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## Ba Ria-Vung Tau: a competitive destination for Australian investment in manufacturing

**Ho Thai Binh**



Perth USAsia Centre

INDO-PACIFIC ANALYSIS BRIEFS 2022

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The Perth USAsia Centre's Indo-Pacific Analysis Briefs seek to provide perceptive and contemporary insights from across the region. The series features leading analysts from Asia, Australia and the US to deliver up-to-the-minute assessments on issues of national and regional importance. This series will shine a light on the issues that remain critically important to Australia and the Indo-Pacific at a time when global events may otherwise dominate the news cycle.



AUTHOR **Ho Thai Binh**  
Indo-Pacific Fellow, PerthUSAsia Centre

Binh is a social entrepreneur working in public health in Vietnam. In 2018, he founded Survival Skills Vietnam with the mission to reduce preventable deaths and injuries in Vietnam via first aid education to international standards. At the same time, he founded SiGen which develops and commercialises new rainfall catch basin technologies in solving mosquito-borne diseases and odour pollution problems in urban environments.

Before his entrepreneurial career, Binh worked as an investment promotion specialist in the Department of Industry and Trade of Ba Ria-Vung Tau Province. He contributed to the founding of Japan Desk Ba

Ria-Vung Tau office – a joint initiative between the local government and Japan International Cooperation Agency to involve Japanese experts and businesses in the improvement of industrial policies. He represented the Department of Industry and Trade (DOIT) on the Japan Desk to help international businesses assess investment opportunities and advise various government offices on international cooperation opportunities.

He continues to be an active member of various international associations and fellowship programs to promote friendship and cooperation opportunities across countries.







# KEY POINTS

- Ba Ria-Vung Tau Province (BRVT) has a successful history of attracting foreign direct investment (FDI) in manufacturing thanks to its geographic advantages and high-quality infrastructure.
- Recently completed and forthcoming infrastructure projects are not only strengthening the existing advantages but also positioning BRVT to be the logistics centre of Vietnam and the region.
- BRVT offers unparalleled advantages for Australian companies seeking to diversify and strengthen their value chains with an endowment of natural resources, a skilled workforce, strong environmental regulations, and a pro-investment provincial government



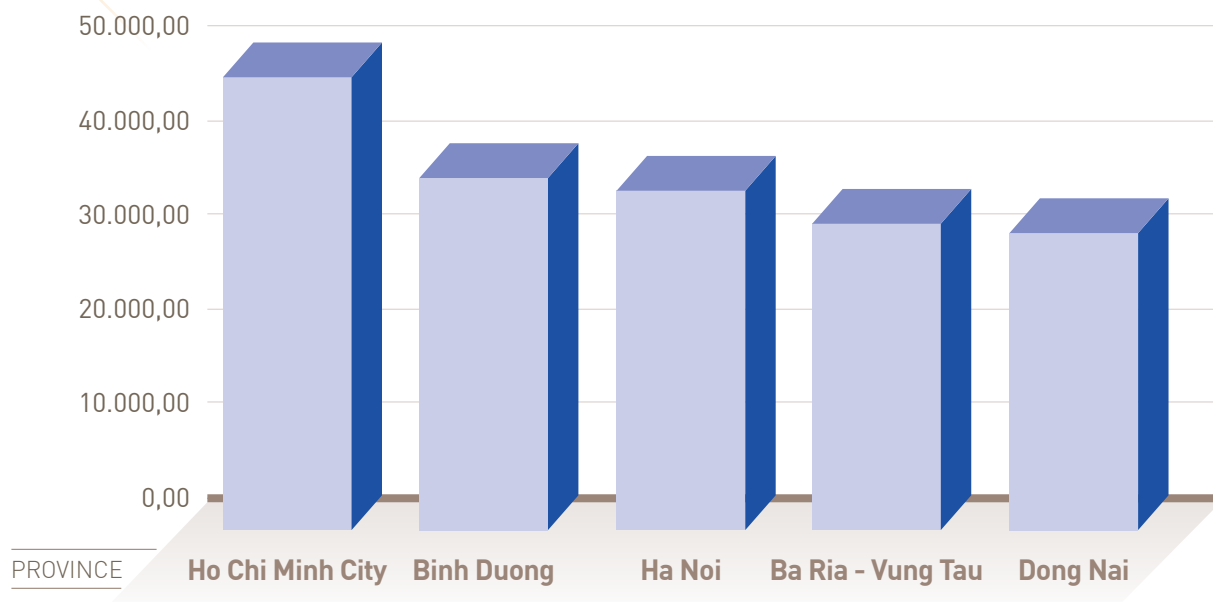
Ba Ria-Vung Tau Province (BRVT) is one of Vietnam's top four destinations for foreign investment thanks to its unique combination of advantages in tourism, oil and gas, heavy manufacturing, power generation and connectivity infrastructure such as its seaport. In recent years, the development of infrastructure supporting international connectivity in BRVT and surrounding areas, such as the international deep seaport, international airport, and a petrochemical complex promise new opportunities for investors, especially in manufacturing<sup>1</sup>.

