



VIETNAM BRIEFING

From Dezan Shira & Associates

Vietnam's Key Regions and Economic Zones

P.04 Why Location Matters for Your Vietnam Operation

P.11 Adding Value with Industrial Zones

P.07 Assessing Vietnam's Key Economic Regions (KER) in 2017

Introduction



ALBERTO VETTORETTI

Managing Partner
Dezan Shira & Associates

Business leaders that are internationalizing their company must first examine where they can locate their operations. China, the traditional hub for Asia bound investment, is quickly shifting from a low cost hub for manufacturing towards high-end production destination with a thriving middle class. Countries within Southeast Asia, on the other hand, are emerging as the replacement for basic manufacturing and assembly. Amid this shift, Vietnam has become the standout for investors.

Vietnam is a much different market from China, presenting a unique set of challenges for investors. Growing rapidly from a relatively low economic base, each area of the country presents a unique set of conditions for investment with both opportunities and constraints. Seasoned investors and new entrants to Asia alike find that Vietnam's cities and regions can each present unexpected challenges, and leave projects without resources if pre-market entry due diligence is not conducted.

In this issue of Vietnam Briefing, we discuss the importance of location to investments and outline the factors that investors should consider when evaluating potential sites for establishment within the country. We highlight Vietnam's four key economic regions, analyze the differences between these locations, and finally highlight the important role that industrial zones can play in overcoming some of the drawbacks common to the Vietnamese market.

Dezan Shira & Associates has a growing team of pre market entry specialists throughout Vietnam providing our clients with years of combined experience assisting foreign enterprises navigate the nuances of the Vietnamese market and effectively select optimal locations for investment. For questions on how to assess investment requirements, compare locations for establishment, and leverage the power of industrial zones in Vietnam, please contact us.

With kind regards,

Alberto Vettoretti



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

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Asia Briefing Ltd.,
Unit 507, 5/F, Chinachem Golden Plaza
77 Mody Road, Tsim Sha Tsui East
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 greenpalmgalleryhn@yahoo.com.vn | +84 97 762 7722
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Why Location Matters for Your Vietnam Operation

By Dezan Shira & Associates

Editor: Maxfield Brown

Vietnam has attracted record high investment in recent years. Between 2010 and 2016, the economy nearly doubled as more than US\$86.7 billion dollars were added to gross domestic product.

This investment has partly been inspired by the country's adoption of regulatory practices from abroad. For companies seeking to enter Southeast Asia for the first time, or supplement existing facilities in China, Vietnam is a cost competitive option in Asia.

However, foreign investors will find that success in the Vietnamese market is much more nuanced than investment sentiment and growth figures let on. Foreign investment can quickly become a complicated process without proper market research and due diligence. Many investors will find that the selection of an optimal location is among the most important and time-consuming considerations, and a prerequisite to the implementation of financially sound operations. To this end, companies entering Asia for the first time increasingly supplement multicountry pre-market entry due diligence with additional regional assessments within their market of choice.


When conducting location based due diligence on the Vietnam's various cities and locations for investment, the following are some of the most important issues that can significantly impact a company's viability over the long term.

Connectivity with global supply chains

Connectivity matters for companies in Asia and can easily make the difference between seamless production and endless delays. Multicountry production chains are often the most exposed to these concerns, but every investor in Vietnam should consider connectivity when establishing a presence within the country. Understanding how products and components will be able to be shipped between various stages of production chains as well as to the company's end customer base is of utmost importance to investors.

Agglomeration of talent and value

Investors from similar industries can make a big difference. In countries such as Vietnam, where talent often runs scarce, the best opportunity to acquire qualified workers is by locating hubs where others in a particular industry are established. The concentration of employment opportunities within these hubs often attracts skilled workers and is eventually accompanied by education institutions capable of providing a steady stream of talent to companies.

Infrastructure and resources suitable for these industries often accompany hubs for specific business lines. This is even more prevalent for industries that have been prioritized by the Vietnamese government. In these cases, incentives and subsidized infrastructure related to these industries is often offered. 

