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VIETNAM BRIEFING

From Dezan Shira & Associates

Vietnam's Southern Key Economic Region – A Magnet for Investment

Growth and Opportunities in
Vietnam's Southern Key
Economic Region

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Factors That Make the
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Introduction



ALBERTO VETTORETTI
Partner
Dezan Shira & Associates

Vietnam's successful containment of the COVID-19 pandemic and the recently ratified Vietnam EU Free Trade Agreement (EVFTA) has reassured investors. Upbeat manufacturers have even relocated production to the country. In the third quarter of the year, manufacturing and exports saw GDP increase 2.62 percent year-on-year. Economic recovery accelerated from the first half due to successful containment of the pandemic and demand from overseas. Vietnam is expected to be one of the few countries to record net positive growth after China this year despite the pandemic.

It is then no surprise that while Vietnam's borders remain closed, we continue to receive inquiries from foreign businesspersons wanting to enter the country for business purposes, including scoping out investment opportunities and site visits to industrial zones and production facilities.

In this context, it is important to understand Vietnam's vast key economic regions tailored to specific industries – providing special incentives, cost structures, and clear regulatory frameworks. This will help investors uncover opportunities and challenges in a rapidly growing market. Businesses need to have an international operational strategy, locating operations in the right region that offer connectivity with global supply chains, a supportive business environment, and access to local talent.

In this issue of Vietnam Briefing magazine, we look at the Southern Key Economic Region and the reasons why it is termed as an investment hub of the country. We go in-depth and look at six economic hubs in the region and the factors that make it so competitive. We also include the government's plan for the region, including investment incentives and attractive tax rates for specific industries.

This magazine is based on Dezan Shira & Associates' years of experience in supporting foreign enterprises in Vietnam. For more information and advice on how to plan for market entry or relocating your production into Vietnam, please contact us at vietnam@dezshira.com

Best regards,

Alberto Vettoretti



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For queries regarding the content of this magazine, please contact:
editor@asiabriefing.com

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Publisher / Asia Briefing Media Ltd.
Senior Editor / Melissa Cyril
Contributors / Pritesh Samuel, Rebecca An
Designer / Aparajita Zadoo




Asia Briefing Ltd. Unit 507, 5/F, Chinachem Golden Plaza,
77 Mody Road, Tsim Sha Tsui East Kowloon, Hong Kong.

Vietnam's Southern Key Economic Region – A Magnet for Investment

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Growth and Opportunities in Vietnam's Southern Key Economic Region