Past and future developments are shaping the investment attraction policies and opportunities in BRVT different from other provinces in Vietnam. This paper will discuss these developments and policies in order for prospective investors to reap the most of BRVT's opportunities. As investment opportunities and policies vary sector to sector, this paper may not cover every detail a prospective investor may need. However, it will serve as a starting point for investors and provide key sources of information for further research.

## **Historical characteristics of foreign investment in BRVT: capital intensive projects, skilled labour, high-quality infrastructure**

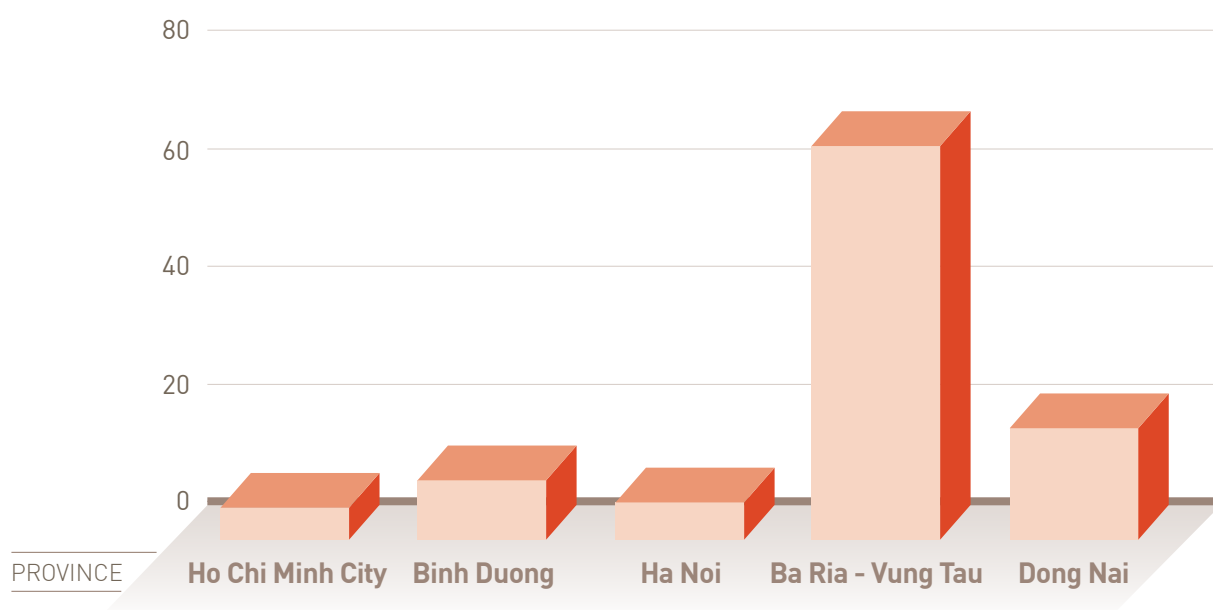
Although the number of FDI projects in BRVT is not as many as other provinces, the average investment capital per project is the largest. BRVT is in fourth position in Vietnam in terms of total registered foreign investment capital (see Figure 1). However, BRVT has the highest average capital per project of USD66.14 million, which is 3.6 times the figure of neighbouring Dong Nai province, which is in second place (see Figure 2).

