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Forwarded by Nguyễn Thế Anh JJR 56 

Vietnam faces economic meltdown

By Thomas Fuller

Construction crews got as far as the first floor of what was to be Saigon Residence, a high-end apartment building in the centre of Ho Chi Minh City. All that remains today of the abandoned project are piles of moldy bricks, rusting steel rods and a small team of security guards who have transformed the cement foundation into a parking lot for motorcycles.

In Vietnam's major cities, a once-booming property market has come crashing down. Hundreds of abandoned construction sites are the most obvious signs of a sickly economy.

A senior Vietnamese Communist Party official compared the country's economic problems with the market crash 15 years ago that flattened many economies in Asia. "I can say this is the same as the crisis in Thailand in 1997," said Hua Ngoc Thuan, vice-chairman of the People's Committee of Ho Chi Minh City, the city's top executive body. "Property investors pushed the prices so high. They bought for speculation -- not for use."

Vietnam's economic problems appear less severe than those of the 1997 financial crisis -- the economy is still growing at a rate of about four per cent -- but the country's list of problems continues to grow.

The arrest this week of Nguyen Duc Kien, one of Vietnam's wealthiest businessmen, set off a 4.8 per cent plunge in the country's stock market index on Tuesday, the biggest drop in four years. The charges against Kien are vague. The state news media said he was accused of illegal business activity.

The opaque way his case is being handled underlines a key aggravating factor for the country's woes: the awkward marriage between a secretive Communist Party leadership and a capitalist economy is clouding recovery prospects for the country of 91 million people. Investors are sceptical of the government's economic management and question the reliability of statistics. The country's central bank says borrowers have stopped paying back one out of every 10 loans in the banking system, but Fitch Ratings said the percentage of bad loans might be much higher.

If the 1997 crisis was often blamed on "crony capitalism", Vietnam's problems could be described as crony capitalism with a communist twist. State-owned companies are stacked with friends and allies of the Communist Party hierarchy.

"The state is being manipulated by people within the state to make money," said Jonathan Pincus, the dean of the Fulbright Economics Teaching Programme in Vietnam. "Getting the Communist Party out of the management of these companies, that's what is required," he said. "I don't see that on the table."

Like property bubbles in other parts of the world, investors in Vietnam took advantage of free-flowing credit to construct buildings with the hopes of flipping them for a profit. One key difference is that some of the largest property speculators here are state-owned corporations with top connections in the Communist Party and access to cheap money. Those companies are now grappling with unsustainable debt levels, or in the case of Vinashin and Vinalines, two large government conglomerates, flirting with insolvency.

Ho Chi Minh City is still buzzing with energy, swarmed by tourists and plagued by traffic jams -- all signs of the city's economic vitality. But that masks the symptoms of the nationwide economic woes: young people are finding it harder to find jobs; nearly 20 per cent of small and medium-size companies have gone out of business during the past year; and municipal infrastructure projects are being delayed or cancelled.

Le Dang Doanh, a prominent economist and a former top official at a government research organisation, said he was worried about the timing of the country's problems, coming just as the global economy is bogged down by debt and Europe grapples with the existential dilemma of the euro.

"The problem in Vietnam is a very toxic cocktail from the European debt crisis, the stagnation in the US economy plus a very critical situation in the domestic economy," Doanh said. "It's a very dangerous mixture."

The private sector is helping keep the economy moving -- Vietnam is a major exporter of clothing and footwear to the United States -- but foreign money flows have slowed. Commitments by foreign investors were US$8 billion (RM25 billion) for the first half of this year, one-quarter the level during the same period three years ago.

The problems facing young people are nothing near the scale of the Spanish and Greek unemployment crises, but finding a job is no longer as automatic as a few years ago.

The government has battled the country's problems with classic macroeconomic tools: tightening the supply of money to choke off double-digit inflation and then slashing interest rates this year to energise the economy.

Yet banks remain very cautious, partly because of the growing number of customers unable to pay back their loans. The supply of credit in the economy is shrinking and consumption is flat; supermarkets, for example, have reported reductions in sales of 20 to 30 per cent.

Doanh, the economist, said Vietnam needed much more than just an injection of money at lower interest rates.

The inefficient state-owned monoliths like Vinashin, which expanded wildly into businesses they were ill-qualified to operate, need to be dismantled, privatised or scaled down, Doanh said."Now is a good time for creative destruction," he said, referring to the concept of established companies being replaced by more innovative competitors.