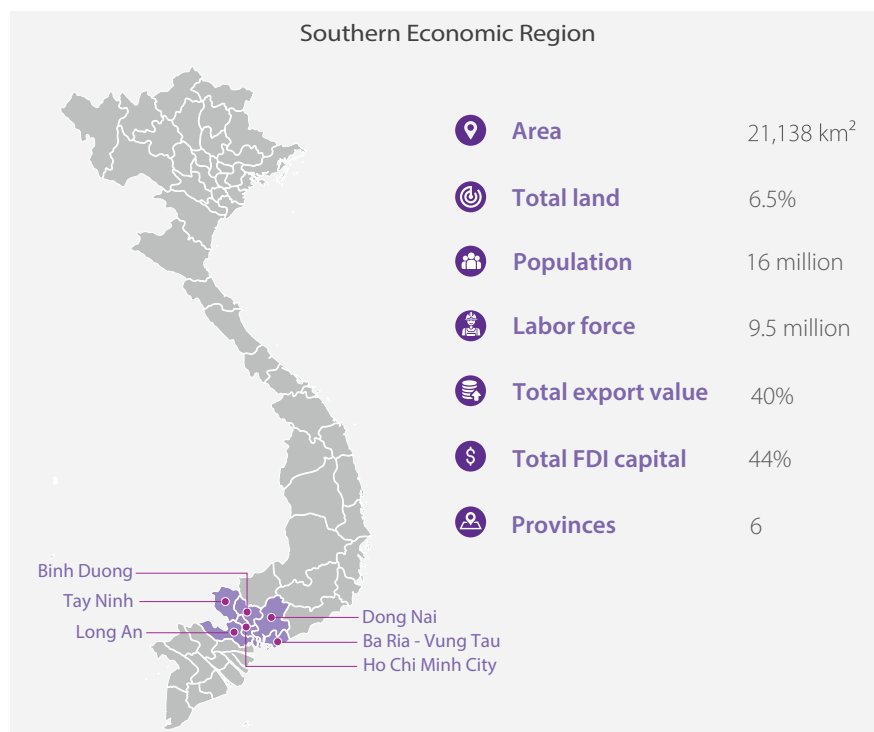
By Dezan Shira & Associates

Vietnam has emerged as an important investment spotlight for foreign investors. With gross domestic product (GDP) growth of seven percent, import-export turnover of US\$518 billion in 2019, and total registered capital of US\$362.58 billion by the end of 2019, the country continues to thrive in a wide variety of sectors. Socio-political stability, a young population, a cost competitive labor force, and government commitment to reforming the regulatory framework has improved the business environment for investors in Vietnam.

Vietnam can be divided into four key economic regions (KERs). These four KERs consist of the Northern, Central, Southern, and Mekong Delta regions and cover most of the economic and investment hubs in the country.

The Southern KER is the most important center of economic activity in Vietnam, contributing to 40 percent of the national GDP and accounting for 42 percent of the country's total foreign direct investment (FDI) stock. This region offers a dynamic and diverse business environment, mature talent pool, and supportive ecosystem for both small and medium enterprises (SMEs) and large-scale businesses. The Southern KER consists of the financial center Ho Chi Minh City and the provinces of Binh Duong, Ba Ria - Vung Tau (BRVT), Dong Nai, Long An, and Tay Ninh.

The Southern KER is a leading zone for advanced manufacturing and is encouraging investments in knowledge-based and hi-tech



industries and services. Key sectors include electronics, software, IT, telecom, hi-tech agriculture production, and processing, which are the primary drivers of future investment. Ho Chi Minh City, the most important financial and trading hub in the whole country, focuses on service sectors, such as finance, logistics, tourism, healthcare, and education.

Taking note of this, Vietnam's Prime Minister Nguyen Xuan Phuc has targeted a powerful,

prosperous status for the Southern KER by 2035 – 10 years ahead of schedule. Priorities for the government include the need to facilitate the development of infrastructure projects, especially those under the public-private partnership (PPP) and continuing to innovate using advancements in Industry 4.0

Although the Southern KER is Vietnam's leading economic center, it still lacks a holistic coordinated plan among the provinces

to ensure the linkage between economic development planning and infrastructure investment. The government hopes to integrate special policies and come up with plans for an efficient transport system linking seaports, roads, railways, and airports.

The Long Thanh International airport, which will replace the current Tan Son Nhat Airport in Ho Chi Minh City is expected to be a key driver in this regard, with land for the first phase of the project already handed over to the airports' authority.

Investors can expect the government to come up with further decrees on economic drivers for the progress of the region and coordination among relevant government ministries.

Investors interested in the Southern KER should consider infrastructure development, such as waterways, railway and expressway construction, and optimization of land and natural resource to enhance the competitiveness of their investment.

As per the Provincial Competitive Index (PCI) 2018 report, major industries primed for investment in the Southern KER include machinery and equipment, textile and apparel, fabricated metal, products, and rubber and plastic products.

Based on this assessment we highlight opportunities in the following industries.

Machinery and equipment

As suppliers shift production and Vietnam expands its manufacturing capacity, the demand for machinery and equipment is expected to grow. Besides, Vietnam's government banned the import of used machinery of more than 10 years old from June 2019. This bodes well for machinery and equipment makers as factories using outdated, poor quality, and unsafe equipment will be found non-compliant.

Due to its efficient management of the pandemic, Vietnam's industrial production increased 2.71 percent from January to June 2020, compared to the same period in 2019. The government has encouraged domestic manufacturing, which drove the demand for machine tools. With rising foreign investment, the demand for automation and smart machinery has also increased. Several

manufacturing units are located here due to the dynamic nature of the region and the government's encouraging policies. In the government's industrial development plan for the Southern KER, provinces like Binh Duong have been encouraged to become strong mechanical centers in the region, specializing in mechanical engineering to serve several industries. These include the development of processing, producing spare parts, components, precision mechanics, high quality steel, mechanical assembly, and so on.

