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Foreign bank penetration in Vietnam following Vietnam's accession to the WTO: matching expectations with reality

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Abstract
Vietnam continuously liberalizes the financial market as a requirement for its accession to the World Trade Organization in 2007. This paper discusses the foreign investors' expectation and their experience when penetrating into Vietnam's market. The role of the foreign entrants is also assessed. By synthesizing and analyzing relevant research and reports, several important insights are discovered. Firstly, the presence of foreign investors and banks improves market competition, efficiency, and stability. Wholly and partly foreign-owned banks provide the spillover effects in management quality, in the introduction of world standard banking products and services, and in the application of information technology. Secondly, by looking into the foreign owned banks, it is found that the banks' foreign investors are not likely to play an influential role in managing the banks they invested in. The motive of the investors to control the invested companies leads to their decision of holdings withdrawing.

Keywords: Foreign banks, Foreign investors, Vietnamese banks, Firm performance, Vietnam

1. Introduction

Financial liberalization is widely considered an important strategy for hosting countries to improve their financial system. However, financial liberalization brings both benefits and challenges for a nation in maintaining a prudent financial system (Claessens and Lee, 2003; Barajas *et al.*, 2000; Goldberg, 2007; Deminguc-Kunt and Detragiache, 1998; Levine, 2001). The previous study of Schmukler (2004) shows that financial globalization provides net positive effects in the long run as it can lead to the development of the financial system, however, it come with crises and contagion.

The banking sector openness is the most important stem of the financial system development that attracts widespread interest, not only in developed countries but also in emerging countries (Claessens *et al.*, 2001; Clarke *et al.*, 2003; Detragiache *et al.*, 2008; De Haas, 2014; Gosh, 2016; Claessens, 2017; Horen, 2007). The banking system is the prominent source of financial system funding, and also is the most sensitive and fragile financial sector under the context of financial liberalization. Considering its importance and sensitiveness, further exploring banking liberalization is significantly meaningful to both macro policymakers as well as banking stakeholders (Mian, 2005; Lehner and Schnitzer, 2008; Hasan and Hunter, 1996; De Haas, 2014; Clarke *et al.*, 2003).

According to the literature, the hosting countries benefits from banking efficiency, new technologies, products, management quality as well as increased competition stimulated by foreign entrants. As noted by Claessens and Van Horen (2014), the impact of foreign bank presence on private credit significantly depends on the characteristics of the host country and the banks. Accordingly, foreign banks seem to only have a negative impact on credit in countries characterised as low-income. These contries also limits the degree of market share held by foreign stakeholders, requires costly enforcing contracts and limits the credit information.

In countries with low levels of financial development, foreign entrants have significant negative impacts on domestic banks in terms of profits and cost inefficiency aHermes and Lensink, 2004; Hasan and Lozano-Vivas, 1998, Gosh, 2016). Claessens *et al.* (2001) have investigated how net interest margins, overhead, taxes paid, and profitability differ between foreign and domestic banks. They found that foreign banks have higher profits than domestic banks in developing countries, but the opposite is the case for developed countries.

For emerging countries, studying financial and banking market opening is even more important. Specifically, it is increasingly becoming pivotal for a small country with a fragile financial system like Vietnam since Vietnam has been experiencing a gradual financial liberalization process. Thus, a small shock in the global market may cause detrimental effects to the local banking market (Batten and Vo, 2009;

2015; 2016; 2019; Vo, 2009; 2015; 2017; Vo and Phan, 2017). As a focal point integrated in the dynamic ASEAN bloc with extensive trade network (Nguyen *et al.*, 2018; Nguyen and Vo 2017; Vo, 2016; Vo *et al.*, 2016), Vietnam has witnessed a great achievements in financial and banking system development. This is the result of the country's experience of a sharp reformation, a prudential banking system adoption and a sensible financial liberalizing pace.