Assessing Vietnam's Key Economic Regions (KER) in 2017

By Dezan Shira & Associates

Editor: Maxfield Brown

Vietnam has established four Key Economic Regions (KER) throughout the country through a series of decisions issued by the office of the prime minister over the last two decades. These regions cover major provinces in the North, Central, South, and Mekong regions of the country, and encompass all of the main economic and investment hubs in the country as of 2017. For investors, KERs provide an effective basis for comparing locations for investment.

The following gives a brief overview of each region, the advantages that this region provides as well as some of the constraints that investors may face when selecting this location for investment.

North

Overview

Vietnam's Northern KER covers the provinces of Hanoi, Hai Phong and Quang Ninh, Hung Yen, Hai Duong, Bac Ninh, and Vinh Phuc. Together, these provinces account for roughly 16.2 percent of Vietnam's total population and 4.7 of its landmass, respectively.

Advantages

Vietnam's Northern KER is best positioned as hub for *China plus one manufacturing* – a process where existing manufacturing in China is supplemented

by one or more low cost jurisdictions such as Vietnam. Many companies choose to invest in Northern Vietnam to take advantage lower labor costs compared to China, while ensuring that facilities retain close proximity to Chinese operations.

As a direct result of their proximity to China, Northern Vietnamese cities such as Hanoi and Hai Phong have attracted major investment from the likes of Chevron and Bridgestone – companies with existing operations in China. The influx of investments in heavy manufacturing and petrochemicals has also concentrated talent and infrastructure suited to heavy manufacturing within the north of the country. Even for companies without a direct connection to China, Vietnam's Northern KER provides the best facilities, workers, and support infrastructure for heavy manufacturing investment throughout Vietnam.

Drawbacks

Production in Vietnam's Northern KER, while beneficial for specific industries, is primarily focused on heavy manufacturing set up as part of China plus one expansion. Investors in heavy manufacturing find the concentration of infrastructure and talent works to their advantage; investors in emergent sectors, such as IT, on the other hand may not realize benefits from these infrastructure networks, which cause *infrastructure gaps*.

Land availability is also a growing concern in Northern Vietnam, relative to other locations within the country. While rent on the whole can be found at more affordable rates than in Southern cities, such as Ho Chi Minh City, it will be important for investors to explore other rent or purchase options before committing themselves to Northern based operations.

Talent

Talent is available and competitive in the North. Cities such as Hanoi and Hai Phong, in particular, have ample supply of qualified workers relative to other cities in the northern region. Talent pools, similar to infrastructure, are more concentrated on heavy industry and natural resources than in other more diversified regions in Central and South Vietnam. With this in mind, investors outside of heavy industry seeking to establish operations in the North Vietnam will be well served by developing a deeper understanding of labor availability in their respective fields.

Central

Overview

Vietnam's Central KER covers the cities Da Nang, Thua Thien-Hue, Quang Nam, Quang, and Binh Dinh. As of the latest census data taken on a regional level, the region accounted for roughly seven percent of the national population.

Advantages

The Central KER excels by providing investors with an investment environment with comparatively less competition than more explored investment hubs in the north and south of the country. In recent years, the region's largest city of *Da Nang* has emerged as a hub for seafood, food processing, and manufacturing.

In addition to production, Da Nang in particular benefits from a greater degree of urban planning and development than many cities in Vietnam. Investors such as IBM, GE, and Cisco have become actively involved in the upgrading the cities'

telecommunications networks and showcase the profitability of working with governmental authorities through public private partnerships. The involvement of key players in the development of infrastructure is also likely to create downstream benefits for a variety of investors within the region at large.

Drawbacks

While enjoying the benefits of better organizational structure than other regions throughout the country, Da Nang is constrained by its population. The scalability of retail is a primary concern in this regard. While Da Nang and other cities within Vietnam Central economic region are likely to provide ripe opportunities for investors, the central KER is unlikely to provide the avenues to establish lasting brand identity.