**Figure 1:** Top 5 localities for total registered foreign investment capital (USD millions) in 2020.



Source: Vietnam General Statistics Office (2021)

**Figure 2:** Average capital per project (USD millions) of Top 5 localities in total registered foreign investment capital in 2020



Source: Vietnam General Statistics Office (2021)



The historical patterns of BRVT's industrialisation created the concentration of capital intensive industries in the province:

- BRVT's reserves of oil prompted fast development of the oil and gas industry from the 1990s until the early 2010s. This led to the development of other related industries which are also capital intensive such as marine engineering, thermal power and petrochemicals.
- Thermal power and the natural depth of Cai Mep-Thi Vai River allowing for the embarkation of heavy cargo ships led to the concentration of the construction steel industry.
- Recently, the USD5.1 billion Long Son Petrochemical Complex, which is scheduled to begin commercial operation in 2023, is expected to be followed by many new investments which utilise the output of the complex.

Industrial estates in BRVT province have been optimised for large projects since the beginning of the province's industrialisation. Investors in heavy manufacturing will find all necessary infrastructure present in the province. In recent years, the BRVT government has also invested in initiatives to support Small and Medium-sized Enterprises (SMEs) in component manufacturing, cooperating with Japan to support human resource capacity building, establishing new industrial zones with suitable facilities for SMEs, and business matching.

### Capital intensive projects have characterised historical investments in BRVT

BRVT is unique in that the province has the geography to co-locate a manufacturing economy alongside a tourism industry. If not managed correctly, the environmental and ecological impact of manufacturing industries could destroy the natural features that make the province an attractive tourist destination. With large industrial projects in BRVT, even the smallest ecological disaster can have grave consequences. Two case studies illustrate this fact.

In 2008, the Taiwanese Vedan Company in Dong Nai province, adjacent to the border with BRVT, was fined and temporarily suspended its food additive production facility for discharging



wastewater in excess of 10 times the permitted regulation into the Thi Vai River<sup>2</sup>. Thousands of fish and shrimp farmers claimed the toxic waters destroyed their aquaculture and ruined farmland along the river. The leaders and people of BRVT prioritise environmental protection when it comes to foreign investment.

In 2016, Formosa Ha Tinh Steel Corporation had a serious environmental incident in the coastal area encompassing four provinces in central Vietnam. Toxic industrial waste was discharged

through drainage pipes, causing a mass fish kill<sup>3</sup>. Nguyen Xuan Phuc, the Prime Minister of Vietnam, claimed that the massive marine life destruction was “the most serious environmental disaster Vietnam has ever faced”<sup>4</sup>. Such a disaster forced Vietnam to reassess its existing environmental regulations and reaffirmed the environment-first agenda of BRVT province.

These environmental concerns have shaped the BRVT’s investment policies and the kind of investment the province seeks to attract (see next section). Environmental impact is on top of the agenda. This policy discourages firms which stereotype developing countries as a destination to relocate polluting stages of their value chains. On the other hand, the future plan for developing petrochemical and basic material industries is a constant motivation for the local government to improve their environmental protection regulations to match the need for development. Firms seeking to establish industrial activity in BRVT must be prepared to detail how they will manage environmental concerns.

### **BRVT is a destination for investors with strong environmental, social, and governance values**

Some international investors have the view that an investment that employs a lot of unskilled labourers would be an advantage in negotiations in Vietnam. This does not apply to BRVT. Historically, most of the FDI projects in BRVT are often large projects with high levels of automation which require a smaller number of skilled workers. As a province, average annual income per capita in the province is among the highest in Vietnam, therefore the FDI attraction goal of BRVT is to attract technology intensive projects instead of maximising the employment of an unskilled workforce.

Projects using a large number of unskilled workers are required to provide housing support and other social infrastructure to ensure social security. The BRVT government has also invested in education and training of skilled labourers and entrepreneurs to fuel the development of priority industries. The proximity of BRVT to Ho Chi Minh City via an expressway helps with recruiting a skilled workforce.

Many early firms chose to make large investments in BRVT for its port infrastructure. In the beginning, the oil and gas industry utilised the ports for offshore operations. Then the steel industry and other heavy manufacturing industries utilised proximity to the waterways to reduce transportation cost. As a consequence, most of the water-side industrial estates have already been occupied by existing companies.

The launch of Cai Mep - Thi Vai (CMTV) deep seaport, the first international port of its type in Vietnam, positioned BRVT to be an international logistics centre. The seaport was designed to accommodate container ships of a size of more than 200,000 Deadweight Tonnage (DWT) with a throughput capacity of 141.5 million tons per year<sup>5</sup>. The port has prompted a new wave of investments which plan to utilise the port’s capacity for large volumes of imports and exports.

