

Vietnam Hopes Stimulus Can Lift Economy

Plan Revives Debate on Role and Demands of State-Run Firms

By JAMES HOOKWAY

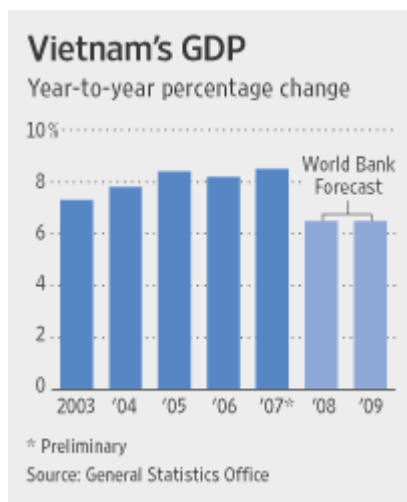
Vietnam's Communist leaders are counting on a \$6 billion stimulus program to inject some zip into the country's slowing economy and help its privately owned exporters survive the global slump.

But the economic plan, announced this month, is also reviving a hot debate about Hanoi's dependence on its huge, state-run conglomerates, which critics say are demanding an outsized share of Vietnam's financial resources.

Full details of Vietnam's stimulus package are expected to be announced by Wednesday. Among other things, the government has signalled plans to offer tax breaks to the country's smaller, privately owned businesses to help them cope with expected slower growth. The government projects Vietnam's gross domestic product to expand 6.2% in 2008 -- down from 8.5% last year and the slowest growth rate in nine years. It aims to keep growth above 6% in 2009.

Some state-owned enterprises -- which contribute about 40% of Vietnam's GDP -- also want a financial handout from the government. At a meeting with Prime Minister Nguyen Tan Dung this month, executives of state conglomerates asked for help, raising concerns that the big companies are looking to use the economic crisis to tighten their grip on Vietnam's economy.

Vietnam Shipping Lines Group, for instance, told the premier it needed more capital and asked the government to extend the deadline for overdue payments to its main supplier, state-run Vietnam Shipbuilding Industry Group. The state-run railway network also asked for more time to repay debts, while Vietnam Steel Group asked for more cash and for a free hand in setting steel prices, despite a slump in demand. "We propose the government provides us with more capital to build larger plants," steel executive Dau Hung told the meeting, according to local media reports.



Some local economists have reacted to the conglomerates' demands with hostility rarely seen in tightly controlled Vietnam.

"They are the flaw in our economy," said Nguyen Quang A, president of the Institute of Development Studies, a Hanoi-based economic think tank. "The government should realize that these conglomerates make Vietnam's economy less efficient. By sitting down

and have a meeting with them, it shows that the government still puts them on a higher level."

Vietnam's state-run enterprises embarked on a massive spending and diversification spree in recent years as the country's once-closed economy has boomed. The state-run Vietnam Oil and Gas Group, or PetroVietnam, began building a five-star hotel in Hanoi, while one of the largest steelmakers began brewing beer, as the groups sought to expand their influence in the economy before it opens up to more foreign competition following Vietnam's joining the World Trade Organization in 2007.

Some state enterprises have opened their own banks to finance their expansion plans and have used the proceeds of government-backed bonds to entrench themselves in what are often monopolies.

But critics contend the government's support for these conglomerates has stifled smaller, more efficient Vietnamese businesses, and have called on Mr. Dung to ease off the state-sector acceleration.

The prime minister is taking steps to help smaller businesses -- which produce much of Vietnam's textiles, its largest manufactured export -- weather the economic downturn. He set out plans to reduce corporate tax by 30% for these smaller businesses in the last quarter of 2008 and for the whole of 2009, in a government resolution released earlier this month.

The government also said it would cut some import tariffs and allow some companies to defer tax payments for the first nine months of 2009, in addition to refunding this year's value-added tax on all materials used for making exported goods.

Hanoi has taken other steps to help exporters by cutting interest rates five times since October and allowing the Vietnamese currency, the dong, to steadily depreciate against the dollar to make Vietnam-made goods more competitive on the international market. The official exchange rate slipped to a record low on Friday to 17,495 dong to the U.S. dollar and has fallen 9% against the currency so far this year.

Central-bank officials have said previously they intend to allow the dong to depreciate gradually to help export-dependent Vietnam survive the global downturn and avoid job losses. Futures contracts on the currency indicate the dong is expected to fall to around 19,000 to 20,000 to the dollar by this time next year.

If Mr. Dung manages to resist the overtures from the large state enterprises looking for a bigger slice of the stimulus program, economists say Vietnam could emerge from the global slowdown in a healthier state. But the premier faces resistance within the Communist Party hierarchy, where some conservative officials see a large role for state conglomerates as a means of maintaining party control over Vietnam's economy. The state enterprises are major employers and large-scale layoffs could crimp the spending power of Vietnam's fledgling consumer economy.

"There is still a very real risk that the government, in times of crisis, will revert back to relying on state mechanisms," said one Vietnamese economist working at government policy-advisory panel.