Talent

Finding the right workers for a particular job in Central Vietnam can prove more challenging than in other regions. Workers in technical fields often find greater opportunities in North or South Vietnam and are likely to leave the Central region, even if they were educated within the area. For the same reason, central Vietnam struggles to attract talent from other areas of the country.

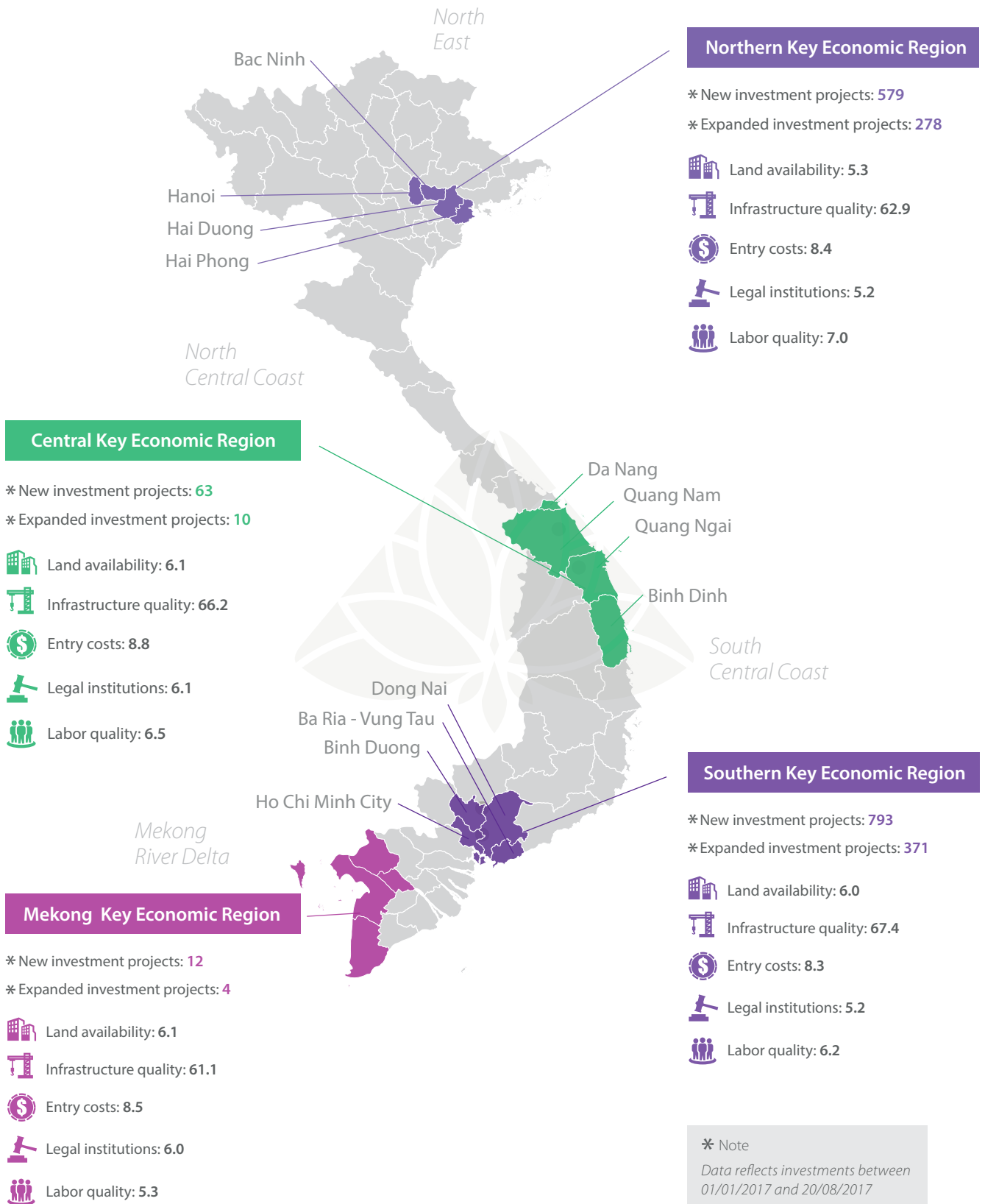
The strain on hiring is likely to be felt the most by investors seeking to retain staff in specialized fields or high-level positions. However, many Vietnamese appreciate the quality of life in the region and are likely to stay or relocate to Central KER if employers offer wages in line with more competitive labor markets like Hanoi or Ho Chi Minh City.

