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# Vietnam Reins In State-Run Shipbuilder's Expansion

*Chairman of Troubled Vinashin Is Suspended; Move Marks a Blow to Premier's Push to Promote Country's Conglomerates*

By VU TRONG KHANH And PATRICK BARTA

HANOI—Vietnam's prime minister suspended the chairman of one of the country's biggest companies amid concerns it could be on the verge of bankruptcy after a period of aggressive expansion.

Pham Thanh Binh, chairman of Vinashin, a state-run shipbuilding conglomerate, was removed to allow a review of his performance while police investigate alleged wrongdoing, the government said in a two-sentence statement Wednesday.



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Vinashin

A Vinashin shipyard in Vietnam. The Vietnamese government suspended Vinashin's chairman and is restructuring the company, which has expanded beyond its shipbuilding businesses.

Efforts to reach Mr. Binh and a government spokesman were unsuccessful. A receptionist at Vinashin said no one was available to discuss the matter.

The government move marked a setback for Mr. Binh and a blow to Vietnamese efforts in recent years to promote its many state companies, which continue to dominate key sectors of the economy even as Vietnam opens up to foreign investment.

Prime Minister Nguyen Tan Dung encouraged the companies, which include Vinashin, Vietnam Electricity Group, and state oil giant Vietnam Oil & Gas, or PetroVietnam, to expand rapidly in recent years in a bid to build bigger conglomerates that could better compete with international companies gaining a toehold in Vietnam. The push was modeled in part on how South Korean companies, known as chaebols, expanded in earlier years.

PetroVietnam moved into banking and tourism, while Vietnam Electricity invested heavily in telecommunications. The unlisted Vinashin, for its part, borrowed \$3 billion to finance expansion into new shipping lines and manufacturing businesses to support its shipbuilding operations. It also expanded into finance, stock-trading and brewing beer, making it Vietnam's ninth-largest state-run company by assets.

Many economists criticized the push, though, saying it crowded out private investment and encouraged state entities to take risks in businesses they didn't fully understand. When Vietnam's economy showed signs of overheating in 2008, officials started to reconsider the push and told state companies to focus more narrowly on their core businesses, though many of the companies kept growing.

Some of the companies have thrived, economists say. But investors



and analysts have long worried that one or more would stumble under the debts they accumulated during periods of rapid expansion. Vinashin, which has the full name Vietnam Shipbuilding Industry Group, has total debts of 80 trillion Vietnamese dong (\$4.2 billion), while its total assets are 90 trillion Vietnamese dong (\$4.7 billion), reported online news provider VnExpress, which is run by the

Ministry of Science and Technology.

It isn't clear when the police investigation into Vinashin will be completed. In the meantime, the prime minister has assigned a deputy minister of transport to handle Mr. Binh's duties.

The government is also restructuring the company, transferring at least 13 of Vinashin's units to PetroVietnam and state-run Vietnam National Shipping Lines, according to Cong An Nhan Dan newspaper, which is run by the Ministry of Public Securities.

The moves, including the transfer of 5,000 employees from Vinashin's 60,000-strong work force, is scheduled to be completed by the end of the third quarter.

State media reported this week that Mr. Binh's decisions on Vinashin's management and fund-raising resulted in losses and left the company unable to pay its debts. Mr. Binh also allegedly set up many affiliated companies that aren't financially viable, and appointed his son and his brother to key positions in these companies, the Vietnam News Agency reported. It added that for many years, Vinashin has submitted false reports on its financial condition to the government, and that the company is on the brink of bankruptcy.

In a 2008 interview with The Wall Street Journal, Mr. Binh dismissed criticisms that Vinashin was expanding too quickly, saying the bulk of the company's investments were in industries that supported its core shipbuilding business. "We're not bureaucrats who don't understand how to do business," he said.

Other media reports carried comments from Vinashin executives expressing regret over past decisions.

"We have indulged too much in expanding the market and building new plants, but paid little attention to improving our management capacity," Tran Quang Vu, Vinashin general director, was quoted this week as saying by Saigon Tiep Thi, a state-run newspaper. "Our biggest mistake is being too ambitious in developing a perfect domestic shipbuilding industry," Mr. Vu said, according to the report. Mr. Vu couldn't be reached to comment.

Analysts said there are no immediate indications that other state-run companies face serious problems, though some economists continue to question government policies that support the companies. Many foreign investors have called on the government to force the companies to accept more competition.

The Vinashin matter comes as Vietnam prepares for a crucial Communist Party Congress early next year. At the Congress, party members set policies and fill key positions for the coming five years.

Investors will be watching the event for signs of whether Vietnam is moving toward further market liberalization.

Some analysts say they believe Prime Minister Dung may have faced pressure to crack down on Vinashin as a way of showing strength leading into the Congress. Some party members have criticized his economic management, especially in the leadup to 2008, when inflation briefly surged out of control. Any further trouble at Vinashin could dent investor confidence and weaken Mr. Dung's standing.

"The prime minister has moved in to make sure he's not popped for not taking action" against Vinashin, says Carlyle Thayer, a Vietnam expert and professor at the University of

New South Wales in Canberra. Even so, the episode raises concerns about corporate governance in Vietnam, he says. "Where were the auditors?" he asks. "Where were the bookkeepers?"

The government may also revoke an investment license for a \$9.8 billion steel project jointly held by Malaysia's Lion Group and Vinashin due to its slow progress, officials have said. The project, in the southern province of Ninh Thuan, was licensed two years ago, but construction is yet to begin.

"We haven't revoked the license yet, but are looking for other investors to replace Vinashin and Lion Group for the project," Nguyen Chi Dung, chairman of Ninh Thuan province, told Dow Jones Newswires. An attempt to reach Lion Group was unsuccessful late Wednesday.

—Nguyen Anh Thu contributed to this article.

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