Short-Term Pains For Long-T

Two professors from Georgetown University visited Vietnam on the occasion of their eighth exchange with HCM City Economics University. The *Weekly* spoke with Prof. Thomas B. Cooke, distinguished teaching professor, and Prof. Catherine C. Langlois, associate professor of economics and global experience Vietnam, about Vietnam's economic problems and their insights.

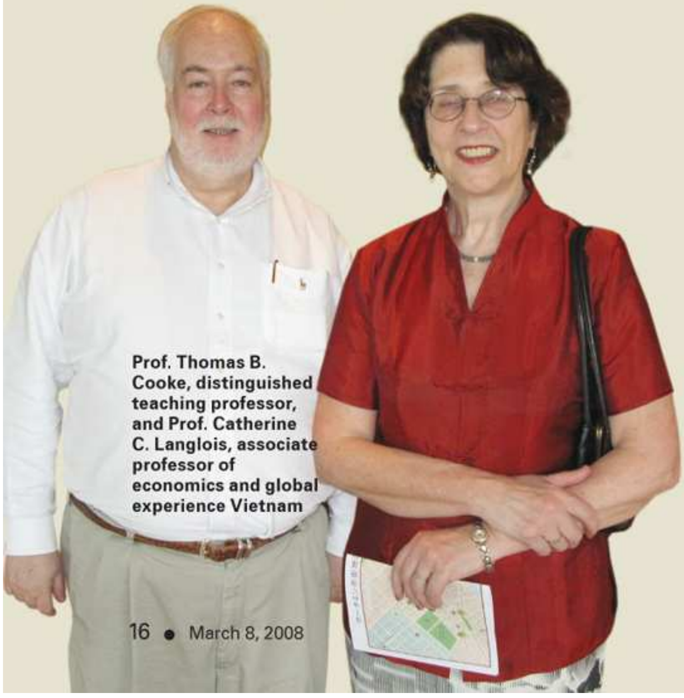
Q: The dong appreciation over the dollar is getting higher. What negative impacts may happen?

Langlois: The dong is fixed against the dollar, so it is a similar situation to China. The question is whether the economy can grow as fast as the foreign currency comes in, and if it can, then there would only be the facilitation of growth through foreign direct investment.

Cooke: The U.S. is close to a recession. The dollar is tightening and there may be a reduction of dollars available for foreign investment. The economy of the U.S. right now is in flood. It is not very strong. Our Government is also taking steps, like lowering interest rates and giving people some money to spend, but there is no certainty that is going to work. The Government is trying to turn things around. We hope both plans work.

Given the current situation of the stock market, do you think it will encounter a collapse?

Langlois: That depends on opportunities for investment in Vietnam, which is determined by the pace at which firms get privatized, and whether privatization comes with the dong available in the market for investment until the stock market gets stable when you have enough listed companies available for trading. Otherwise it will be too volatile.



Prof. Thomas B. Cooke, distinguished teaching professor, and Prof. Catherine C. Langlois, associate professor of economics and global experience Vietnam

Cooke: I think the Vietnamese stock market is still at a surprisingly high rate. The returns on the stock market for the first few years were very high. People as a result made easy money. And now the reality is getting in. This has happened in America as well. The market now is below 700 points and it is getting to a comfortable level. I see some stability there, and that will encourage more investment which should keep the market at over 700 points.

Sometimes we expect a lot from Vietnam in a very short period of time. If you look at the last five years, how much has happened to Vietnam? Now it is just slowing down a little and in the end we will see it gets better. It is now in a correction, and with the market down there is an opportunity for some people to buy.

The Government recently said they would scarify the stock market to reduce the double-digit inflation. What would the consequences of that be?

Langlois: Well, the biggest consequence is that companies have to rely on foreign investment for capital through debt financing instead of equity financing, which is what happening to East European countries, until companies are highly leveraged. There will be more debt financing than equity financing.

The Government has to be careful how they view the stock market. I'm not sure whether the Government is interested in overseeing how the market operates, but it should not be too deeply involved in day-to-day business activities of these individual companies.

Cooke: I think Vietnam represents a unique situation. Vietnam is Vietnam and there is something special about that if you're suffering inflation, there is pain, the pain experienced by employees in factories today. But sometimes we have to build on short-term pain to gain a long-term reward.

What should the Government do to lower the inflation rate?

Langlois: Inflation is very different between the growth in the money supply and the growth in volume. If you reduce the growth in the money then you reduce inflation. Here the money comes from abroad and so there is a big inflow of money from the rest of the world that is not necessarily controlled through the central bank of Vietnam. That can create inflation that is out of the government control or out of the central bank control. I'm sure you have a pocket of inflation here. You have inflation in housing, in construction, but not necessarily inflation in basic goods such as clothing and food. You have a dual price system that makes

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your inflation statistics a little bit odd because you have an inflation which has to deal with the housing bubble, due to the fact that there are a lot of people who want to invest in residential property or housing in general.

Cooke: The economy has grown rapidly in a short period of time. There is more tension in Vietnam. There are credit issues. From my viewpoint, short term pains can bring long-term rewards. Other economies are also encountering high inflation. Everything is on the fast track.

To tame inflation the Government might accept a lower growth rate. Do you think Vietnam is still attractive to investors worldwide?

Cooke: Yes. I think international investors look at Vietnam for the long run, not the short run. So the long-term picture is very bright, very positive. I'm a believer of the freedom of the market place. I think in the long term the market will work the things out.

The Vietnam stock market is getting a lot of attention globally. I'm confident that the market is going to do very well. The reality has set in. What goes up can come down.

Where do you put the odds of a crisis?

Langlois: Countries that cover a fixed exchange rate regime are bound to face a crisis, either because the currency may be overvalued or undervalued. Thailand is an example that has its currency overvalued. Vietnam is facing high inflation and this is equivalent to the appreciation of your currency. So, the dong is going up because of inflation. For example, the interest rate set by a local bank at almost 13% is low in real terms because the inflation is over 12%. This would actually discourage people from putting their savings in banks which is another kind of problems because the financial sector does not have assets in savings. They can be distributed in the world in the best possible manner by picking and choosing the best investment possible.

How can Vietnam sustain development up to 2010?

Langlois: Privatize slowly, accept foreign investment to some extent since there is no huge foreign ownership to date in my opinion, and watch the productivity trend. Those are the three things I suggest. There should be investment in real assets instead of papers. The good long-term investments in a developing economy are in real assets, such as factories and hotels.

Cooke: I will say in the tourism sector. There are some wonderful assets that should be made available to international grand hotels. In my opinion, HCM City is falling short on adequate hotel space and meeting space. Every hotel that I visit tells me they have 80-90% occupancy. That is good news for that hotel, but bad news for some of the travelers. I also think State-owned enterprises should be broken up.

Reported by Que Anh