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Vietnam's Premier to Shake Up State Companies

Firms' Borrowings Partially Blamed For Economic Woes

By JAMES HOOKWAY
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HANOI -- Vietnam's prime minister said he plans to shake up the powerful state companies that have been a leading cause of his nation's sharp reversal of fortune as the once-hot Southeast Asian economy now struggles to avert an inflation-driven crisis.

As he arrives in the U.S. Monday for a scheduled visit to Washington, Nguyen Tan Dung is under pressure to prevent Vietnam's troubles from casting a cloud over other countries that, in the benign economic environment of the past few years, were moving swiftly from the fringes into capitalism's mainstream and attracting vast amounts of foreign investment.

Nguyen Tan Dung

Many of those nations -- known as "frontier" countries in investor parlance -- are already trying to cope with the global economic slowdown.

Part of Vietnam's problem is its massive, state-owned companies and the wave of borrowing they undertook to expand into every nook and cranny of the country's business life.

Strong foreign-investment inflows put yet more money into the economy, which some economists argue didn't have the flexibility to absorb it quickly enough. "Over the last few months, Vietnam has been facing some difficulties with inflation because of our immature economy and also problems imported from overseas," Mr. Dung said in answer to written questions. "Restructuring and reforming the state-owned enterprises...is one of the key tasks in strengthening Vietnam's economy," he said.

In May, annual inflation stood at more than 25%. Vietnam's stock market -- after more than tripling between the beginning of 2006 and the end of 2007 -- has dropped 62% so far this year.

The government has cut its GDP-growth estimate for this year to around 7% from a previous 8.5% to 9%. The Vietnamese currency, the dong, has weakened sharply, exacerbating inflation, and is expected to fall still further against the dollar.

During his U.S. visit, Mr. Dung will meet with former Federal Reserve Board Chairman Alan Greenspan to discuss ways to recover from an inflationary asset bubble, as well as talk with President George W. Bush and investors.

Vietnam's problems already are making investors wary about other frontier nations.

Some commodity-rich nations have thrived, particularly in the Middle East, where Lebanon, Oman and Qatar have all seen their stock indexes rise by more than 20%.

But other manufacturing-based economies have seen their markets slump as investors pull out their cash, partly because of slowing demand in the U.S. and Europe, and partly because of fears about rising inflation that Vietnam's situation is stoking. Bulgaria has seen its main share index fall 24% since the beginning of the year, Romania has fallen 16% and Ukraine has dropped 25%.

"There is a bit of a thematic aversion to this whole segment, partly because of what's been happening in Vietnam," said Spencer White, a former Merrill Lynch analyst who left the company to join a Vietnamese brokerage in Ho Chi Minh City.

So far, foreign direct investment in Vietnam hasn't been much affected.

After attracting $20 billion in foreign-direct-investment applications last year, Mr. Dung said Vietnam will receive at least $22 billion in such applications in the first six months of 2008 and remains an attractive prospect for investors.

"I believe Vietnam's economy will quickly recover and return to a rapid and sustainable growth rate," he said.

But labor strikes are spreading as tens of thousands of people who moved from the countryside to work in Vietnam's electronics and textiles factories experience their first serious economic downturn.

"It is safe to say that all of us gathered here are only too aware of spiraling costs and the negative effect that inflation is having on the business environment in Vietnam," Michael Pease, chairman of the American Chamber of Commerce and general director of Ford Motor Co. in Vietnam, told a business conference in Hanoi earlier this month.

Mr. Dung, 58 years old, was Vietnam's youngest prime minister when he took office in 2006, a year after the country joined the World Trade Organization. Vietnam, as a relative latecomer to economic opening, had strong role models in Asia and explicitly mimicked the cheap-labor, strong exports growth model that worked so well for its neighbors.

Vietnam's Communist leaders bolstered state-owned companies with cheap money so they could compete with the foreigners the government was also trying to woo, even as leaders fostered private enterprise.

Mr. Dung said one of Vietnam's core development policies was to build strong, state-owned conglomerates "so they can become pillars of the economy."

People who advise Mr. Dung said the policy was influenced by the way South Korean companies, known as chaebols, expanded across that country's economy. Economists said the policy came at the cost of crowding out smaller, more efficient private-sector businesses with less direct links to the government.

Vietnam Oil & Gas Corp., or PetroVietnam, moved into banking and is now building a five-star hotel in Hanoi's new business district on the edge of town, even though Vietnam has been waiting for a decade for the company to complete its first oil refinery. Power generator Vietnam Electricity Corp. has invested heavily in telecommunications and recently committed $250 million to a beach-resort development, angering many ordinary Vietnamese who are dealing with intermittent black-outs.

At Vinashin, or Vietnam Shipping Industry Group, Chief Executive Pham Thanh Binh borrowed $3 billion to finance the company's expansion into shipping lines and manufacturing businesses to support its primary shipbuilding operations. Vinashin also expanded into finance, stock-trading and even brewing beer.