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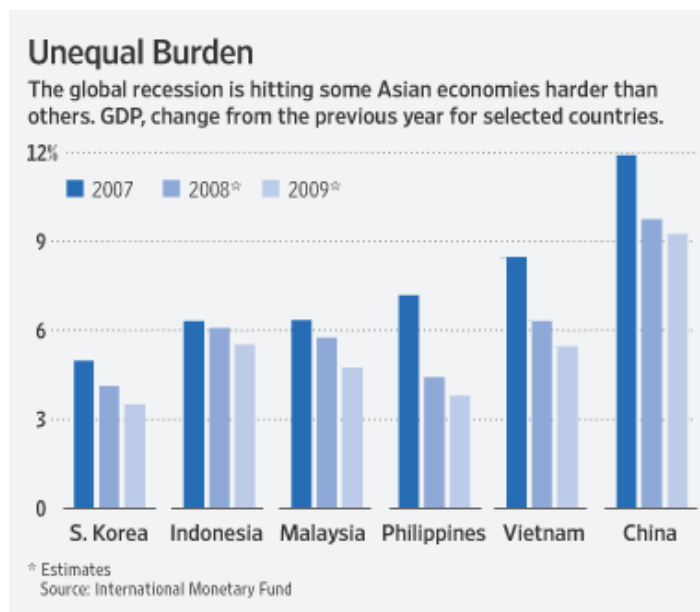
In Vietnam, Domestic Demand Helps Cushion Downturn's Blow

By JAMES HOOKWAY

Ho Chi Minh City, Vietnam

The world's economic crisis isn't hitting all countries as hard as others. In Vietnam and a few of its Asian neighbors, vibrant domestic demand, lower interest rates and slowing inflation are -- so far -- helping to offset some of the pain.

Consider Doan Nguyen Duc. The 47-year-old turned heads in Vietnam last year by announcing plans to buy one-fifth of English soccer club Arsenal and by becoming the first person since the fall of Saigon in 1975 to own a private plane. This year, while his export business selling benches and garden chairs to the U.S. is slowing, he says most of his other ventures are expanding. Tumbling inflation and bank-lending rates are helping him expand his property business, and he is diversifying, planning to invest in a hydropower plant. He also is keeping the private plane, which costs \$400,000 a year to run.



"I know a lot of other people around the world are hurting, but this looks like it could be a good year for me," says Mr. Duc, drinking green tea in the coffee lounge of the Rex Hotel, a former haunt of American GIs that is now a breakfast joint for Vietnam's new rich.

Vietnam isn't immune from the global crisis. Its economic growth slipped to 6.2% last year from 8.4% in 2007. Exports fell 5.1% in the first two months of the year as demand softened in the U.S. and Europe. Prime Minister Nguyen Tan Dung's prediction that the economy will grow faster than it did last year appears far-fetched: The International Monetary Fund and private economists predict 5% growth in 2009.

While more export-dependent neighbors such as Malaysia, Thailand and Singapore will see their economies contract this year, Vietnam and a few other Asian countries will hold up better -- either because they're less

reliant on exports or because consumer spending has built up enough in the past decade to keep growth afloat.

The Philippines, too, isn't nearly as dependent on global trade, with just 30% of its economy driven by exports, compared with 70% of Thailand's. The Philippines, instead, relies on remittances from millions of Filipinos working overseas. While that stream could slow, many overseas workers are employed in industries such as health care and education that are less vulnerable to the recession. The Philippines' central bank predicts that total remittances in 2009 will remain on par with 2008 levels.

"These remittances become discretionary income when they arrive in the Philippines, and they are spent quickly," says Hans Sy, president of SM Prime Holdings Inc., the Philippines' largest shopping-mall operator. He plans to build three more malls in the Philippines this year.

The governments of Indonesia and the Philippines forecast their economies will expand by about 4% this year -- slower than before but stronger than others' -- helped by slowing inflation rates. "When local consumer spending drives up to 70% of gross domestic product, as it does in the Philippines, then a falling inflation rate acts like a free stimulus package," says Luz Lorenzo, a regional economist at Manila-based ATR-Kim Eng Securities Inc.

Vietnam continues to draw on the momentum from opening its economy to the rest of the world. Millions of people have been propelled into the ranks of the middle classes, and they still have spending power. Retail sales of goods and services in the first two months of the year grew 21% from the same period last year, although that's slower than year-to-year growth of 32% in the same period the previous year, government statistics show.

"A lot of money flowed into Vietnam in the boom years, and it's still here and still being spent," says Adam McCarthy, an economist with Hanoi-based consultancy Mekong Economics.

Slower inflation is a plus, too. At its peak, Vietnam's consumer-price index rose 28% last year, one of the highest rates in the world; its increase eased to 14.8% in February. "Last year we saw a big inflation shock in Vietnam, and it has come down quite sharply. This supports disposable incomes," says Prakriti Sofat, a Singapore-based economist with HSBC Holdings PLC.

Lower prices also are helping local businesses. Last month, the price of construction materials had fallen to half the 2008 peak, Mr. Duc says, which meant he was able to slash 30% off the price of new condominium units he's building on the banks of the Saigon River. He sold 520 units in five days -- an unusually large amount, leaving him with a sizable profit, he says.

Walter Blocker, a native of Louisville, Ky., who is chief executive of Ho Chi Minh City's Gannon Group, says Vietnam's inflation problems last year were so severe that at one point he was unable to buy dollars to pay importers. "That was much more disruptive than anything we're seeing now," Mr. Blocker says.

He expects profits at his company -- which distributes a range of big global brands such as Johnnie Walker whisky and L'Oréal cosmetics -- to jump 20% this year. Mr. Blocker also is moving ahead with plans to bring [Anheuser-Busch InBev NV's Budweiser](#) to Vietnam's growing beer market and building power-generation plants to supply Gannon Group's industrial-park investments.

Global companies are taking note. London-based advertising and public-relations giant [WPP Group PLC](#) in January acquired 20% of state-backed advertising agency Smart Media Joint Stock Co. with a view to tapping Vietnam's fast-growing Internet-advertising market. A quarter of Vietnam's 86 million people subscribe to Internet services, and there are more than 60 million mobile-phone users.

"We've seen strong growth there in recent years, and while it certainly is not immune from the current global crisis, in relative terms we expect Vietnam to continue to do well," says Scott Spirit, WPP's Asian-Pacific strategy director. "This

is very much us buying into the long-term growth story that we believe Vietnam has."

Indeed, while economists worry how long Vietnam and Asia's other few surprise performers can keep growing in the face of a prolonged downturn in the rest of the world, advertisers are voting with their wallets. Group M, a WPP unit, projects that advertisers will increase media spending here by 16% this year.

Vietnam, the little economy that could, may just keep growing amid the global doom and gloom.

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