Textile and apparel

Vietnam is one of the top textile producing countries and apparel exporters in the world, emerging as an ideal alternative to China. Major factors driving this industry growth are growing textile exports derived from multilateral free trade agreements and low labor costs. In 2019, the industry's export value contributed to 16 percent of total GDP. In the past five years, the textile industry has continuously grown at an average rate of 17 percent annually. Major textile and apparel production centers are prevalent in Binh Duong and Dong Nai. For example, the South Korean firm Hyosung corporation has already invested around US\$1.5 billion in a facility in Dong Nai. In its industrial plan, the government has further reiterated the development of the textile and apparel industry in the Southern KER with an emphasis in the provinces of Binh Duong, Dong Nai, and Long An.

Electronics

Vietnam's electronics industry is one of the fastest growing and most crucial industries in the country. Electronics has significantly boosted Vietnam's trade volume and contributed to its GDP in the past decade. While the electronics industry is prevalent in the north, the Southern KER boasts of several production centers with industrial zones

and hi-tech parks catering to the electronics industry. An example is the Saigon Hi-Tech Park located on the outskirts of Ho Chi Minh City. Several multinational firms, including Intel, Samsung, Nidec, Nanogen, Biochip, and Schneider Electric have significant investments. The Saigon Hi-Tech Park is expected to take in around US\$19 billion in investments this year. The government in its industrial plans urged Ho Chi Minh City, and the provinces of Binh Duong, Dong Nai, Tay Ninh, and Long An to further develop the electronics industry using modern techniques.

Hi-tech agriculture

The agriculture industry contributes around 20 percent to Vietnam's GDP while employing 40 percent of the working population in Vietnam. To ensure sustainable growth going forward, the industry needs to move towards hi-tech farming and value chain development to reduce costs, increase production, and achieve better product quality. The government has taken note of these issues and pledged to offer numerous incentives to farmers, cooperatives, and private firms to encourage investments in hi-tech farming solutions.

Currently, hi-tech agricultural products only contribute around a quarter of the total value of agricultural products, leaving significant room for growth. In the last decade, only 29 agricultural production zones and 20 firms have used technology in their production process in Vietnam. Most of these entities are in Bac Ninh, Lam Dong, Ho Chi Minh City, Vinh Phuc, Thai Nguyen, and the Mekong Delta. These regions also lead in terms of hi-tech agricultural cooperatives. The government has encouraged local producers to shift toward hi-tech agriculture applications and has offered incentives. Currently, the hi-tech agriculture sector is concentrated around Ho Chi Minh City, Binh Duong, and Tay Ninh. 🌺



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EXPLORE MORE

Six Economic Hubs Primed for Investment in the Southern KER

By Dezan Shira & Associates

The Southern key economic region (KER) is rich in natural resources, such as crude oil and soil, contributing to the industrial and agricultural sectors. The Southern KER also ranks high in infrastructure beating the other KERs as per the 2018 Provincial Competitive Index (PCI). The Southern KER boasts of less bureaucracy with 39 percent of firms being able to register their business online rather than visiting physical offices. Local authorities also seem knowledgeable in administrative procedures and regulations. The region has a large, urbanized population and mature consumer market, which is advantageous for foreign investors.

To gain a better insight into the region, we examine the six economic hubs in the Southern KER primed for investment.

Ho Chi Minh City

Overview

Divided into 24 administrative district units, Ho Chi Minh City (also known as Saigon) is home to more than nine million people, making it the largest city in Vietnam. With a strong economy supported by the most dynamic human resources in the country, the city holds the leading role in driving the economic and social development of the whole country. The reasons for this are that Ho Chi Minh City is viewed as a business friendly destination, attracting more overseas investment along with a higher corporate

presence. Government departments are also more proactive and forthcoming regarding business regulations in the city.

Economy

Ho Chi Minh City has experienced robust growth in all economic sectors with an average annual growth of 8.3 percent in 2019. The services sector is the largest contributor to the city's output at 57.8 percent followed by industrial production and construction. There are nearly 150,000 enterprises in the city, from startups and SMEs to big international corporations, employing approximately 2.5 million people.

