

Economic Waves Imperil Vietnam's Leaders

Inflation, labor unrest and other troubles threaten the prime minister

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A year ago, in August 2007, Vietnam's Prime Minister Nguyen Tan Dung confidently addressed a gathering of regional businessmen at an Asean 100 Leadership Forum at the Melia Hotel in downtown Hanoi.

He gave a typically punchy speech about how Vietnam valued its membership in Asean, how it was increasingly integrating with the global economy after its recent induction into the World Trade Organisation, and most importantly, how its economy was humming along nicely with continued high rates of growth and investment.

At the end, after answering a few soft questions, Dung paused, eye-balled his admiring audience, and said: "One thing I can guarantee you - political stability."

The executives en masse and applauded loudly and vociferously, almost as if they were cheering a stock market bull run, not the unelected prime minister of an undemocratic communist regime.

Nothing particularly unusual about that, of course - businessmen the world over love the stability and certitude of authoritarian, states like Vietnam, China and Singapore.

What a difference a year can make. The suits are not cheering Vietnam's performance so much these days and the country's chastened prime minister is not sounding half so confident. Since Dung spoke last August, not only has Vietnam's economy stopped purring, but its political stability is no longer guaranteed. Nor, for that matter, is the PM's own position as secure as it appeared back then.

In a nutshell, Vietnam's economy has crashed and Dung's government has failed to ameliorate the effect on the general population, which has, in turn, grown more disillusioned with the performance of the ruling Vietnam Communist Party.

From the economic point of view, the most ominous and continuing manifestation of that disillusionment is the ever-increasing number of strikes all over the country. At the latest count, there have been around 400 since the start of the year, most of them at manufacturing plants owned by foreign investors.

Last week, in a typical stoppage, 14,000 workers at a South Korean shoe factory near Ho Chi Minh City downed tools in response to the management's failure to adequately increase their wages. The workers want \$18 a month more, but the company has only offered \$12. It may not sound like much of a difference, but when workers on wages of around \$50 to \$60 a month, are faced with inflation of around 30 percent, it is critically important. Representatives from top investing nations from South Korea, Taiwan, Singapore and Japan have told Dung's team to do something about Vietnam's surging labor unrest before their companies cut back on their investments or even start to pull out.

Last month, Theodore Huang, who heads Taiwan's Chinese National Association of Industry and Commerce, complained at a business seminar that the spread of wildcat strikes was the most critical aspect of Vietnam's current economic downturn. Already, the volatile labor scene is starting to

negatively affect investment. Officially, despite the recent economic slide, Hanoi still claims that foreign direct investment reportedly worth more than US\$30 billion so far this year – continues to pour in.

The reality is somewhat different because the official figure only indicates registered or planned investments, which may or may not materialize. When it comes to actual disbursed investments, the amount is just US\$5 billion – and that was committed before the crash. There are now signs that many companies are pausing before making further investments.

But for the government, the immediate problem is how to appease restless workers, disgruntled rural peasants, and the small but increasingly influential urban middle-class while maintaining social and political stability. It will not be easy. Internal surveys conducted by the communist party itself have indicated that an astonishing 80 percent of the population now think the party is no longer serving the needs of the people.

Perhaps it is not so astonishing. After all, since the prime minister's speech a year ago, inflation has risen every month, hitting 27 percent in July, the highest recorded figure since 1991. Food prices rose by 73 percent, petrol and gas by 46 percent, rents and housing by 25 percent.

It has become a running joke that supplies of White-Out ink are getting scarce in Vietnam because cafés have to change the figures on their menus every day. Landlords tell tenants that the rent will be doubled or tripled, mid-lease, accept it or move out. Sales of bicycles have surged as workers can no longer afford to pay for petrol for their motorbikes.

And things are certain to get worse before they get better. Last month, Dung's government, faced with a dangerous drop in the level of reserves at the central bank, had to remove the more than 30 percent subsidies on gasoline that were draining the bank's coffers. That long-overdue, but politically-sensitive move will almost certainly ensure that inflation this month surges above 30 percent and further inflames low-income workers and farmers – the party's traditional support base.