### **BRVT’s international seaport has excess capacity for growth of import/export industries in the province**

CMTV has experienced constant growth in the volume of throughput cargo of 22 per cent per year. Such growth is the sixth-fastest world-wide and the highest in the Southeast Asia region<sup>6</sup>. The port currently accounts for 34 per cent of container throughput of Vietnam, however, this is only 53 per cent of its total capacity<sup>7</sup>. Therefore, BRVT encourages investment projects that can boost cargo volume through CMTV. At the same time, major road and highway infrastructure connecting BRVT to the surrounding region is being developed to realise the vision of BRVT becoming the international logistics centre of southern Vietnam (see Maps 1 and 2).

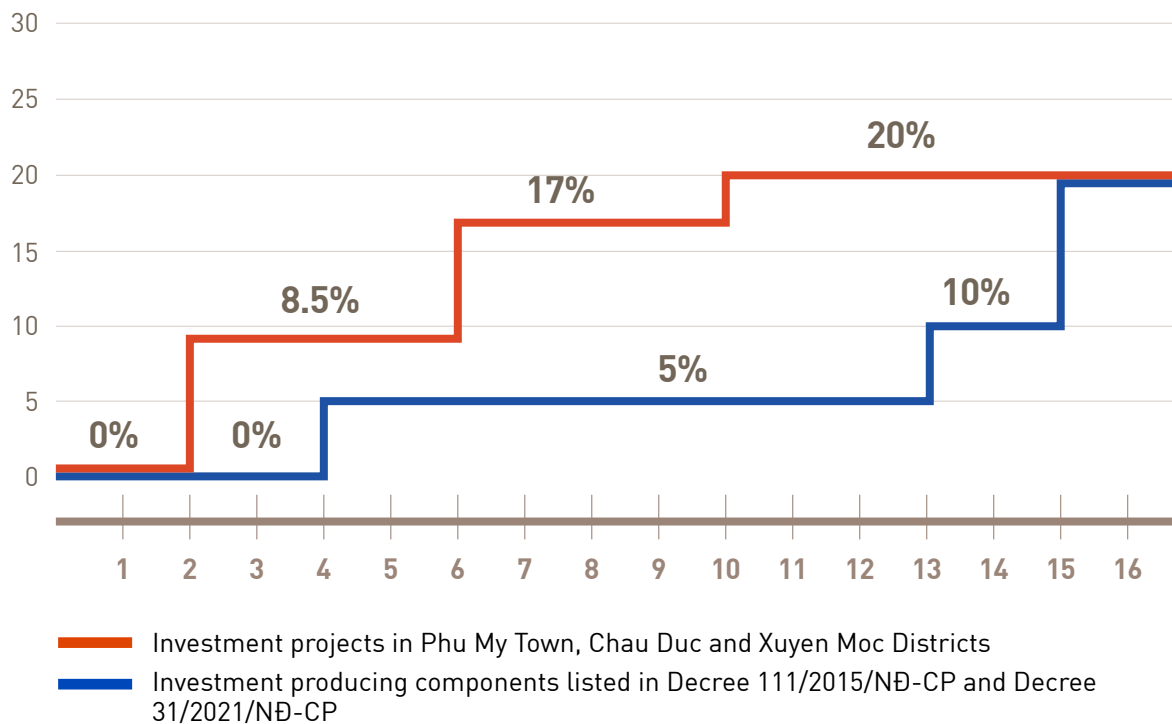
The Long Thanh International Airport which is under construction in neighbouring Dong Nai province is scheduled to be completed in 2025. Not only will it boost international connectivity in its surrounding region when it is completed, but will create a synergy between networks of national roadways, international waterways and international and domestic air routes which will only strengthen the logistics advantages of BRVT.

## Investment attraction policies

The historical patterns of industrialisation and the investment attraction policies of BRVT differentiate it from other provinces in Vietnam. The Provincial Based Economic Growth strategy (PBEG), developed in consultations with the Japan International Cooperation Agency (JICA), was approved by The People's Committee of BRVT in 2018. The strategy proposed three key objectives for BRVT: making non-mining industries the key industries, leading green development, and becoming an international logistics gateway<sup>8</sup>.