Infrastructure

Ho Chi Minh City has well-developed infrastructure supporting industrial production and international trading. Cat Lai port handles more than 121 million tons of cargo annually. Tan Son Nhat International Airport, located here, is the largest airport in Vietnam and serves 38 million passengers per year. Tan Son Nhat will soon be replaced by the upcoming Long Thanh International Airport in Dong Nai province. Ho Chi Minh City also has excellent access to the Mekong Delta region via the HCMC – Can Tho expressway, to Vietnam's Central region through HCMC – Dau Giay expressway, and to Cambodia through National Road No. 22.

There are a total of 19 industrial zones (IZs) including three export processing zones,

14 industrial parks, and two hi-tech parks. Given the attractiveness of the location and the limited available industrial land, the local government is more focused on green, hi-tech, and high value-added projects. Industrial zones in Ho Chi Minh City also have the highest leasing rates in Vietnam.

Foreign investment

Up until 2019, Ho Chi Minh City licensed 9,173 FDI projects valued at US\$47.3 billion. South Korea, Japan, and Singapore were the top three investors. Leading foreign projects include Intel (US), Samsung (South Korea), Toshiba, Isuzu, and Nidec (Japan).

In addition, Samsung has poured US\$1.4 billion to build an R&D center for audio-visual devices and provide warranty services at Saigon Hi-Tech Park. Intel has invested US\$1 billion in a plant for chip assembly and testing. Another significant FDI project is the US\$6 billion ecological urban system, Saigon Peninsula Project, jointly invested by Malaysian and Vietnam investors.

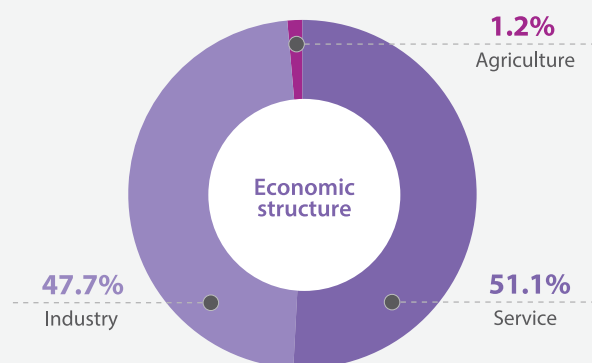
Ba Ria - Vung Tau

Overview

Ba Ria – Vung Tau (BRVT) is a coastal province in Southern Vietnam. It shares borders with Ho Chi Minh City, Dong Nai, and Binh Thuan provinces. The province has two cities and six districts with a population of approximately 1.1 million.

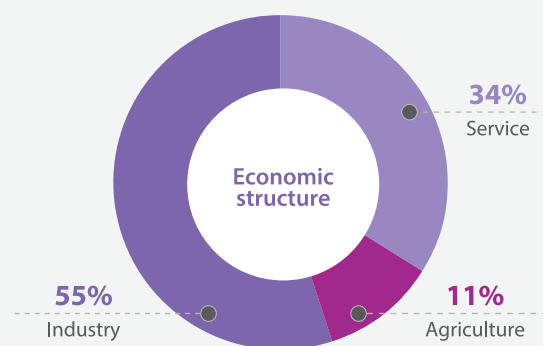
Ho Chi Minh City

	Area	2,095 km ²
	Population	9 million
	Labor force	4.4 million
	Known for	Well-connected infrastructure, largest industrial and financial hub, qualified labor, technology & knowledge-based center
	Key industries	High-tech manufacturing, real estate, service sectors, public infrastructure



Ba Ria - Vung Tau

	Area	1,900 km ²
	Population	1.1 million
	Labor force	540,000
	Known for	Highest RGDP in Vietnam, deepwater seaport network
	Key industries	Oil and gas, tourism, chemical and supporting industries



Economy

BRVT is the hub of oil and gas and related services in Vietnam. It also hosts a strong metalworking and machinery industry linked to the shipping and oil industry. With most of the revenue coming from this industry, BRVT has the highest real gross domestic product (RGDP) per capita in Vietnam. However, due to the recent downturn of the oil industry, the province has shifted its focus to seaports and logistics services.

