

Vietnam Revs Up

Asia's upstart is challenging China in light manufacturing and pulling in nearly as much foreign investment as India.

By George Wehrfritz
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Nov. 28, 2005 issue - They troll Hanoi's industrial fringe by the thousands, piloting scooters or pedaling bikes in search of help wanted signs outside foreign-invested factories. There are plenty to be found. Posters announcing employment exams festoon signboards; successful applicants can expect to begin work within a week, making anything from inkjet printers to wire harnesses to toilets in one of Vietnam's new factories. Nyugen Van Thand hopes to bag a technician's job with Japanese software maker Yabashi. "It's very competitive, but my interview went well," says the earnest 24-year-old. Of the 60 applicants, five will be selected. The pay: \$85 a month.

Roving jobseekers are a big part of Vietnam's success. Its economy, though still in transition from communist central planning, has shone over the past decade, growing on average 8 percent a year. Half its 80 million people have not yet turned 30. Most are poor, relatively well educated and eager to work, even at a minimum wage of just \$38 a month. Emulating Beijing's reforms, officials in Hanoi have leveraged their human capital by fostering the development of a booming light-manufacturing industry. They've plotted the country's entry into the World Trade Organization (accession is expected in mid-2006) by opening to investors and liberalizing trade. The result: an estimated \$5.4 billion in new foreign direct investment will arrive in Vietnam this year—a tally just shy of India's.

In many ways, Vietnam is a throwback to Asia's export-driven tiger economies, which thrived until China emerged as a world-beating manufacturer in the 1990s. Yet its emergence illustrates how China itself has become vulnerable to cut-rate competitors. Unlike other Asian economies, which sought to align themselves with the juggernaut in their midst, Vietnam has instead become a giant-killer. Much of its growth now comes in industries China still dominates, like textiles, footwear and toys. It competes against China in key Western markets but exports comparatively little to its northern neighbor. And many of its new investors have fled soaring costs and political uncertainty in China's coastal cities. —"The feeling of Japan's corporate sector is that Vietnam will be their next FDI target," says Japanese Ambassador to Vietnam Norio Hattori. Hanoi's challenge is to make Vietnam into something more than a sweatshop. The government hopes to shed its poor-country status by 2010, when per capita income is expected to surpass \$1,000 (up from \$640 today).

One affirmation of Vietnam's prowess is the swarm of Taiwanese investors who have landed. Schooled by their island's own rise to affluence on the back of export-led

light manufacturing, they are among the world's most cost-conscious, competitive industrialists, with niche factories that turn quick profits. Today they're flocking into Ho Chi Minh City and Hanoi, much as they advanced on mainland China in the early 1990s to tap its cheap labor. "Chinese work five-day weeks, but Vietnamese work six," says Albert Ting, chairman of CX Technology Corp. "That's a 52-day difference every year."

Longer weeks and lower wages matter immensely to CX Technology, the world's largest manufacturer of magnet yokes used in audio speakers. Its oldest facility, located in Taiwan, is reserved for top-of-the-line products. At its Chinese plant near Shanghai, rising salaries and fears that China's renminbi could appreciate threaten profitability. At its newest and largest factory, located outside Ho Chi Minh City, wage costs are 35 percent lower than in China. "We do plan to invest more in production capacity in both," says Ting, "but more so in Vietnam."

Japan Inc. views Vietnam as some-thing different: a safe haven. Since April, when riots erupted across China to protest publication of Japanese textbooks omitting wartime atrocities, Japan's investment flows have shifted southward. "Politically, there's no anti-Japanese sentiment in Vietnam," says Koji Ida, a Vietnam specialist at the Japan External Trade Organization (JETRO). "That's an important reason [for investing there]."

In fact, efforts to channel Japanese money into Vietnam predated the China riots by two years. A bilateral initiative launched in 2003 removed many investment barriers and gave Japanese visa-free entry to Vietnam. The result: a string of high-profile groundbreaking ceremonies. Showa Electric Wire and Cable Co., for example, has begun work on a factory near Hanoi to make copy-machine parts. "We have eight factories in China that have reached their capacities," says company executive Masato Usui. "We want to diversify our production base, and Vietnam was our choice."

Such moves reflect a "China plus one" strategy now popular in Tokyo, says JETRO's Ida. The Thang Long Industrial Park, located near Hanoi's international airport, is the "plus one" for many Japanese manufacturers. Opened in 2000 by the Sumitomo Corp., it now hosts 46 factories with some 16,000 employees. Recently park managers began a planned expansion—two years ahead of schedule.

Hanoi can't afford to rest easy, of course. Most forecasters anticipate that the country's manufacturing boom will continue for several more years, or possibly longer. Yet experts say that at some point soon the government will need to liberalize the service economy, fix the financial system, strengthen the rule of law and enhance transparency in the economy. As in China, the leadership's aim is to marketize the economy while preserving its political monopoly. Jordan Ryan, the U.N. chief of mission in Hanoi, says Vietnam must also push hard to bolster the educational system. In the 1990s, Thailand waited too long to invest in higher education, and thus was unable to capitalize on a boom in high-tech manufacturing due to shortages of high-skilled labor, says Ryan. Today, he adds, Vietnam's investment in R&D as a percentage of its GDP is just one seventh that of China's—suggesting that an opportunity for Vietnam to link its work force with global technologies is being missed.

Others are more optimistic. Klaus Rohland, the World Bank's director in Vietnam, notes that in 2000 Hanoi's Five Year Plan was a state secret, but this year the government sought input from foreign businesses and institutions on the draft document for 2006-2010. That "augurs well for the future," he says. "Vietnam needs a private-sector-driven market economy, and a consumer economy. All of this is on the way."

Nguyen Thuy is waiting—impatiently. Sitting on her bike outside the electronics factory where she has worked since March, the 23-year-old declares defiantly: "I want to become a nurse." She's done some medical training and took her current position because she needed the paycheck (\$42 per month). "It's temporary," she insists. For her and countless others who yearn for more than work on an assembly line, the hope is that Vietnam's boom will prove just the opposite.

With Hideko Takayama in Tokyo