BRVT aims to become a centre for base industries in the southern region of Vietnam, which will supply essential inputs including basic materials and components for manufacturing throughout the region and beyond. Out of 42 types of businesses on the investment attraction list, 25 are focussed on producing components and 12 on producing base materials. BRVT has been developing its new component industry which consists of mostly SMEs along with advancing its existing strength in basic materials<sup>9</sup>.

**Figure 3:** Some relevant Corporate Income Tax incentives in BRVT



Source: National Government Decree 111/2015/NĐ-CP and Decree 31/2021/NĐ-CP (2021)

There are various Corporate Income Tax (CIT) incentives that investors can take advantage of:

- All investment projects in Phu My town, Chau Duc and Xuyen Moc districts will enjoy a CIT of 17 per cent in 10 years with 2 years of tax exemption and a 50 per cent tax reduction for four subsequent years. The land lease fee is also exempted for seven years from the year the projects are put in operation<sup>10</sup>.
- Projects producing components listed in Decree 111/2015/NĐ-CP and Decree 31/2021/NĐ-CP will enjoy CIT of 10 per cent in 15 years with four years of tax exemption and 50 per cent tax reduction for nine subsequent years.



In the plan for 2021-2025 period, BRVT aims to boost the development of the component industry in two areas:



### HUMAN RESOURCE DEVELOPMENT

The province has been improving the quality of the workforce of existing component businesses and increasing the size of the skilled workforce to attract new investment in the component industry. The human resource development programme aims to improve technical skills of workers, management skills of owners and managers especially those of SMEs and government officials<sup>11</sup>. The Department of Industry and Trade (DOIT) of BRVT has been leading major training programmes to empower component businesses. Besides courses delivered by local trainers, DOIT also cooperates with Japanese partners offering courses in both BRVT and Japan.



### INVESTMENT PROMOTION AND BUSINESS MATCHING

BRVT wants to attract both component manufacturing SMEs and big assemblers who “pull” component businesses to the provinces<sup>12</sup>. BRVT regularly works with overseas sister cities and foreign governments to organise investment promotion trips to advertise the potential of BRVT and attract new investments. BRVT established the Japan Desk in its international cooperation division which facilitates cooperation between BRVT officials and Japanese experts to support investors and advise on investment attraction activities. The Korea Desk was later founded for a similar purpose.

### Logistics and industrial investments which increase seaport traffic are sought after

BRVT also creates opportunities to match local business with the international supply chain via business matching support. The most notable cooperation in recent years is the programme with the Tsubame-Sanjo dual cities government in Japan to help local BRVT businesses to become outsourcers for Tsubame-Sanjo businesses via training, business matching and producing prototypes<sup>13</sup>.

BRVT is seeking investments that provide logistics services for seaport clients or those that generate traffic for the seaport such as assemblers or import-export businesses. BRVT offers various incentives such as:

- Logistics businesses investing in Phu My town (where the CMTV seaport is located) also enjoy the tax incentives of the area as mentioned above.
- The province sponsors first-time staff training expenses for logistics businesses employing 10 or more staff.
- Prioritises VND 20,000 billion (USD883 million) for the period 2020-2025 to develop inter-port and regional connecting infrastructure<sup>14</sup>.
- Reserves 2,000 hectares of land for developing the logistics ecosystem. The Cai Mep Ha Logistics Centre project of 1,000 hectares is in the process of selecting investors<sup>15</sup>.
- BRVT continues to reform administrative procedures and fees.