In addition, tourism is another key contributor to the provincial budget. With over 300 kms of coastline and well-known beaches, such as Bai Truoc, Bai Sau, Long Hai, Ho Tram, and Ho Coc, the province is one of the main tourist destinations in Southern Vietnam, attracting around 15 million visitors every year. In 2019, the provincial GDP grew 7.65 percent while industrial output increased 8.89 percent.

Infrastructure

The HCMC – Long Thanh – Dau Giay expressway and National Highway 51 has shortened the distance between BRVT and other Southern provinces. It takes only one and a half hours to travel from Ho Chi Minh City to BRVT – a distance of 125 km.

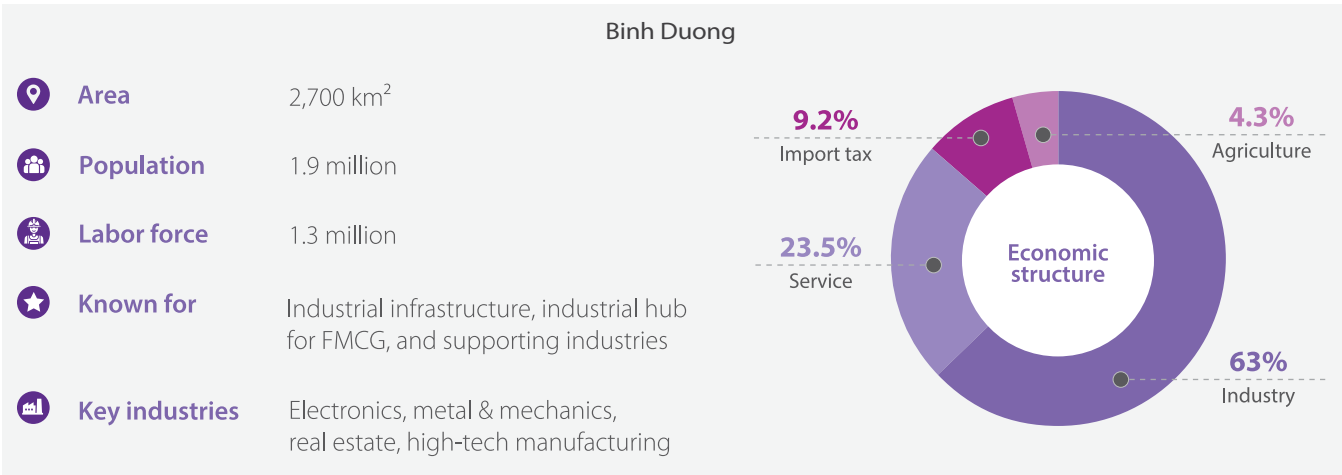
The port system in BRVT serves as an international transshipment gateway in the Southern area and can accommodate vessels up to 200,000 deadweight tonnage (DWT). There are 28 operating ports in the area with a total capacity of 98 million tons per year. Goods from Cai Mep - Thi Vai ports in this area can be shipped directly to Northern America and Europe.

There are 15 industrial zones in BRVT with total industrial land of 8,510 hectares that are close to 51 highways as well as the only

deep-water port in Southern Vietnam – Cai Mep – Thi Vai international port.

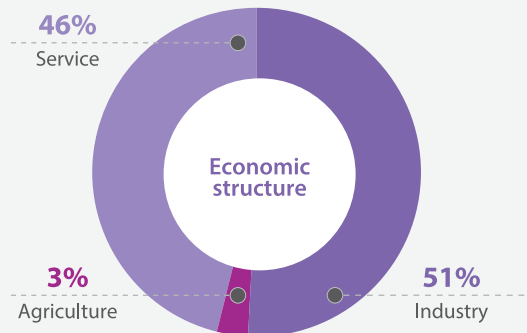
Foreign investment

BRVT has lured around 466 FDI projects with total registered capital of more than US\$31 billion in 2019, ranking fifth in Vietnam. The US is the biggest investor country, followed by Canada, Thailand, Korea, and Japan. One of the largest investors is the Asia Coast Development Company, which developed the US\$4 billion Ho Tram resort project. Another remarkable FDI project is an investment of US\$1.1 billion in a steel plant by South Korea's Posco. Hyosung Corporation (South Korea) has registered capital of US\$1.2 billion to establish a polypropylene factory and take part in an oil and gas project (LPG storage), promoted by the government.



