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Vietnam opens door to hard money and soft power

Michael Peel in Bangkok, Kana Inagaki in Tokyo and Simon Mundy in Seoul

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Neighbourliness: the government in Hanoi (pictured) is keen to encourage investment as Asean nations prepare to launch a common market

The tale of a Vietnamese transgender entrepreneur's adventures has become the country's biggest film hit — and sparked domestic debate about whether it plays to stereotypes. But the movie *Let Hoi Decide* has made waves for another reason: it is co-produced by CJ E&M, the South Korean leisure group, which has burrowed its way to the heart of the Vietnamese market.

“Korea is very strong in entertainment,” says Hana Dang, a Vietnamese media executive, who also cites the proliferation of South Korean soap operas and K-Pop music. “They are getting more internationalised.”

CJ's Vietnamese cinematic coup is part of a stream of new Japanese and South Korean investment in the country, amid goodwill that contrasts with the troubled relationship between Hanoi and Beijing. While anti-Chinese rioters ransacked hundreds of foreign

companies in Vietnam last year after maritime skirmishes between the two countries, Seoul and Tokyo were quietly brandishing hard money and soft power.

Analysts say the push by the two east Asian economic leaders reflects a dovetailing of commercial and strategic interests that has a broader regional importance. While Hanoi wants to limit its dependence on Beijing, Japan and South Korea wish to tighten their embrace with the 10 countries of the Asean Southeast Asian grouping that are preparing — some say optimistically — to launch a single market of more than 500m people later this year.

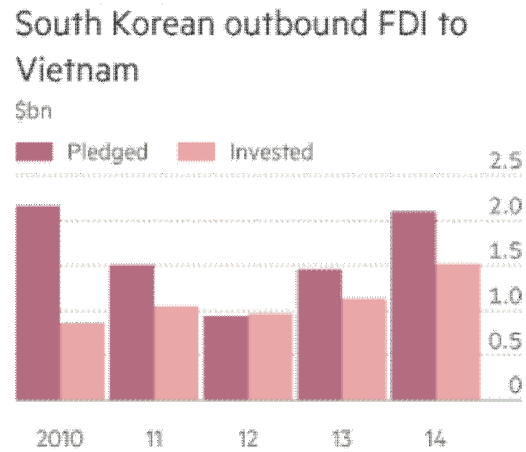
“In the past few years, most of the new foreign investment in Vietnam came from Korea and Japan,” said Nguyen Xuan Thanh, director of the Fulbright Economics Teaching Program in Ho Chi Minh City. “And that is for both business and geopolitical reasons.”

The tale of the Japanese and South Korean advances has unfolded without the noise of the fallout from Vietnam’s maritime dispute with China over the ownership of the Paracel Islands in the South China Sea. But it is visible in trends ranging from the extraordinary expansion of Samsung Electronics, to the Ho Chi Minh City banners proclaiming the Vietnam-Japan co-operation to construct a landmark urban rail network.

Japan and South Korea are building on a long interest in a country notable for its cheap labour and 90m-strong consumer market. From Hanoi’s point of view, there is a political imperative to draw more foreign investment because of structural economic problems such as bad debts and inefficient state companies, which have dragged Vietnam’s growth down from above 7 per cent a year before the western financial crisis to 5.4 per cent in 2013.

Fred Burke, a corporate lawyer in Ho Chi Minh City, said Vietnam looked “a lot like Thailand was 20 years ago” to Japanese and South Korean executives seeking a “long-term strategic partner they can work with”.

One manifestation of that is Vietnam’s emergence as the second-biggest recipient of Japanese official development assistance in 2013, after Myanmar. Loans and grants to Hanoi — many of them for infrastructure projects, such as the gleaming international terminal at the city’s commercial airport — totalled \$1.3bn, according to the OECD.



Source: Export-Import Bank of Korea

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I am certain that Vietnam will be that net major power

Motoya kada, Aeon

Direct investment by Japanese businesses in Vietnam more than tripled to \$9bn between 2011 and 2014, compared with the previous four years, according to the Japan External Trade Organisation. South Korean investment in Vietnam in 2013 and last year totalled \$2.6bn, almost a third higher than in the previous two years.

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Notable Japanese corporate entrants in Vietnam include Haseko, the property developer, which is about to start building a \$17m rental apartment complex in Hanoi. Aeon, Japan and Asia's biggest retailer, opened two big shopping centres in Vietnam last year and has bought stakes in two large local supermarket chains.

"We need a next big pillar," Motoya Okada, Aeon's chief executive, said recently, referring to the company's plan to expand beyond its traditional overseas markets of China and Malaysia. "I am certain that Vietnam will be that next major power."

Leading the charge for South Korea is Samsung. The electronics company has taken advantage of tax and regulatory incentives to open two vast mobile phone assembly plants and has started construction on factories for display panels, home appliances and electrical components. This helped make phones and components account for 16 per cent of Vietnam's exports in 2013.

Other South Korean businesses such as LG Electronics and Kumho Tire have also expanded in Vietnam, as the attractions of low wage costs, reasonable infrastructure and political stability resonate with Seoul's desire for more regional clout. The supermarket Lotte Mart, which has incurred heavy losses amid its efforts to expand in China, is now aggressively pushing across the frontier with Vietnam instead. It increased its store numbers in the country from six to 10 last year, while its sister company, fast-food chain Lotteria, has grown from 100 outlets in 2011 to 207 in 2014.

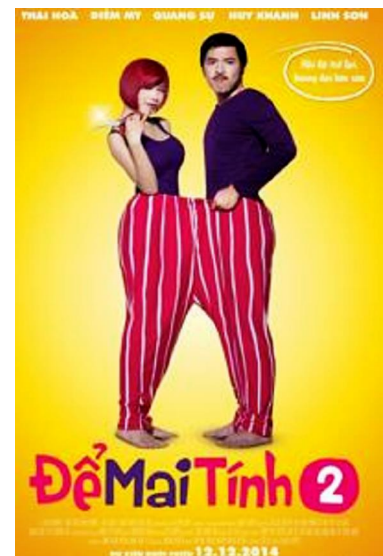
Vietnam is unlikely to escape the dependence in its complex relationship with China, in which cultural, political and trade ties chafe against conflicts ranging from a 1979 border war to last year's high sea dispute and industrial estate mayhem.

But the surge by South Korea and Japan is an early sign of how regional relationships are also being shaped by a focus on foreign investment and trade that may grow stronger still if the Asean single market ever becomes reality.

"Countries are aware of the dangers of being too dependent on a single economic partner," said Moe Thuzar, a fellow at the Institute of Southeast Asian Studies in Singapore. "Probably diversification is going to be the game they will play."

Additional reporting by Tae-jun Kang in Seoul

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