Mekong

Overview

The Mekong region of Vietnam comprises the provinces of An Giang, Ca Mau, Can Tho, and Kien Gian. The region is situated to the southwest of Ho Chi Minh City, and the rest of the Southern KER.

Vietnam's Key Economic Regions Compared



Source: Vietnam's provincial competitiveness index and the General Statistics Office of Vietnam

Investment potential in the Mekong

The Mekong region to date does not produce significant opportunities for investment relative to other regions within the country. As of August, 2017, Vietnam's General Statistics Office has only reported 12 new investment projects within the Mekong KER. This contrasts starkly with the 569, 73, and 793 projects that have been reported for the Northern, Central, and Southern KERs, respectively.

In addition to lacking the population centers found in other regions, the Mekong region is hampered by lagging access to infrastructure and talent. While these metrics have been improving in recent years, progress has yet to translate into the momentum required to stimulate investment.

South

Overview

Encompassing the provinces of Binh Duong, Binh Phuc, Long An, Ho Chi Minh City, Tay Ninh, Dong Nai, Vietnam's Southern KER has attracted the most FDI projects to date in 2017, with 793 projected listed as of August 2017.

Advantages


Vietnam's Southern KER is economically diversified. 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 Small and Medium Sized Enterprises (SME). SMEs are likely to benefit from a greater degree of balance between support for small and large-scale investment. In recent years, Ho Chi Minh City in particular has become a hub for *startups* and tech entrepreneurs for this exact reason.

Consumption is another major advantage for the Southern region. Hosting Ho Chi Minh City, the country's largest city, investors seeking to establish brand identity with Vietnamese consumers are sure to be able to find opportunities in the South. For this reason, Ho Chi Minh City is the preferred destination for companies trialing *food and beverage products*, *pharmaceuticals*, and *luxury goods*.

Drawbacks

Vietnam's Southern KER lacks the proximity to China found in the north Vietnam. As a result, it is more time consuming for investors exploring China plus one expansion strategies to ship components between factories in China and assembly facilities in or around Ho Chi Minh City. Investors with time sensitive production chains would be best served by considering locations in the North of the country.

Talent

While talent is available and supported by numerous education institutions within Ho Chi Minh City, competition is high between employers for talent in Southern Vietnam. Turnover, particularly during or immediately following the initial hiring process, can create significant delays for companies seeking to initiate production. 



PROFESSIONAL SERVICES

Dezan Shira & Associates can help foreign companies to **evaluate and select optimal locations for their investments in Vietnam**. To arrange a free consultation, please contact us at vietnam@dezshira.com

EXPLORE MORE

Adding Value with Industrial Zones

By Dezan Shira & Associates

Editor: Maxfield Brown

How industrial zones can support Vietnamese investments

Improved infrastructure

Infrastructure remains a constraint on foreign investment in Vietnam. Vietnamese investment can easily suffer from lagging access to utilities, inputs, and transport networks necessary for the basic function of operations. Lowered wages and location based tax incentives can help to offset the costs for some investors. More often than not, however, infrastructure deficits give rise to unacceptable delays in global value chains.

Industrial zones (IZ) provide a much needed solution to this issue and have grown increasingly popular by foreign companies seeking to gain access to Vietnam's cost savings. The benefits of IZs start with infrastructure but often assist companies in range of operational areas.

