

outthink
risk

SUBSCRIBE
GET 12 WEEKS FOR \$12
STUDENT OFFERS

The Economist
Every step you take
Enough. Most. Absolute. Control.

The Economist

Which *Economist* reader are you?

The Print reader



Vietnam's economy

Crying over cheap milk

Questions remain about Vietnam's commitment to economic reform

Nov 21st 2015 | HANOI | From the print edition

CANS of baby-milk powder are piled high at a Bibo Mart maternity shop in downtown Hanoi. The shelves hold more than 20 distinct products, domestic and imported, and prices range from about \$13 to \$22 per kilogram. The highest prices used to be higher. But since the finance ministry introduced a price “stabilisation” law, retailers of milk powder, mostly foreign, have had to shave prices by up to a third. As America’s Congress mulls whether to approve the Trans-Pacific Partnership (TPP), an American-led trade agreement whose draft text was released in early November, it all sends a bad signal about Vietnam’s commitment to economic reform.

Vietnam is an eager member of TPP and expects to reap an economic windfall if Congress approves the pact. But it is still asking America and the European Union to drop their designation of the country as a “non-market” economy before 2018, when it is due to expire. A switch to a “market-economy” designation would help Vietnamese firms fight anti-

dumping lawsuits. Vietnam has already secured market-economy status with other countries. Yet a statue of Lenin stands tall in Hanoi, and economic planners in the ruling Communist Party still have plenty of Soviet impulses. They draft five-year plans, the next of which will be hammered out at a Communist Party Congress in early 2016. And it is not just baby-formula prices they have sought to control. Since 2002 they have rolled out laws to cap the price of basic goods like petrol, rice and sugar. Such controls initially just applied to state-owned enterprises, but they increasingly regulate private and foreign competitors, too.

The milk law appeared last year after a handful of multinational formula companies were accused by the state-controlled press of price fixing (on flimsy evidence). It may have been designed to hurt foreign firms and benefit their domestic competitors, such as Vinamilk, a dairy giant in which the state owns a 45% stake. Yet the law also affected Vinamilk, and some think it may just reflect old-fashioned thinking about the government's role in the marketplace. Whatever the reason, foreign firms and embassies are furious. Last year Nguyen Tan Dung, the prime minister, is said to have assured America's commerce secretary, Penny Pritzker, that the law was temporary. But this spring it was extended until the end of 2016.

The law's champion is Nguyen Thien Nhan, chairman of the Fatherland Front, a Communist Party organisation that purports to speak for Vietnam's 90m people. Mr Nhan, a member of the Communist Party's elite Politburo, is one of its more outspoken populists. He has championed a patriotic campaign to promote Vietnamese goods over foreign ones, and another to raise the average height of Vietnamese children (partly by feeding them more milk). He is also in the running to replace Mr Dung as prime minister after next year's congress. His consumer advocacy may have raised his political profile.

Yet the milk law's populism rings hollow. Thanh Thuy, a Bibo Mart manager, says it affects high-end products and mainly benefits middle-class yummy mummies who never felt squeezed by high prices. Market volumes of milk powder have dropped by 11% since last year. Foreign brands are winnowing inventories and curbing research and development in a \$640m milk-powder industry. In a recent survey by the Vietnam Chamber of Commerce and Industry, 42% of Vietnamese officials, down from 68% in 2011, saw price-stabilisation mechanisms for milk, rice and other products as effective market tools.

Adam Sitkoff of the American Chamber of Commerce in Hanoi says the milk law is a "non-market" intervention that contradicts TPP's core principles. Persuading America that Vietnam is a market economy will still be a hard sell.

From the print edition □Asi □