This paper offers a comprehensive highlights in the Vietnam banking market. Even though various studies provide a framework for analyzing expected costs and benefits of financial liberalization in general, and foreign bank entry in particular, the literature about Vietnam remains scarce (Ferrari and Tran, 2020; Vuong, 2019; Turnell and Vu, 2018; Nguyen, 2016; Steward *et al.*, 2016; Le, 2014; Phan and Daly, 2014; Waal *et al.*, 2009; Kovsted *et al.*, 2003; Oh, 1998). This paper is meaningful since it provides a comprehensive landscape of foreign banking entrants and their roles to Vietnam banking development. Exploring the context of a unique banking history like Vietnam is interesting on its own merit.

First, this study provides a inclusive background on the Vietnam banking market since Vietnam's accession World Trade Organization (WTO). Second, we discuss the roles and the performance of the foreign investors the Vietnamese banking market. The remaining discusses the advantages and disadvantages of foreign bank entry and the expected changes that foreign banks and investors bring to Vietnam's banking system development. The final section provides some concluding remarks and implications.

2. Background of Vietnam's banking market

Vietnam has opened up its banking sector since the early 1990s. The past decades have witnessed a rapid growth in this sector associated with gradual financial liberalization.

2.1 Pre-WTO accession

Since the transformation from the mono-banking system into a dual-banking system in the 1990s, Vietnam's economy has witnessed a transitional renewing accompanied with the financial liberalizion. The State Bank of Vietnam (SBV) plays as the central bank, meanwhile, four state-owned banks (SOCBs)[1] are separated and seen as commercial banks. From 1990, foreign banking investors are allowed and motivated to apply for licenses to establish branches or representative offices in Vietnam under Ordinance on Banks, Credit Cooperatives and Finance company (1990). After 15 years of gradual liberalization, in 2006, Vietnam's banking system has shown a remarkable

1 The four SOCBs are Bank for Foreign Trade of Vietnam (VCB), Bank for Investment and Development of Vietnam (BIDV), Vietnam Industrial and Commercial Bank (Viettinbank), and Vietnam Bank for Agriculture and Rural Development (Agribank)

rise in number, which comprises 4 SOCBs, 37 joint-stock commercial banks (JSBs); 31 foreign banks (FBs); and 5 joint venture banks (JVBs), correspondingly (The Banking with the Poor Network, 2008).

Table 1 illustrates the reformed and gradually liberalized banking system in Vietnam from 1991 to 2006. Vietnam's banking sector has proved wide-ranging achievements regarding the number of banks, institutional type, asset scale, and business scope. Under the liberalization context, the number of foreign bank offices, branches and foreign joint venture banks rose notably during the period of 1995-2006. This happened thanks to the lift of the United States trade embargo and Vietnam's ASEAN membership in 1995, as well as its WTO accession in early 2007.

It was evident that the SOCBs had dominated the banking sector, even though their privileges had been removed, in reality, their specialty remained. Table 2 depicts the market shares in lending and fund mobilization in Vietnam banking market, in which the largest proportion is accounted by SOCBs. However, this tendency tends to be lessened year by year.

Table 1. Number of banks in Vietnam in the period of 1991-2006

Banks	**1991**	**1993**	**1995**	**1997**	**1999**	**2001**	**2005**	**2006**
SOCBs	4	4	4	5	5	5	5	5
Joint stock banks	4	41	48	51	48	39	37	37
Foreign banks	0	8	18	24	26	26	29	31
Foreign Joint Venture banks	1	3	5	4	4	4	4	5
Total	9	56	74	84	83	74	75	78

Source: Authors' compilation

Table 2. Vietnam's banking market shares in lending and deposit mobilization by institutional types

Unit: (%)

		1993	**1994**	**1995**	**1996**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
SOCBs	Deposit	91	88	80	76	77	80	79	78	75	74	69
	Lending	89	85	75	74	77	79	70.8	65	79	78	76
JSBs	Deposit	6	8	9	10	11	9	10	11	13	17	22
	Lending	7	11	15	14	9	9	10	11	12	15	21
FBs and JVBs	Deposit	2	3	10	13	11	10	10	10	10	8	8
	Lending	3	3	8	10	12	10	9	9	10	10	9

