Spiralling prices in Vietnam provoke fears of social unrest

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The Communist Party of Vietnam (CPV) regime is becoming increasingly alarmed at the runaway levels of inflation that have sparked strikes and protests by workers, principally in foreign-operated manufacturing firms.

Driven by price increases for oil, housing and food, inflation in April hit an annualised rate of 21.4 percent. Food prices rose 34.1 percent over the previous 12 months, with the price of rice and other cereals increasing by 38.2 percent. The price hikes have had a devastating impact on manufacturing workers, whose pay rate is around 60 US cents an hour. Despite long hours, wages rarely exceed $60 a month.

The result has been a series of "illegal strikes". According to figures published on the *Asia Times* website in April, there were 541 strikes involving an estimated 350,000 workers in 2007. Foreign investor spokesman Alain Cany of EuroCham complained of the increasing number of strikes outside the official labour code. He said EuroCham members in the country's southern industrial and export processing zone were reporting strikes at footwear, garment and furniture factories.

The *Wall Street Journal* on April 25 described the situation as "waves of labour strikes at foreign- and Vietnamese-owned firms". Among these was a strike last month by 20,000 workers at a Taiwanese-owned factory that manufactures shoes for the US-based Nike Corporation. The workers demanded a 20 percent increase in their $59 monthly wage.

Last week, more than 5,000 workers walked off the job at a privately-owned footwear company in northern Vietnam demanding pay rises to compensate for inflation. An official with Sao Vang Ltd. Co. told the media the company had recently increased wages to 800,000 dong ($US50). "It is hard to know what they are demanding, given the fact that inflation is skyrocketting," he complained.

The CPV leaders are clearly worried. The regime has attempted to reassure foreign investors that it will continue the program of pro-business "reforms" promised when Vietnam joined the World Trade Organisation (WTO) in December 2006.

In an effort to curb inflation, the government issued a statement at the National Assembly meeting in early May, lowering the economic growth target from 8.5-9 percent to 7 percent. Last year, GDP grew by 8.5 percent. On May 19, in a bid to rein in credit, the State Bank of Vietnam raised the base interest rate from 8.75 to 12 percent and authorised commercial banks to offer depositors rates of up to 18 percent.

Finance Minister Vu Van Ninh told reporters on May 6 that the government would continue to pursue "price-market mechanisms". He said the government could not continue to subsidise oil prices if they remained above $120 a barrel. At the same time, however, Ninh said inflation needed to be brought under control first. Rather than ending price controls this month as intended, he announced that prices for 10 essential goods would remain fixed at least until the end of June.

Dr Nguyen Minh Phong, head of the Hanoi Department of Social-Economic Research, explained the government's dilemma on the *Vietnamnet* website. He said firms had been waiting for the end of price controls this month to raise prices. Putting off the change would not alter the pressure for increases. If the government extended the deadline to later this year or even until next year, he said, there would be massive price hikes as soon as the controls were lifted.

Tran Dinh Thien from the Economics and Monetary Division of the Vietnam Economic Research Institute blamed world oil prices, the increasing cost of input

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materials, drought and disease among cattle and poultry for the high inflation rate. He said that holding back price rises would lead to fuel and natural resources being drained overseas and to smuggling becoming a major problem. Referring to sharpening social tensions, he said that the government would have to choose carefully to deal with “Vietnam’s economic conditions and the population’s resistance”.

Despite the inflation crisis, the government is committed to encouraging more investment. In 2007, the Ministry of Planning and Investment reported registered plans for foreign direct investment (FDI) of $21.3 billion with $8 billion realised. This was a huge rise from 2006 when the figures were $10.2 billion and $4.1 billion respectively. This year’s target for realised investment is $10 million, which is likely to be exceeded. In April alone, the figure was $1.4 billion.

Currently, there are 8,600 operational FDI projects in Vietnam with $85 billion in registered capital and $30 billion in realised capital. The government has speeded up investment approvals and land clearance and has poured money into road and port infrastructure projects. Two real estate projects in the southern Dong Nai province recently broke ground just five days after being licensed.

The growth of private investment is a major factor contributing to inflation. International rice prices have increased by 80 percent so far this year. But the breakneck pace of FDI projects from 2001 to 2007 has led to 500,000 hectares of farmland being converted to urban or industrial use. Agricultural Minister Cao Duc Phat commented recently that in five more years the land lost to rice production would equal the entire amount of the country’s rice exports. “This means that we will no longer have extra rice for export and, in the longer term, the country’s food security will be threatened,” he warned.

The government has reacted to the surge of “illegal” strikes by toughening its labour laws. It has promulgated Decree Number 11, allowing private employers to begin proceedings in the district courts to demand compensation from unions or representatives of workers for damages caused by strikes.

The government will also face demands for wage rises in state-owned enterprises, where higher wages have traditionally been paid to consolidate support for the regime. In state-owned cement plants, monthly wages are $200-$250 and in the paper mills $120-$180. However, if the government concedes any wage rise in state-owned enterprises, it will only add to the pressure for a flow-on in the private sector, undermining its ability to attract foreign investment.

Vietnam is under competitive pressures from China. A recent report by the Royal Bank of Scotland entitled *Vietnam: Not Another China* warned investors that lower wage rates in Vietnam (50-60 cents per hour compared to $1.06 in China) did not compensate for “scale advantages” in China. Vietnam’s population of 84 million, it noted, was smaller than that of Guangdong province in China. Many firms, the report stated, were compensating for the higher wages in China’s coastal cities by relocating not to Vietnam, but China’s interior.

The Stalinist regime in Vietnam has only one method for dealing with its growing economic problems: to foist the burden onto working people and use its police-state apparatus to crack down on dissent, protest and opposition.

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