Despite its extensive supplies of oil and gas and abundant harvests of rice, vegetables and fruit, Vietnam's vaunted social and political stability is starting to look a little fragile in the face of inflation. And Dung and his fellow party leaders know it. That is why the leadership convened an extraordinary crisis meeting of the party's 161-member central committee last month. A key topic of discussion was how to win back the support and confidence of young people, intellectuals and rural peasants – three groups that have become especially disenchanted with the party's performance in recent times.

The central committee also debated the economic downturn over the first six months of this year and tried to hammer out remedial steps that could be taken over the next six months.

Many senior party members expressed unhappiness at the government's earlier stubborn push for continued high growth rates long after it had become clear that the fight against inflation should take priority. They pointed out that despite the fact that inflation hit double digits as far back as last November, Dung's team continued to insist they could maintain annual growth of 9 percent, while also enforcing belt-tightening measures to cut inflation. Only in March this year, when a plunging stock market, a burgeoning trade gap and widespread strikes triggered fears of a total economic collapse, was that stance shelved and this year's growth target reduced to 7 percent and major government projects canned. Few expect even that lower target will be met – the Asian Development Bank now predicts growth will drop to 6.5 per cent this year. Private analysts say it could fall as low as 5 per cent.

In early April, the Politburo, the highest body of the communist party, issued public economic advice to Dung's men, effectively mandating more belt-tightening, more curbs on liquidity and higher interest rates. Then came last month's extraordinary central committee meeting, laying down the line that the rot has got to stop – but without agreeing on how to do it.

In fact, there are deep-rooted divisions within the leadership over how to proceed.

Party sources talk of splits in the Politburo between backers of Dung's internationalist approach, and those who want a more nationalistic line like party General-Secretary Nong Duc Manh and Deputy PM and former finance minister Nguyen Sinh Hung.

The standoff is exacerbated by the fact that the root cause of the economic mess is systemic.

As numerous analysts have pointed out, decision-making under Hanoi's communist regime, particularly in the economic sphere, is fragmented to the point of paralysis. Neither the conservatives, progressives nor anyone else in power is prepared to change the system, because that would mean dismantling the absolute dominance of the party.

So, in the near term, one of two things will happen: the party will close ranks and try to ride out the storm, or it will sacrifice some top figures to show that it is prepared to act decisively in the interests of the people. Since no heads were chopped at the recent central committee meeting – except, ironically, one of Dung's own acolytes in his home town of Ca Mau – it seems evident that closing ranks is the favored option for now.

But if things continue to go pear-shaped, heads could roll. And while figures like the state bank governor, the finance minister or the planning and investment minister appear likely candidates, the carnage could ultimately extend to Dung himself. The PM's individualistic style was publicly tolerated – though often privately decried – by a consensual party leadership as long as it appeared to be working. Now that it has failed, he is in trouble.

His troubles are compounded by his lack of whole-hearted support in the Politburo. A majority of its 14 members side with the conservative tendency led by party boss Manh, Public Security Minister Le Hong Anh, Defense Minister Phung Quang Thanh, DPM Hung and the party's head of personnel and organization Ho Duc Viet. Hung and Viet, both from central Nghe An province – home of the country's founding father Ho Chi Minh opposed Dung's attempts to strengthen his position via a cabinet reshuffle last June and the PM was forced to back down.

The best he could do was to partly defuse the clout of the Nghe An faction by inducting a couple of reformist technocrats as new deputy prime ministers: the Western-educated Hoang Trung Hai and Nguyen Thien Nhan. But neither has performed auspiciously, and Nhan in particular is viewed as having been woefully ineffective in the education portfolio.

As a result, Dung is now viewed as increasingly likely to have to put on hold any notion of trying to take over the party leadership from Manh – and even the fallback assumption that he will be a shoo-in for a second term as PM is now questioned. It appears more probable that Manh's replacement as party leader will be drawn from the conservative ranks. If not Viet, the most likely candidate would be Truong Tan Sang, the head of the party Secretariat, or Pham Quang Nghi, the current party boss of Hanoi.

Either way, Dung will lose out. And it is unlikely that he will give any more guarantees about political stability, nor is he likely to hear any more rousing cheers from businessmen in the near future.

P.S.

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