Increased proximity to ports and infrastructure networks

Proximity to ports, key road networks, and rail systems is a significant asset afforded by many IZs throughout Vietnam. Zones are usually located adjacent to a port or may even be attached to an existing port complex.

On top of this, more prominent IZs within the country are directly linked to key roadways and rail networks that allow goods to be transported into and out of the country with reduced wait times. Improved connectivity provided by this access goes a long way towards bringing production conditions in Vietnam up to par with regional rivals such as China.

Reduced taxation

Preferential tax rates are also available to investors located in industrial zones in Vietnam. These incentives are determined on a zone-by-zone basis and can be extended to both corporate and personal rates. Other indirect taxes, such as Value Added Tax or Special Consumption Tax, may also be reduced on a good-by-good basis.

Investors find tax incentives in IZs help to offset the higher wages and rental fees often found in these areas. Investors can obtain specific rates for individual zones by calling them directly or visiting their respective web pages.

Access to talent pools

Industrial Zones often act as a talent magnet for industry specific investment. Jobseekers often relocate near to IZs due to the concentration of employment opportunities, while policy makers seek to encourage further growth and employment in these areas with development projects.

Choosing a suitable industrial zone

Industrial zones, while beneficial for foreign investment, differ significantly. Investors choosing to set up in an IZ should evaluate IZs closely in order to find a location that best suits their needs. Investors should consider the following, among other factors, when making a choice about where or if establishment in an IZ makes sense for a given investment

Industry specialization

Finding an IZ specializing in similar or parallel industries is important for foreign investors seeking to leverage the benefits that zones can offer. Infrastructure and other facilities are often crafted to meet the needs of one or more industries. Investors in these industries are likely to benefit from these specialized facilities and infrastructure networks, while those outside of these industries are less likely to do so, and may end up paying a premium.

The clustering of talent is pronounced for zones built up around one or a few industries. Choosing a zone with such a specialization will significantly increase the likelihood that workers, skilled in requisite fields, will be in ample supply. Larger IZs may even include educational institutions to provide a steady stream of talent for projects within the zone.

Capital requirements

IZs can impose indirect capital requirements on investors by setting limits on the minimum land parcels available for lease. Investors with smaller operations should therefore inquire as to any such requirements when exploring options within industrial zones.

Space availability and requirements

Limited capacity in an IZ is a constraint that can present challenges for investment in Vietnam's most popular IZs. Availability of land or prefabricated units can prohibit investment, presenting challenges for investors seeking to expand their operations into an investment. To this end, it is important for investors to review the availability of land within target IZs and to assess the possibility for IZs to expand in the years ahead.

Northern spotlight – Dinh Vu Industrial Zone

Hosting over 420 investment projects – representing a cumulative value in excess of US\$10 billion – Dinh Vu Industrial Zone (DVIZ) is a well-established option for expansion to northern Vietnam. In addition to successfully hosting industry champions such as Chevron and Tamada, completion of Lach Huyen Deep seaport – capable of docking ships up to 100,000TUE – places DVIZ in direct proximity of northern Vietnam's largest point of sea-based egress.

Industry specialization

Dinh Vu specializes in petrochemicals and heavy industry. Investors in the park include Chevron, Petrolimex, Petro Vietnam, Nakashima, and Bridgestone, among others.

Resources for investors

Investors in DVIZ benefit from access to utilities and regulatory assistance that ensure operations function at full capacity. For firms seeking quick alternative sources of production, the ability to procure ready-made factories, and tap into Hai Phong's high skilled labor pools, ensure operations can be started in a timely manner. Exporters benefit from close proximity to Cat Bi international airport, the newly constructed Highway 5, and the Chinese border.

Cost savings instruments

For companies interested in leveraging Vietnam's cost competitiveness to its full potential, unconditional tax holidays present direct cost savings opportunities that can be factored into costs immediately. Within Dinh Vu, all investors are entitled to a four year tax holiday on Corporate Income Tax, followed by nine years at 50 percent of the going CIT. Furthermore, enterprises exporting 100 percent of their goods to international markets qualify for a 100 percent exemption for import and export duties as well as a free VAT on certain purchases.