Source: Authors' compilation

Vietnamese authorities are practical about gradual financial liberalization as restrictions on foreign presence and entry has been set prudentially. Since the Vietnam and United States Bilateral Trade Agreement (BTA) was signed in 2000, the wholly-owned US banks are allowed to enter Vietnam following a moderately open progress. The limit for deposits in Vietnamese Dong applied for the US and Europe-based banks had been loosening from 10% in 2000 to 25%, 50%, 250%, and eventually 400% of the branch's capital in 2006 (Turnell and Vu 2018). Furthermore, to comply with the BTA, the adjustment of the 1998 Law on Credit Institutions in 2004 calls for 100% US owned subsidiary banks to be established by 2010. This eventually was available to other foreign investors under the WTO accession requirements in 2007.

Vietnam's banking market has had significant changes in the context of financial liberalization since the 1990s, after "Doi Moi" renovation. Moderately liberalization progress falicitates Vietnam's success of the prudent and stable financial system in the period of 1990-2006 (Ho and Baxter, 2011; Leung, 2009; Vo, 2016; Vo, 2019; Vo and Chu, 2019). In such context, the regulatory framework helps Vietnam's banking sector in grasping opportunities and being well prepared for challenges resulted from global liberalization.

2.2 Post WTO accession

As an official member of the WTO since early 2007, there has been a considerable rise in the foreign banks' penetration and investments into Vietnam banking sector. They major forms of penetration are merger and acquisition (M&A), new branches, wholly foreign owned banks, and minority shareholdings. The entering of foreign banking investors proved to show its significant spillover effects, especiallly in operational standards and performance of the Vietnamese banking system.

The Vietnamese banking authorities have continuously made efforts to establish the regulations and countermeasures in accordance with the integration context. Respectively, the Decree 141/2006/ND-CP dated 22 November, 2006 on the roadmap for Vietnamese bank capital improvement was issued to strengthen and foster the competitiveness of Vietnamese banks. It is considered a milestone in enhancing Vietnam banking sector competitiveness (Ho and Baxter, 2011; Turnell and Vu, 2018; Vo, 2018; Vo and Nguyen, 2018; Vu *et al.*, 2018). Vietnam's economy witnesses a rapid growth in bank capital, bank credit and assets expansion, cross-ownership taken among Vietnamese banks. Consequently, the rural banks transformed into urban ones.

Simultaneously, in order to deal with the economic shrinking following the global financial crisis 2007-2008, a 1 billion USD equivalent interest subsidy was launched as one of stimulus packages to facilitate its businesses. Expected to be a strong financial wheel power to aid the Vietnamese businesses in overcoming the recession, however, the stimulus package consequently results in unexpected macroeconomic turbulences. The upshot of policy was conscious since the financial and banking turmoil already occurred, signalling by high inflation rate, interest rate volatilities, nonperforming loans (NPLs) and unfair competition among Vietnamese banks (Nguyen, 2016; Vo, 2018; Vo and Nguyen, 2018; Vu *et al.*, 2018). The NPLs in Vietnam in 2011-2012 were extremely high since several banks NPLs approach 12%. Among joint stock banks, Saigon Commercial Bank (SCB), Vietnam National Bank (NVB), Sacombank (STB), Maritimebank (MSB), PG Bank (PGB), and Tienphong Bank (TPB) suffered the most severe NPLs problems in the period of 2010-2014.

On the other hand, to comply with Decree 141/2006/ND-CP on bank capital requirements, many rural local banks have struggled to transform into urban banks. In such context, Vietnam has witnessed a sharp increase in urban bank numbers that caused more severe economic turbulences and an imprudent banking system, resulting in macroeconomic imbalances in financial resources allocation among industrial sectors and regional areas (Vu *et al.*, 2018).

Table 3 shows the list of transformed banks from 2003 to 2008. Dramatic rise in banking number was not set in line with banking management capability improvement since Vietnamese banks deployed low standards of banking corporate governance, ignored monitoring systems, and slowly renewed accounting framework for their operations, as pointed by several scholars (Vu *et al.*, 2018); Vo and Nguyen, 2018). To confront such situation, Vietnamese authorities not only take strict and close supervision and resolution on weak and illiquid banks but also foster banking system towards global operational standards. The resolution of acquiring and merging insolvency banks are given and taken accordingly.

