India's double-digit growth ambitions fade

AFP, *New Delhi*

India's dreams of attaining double-digit economic growth within the next few years are fading, undermined by high inflation, slow progress on reforms and an uncertain global outlook.

The ruling Congress party has long wanted to make history as the administration which ushered in growth of 10 percent -- touted by successive governments as vital to significantly reduce crushing poverty.

But India's main economic planning body looks set to row back on the goal of double-digit expansion when it fixes the country's five-year economic, social and other goals to 2017.

Setting a target of 10 percent average growth "for the next five years is not feasible", Planning Commission deputy chairman Montek Singh Ahluwalia admitted late last week, citing inflation, a need to jump-start reforms and an "international situation full of uncertainty".

However, Ahluwalia said nine percent was a realistic target as the country of 1.2 billion people struggles to haul millions out of poverty -- over 40 percent of Indians live below the extreme poverty line of $1.25 a day, according to the World Bank.

Despite moves to free up its economy, India still runs on five-year plans introduced in 1951 by its first premier, Jawaharlal Nehru, who admired the Soviet Union's central economic planning model.

Back then expansion was forecast at just 2.1 percent.

Fast forward and according to the Planning Commission, average growth during the current 2007-12 plan period is likely to be 8.2 percent -- a huge leap from the 1950s but far short of the magic double-digit figure.

Finance Minister Pranab Mukherjee optimistically said late last year he hoped India would "find the means to cross the double-digit growth barrier in the coming year or two".

Premier Manmohan Singh, who initiated the first wave of economic liberalisation in 1991 when he was finance minister, has voiced similar hopes.

But the goal will remain elusive without radical reforms to cut government control over the economy, better skills education for a burgeoning population and heavy investment to improve India's infrastructure, economists say.

The demands of India's expanding economy has pushed its creaking infrastructure to the limits. Power cuts last hours, congested ports delay loading and roads are notoriously potholed

AFP

An Indian officegoer walks past a collage of the Indian rupee symbol made with signs of the US dollar, the yen, the pound and the euro outside the Bombay Stock Exchange in Mumbai.

Despite government promises, the reform pace has been slow, hamstrung by fierce political opposition.

Under an optimistic scenario, if reforms are implemented quickly, growth could "reach 10 percent as soon as 2020 and reach slightly above that by 2025", said HSBC chief India economist Leif Eskesen.

"If double-digit growth is to be more than just a dream," Eskesen added, "India must push through further structural reforms that address infrastructure and skill gaps, make it easier to do business."

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Last week, Goldman Sachs slashed India's growth forecast for this fiscal year to March 2012 to 7.8 percent from 8.7 percent, citing the effects of rising interest rates on economic activity.

The estimate was way below the government's own nine-percent forecast.

India's central bank has hiked interest rates eight times in a year and is expected to raise them again next month to combat inflation which unexpectedly spurted to nearly nine percent this month.

While hundreds of millions of Indians are still mired in poverty, the step-change in growth has transformed living standards for many millions of others and "remains the most compelling story of our times", said Business Standard publisher T.N. Ninan in a weekend column.

Investors look to Vietnam's long-term promise

AFP, *Hanoi*

Despite Vietnam's persistent economic woes, a record deal this month has shown foreign investors are still lured to the frontier market by its young, growing population and rising disposable incomes.

The sealing of the communist country's largest-ever private equity deal, at a time of soaring inflation and a struggling currency, has underscored faith in Vietnam's long-term potential, beyond its current macro instabilities.

US-based investment firm Kohlberg Kravis Roberts & Co (KKR) is to pay $159 million for a 10 percent stake in Masan Consumer Corp, the leading fish sauce producer in Vietnam, the companies announced on April 13.

"KKR is bullish on Vietnam," KKR spokesman Ming Lu said. "In the past decade, there has been considerable economic progress, structural reforms and a notable increase in living standards."

With annual GDP growth averaging 7.1 percent from 1990 to 2009, Vietnam's 87 million people -- about half of them under 30 -- are now a "ferocious" consumer force, according to Adam Sitkoff of the American Chamber of Commerce in Hanoi.

"Now I walk around seeing a 10-year-old Vietnamese with an iPod and a Gucci hat -- it still shocks me," he told AFP, explaining that decades of limited choice, poor quality and high prices had generated pent-up demand.

Boutique shops, BlackBerry smartphones and BMWs are almost as common as the red banners, army uniforms and loudspeakers that dot the capital Hanoi's streets -- symbols of the socialist regime still dominating the political landscape.

But rapid expansion since the early 1990s -- after the country began to turn away from a planned economy to embrace the free market -- has come at a cost to Vietnam, once celebrated as a new "Asian Tiger".

Relative to other members of the Association of Southeast Asian Nations (ASEAN) such as Singapore or Malaysia, Vietnam has struggled to keep up with its own expansion, suggested Marc Mealy of the US-ASEAN Business Council.

"In Vietnam's case, the pace of liberalisation to global capital has in some ways outpaced the development of their institutions and human resources to manage their macroeconomy," he said.

The hurdles are formidable and persistent: inflation which hit nearly 14 percent year-on-year in March, a trade deficit of an estimated $12.4 billion last year and a weak currency, the dong, devalued four times since late 2009.

Corruption and wasteful bureaucracy have also damaged Vietnam's global financial reputation, with the credit worthiness of state-owned enterprises further threatened by the near-bankruptcy of shipbuilder Vinashin.

Economic stabilisation, rather than growth, has subsequently become the government's main focus, with the ruling Communist Party announcing an overhaul of its business growth model during a five-year congress in January.

While analysts have welcomed the moves, global credit ratings agency Moody's upheld a negative outlook for Vietnam in a report issued Wednesday.

This "reflects concerns about the sustainability of the country's balance of payments despite the government's recent macro-stabilisation measures," the report said.

Moody's analyst Christian de Guzman said the country was "fraught with risks" for foreign portfolio investors considering buying Vietnamese stocks or bonds, and interest had "dried up".

But he said long-term foreign direct investment (FDI) was "still very healthy and coming through at a steady pace".

Government figures show disbursed FDI into Vietnam totalled $2.54 billion in the first quarter of 2011, up 1.6 percent from the same period last year.

Such long-term investors "believe in the strong underlying potential and believe the current macroeconomic factors to be transitory," said economist Dariusz Kowalczyk at Credit Agricole CIB.

One key attraction is lower labour costs, encouraging foreign manufacturers to relocate from China to Vietnam, or to use it in a "China plus one" strategy of adding a second production base outside the Asian giant.

"Vietnam has very strong growth potential because of the entrepreneurship of the population," Kowalczyk added. "People seem to be really driven to improve their lives."

He warned however that investors in a one-party state such as Vietnam will still want proof that it can follow China in competently managing key policy-making and thereby maintaining social stability.

"In a centrally planned economy, there's a greater risk that the government will make a mistake that will lower investment returns," Kowalczyk said.

While optimism is tempered, some believe KKR's vote of confidence could encourage further interest in Vietnam.

"KKR's deal will certainly cause some investors to take a second look," said Dan Hallett, director of asset management at HighView Financial Group, a Canadian investment management firm.

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AFP

A worker leaves a motorbike parking at a construction site in the central coastal city of Danang. Despite Vietnam's persistent economic woes, a record deal has shown foreign investors are still lured to the frontier market by its young, growing population and rising disposable incomes.