Dong Nai

	Area	5,907 km ²
	Population	2.8 million
	Labor force	1.5 million
	Known for	Industrial agriculture, stable economic growth, location
	Key industries	Food processing, textile & garment, computer & electronics, automotive, high-tech projects



Long An

	Area	4,495 km ²
	Population	1.5 million
	Labor force	1.1 million
	Known for	Gateway to Mekong Delta, abundant labor force
	Key industries	Footwear, textile & garment, mechanical engineering, agricultural products



investment of US\$372 million in producing automotive parts, transmissions and control engineering, and packaging technology, German technology company's local unit Bosch Vietnam is projected to transform its manufacturing facilities into smart factories.

Foreign investors in Dong Nai are mainly involved in food processing, footwear, textile and garments, plastics, computer electronic products, and automobiles.

Long An

Overview

Long An serves as a bridge between Ho Chi Minh City in the north and the 12 provinces in the Mekong Delta in the South. With one city and 14 districts, the province is home to 1.5 million people.

Economy

Long An remains an agricultural-based province in which agricultural land accounts for 71 percent of the total land in the province. Geological position and natural conditions have enabled the province to grow agricultural products, such as rice, watermelon, dragon fruit, sugar cane, and other vegetables. However, the provincial economic structure is moving toward industrial activities with industrial output increasing to 14.45 percent in 2019, compared with 6.96 percent growth in the services sector and 1.19 percent in the agricultural sector. The 2019 GRDP grew 9.4 percent, with more than 10,000 companies operating in the province.

Infrastructure

Long An has 26 operating IZs with an occupancy rate of more than 70 percent. In

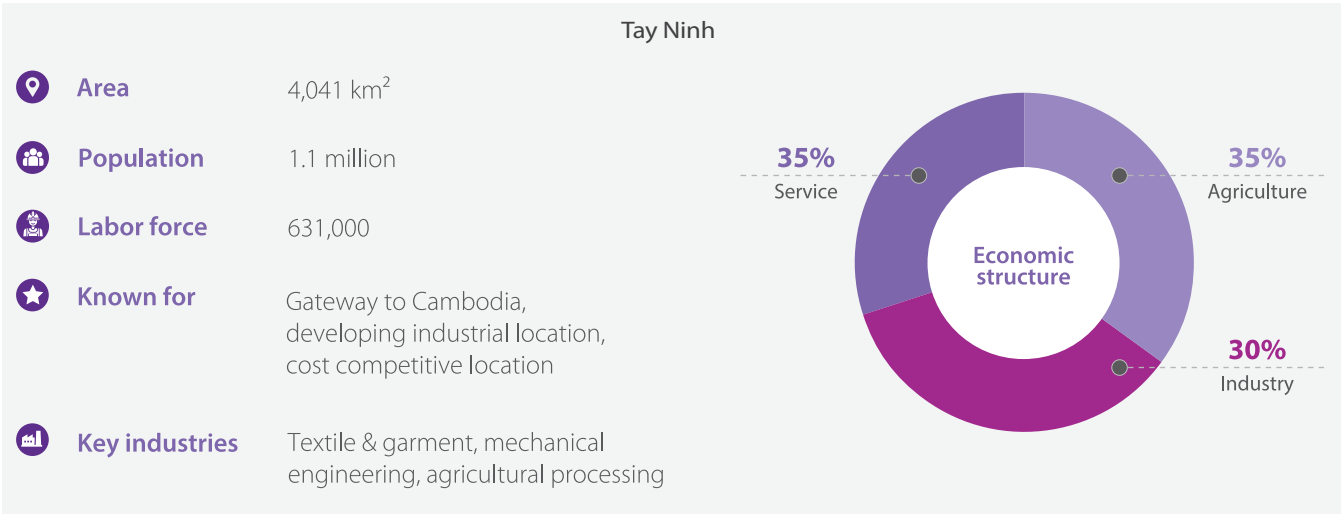
addition, 12 additional IZs have been planned to drive new investments. Long An has zoned off some 13,500 hectares for industrial development by 2020.