As a result, the effort to reform and enhance Vietnamese banking system prudence resulted in a decline in bank numbers from 42 to 35 during the period of 2011-2019 (Turnell and Vu, 2018). The restructuring and fostering progress significantly enhanced Vietnam banking system with a more adaptive scheme towards international liberalization of which the foreign banks are considered a pivotal force facilitating prudential banking operation and banking competition in Vietnam. There were 9 poorly performing banks forced to be merged, acquired, or restructured accordingly: Habubank merged with Saigon Hanoi Bank (SHB); Tinnghiabank and Ficombank merged with Saigon Commercial Bank (SCB); 3 poorly performing banks namely PG Bank, Trust bank renamed as Construction Commercial Bank (CB) and Ocean Bank were acquired by SBV at zero dong; Westernbank consolidated with PVFC to be newly named PVcombank; self-restructured Tienphong Bank partnered with DOJI; and solely self- restructured Namviet Bank (nowadays known as National Citizen Bank).

3. Foreign bank entrants' expectations and reality in Vietnam's banking industry

Vietnamese economy has witnessed a wave of foreign banks investing in Vietnamese banks prior its WTO accession. During this period, under Vietnamese regulation, foreign investors were allowed to acquire at the ceiling room of 30% of total shares. However, the states of their initially partnered and finally offloaded upshots imply that there have likely been many hints behind.

The foreign banking investing into Vietnam's market could be classified into two main groups. The first one is by on-boarding with the local Vietnamese banks by acquiring company shares. The second method is often one in three common modes, namely foreign subsidiaries branches, and representative offices.

Foreign investors who penetrates by acquiring shares usually expects long-term profitability and efficiency from their investment. In reality, they often face struggles and dissatisfaction. Table 3 lists out the typical deals acquired by foreign banking investors from prior WTO accession to date. Among these cases, the cooperation between the Japanese enterprise named Sumitomo Mitsui Financial Group (SMFG) and the Vietnamese company since 2007, known as Eximbank, is considered typical. In this partnership, the Japanese investor has limited and minor voting rights, which could be seen by the presence of only two permanent members joining Eximbank's Board of Directors of total 10 participants. In execution, Eximbank reconstruction and corporate governance performed poorly. This led to its sharply shrunk share prices that are below the price excecuted by SMBC. As a consequence, it is likely that the strategic partner SMBC (SMFG's subsidary) has been stuck with their investment in Eximbank.

Apart from aiming for control, there was evidence showing that foreign banks entered Vietnam to seek for profitability in the short term. The right-handed column in Table 3 shows that there have been considerably offloaded cases among acquiring foreign investors. From our observation, foreign banking investors were likely to divest their unprofitable deals/businesses while on board with local partners. There had been no official excuses disclosed from both foreign and local partners for completely offloaded cases. The cases of HSBC, OCBC and ANZ separating from Techcombank, VP bank, and Sacombank, respectively, are considered typical examples of fortunately divesting deals taken. These were considered to be fortunate since thee foreign acquirers sold their shares at expected executing prices.

More importantly, it is unlikely that many foreign banking investors had been satisfied with their domestic partners since they did not play significant roles in the management of the local partner banks. In particular, the local context of fierce competition and overcrowded company presence posed difficulties in doing business, consequencely, disencouraging investors from investing.

Furthermore, the regulatory limit on foreign investors holding cap not exceeding 30% stake are considered the significant obstacles making foreign banking investors struggling with taking their own strategic business in Vietnam banking market (Vo and Nguyen, 2018a; 2018b; Vo and Chu, 2019; Vo *et al.*, 2016; Vo, 2009; 2015a; 2015b; 2016a; 2016b; 2016c; 2016d; 2018a; 2018b). This situation is likely the same as Chinese banking market since most foreign banking investors have sold out their investments (Li *et al.*, 2015) as the foreign bankers look acquiring banks in emerging countries like Vietnam as their good deals for short term strategies.

