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## Hanoi Weighs Price Controls, Tightens Grip

*Foreign Investors Grow Concerned as Conservative Factions in Vietnam Reverse Liberalization Trend Amid Downturn*

By JAMES HOOKWAY

HANOI – Vietnam is considering putting price controls on a broad array of products and is cracking down on certain personal and political activity, in a sharp reversal of what has been a move toward more-open markets and a more-open society.

Foreign businesses worry about the threat of price controls—something many analysts consider a hallmark of Vietnam's Marxist past. That comes after authorities last month blocked access to Web sites such as Facebook and Twitter, following cases in which several bloggers were detained, then released, on charges of criticizing the government. In October, nine people were given stiff sentences for calling for pro-democracy protests.

Carlyle Thayer, a veteran Vietnam watcher and professor at the Australian Defense Academy in Canberra, says conservative factions in the ruling Politburo are tightening their grip on the country as Vietnam's economic worries—especially inflation and fallout from currency devaluations—grow. He says he expects more crackdowns and arrests to come in the run-up to the country's 2011 Party Congress, a major political event that will aim to map out Vietnam's political and economic direction for the following five years.

In turn, the crackdowns threaten to curtail investment and economic growth in the country.

For years, foreign donors and investors hoped that rapid growth would lead to more political debate and economic freedom here, cementing the country's emergence as one of Asia's most dynamic new economies and an important link in the global supply chain.

That's what happened in some other fast-growing countries in the region. In the 1980s and 1990s, the strengthening economies of South Korea and Taiwan helped pro-democracy movements overcome military-backed regimes.

But in Vietnam, leaders seek a path to a quick expansion of the country's \$100 billion economy without spurring any grass-roots clamor for more freedom.

Now, the price-control unit of Vietnam's Finance Ministry is drafting proposals that, if implemented by the government, would compel private and foreign-owned companies to report pricing structures, according to documents viewed by The Wall Street Journal and corroborated by Vietnamese officials.

In some cases, the proposed rules would allow the government to set prices on a wide range of privately made or imported goods, including petroleum products, fertilizers and milk to help contain inflation as Vietnam continues pumping money into its volatile economy. Typically, the government applies this kind of aggressive measure only to state-owned businesses, and it is unclear whether Vietnam will write the wider rules into law.

Myron Brilliant, senior vice president for international affairs at the U.S. Chamber of Commerce in Washington, wrote to Vietnamese officials, in a Dec. 15 letter viewed by The Wall Street Journal, saying the plan will "serve as a disincentive to new direct investment in Vietnam."

Vietnamese citizens, meanwhile, are having to give up some political and social freedoms they previously enjoyed, as their Communist leaders struggle with a series of currency devaluations and a worsening inflation problem.

Diplomats are raising their voices over Internet curbs. "This isn't about teenagers chatting online," U.S. Ambassador Michael Michalak told a donor conference on Dec. 3. "It's a question of people's rights to communicate with one another and to do business."

Swedish Ambassador Rolf Bergman, speaking on behalf of the European Union at the same conference, urged Vietnam "to lift all restrictions on the Internet."

Vietnamese government officials didn't respond to requests for comment, except to confirm the existence of the draft price-control plans.

Emerging economies have reversed course during times of crisis before. In Vietnam's neighborhood, both Malaysia and Thailand have used capital controls to stabilize currencies, while unexpected legal rulings are a frequent hazard to doing business in countries such as Indonesia and the Philippines.

Vietnam, a country of 86 million, was considered by many economists to be a surer bet with less political risk. Analysts called it "the new China," and major global names from America, Japan, and South Korea—including U.S. corporations such as Ford Motor Co., Microsoft Corp. and Intel Corp.—were among those who set up operations there.

Now, Vietnam's worsening human-rights record is encouraging some important trade partners to shake off their previous reluctance to condemn the country, in part because they worry that rising international criticism could make it harder to expand trade ties there.

Many economists and analysts say the country's leaders are panicking over how quickly Vietnam is lurching from boom to bust and back again, and are taking drastic measures—politically and economically—to restore their grip on the country. The country's recent economic ups and downs have, says one long-time Vietnam-based analyst, "shaken the authorities' confidence in the notion that economic reform and opening is automatically good."

The contrast with the older Vietnam—the Vietnam that helped define the term "pioneer market" among investors—is striking. In the years leading up to Vietnam's accession to the World Trade Organization in 2007, the ruling Politburo attempted to put its best face to the world by appointing an economic reformer, Nguyen Tan Dung, as prime minister. It encouraged local media to expose corruption and fraud, while dissidents were given limited space to vent their criticism of Vietnam's one-party system. Religious groups were granted more freedom to practice their faiths.

