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# Vietnam Can't Be the Next China

***The trade war has been good for Hanoi—but the boom has its limits.***

**By Bennett Murray**

The good news is in for Vietnam. Last week the Ministry of Planning and Investment announced that foreign direct investment in the country increased by nearly 70 percent year-on-year in the first five months of 2019, the highest such increase since 2015. Much of that is thanks to U.S.-China trade tensions that have left U.S. firms and others much less certain about investing in the mainland. While Vietnam has been steadily poaching investment from its northern neighbor for years, businesspeople themselves have mentioned the discord between Beijing and Washington as a reason for moving south. Optimism for future growth is omnipresent, with one *Quartz* article going so far to describe Vietnam as a "a kind of China in waiting."

But while Vietnam will likely continue to thrive as it attracts a greater share of high-value manufacturing—Foxconn, the Taiwanese manufacturing giant, may even begin producing iPhones in the country—even the most optimistic outcomes come with important caveats. An investment surge comes with numerous short-term impacts, with new factories raising real estate prices while taxing Vietnam's improving but nonetheless inferior infrastructure. Demand for skilled workers will also outpace supply if growth moves too fast.

These problems will not stop Vietnam's rise. As one of the world's fastest-developing countries, its infrastructure will catch up and the quality of its labor force will increase. And while rising land prices may turn away some investors, those least likely to be bothered will be the higher-value industries that Vietnam so desperately wants to attract as part of the so-called Industrial Revolution 4.0. But Vietnam, the world's 15th-largest country at around 95 million people, simply can never fill China's gigantic boots in the global supply chain.

Vietnam is slightly less populous than China's southern Guangdong province, the birthplace of Chinese special economic zones in 1979 and still a key component in its manufacturing. Foxconn has its flagship campus in Guangdong, while Chinese tech giants Huawei and ZTE are headquartered there. The province, with its easy access to Hong Kong and coastal ports, is the foundation of China's role in the global economy. If China's role in the world's supply chains starts to be questioned, investment in Vietnam or other aspirants will largely be absorbed from Guangdong.

According to Beijing's most recent national census, conducted in 2010, around one-third of Guangdong's population of 104 million were migrants from elsewhere in China. While Vietnam's rural population of around 65 per cent certainly leaves room for urban migration to bolster manufacturing, the country lacks China's hundreds of millions ready to travel to fill positions. The factories in the Pearl River Delta churning out iPhones and Nike sneakers can rely on a steady stream of migrants from across China to man the assembly lines, while Vietnam has only itself to turn to.

And while Guangdong residents can eat pork raised in Sichuan and rice grown in the Yangtze River breadbasket, Vietnam will not let the Mekong Delta, one of the world's largest rice-producing regions, go the route of the highly urbanized Pearl River Delta. A more developed

Vietnam, conscious of its people's sentimental attachment to their farmland and notions of self-reliance enshrined in state ideology, would likely follow in the footsteps of Japan and opt for robust, mechanized, and compact agriculture. Farming in Guangdong, by contrast, has been rapidly marginalized since the 1980s and is set to be sidelined further by China's Greater Bay Area plan, which aims to promote urban-based economic integration between mainland Guangdong, Hong Kong, and Macao. Vietnam, the world's third-largest rice exporter, will at the very least continue to grow enough crops to feed its own people. It certainly will not be abandoning its tried-and-true rice export trade anytime soon.

Despite these limits, Vietnam has many trade advantages over China. Labor costs are cheaper, for now, and the country is a signatory to free trade agreements with South Korea and the 10 other remaining members of the Trans-Pacific Partnership, including Japan, Canada, and Australia. The European Union is also in the final stages of ratifying a free trade agreement with Vietnam. And, despite Vietnam's $39.5 billion trade surplus in 2018 with the United States, U.S. President Donald Trump has thus far seemed to have taken a liking to Vietnam.

While the Hanoi summit between Trump and North Korean leader Kim Jong Un ended in failure, things went far better for the host. Trump appeared pleased when he made time during his visit to watch the ceremonial signing of a combined $15.7 billion purchase of Boeing airplanes by two local budget airlines, with one of the Vietnamese carriers also signing a $5.3 billion deal with General Electric for aircraft engines.

Multibillion-dollar purchases of American goods have become something of a tradition when Vietnamese leaders meet Trump. When Prime Minister Nguyen Xuan Phuc visited the White House in May 2017, Trump hailed 13 transactions worth some $8 billion announced during the visit. Six months later, during Trump's state visit to Hanoi following the annual Asia-Pacific Economic Cooperation summit in Danang, other deals were signed in Trump's presence, much to his delight, worth $12 billion. Hanoi has seemed to have found the right buttons to push with Trump, who, despite mentioning the deficit incidentally during the 2016 election campaign, mostly says only nice things about Vietnam these days.

Should Vietnam continue its upward trajectory toward becoming a developed economy, it may well be in part due to absorbing investment away from China along the way. It has certainly presented itself as a worthy alternative to some of the world's largest firms in the past year. But it has the neither the capacity nor the need to make its fortune as the world's factory. As Taiwan and South Korea demonstrated in the second half of the 20th century, there are other ways to get rich. Vietnam's leaders understand this and foreign investors should take note.