Vietnamese economy hit by global crisis

John Braddock
12 October 2009

Figures released last month by government agencies in Vietnam confirm that the country's economy has been badly hit by the global economic crisis.

According to the Ministry of Planning and Investment, Vietnam's year-on-year economic growth slowed to 3.9 percent in the first half of 2009, down from 6.2 percent in 2008 and 8.5 percent in 2007, as the global recession slowed exports and investment.

The first quarter growth of 3.1 percent was the slowest for a decade and represented a significant fall from the 7.4 percent in the same quarter of 2008. The year-on-year figures rose to 4.46 percent in the second quarter and 5.76 percent in the third quarter. However, while the ministry claimed the economy was improving, figures were lower than 2008 and overall less than the official government target of 5.2 percent expansion.

Statistics released by the Foreign Investment Agency showed dramatic falls. Investment pledges and planned capital increases for existing projects dropped 79 percent in the nine months to September, year-on-year. Total investment commitments fell to $US12.5 billion, while disbursements totalled $7.2 billion, 11 percent lower than the same period last year.

In 2008, there were 8,600 operational foreign direct investment (FDI) projects in Vietnam with $US85 billion in registered capital and $30 billion in realised capital. In 2007, the Ministry of Planning and Investment reported registered FDI plans 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.

Having sought to transform Vietnam over the past decade and a half into a lucrative cheap labour platform, the Stalinist regime now confronts a sharp downturn in exports and the danger of widespread bankruptcies and unemployment. In recent years exports have accounted for up to 70 percent of government revenue.

However, Vietnam's key export markets—the European Union, the US and Japan—are forecast to have minus 2 percent growth rates this year, in the case of Japan, minus 5 percent. Writing in the *Far Eastern Economic Review* in May, Houston University academic Long S. Le noted that imports for these markets are expected to plunge by as much as 52 percent. Vietnam's exports have already fallen by 14 percent year-on-year in the first eight months of this year.

Like governments elsewhere, the Stalinist regime in Vietnam has introduced a fiscal stimulus package to stave off an economic slowdown. Its central element was an interest-rate subsidy program worth 17 trillion dong ($US1 billion), aimed at stemming a tide of factory closures. About 75 percent of this fund was reserved for state-owned enterprises (SOEs). Despite the stimulus package, the official unemployment rate is expected to double from 4.7 percent in 2008 to 8.2 percent this year.

According to the *Economist* on September 24, international observers are increasingly concerned about the sustainability of the recent "recovery" in Vietnam, given its dependence on government spending and cheap credit. The Asian Development Bank (ADB) has predicted that the budget deficit will widen from 4.1 percent of GDP in 2008 to 10.3 percent this year. The *Economist* predicted that financing the gap "may not be easy". The country's foreign-currency reserves fell from $23 billion at the end of December to

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$17.3 billion at the end of June. The government turned to the ADB in September for a $500 million budget-support loan.

An *Asia Times* article on September 22 warned that Vietnam might be heading towards a major currency crisis. The dong could be significantly devalued, given the country's worsening financial position. Vietnam has traditionally had large fiscal and trade deficits that were financed by foreign capital inflows, but there are growing signs that these imbalances are not sustainable.

The main avenue for financing the deficit has been to issue more government debt. But the regime has failed to sell any bonds at five consecutive public auctions between March and July this year. Local investors are simply not purchasing notes at 9 percent interest, underscoring widespread pessimism about future inflation. At the most recent bond auction, in late August, the treasury raised just $US57 million of a hoped for $150 million.

Vietnam has no access to foreign debt markets. Earlier plans for an international bond issue were shelved indefinitely after international rating agencies downgraded Vietnam's credit to junk status. The government is likely to come under severe international pressure to rein in spending, restrain credit growth and cut the budget deficit, in order to ease persistent fears of a return to high inflation.

Halfway through 2008, soaring prices and collapsing markets saw inflation peak at an annual rate of 28 percent, leading to the hoarding of rice and panic buying of gold. Prices for everything, from food to fuel and housing rapidly spiked. Rising social hardship led to a spate of strikes for higher pay and better conditions, in the garment, footwear, toy and electronic industries. There were over 300 "illegal" strikes in the first six months of the year. In response, foreign multi-nationals declared even meagre pay rises to be "excessive" and threatened to curtail future investment or pull out altogether.

Vietnam is also under international pressure to push ahead with a pro-market agenda. According to the *Economist*, the "focus on the government's fiscal stimulus" has distracted it from pursuing further restructuring, the pace of which has disappointed international financiers since Vietnam joined the WTO in 2007, on unfavourable terms. Victoria Kwakwa, the World Bank's country director, has warned the government not to get "sidetracked" by any short-term economic rebound, but focus instead on "the fundamental constraints to the economy's competitiveness".

Concerns have been raised about the slowdown of the state sector's quasi-privatisation. According to the Ministry of Finance, the number of equitised SOEs decreased from 724 in 2005, to 640 in 2006, 150 in 2007, and 73 in 2008, even though most SOEs that have been equitised have made profits and paid high dividends.

The *Economist* warned that international institutions are not prepared to see the state continue to hold on to strategic industries "indefinitely". They are demanding increasing access to Vietnam's telecommunications, retail, banking and financial services, and education and training sectors, threatening that without further "reforms", Vietnam will "find it hard to rise above its present niche as a low-cost manufacturing base".

As in every other corner of the globe, international capital is exploiting the global economic crisis to push for a drastic restructuring of the Vietnamese economy to boost private profit. There is no doubt that the Stalinist regime in Hanoi will bow to the new pressure as it has on every previous occasion to further open up the country as a cheap labour platform.

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