However, in comparison with other countries in the region, the Vietnamese openness policy for the banking industry is quite fair. According to the WTO analysis of market access liberalization, Vietnam sets a low limitation to liberalization and is tied as the first place with Singapore in terms of the number of opened sectors, joint venture requirements, and limits on foreign-owned shares. Meanwhile, China, Thailand, Malaysia, Indonesia, etc., are categorized as the medium level.

Simultaneously, there have been three common modes in Vietnam offered to foreign banks as subsidiaries, branches, and representative offices, of which subsidiaries are considered as the most favorably conditioned since they are treated equally compared to local banks. The number of foreign subsidiaries increases from 5 to 9 banks in the period of 2015-2019, correspondingly. Meanwhile, the threshold of branches and representative offices remains steady, which is around 50. Table 4 presents the number of foreign banks according to their classification mode.

Table 3. Foreign investor partnerships in Vietnam's banking sector

No	Foreign bank investors	Vietnam banks	Partnership		Offload (if any)	
			Year	Share acquired (%)	Year	Share sold (%)
1	Standard Chartered PLC	Asia Commercial Joint Stock Bank (ACB)	2005	15	2017	15
2	Australia and New Zealand Banking Group Limited	Sai Gon Thuong Tin Commercial Joint Stock Bank (Sacombank -STB)	2005	10	2012	10
3	Sumitomo Mitsui Financial Group	Vietnam Import-Export Commercial Joint Stock Bank (Eximbank)	2007	15	-	-
4	HSBC Bank Vietnam Limited	Vietnam Technology and Commercial Joint Stock Bank (Techcombank - TCB)	2005	19.41	2017	19.41
5	Deustche Bank	Hanoi Building Commercial Joint Stock Bank Current (*)	2007	10-5	-	-
6	BNP Parisbas	Orient Commercial Joint Stock Bank (OCB)	2007	10-18.7	2017	18.7
7	Societe' Generale	Southeast Asia Commercial Joint Stock Bank (SeABank - SEB)	2008	20	2018	20
8	May Bank	An Binh Joint-stock Commercial Bank (ABB)	2008	15 - 20	-	-
9	Common Wealth of Australia	Vietnam International Commercial Joint Stock Bank (VIB)	2010	20	-	-
10	Fullerton Financial Holding	Mekong Development Bank	2010	15-20	2015	20
11	Mizuho Corporation Bank	Joint-stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank – VCB)	2012	15	-	-

12	Bank of Tokyo Mitsubishi UFJ	Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank – CTG)	2012	20	-	-
13	Oversea Chinese Banking Corporation Limited (OCBC)	Vietnam Commercial Joint Stock Bank for Private Enterprise (VP Bank –VPB)	2016	15	2013	13
14	IFC, PYN Elite Fund	TienPhong Commercial Joint Stock Bank (Tienphong Bank – TPB)	2016	4.38-4.99	-	-

Note: (*) Merged into Saigon Hanoi Commercial Joint Stock Bank (SHB) (2012)

Source: Authors' compilation

Table 4. Number of foreign banks in the period of 2015-2019 in Vietnam

Foreign bank mode in Vietnam	Explanation	2015	2016	2017	2018	2019
Subsidiaries	A wholly foreign-owned subsidiary which is equally treated as local banks	5	6	8	9	9
Branches	Gradually loosening deposit limits from 2008-2011. Affiliation of foreign home bank	49	51	51	48	49
Representative offices	Being not allowed to take banking businesses but facilitating transactions between host country market and home country bank	51	51	49	49	50