The Ho Chi Minh City–Trung Luong Expressway and the National Road 1A are the key inland thoroughfares in the province. However, the province still lags far behind Ho Chi Minh City in terms of urban development, public infrastructure, and industrial facilities (wastewater treatment, gas supply, electricity, etc.).

Foreign investment

Up to 2019, Long An has attracted 1,164 FDI projects with a total registered capital is US\$7.9 billion. The FDI projects are mainly in footwear, textile and apparel, and other labor-intensive industries.

Taiwan, South Korea, Singapore, Japan, Hong Kong, and the US are the top investors in the



Factors That Make the Southern KER Competitive

By Dezan Shira & Associates

The Southern KER is one of the most developed and economically diverse hubs in Vietnam. As a result, businesses from more niche sectors are likely to find that the south provides a more suitable environment for investment. This is particularly true for SMEs, since they are likely to benefit from a great degree of balance between support for small and large-scale investment. In recent years, Ho Chi Minh City has become a hub for start-ups and tech entrepreneurs for this exact reason.

While labor costs in this region may be higher than in the North or Central regions, they are still lower in comparison to other countries, including China. The labor pool is also skilled and educated, increasing efficiency for investors.

In addition, Binh Duong, Dong Nai, and Long An are where most of the industrial zones are located, making them one of the biggest hubs for investments.

Challenges

Vietnam's Southern KER lacks the proximity to China found in the Northern region. As a result, it is more time consuming for investors exploring the China plus one strategy to ship components between factories in China and assembly facilities in or around Ho Chi Minh City.

In addition, since most FDI projects coming into the country are located here, land comes at a premium compared to the Central and Mekong Delta regions. However, the Southern

KER has a larger land area compared to the North, resulting in competitive land prices.

Long-term strategy and industrial plan for Southern KER

Recognizing the importance of the Southern KER, the government has come up with a development plan for the region to 2025 with a vision to 2035. To achieve this, the government has set specific objectives for the Southern KER:

2021 to 2025:

- Rate of industrial and construction added value growth is to reach 9 to 9.5 percent between 2021-2025;
- The proportion of industry and construction in economic sectors to reach 48.5 to 49 percent;
- The development of key industries, such as oil and gas, steel, electricity, fertilizer and chemicals, construction materials, agro-forestry-fishery processing, food industry, consumption goods, textiles and footwear, and plastic;
- To focus on hi-tech and clean industries and restrict labor intensive establishment in big cities.

Region specific goals

- To exploit natural resources, such as crude oil and natural gas in BRVT, Tay Ninh, and Binh Phuoc provinces and boost mining output to meet domestic demand;

- The government has also pushed for the production of high-grade steel and shipbuilding mechanics in Ho Chi Minh City, BRVT, and Tien Giang provinces; and
- To support and further develop the textile and apparel industry with Ho Chi Minh City as a fashion center and develop supporting industries in Binh Duong, Dong Nai, and Long An provinces.

Apart from these, the government has pushed to develop several industries, such as electronics, automobile manufacturing, mechanical industry, and transport and increasing exports to markets, such as the US.

Government incentives

The government is keen to facilitate investment and offer attractive incentives for specific industries. For example, the government has pushed for state support from 50 percent to 100 percent of expenditures in research and experimentation for hi-tech products with loans up to 85 percent of capital as per the Law on High Technology.

The government has assigned relevant agencies to develop a favorable business environment, implementing necessary reforms to invite foreign investment in the region. Each locality has also been tasked to publicize land rents for each area for investors to choose from and publicize tariff schedules as per Vietnam's free trade agreements. This will allow investors to immediately see the advantages and help choose which region is best suited for their investments. 🌸



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Ho Chi Minh City

+84 28 3930 2828
or +84 28 3930 2818
hcmc@dezshira.com

5th Floor, Anh Dang Building
215 Nam Ky Khoi Nghia street, District 3
Ho Chi Minh City, Vietnam

Hanoi

+84 3942 0443
hanoi@dezshira.com

Room 2708, 27th Floor,
Discovery Complex Office Tower,
302 Cau Giay Street, Cau Giay District,
Hanoi, Vietnam

Da Nang

+84 28 3930 2828
or +84 903 976 735
danang@dezshira.com

31 Tran Phu Street,
Hai Chau 1 Ward, Hai Chau District,
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