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Vietnam Pushes State-Owned Firms to Diversify

Ruling Elite Fears Tough Competition From Foreigners

By JAMES HOOKWAY
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HANOI, Vietnam -- In the fume-choked western suburbs of this nation's capital, scrawny cows wander the streets as bulldozers churn up a patch of dusty soil that will soon become a $300 million five-star hotel.

The company behind the luxury resort isn't a well-known hotel chain. Instead, it's PetroVietnam, the country's national oil and gas group.

RED FLAG?

• **The Situation:** Some of Vietnam's biggest state enterprises are diversifying into new businesses as the country gears up for increased foreign competition.
• **What It Means:** The move is creating uncertainty about the depth of commitment to free-market overhauls.
• **What's Next:** Vietnam's government says it will ensure a level playing field for state-owned, private and foreign companies.

The oil company's foray into the tourist trade is part of a bold -- and divisive -- push by Vietnam's prime minister, Nguyen Tan Dung, to create state-owned conglomerates that can stand up to the international companies that are making inroads here as Vietnam's economy booms. The government expects growth in gross domestic product to top 8.5% this year.

Vietnam's drive to create more-powerful state companies sits awkwardly with the prime minister's carefully crafted image as a supporter of liberal economics. It reflects some nervousness among the Communist Party elite about entirely surrendering its grip on the economy, even though there is little threat to its political control. Among the concerns: Without a bold makeover, state enterprises may struggle to secure sufficient credit once Vietnam opens up to foreign banks as part of its commitments in joining the World Trade Organization.

In recent months, Mr. Dung has signed a series of orders directing large state companies to diversify into unexpected new businesses, in some cases asking them to compete directly with privately owned firms. State shipbuilding company Vinashin, or Vietnam Shipbuilding Industry Corp., will soon start brewing beer. Mining company Vietnam Coal Corp. is investing in electricity generation. Several other state companies, including PetroVietnam, formally known as Vietnam Oil & Gas Corp., are establishing their own banks to help finance their expansion.

Mr. Dung's critics contend that building these new businesses risks crowding out Vietnam's vibrant private sector, the backbone of the country's economy. Around 60% of Vietnam's GDP is generated by local and foreign private businesses, compared with less than half a decade ago, according to the Asian Development Bank.

Mr. Dung has strong credentials as an economic liberalizer. He ran Vietnam's central bank in the late 1990s and helped steer the country's entry into the WTO. Yet, he is also steeped in the traditions of Vietnam's strongly nationalist military.

Mr. Dung began his career as a child soldier in 1961, signing up as a messenger with the Viet Cong guerrillas when he was 12 years old. He rose through the ranks to become a political commissar, and was wounded several times in battles with U.S.-backed southern Vietnamese troops in the 1960s and 1970s. His army bosses sent the young Mr. Dung to the Communist Party's elite leadership academy, and he became the youngest-ever member of Vietnam's 14-member Politburo. He became prime minister in 2006 at the age of 56.

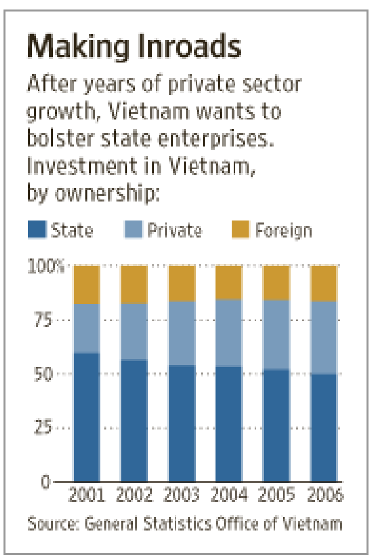
Nguyen Tan Dung

Some of Mr. Dung's mentors are surprised at his plans for bulking up Vietnam's state sector, which had been gradually diminishing in importance as economic overhauls have progressed. Former Prime Minister Vo Van Kiet, who engineered Vietnam's painful transition to capitalism in the 1990s, has warned his protégé that creating giant state-run conglomerates threatens Vietnam's hard-won free-market credentials.

"These groups will hoard market share, material resources and business opportunities that are the lifeblood of Vietnam's private sector," wrote Mr. Kiet, who is now 85, in an article published in a state newspaper earlier this year. "And that prevents businesses from expanding their important role in the Vietnamese economy."

Mr. Kiet also warned that, among other things, the presence of PetroVietnam in the tourism business will hurt Vietnam's image as a free-market economy. Just the perception of a strong state hand steering the economy might be enough to ensure that the U.S. and European Union can continue levying tariffs on Vietnam for allegedly exporting goods at below-market prices.

Government spokesman Le Dzung says Vietnam's leaders are committed to ensuring a level playing field for all business, whether private, foreign or state-owned.



At PetroVietnam, the head of planning for its northern Vietnam projects says the company plans to begin construction on its hotel in earnest in the next few months. Nguyen Ngoc Lich says PetroVietnam plans to hold a 30% stake in the venture, with the rest being offered to a selection of local -- mostly state-run -- banks.

Some government economists share Mr. Kiet's fear that Mr. Dung's new tack risks undoing some of the momentum that has helped Vietnam become a fast-growing and attractive manufacturing hub for global names such as Intel Corp., Canon Inc. and Hon Hai Precision Industry Co. Government officials expect Vietnam to attract $16 billion in foreign direct investment this year. In the first eleven months of the year, foreign companies committed $15 billion to the country -- a record.

A burgeoning middle class is patronizing luxury boutiques and golf courses that are sprouting across Hanoi and the old southern capital, Saigon, now known as Ho Chi Minh City.

Last month, U.S. Commerce Secretary Carlos Gutierrez traveled to Vietnam to meet with Mr. Dung, and described the country as "Asia's newest economic tiger." In an earlier interview with The Wall Street Journal, Mr. Dung pledged that more overhauls are on the way to draw in more foreign investment. Chief among them are plans to introduce transparent, predictable laws that will enable private business -- both local and foreign -- to play a bigger role in sustaining Vietnam's heady growth.

"We can't clap with one hand. We need private business, too," says Mr. Dung. Two of his three children have studied in the U.S. and have entered private business in Vietnam.

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