At the same time, the economy quickly expanded, driven by foreign manufacturers who flocked to take advantage of Vietnam's low labor and land costs. Much of that economic story is still in place. The World Bank expects Vietnam's economy to expand 5.5% in 2009. That's a much better performance than many of its neighbors. Economists such as Ayumi Konishi, the Asian Development Bank's country director for Vietnam, say the country's long-term prospects are still rosy.

But the World Bank's growth forecast is weaker than the 8%-plus rates that Vietnam has come to depend on. Widening trade and budget deficits have forced the government to devalue its currency three times since June 2008, most recently in November, when it shaved 5% off the value of the Vietnamese dong. That move spurred fears of rising inflation, prompting a scramble among many Vietnamese to store their wealth in gold or dollars instead.

Professor Thayer, of the Australian Defense Academy, and other analysts note that leaders such as To Huy Rua, chief of the party's propaganda committee, and military intelligence chief Nguyen Chi Vinh, have become increasingly influential since Vietnam's economic problems began to set in last year, largely at the expense of Mr. Dung, the reform-minded prime minister. Mr. Rua is believed to be suspicious of free-market capitalism and critical of the country's transition toward a more open economy. Attempts to reach him weren't successful.

Similarly, analysts say key economic policy makers also harbor a strong conservative streak, and observe that the country has halted economic reforms before, notably during Asia's 1990s financial crisis. People familiar with the

price-controls issue say a number of diplomatic missions, including that of the U.S., have raised the price-cap issue with Vietnam. Officials at the U.S. embassy in Hanoi didn't immediately respond to requests for comment.

The biggest losers in Vietnam's step back into the past, are the country's dissidents, journalists and bloggers. Several bloggers and activists were detained for writing comments critical of Vietnam's encouragement of Chinese companies to mine for aluminum ore in the country's central highlands region. The mining plan has become a lightning rod for various dissident groups in Vietnam, and opponents include war hero Gen. Vo Nguyen Giap, who led Vietnamese forces against French and U.S. troops in the 1950s, '60s and '70s.

Some detainees were released after promising not to raise political issues again, but lawyer Le Cong Dinh was arrested in June for defending antigovernment activists.

Six people were sentenced on Oct. 9 for allegedly "conducting propaganda against the state" for demanding multiparty elections online and through public gestures, such as hanging banners on bridges. They included a prominent novelist, Nguyen Xuan Nghia.

On Oct 7, three other people were jailed for the same offense—something the U.S. embassy in a statement said it found "deeply disturbing."

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## Going Back | Vietnam's return to harsher repression



Agence France-Presse

A televised image of Nguyen Xuan Nghia (second from right) and others on trial in Haiphong, Vietnam, in October. They were accused of calling for pro-democracy protests.

### 2007

Vietnam formally enters the World Trade Organization and foreign investment accelerates further. Roman Catholic priest Nguyen Van Lys convicted and sentenced to eight years for calling for democracy.

### 2008

Vietnam's economic boom begins to overheat, with inflation rising to 28% in August. Conservative members of the ruling Politburo begin clamping down on criticism of government policies.

**April 19:** Antigovernment blogger Nguyen Hoang Hai is arrested and charged with tax fraud in a move widely seen as an attempt to discourage criticism of the government. He is sentenced to two years in prison.

**September:** Lehman Brothers collapses, triggering a world-wide economic slump. Vietnam's exports tumble, worsening its trade deficit and putting its currency under pressure.

**Sept. 11 to 18:** Novelist Nguyen Xuan Nghia and high-school teacher Vu Hung are arrested for allegedly calling for multiparty democracy. Human Rights Watch reports that both men were beaten in detention.

### 2009

**January:** Communist Party propaganda chief To Huy Rua is elevated to the Politburo in what analysts say is a sign of growing conservatism in the regime.

**May:** The government says it is pressing ahead with plans for Chinese investors to mine aluminum ore in Vietnam's Central Highlands, despite opposition.

**June 13:** Police arrest human-rights lawyer Le Cong Dinh and accuse him of 'conducting propaganda against the government.'

**Oct. 7 to 9:** Nine people, including the teacher Mr. Hung and the writer Mr. Nghia, are sentenced to two to six years for calling for pro-democracy protests.

**November:** Internet users in Vietnam report that Web sites such as Facebook and Twitter have been blocked.

**December:** The price-control unit of Vietnam's Finance Ministry is drafting proposals that might compel private and foreign-owned companies to report pricing structures. The rules could allow the government to set prices on a wide range of goods.

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