Source: Authors' compilation

The foreign banks operated in Vietnam under common mode of foreign subsidiaries demonstrate their superior performance with respects of profitability and efficiency. The researches by Hasan and Hunter (1996) and Focarelli and Pozzolo (2000) indicate that seeking profits and efficiency is considered the most prioritized mission for foreign banks to penetrate in a host country. This tendency is remarkably true in Vietnam since foreign banks outperform their businesses in comparison with local banks. Net interest margin (NIM), return on asset (ROA), and return on equity (ROE) are considered the key indicators in measuring banking performance. In term of NIM, foreign banks are documented to have a steady and quite high proportion, in average of 3.78%, compared to local banks. Particularly, there has been quite large range of NIM amongst Vietnamese local banks, from 1.69% (in average, SEA bank) to 5.62% (in average, VP bank) in the period of 2010-2018, respectively. Advantages of low-cost source funding derived from mother country, information technology, well-skilled staff and diversified professional services are considered the key elements driving foreign banks tolower operating cost, preferable income, and competition. This result is consistent with preliminary studies by Barajas *et al.* (2000), Scheack and Cihak (2010), and Jeon *et al.* (2011) indicating that foreign banks contribute to lower the interest rate offered by domestic banks, hence, increase competition, efficiency and soundness.

The same thresholds of ROE and ROA of foreign banks should be well noted since foreign banks outperform regarding ROA but underperform regarding ROE compared to domestic banks. Figure 4a presents that the foreign banks moderately perform ROE excepting HSBC Vietnam which performs as the top bank associated with ROE-outperforming bank group, including Vietcombank, PV bank, and Techcombank. The advantages of inexpensive-cost fund derived from home mother banks, prudential banking management, diversified products and services as well as modern banking technology contributing to save remarkable foreign banks expenses compared to domestic banks. However, it is evident that foreign banks have recognizably high operating expenses relating staff, property, and other costs compared to domestic banks. Foreign banks are tightly restricted on branch outlets, transaction points and mostly locate in expensive places of downtown centers of big cities, mainly in Hanoi and Ho Chi Minh City. They are also disadvantage of nationwide network expansion and banking infrastructure charged by domestic offering banks and suppliers. Those elements are considered the key factors explaining why foreign banks donot outperform in ROE compared to several typical domestic banks.

However, it is interesting to note that ROA, an effective indicator achieved by foreign banks measuring banking efficiency and managerial capabilities, is on the top level, much higher than local banks, ranging from 0.81-2.59% on average in the period of 2010-2018. This should be viewed in the context of domestic bank capital adequacies since there has been a tendency that the Vietnamese banks are struggling in meeting capital adequacy requirements under Basel II standards. Therefore, Vietnamese local banks' high financial leverage is considered one element driving theiroutperformed ROE but underperformed ROA, a real sign of low bank efficiency and managerial capability.

Foreign banks are outstanding for facilitating non-interest services since the non-interest income proportion and total operating income of those banks are quite high compared to domestic banks’. There may be possible explanation that foreign banks are advantaged in providing advanced services of foreign exchanges, global market dealings, derivatives, guarranties, trust…meanwhile, domestics banks still concentrate on conventional banking services of interest-oriented products, said deposits and credits only. Therefore, income and fees derived from such activities have remarkably contributed to the foreign banks’ outperformance compared to domestic banks.

Foreign banks finding business opportunities in such transitional country like Vietnam as studied by Claessens *et al.* (2001), Berger *et al.* (2005), and Barth *et al.* (2001) indicates that restriction on entry is associated with higher NIM and overhead costs. Accordingly, under general form of global advantage hypothesis, foreign banks may take advantages and arbitrages beyond their advancements while operating their businesses multinational since they outperform domestic banks’ advantages of language, culture and other barriers to operate more efficiently.

