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## Manufacturers Taking Flight -- to Vietnam

**The country is luring companies with generous incentives and lower costs than China.**

By Don Lee

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August 18, 2006

LONG THANH, Vietnam — Check that label: "Made in China" is starting to give way to "Made in Vietnam."

Taking a page from Beijing's economic playbook, Vietnam is luring makers of shoes, garments and computer chips with tax breaks, inexpensive land and cheaper labor.

Factory wages average \$50 to \$60 a month — half as much as in the manufacturing centers along China's coast. The incentives are so attractive that even Chinese companies are relocating.

Inside the Johnson Wood plant near the rice paddies, hundreds of young migrant workers toil away, making beds and dining sets for American consumers. Chinese supervisors bark orders.

This could be a scene in any number of factories in Dongguan in southern China, the furniture-making capital of the world. But Johnson Wood is in an industrial park outside Ho Chi Minh City in southern Vietnam.

Since 2003, Johnson's owner, Taiwan-based Green River Group, has been steadily moving production from mainland China. The company came to Vietnam to avoid paying penalties on China-made goods, but managers soon found that business conditions here were better. By early next year, Green River's employees in Vietnam, already at 12,000, will surpass its Chinese workforce of 15,000.

"The future is in Vietnam," said Jerry Chang, the furniture maker's general manager.

To facilitate business, Vietnam is building roads, airports and seaports. The country is benefiting from its highly literate population and millions of young workers hungry to improve their families' living standards.

"I'm saving to help my younger brother stay at school," said Le Thi Hoa, a 21-year-old

high-school graduate who left her farming village a year earlier to sew shoes at a Nike plant near here.

In many cases, Vietnam can match or outdo its northern neighbor in business incentives. Soon it is expected to join the World Trade Organization — as China did five years ago — which would make it easier for foreign companies to do business in Vietnam, a market of 84 million people.

"In earlier years, the made-in-Vietnam tag was considered a negative," said Sesto Vecchi, a New York-born attorney who served as a naval officer during the Vietnam War and has been living here the last 13 years. For some Americans, he said, that attitude reflected the vestiges of the war.

The U.S. normalized trade with Vietnam in late 2001, but it wasn't until about a year ago that Vecchi began to see significant interest from American businesses.

"Americans can't believe there's any place cheaper" than China, he said.

China isn't brooding about the loss of jobs and businesses to Vietnam, at least not yet. The numbers may be insignificant to China, and officials in Beijing and local areas may be happy to see smokestack plants leave and take some of the steam — and pollution — out of an economy that's churning too fast. The nation's trade surplus hit a record \$14.6 billion in July.

"China won't be afraid of production moving out," said Ma Xiaoye, a former Chinese trade official and now head of the Academy for World Watch, an independent civic group in Shanghai. "It will address some of the imbalance."

But the pace of outsourcing to Vietnam is picking up, and more companies in high-end industries, including Japan's Canon Inc. and South Korea's LG International Corp., are looking at Vietnam for expansion — something that Chinese officials would be concerned about.

Intel Corp. recently said it would spend \$300 million to build a microchip facility near Ho Chi Minh City, or Saigon, as it was formerly known and many still call it. The Santa Clara, Calif.-based company picked Vietnam over Thailand and China.

Among the key factors: Vietnam's comparative political stability and strong focus on education, said Walter Blocker, chairman of the American Chamber of Commerce in Ho Chi Minh City, who spoke with Intel's chairman, Craig Barrett, about the decision.

Blocker and other Americans doing business here argue that it's in the U.S.' economic and political interest to expand commercial ties with Vietnam, in part to offset China's growing global clout — particularly in Asia.

Vietnam attracted \$5.8 billion in pledged foreign investment last year, up about 40% from 2004 and \$2 billion less than India, a country more than 11 times its size in population. Companies from Taiwan, Japan and South Korea have led the way in Vietnam. Inside

Vietnam's Ministry of Planning and Investment compound in Hanoi, dotted with pink buildings with French windows, a parade of investors from around the world keeps Nguyen Anh Tuan, the ministry's deputy director, hopping from one meeting to the next.

His agency's goal is to secure \$25 billion in foreign capital over the next five years. "China has a big advantage. But we not only have cheap labor but also favorable conditions for the future," Nguyen said, listing tax breaks and other spoils for new arrivals.

In China, foreigners invested about \$60 billion in each of the last two years, but figures for the first half of 2006 showed a slight decline.

China's extensive supply chain and growing pool of skilled workers give it an edge that Vietnam and most other countries simply cannot match. Yet land, labor and housing costs in China's manufacturing hubs have been climbing rapidly.

Shenzhen, a pioneering industrial city in southeast China, has seen sharp minimum wage increases in the last three years. Chinese workplace and environmental regulations are getting more stringent, and energy shortages are a perennial concern.

Partly to escape such pressures, Chinese makers of motorbikes, home appliances and even cattle feed have set up in Vietnam. Some companies are offered free land, said Wu Wanhua, chairman of the China Business Assn. in Hanoi.

Compared with China, though, some labor rules in Vietnam appear to be quite generous. New mothers are entitled to five months' full pay. Work on Sundays isn't required, and managers say half of the workers refuse to come in on Sunday even with double-time pay. Trade unions in Vietnam wield considerably more influence than those in China.

Early this year, thousands of workers in Vietnam protesting low wages shut down scores of factories for days. The strike ended after the Vietnamese government agreed to boost the minimum wage at foreign-invested plants by 42% to more than \$50 a month. It was the first increase in two decades, and employers largely took it in stride.

"It's still acceptable," said Andrew Chang, a senior manager at Kaiser Furniture, a Taiwanese-owned factory about 20 miles north of Ho Chi Minh City.

Chang and managers of other foreign companies say Vietnamese workers tend to be more laid back than their Chinese counterparts. Some foreign supervisors, accustomed to a more intense work pace, have been known to slap workers with the sole of a sneaker. Yet they extol employees for their creativity and skill in embroidery and workmanship.

Nike now has 10 contracted factories in Vietnam that produce about 29% of the company's footwear, up from about 20% five years ago. China accounts for about 31%.

Just north of Ho Chi Minh City, farmlands in Dong Nai province have been carved into large swaths of industrial parks. The Dong Nai River meanders along one side, a railroad runs across the middle and new highways flow in all directions through the province.

A giant globe and 10 Corinthian columns stand at the entrance of Kaiser Furniture. The factory began production two years ago but has been expanding ever since. Kaiser has 3,000 employees, including 200 supervisors and technicians from China, sawing, sanding, drilling and assembling bedroom furniture. During the 1990s, Kaiser opened four plants in Shenzhen. One of them recently closed and another two would probably be phased out in a couple of years, Chang said.

The affable, sideburned Chang, 54, has seen it all before. When he started in the business in the 1980s, Taiwan was the furniture-manufacturing center. A decade later, most of the industry had shifted to China. And now it is beginning to move again.

"In the next 10 years, Vietnam will grow very fast," Chang said. "In many areas, I think Vietnam will be China's biggest competition."

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