Central SEZ spotlight – Hoa Khan Industrial Zone (HKIZ)

The Hoa Khan Industrial Zone (HKIZ) in Central Vietnam offers investors access to a variety of

Industrial Zones in Vietnam Compared

	KER	Industrial specialization	Related logistics connections	Tax incentives
Dinh Vu Industrial zone	Northern	<ul style="list-style-type: none"> • Heavy industry • Petrochemicals 	Road: Highway 5 Airport: Cat Bi international Port: Hai Phong port	<ul style="list-style-type: none"> • 4 year CIT holiday • 9 year CIT reduction • Import duty exemption for select goods
Hao Khanh industrial zone	Central	<ul style="list-style-type: none"> • Electronics • Garments • Agriculture processing 	Airport: Da Nang international Port: Tien Sa and Han river Rail: North-South railway	<ul style="list-style-type: none"> • 2 year CIT holiday • 3 year CIT reduction • Import duty exemption for select goods
Vietnam Singapore Industrial zone	Southern	<ul style="list-style-type: none"> • Electronics • Food processing • Construction materials • Mechanics 	Airport: Access to Tan Son Nhat International Port: Saigon port Rail: North-South railway	<ul style="list-style-type: none"> • 2 year CIT holiday • 4 year CIT reduction

Vietnam's largest cities, as well as international export destinations via the North South Railway at Da Nang Station, access to Han River Port, and proximity to highways 1A and 1B.

Industry specialization

HKIZ specializes in mechanical assembly and electronics manufacturing, and hosts companies like of Seto Vietnam and Truong Giang Electric. HKIZ also houses a number of companies in the petrochemicals, garments, and agriculture industries.

Resources for investors

Within the industrial zone, investors benefit from infrastructure and facilities structured to meet the needs of Vietnam's growing industries, such as garments and electronics. This includes access to water, electricity, as well as banking services. HKIZ also benefits from a steady pool of talent from Da Nang, the Central region's business hub.

Cost saving Instruments

In addition to up to five years of corporate income holidays, foreign investors are able to exempt all fixed assets and other materials essential to the upkeep of machinery needed for the production of goods within the zone. These advantages have not gone unnoticed to investors. With substantial growth in recent years, HKIZ is home to over 48 investment projects from the likes of Mabuchi Motor, Truong Giang Electric, and Seto.

Southern SEZ spotlight - VSIP

Located in the Binh Duong province's Thuan An district, the Vietnam-Singapore Industrial Park (VSIP) is a good opportunity for those looking to establish themselves in the heart of Vietnam's economic core.


Industry specialization

Specializing in mechanical, electric, and medical equipment, the park has been a massive success in recent years – attracting 238 individual projects with a total value of US\$2.6 billion.

Resources for investors

The park successfully integrates industrial, commercial, and residential facilities in a manner that meets the needs of a variety of investors. Within the park, investors benefit from access to an onsite customs office, ready built factories, as well as an educated workforce sourced from the Vietnam-Singapore Vocational College. These services are complemented by close proximity to the north-south railway, Tan Son Nhat international Airport, and multiple points of sea based transport, including Saigon Port.

Cost savings instruments

To further incentivize investment, a series of tax incentives are also offered to investors within VSIP. For the first two years, investors are waived the requirement to pay any CIT. Following this two year period, CIT is required but at a discounted rate. 



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📍 Our Offices in Vietnam

Ho Chi Minh City

+84 8 3930 2828 or +84 8 3930 2818
hcmc@dezshira.com

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

Hanoi

+84 4 3942 0443
hanoi@dezshira.com

Room 901, 9th Floor, TNR Hoan Kiem Tower,
115 Tran Hung Dao Str, Hoan Kiem District,
Hanoi, Vietnam

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