Claessens *et al.* (2001) also point out that one of the foreign bank targets is following their home clients when doing multinational business. This statement is also remarkably true in Vietnam since foreign banks are witnessed to have close networks with their home long-lasting clients, specifically their home foreign direct investment clients from countries with which Vietnam has well developed economic and trade relations. However, it is not surprising that the foreign banks are struggling with potential domestic client penetration due to barriers of language and culture differencesSince Vietnamese people are accustomed to using banking services offered by conventional local banks, particularly such SOBs like Vietcombank, Vietinbank or long-lasting joint-stock banks like Techcombank, VIB, PV Bank, etc. Moreover, asymmetric information is considered a considerable obstacle in preventing foreign banks to approach potential clients. Nevertheless, there has been a tendency that foreign banks try to approach local clients, especially the high-income class, with any prices. The case of Shinhan Bank Vietnam acquiring ANZ retail services is an example. This context of expanding host country client networks as well as fostering competitive reaction of local lenders is associated with preliminary studies by Grosse and Goldberg (1991), De Haas and Naaborg (2006), Claeys and Hainz (2014), Bruno

& Hauswald (2014), Clarke *et al.* (2003), and Althammer and Haselmann (2011) proving that domestic banks have more soft information on their borrowers available compared to foreign banks but foreign banks have a superior screening technology that allows them to obtain more information about their borrowers' investment projects.4. Advantages and disadvantages of foreign investor and banks entry and their roles in Vietnam – from host country's perspectivesThe presence of foreign banks and investments in local banks results in better banking risk management capacities, advanced information technologies and global standard of banking products and services (Batten and Vo, 2015; Steward *et al.*, 2016; Turnell and Vu, 2018; Phan and Daly, 2014; Vo and Nguyen 2018; Vo, 2016). In Vietnam, recent decades observe that foreign banks and investments are becoming an important component in improving the Vietnamese banking sector. The preliminary studies by Batten and Vo (2015), Ho and Baxter (2011), Kovsted *et al.* (2003), Vo and Nguyen (2018a; 2018b), Vo (2018; 2016; 2015; 2009), Turnell and Vu (2018); Waal *et al.* (2009) consider foreign banks penetration and investments in Vietnam a tremendous attribute generating more intensive competition, efficiency, and stability for all banks.

It witnesses a significant reinforcement in banking corporate governance, transaction transparency,regulatory compliance with Basel II standards practices, and banking efficiency, respectively (Batten and Vo, 2018; Vo and Nguyen, 2018b; Vo, 2018; 2016). From prior to the WTO accession to date, it is documented that foreign banks investing in Vietnamese local banks almost come from developed or regional countries where the advanced standards of prudential banking operations are applied. Respectively, this movement fosters the local banks to improve their operation capacities. As a result, there has been a remarkable advancement in Vietnamese prudential banking operation towards international standard practices. This is in line with highlights by Kouretas and Tsoumas (2016) showing that foreign bank presence exerts a positive impact on the efficiency of business regulations. Respectively, Vietnamese banks are more consciously aware of their operational prudence and soundness after experiencing financial turbulences of non-performing loans, cross-shareholding, unfair competition mainly due to their poor lending practices and weakness of corporate governance under pressure of banking openness,fierce competition and threats from foreign competitors (Nguyen, 2020). Nevertheless, Vietnamese banks proactively restructured themselves to enhance their competitiveness (Le, 2014). This context is in line with results of previous study of Claessens *et al.* (2001), Cardinas *et al.* (2004), and Hermes and Lensink (2004), indicating that competition is associated with foreign banks presence as it fosters domestic banks to reform towards international prudential practices.

Under competition pressure derived from foreign banks presence, Vietnamese banking system has been continuously fostered and enhanced towards Basel Accords practices, which has resulted in a better performance year by year. Prior studies also evidence foreign banks and investments fostering domestic banks efficiency (Claessens *et al.*, 2001; 2017; Goldberg, 2007; De Haas and Van Lelyveld, 2006; Lehner and Schnizer, 2008; Havrylchyk and Jurzyk, 2011; Martinez Peria and Mody, 2004). Notably, in recent years, there has been a remarkable upward trend in Vietnamese banks' performance, specifically efficiency, since their ROE and ROA indicators show an increasing tendency yearly. Those contexts are associated with explanation by Claessens *et al.* (2001) indicating that foreign bank entry helps local banks try to lower their costs by applying their modern technology. A more prudential banking operation resulting in lower risks suffered, thus, lower costs.

