option of a market-based system appears to be a long-term prospect rather than a realistic alternative. In addition, a number of analysts[1] recommend that countries in transition focus on establishing a strong institutional regulatory and supervisory framework instead of perceiving financial sector development as a choice between two competing systems. The underlying rationale for such a strategy is that a strong regulatory and supervisory framework eventually would enable their typically bank-based system to grow prior to the gradual, long-term adaptation and development of a more market-based system. Levine (2002) is able to support the recommendation with recent cross-country empirical analyses indicating that 'neither market-based nor bank-based financial systems are particularly effective at promoting growth'. Instead, Levine suggests that developing and transitional countries should aim at strengthening the rights of investors and the efficiency of contract enforcement. He argues that it is 'less useful to distinguish financial systems by whether they are bank-based or market-based than it is to focus on the specific laws and enforcement mechanisms that govern both debt and equity transactions'.

The analysis presented in this study supports the view that ensuring a timely, fair and transparent supervision and regulation of the financial sector is of central importance to financial sector development and stability. Liberalising financial markets is thus not solely a question of limiting and/or restricting government influence. It might in fact involve the opposite as the influence and power of supervisory and regulatory institutions in many cases needs to be strengthened. As a consequence, the Vietnamese government will continue to play a central role for the financial sector, albeit through different channels of influence.

NOTE

1 See Gibson and Tsakalotos (1994) and Levine (2002).