Capital mobility and financial instability - The Case of Vietnam

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Objectives:
This research’s objective is to answer the following questions:
1. What is the definition of international capital flows? The forms of international capital flows and the factors affecting international capital flows.
2. How does the international capital flows affect macroeconomic financial stability and the development of international financial market?
4. Has Viet Nam imposed capital inflows measures, recently? If so, how effective of those tools?
5. How should Viet Nam manage and regulate the affect of international capital flows in the future?

Results obtained:
International capital flow refers to the capital movement from this place to the others; it also reflects the changes in assets and liabilities between residents and nonresidents. To understand the international capital flows, it is necessary to examine its definition, classification and factors that affect the international capital flows (including foreign direct investment, foreign portfolio investment, other investment and net unilateral shift).

Beside the positive impacts, international capital flow cause economic and financial instability on the other hand (such as the domestic currency upward pressure, inflation pressure, the economic growth, trade balance deficit…). The research shows that, in the period 1990-2011, Viet Nam experienced three mini crises: L/C crisis 1996-1997; crisis in 1999-2001 and higher dollarization and crisis in 2007-2009 which witnessed macroeconomic and financial volatility. Although these crises are not large, the impact of international capital flow on the host countries in those events still needs to be concerned.

In general, the use of macroeconomic policy to reduce the negative impacts from the international capital flows is not enough and ineffective. Despite the sufficient macro-prudential measures, their effectiveness still needed to be concerned. Therefore, in order to
regulate and reduce the negative impacts driven by the capital flow, Vietnam should choose more suitable regulating and controlling tools and establish effective controlling measures which base on the experiences of other developing countries