The Vietnamese banking sector witnesses stabilizing progress after tumbling due to issues of cross-ownership and poor lending practices and turns into more prudential operations towards international standards. Specifically, there has been a revolution in new banking technologies, more regulatory compliance, skilled managers and global-minded staff , which are considered the driving forces boosting Vietnamese banking stability and soundness in recent years. This could be viewed in the context of studies by Barajas *et al.* (2000), Degryse *et al.* (2012) explaining the banking soundness and stability gained thanks to foreign banks entry pressure. However, the preliminary studies by De Haas and Van Lelyveld (2006) and De Haas and Van Horen (2012) indicate that foreign banks are considered either stabilizing or destabilizing force when their lending is less (more) than that of domestic banks. The explanation is that since foreign banks have dominated the lending markets, there would be a high possibility for capital flights if any signals of financial crisis or instability happened. Foreign banks in Vietnam indicate an outstanding performance with very low non-performing loans,more diversed products and services. This context explains the positive spillover effects in domestic banks prudence and soundness in recent years.

Contrary to the positive effects of foreign investors and banks, the cherry-picking problem that foreign banks take has also been concerned by the preliminary studies (Berger *et al*., 2009; Clarke *et al.*, 2003). This view is notably associated with the banking business in Vietnam. Foreign banks tend to seek the best and most creditworthy clients since their inexpensive funds resource provide them considerable advantages to attract such clients compared to domestic banks. Vietnamese domestic banks, particularly private joint stock banks, eventually witness a lower screening and monitoring process to confront such a situation. Poor lending practices are applied to attract potential borrowers at any price. Consequently, the cherry-picking problem has been a considerable factor indirectly driving Vietnamese banking system turbulences in years.

In sum, foreign banks and investments are recognized as driving forces to Vietnamese banking rapid development in recent years. Enhancing competition, efficiency, more regulatory compliance towards international practices and positive spillover effects are remarkably acclaimed for advantages of foreign banks and investments penetration in Vietnam. However, another problem is the cherry-picking problems that foreign banks take. A potential risk of capital flights is also pointed out for the disadvantages critical analysis. 5. Conclusion Vietnam's banking sector has witnessed rapid development since liberalized progress started in the early 1990s. According to the WTO accession requirements, foreign banks are allowed to operate under modes of either subsidiaries or branch or representative office in Vietnam (Ho and Baxter, 2011; Turnell and Vu, 2018; Vo and Nguyen2018). We found that foreign banks penetrate the market quite well as their market share tends to increase year by year. However, foreign banks are particularly struggling to expand their market share compared to local joint stock banks despite a declining trend in market shares of state-owned banks.

We explore the roles of foreign banks and investments in Vietnam with respect to their expectations and reality. Accordingly, upon their types of taste, our paper demonstrates the outperformance of foreign subsidiaries in terms of profitability and efficiency in comparison with local banks while others struggle while with local partners by acquiring shares from these banks. We observe that it is unlikely that foreign investors play an influential role in local banks that they have holdings due to their limited rights resulted from limited shareholding. Thus, it is unlikely that foreign banks have an influential voice on local banks. Several foreign investors/foreign partners eventually withdraw or divest their holdings because they do not meet expectations.

We support the advantages of foreign banks and foreign investments penetration in Vietnam as we point out that spillover effects from foreign banks and investments brought to Vietnam concerning management quality, introduction of world standard banking products and services, and the application of information technology. However, the negative effects of cherry-picking problems and short-term vision investment strategies are worthwhile consciously considering.

In forthcomings, Vietnamese banks have still been under continuous restructure and reform towards international practices that need more resources of capital, technologies, corporate governance capabilities, information disclosure enhancement, stakeholder engagement, and qualified human resources. Vietnamese local banks in general and the small banks in particular should be more proactive to find new strategic partners since these banks have to meet capital requirements according to Basel II application and confront the pressures from severe competition among banks. Moreover, the advantages of Vietnamese macroeconomic factors and the prospects of multilateral agreements are remarkable driving forces to attract more foreign investments, especially in the banking industry. Nevertheless, foreign banks and investments are most likely to take this good chance instead of their limited influential roles, and a gap persists.

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