**Map 1:** Inland Waterway Connections with Southern Key Economic Zone, Mekong Delta, and Cambodia



- SWLC East-West Corridor
- SWLC North-South

### Projects with environmental conditions:

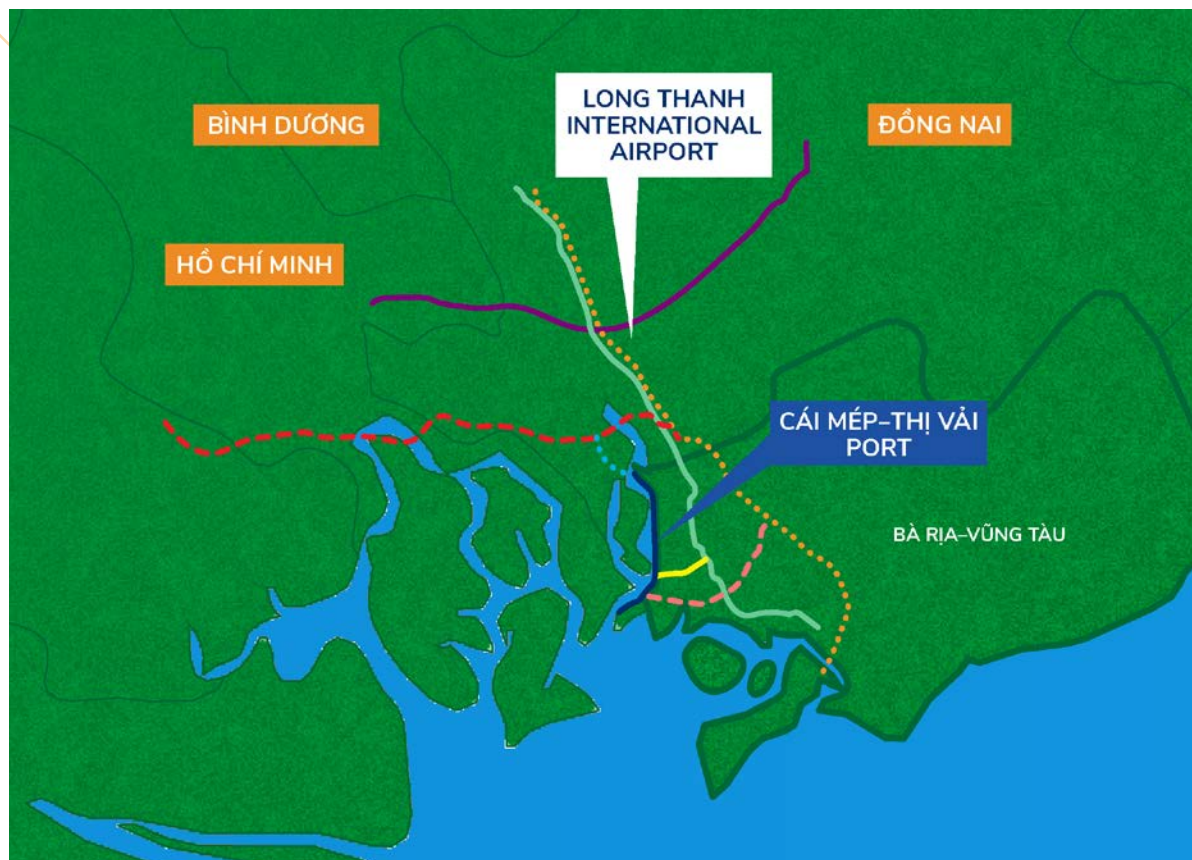
- Basic materials, paper, projects having plating processes, crop protection chemicals, fertilisers: these projects must be located in industrial zones which are in Tan Thanh District. The industrial zone must also have centralised wastewater treatment which meets 'National Standard A' for effluent wastewater. At the moment, only Phu My 3 Specialised Industrial Zone meets all these requirements<sup>16</sup>.
- Seafood processing: these projects must be located in centralised seafood processing zones with wastewater treatment facilities meeting effluent wastewater standards and capacity<sup>17</sup>.
- Textile, leather products and their component industries: the projects must be located in Dat Do I, Chau Duc, and industrial zones planned for such industries<sup>18</sup>.

### Projects unlikely to receive government support:

The projects of this category have one or more of the following characteristics:

- High environmental risk, specifically projects that have pollution risks to upstream water and water reservoirs in the province.
- Producing low value-added products with similar existing projects in the province such as starch, unprocessed latex, leather tanning, steel (except for high-quality steel), pulp or paper, and fish meal.

**Map 2:** Road Connections with Southern Key Economic Zone



- |   |                                  |
|---|----------------------------------|
| Ben Luc – Long Thanh Highway<br><i>(under construction)</i> | Cai Mep – Thi Vai Interport Road |
| 991B Road <i>(under construction)</i>                       | HCMC – Long Thanh Highway        |
| Bien Hoa – Vung Tau Highway<br><i>(future construction)</i> | Phuoc Hoa – Cai Mep Road         |
| Phuoc An Bridge <i>(future construction)</i>                | 51 National Road                 |

### Key takeaways for investors

- Both large, capital intensive investments and SMEs will find advantages in BRVT.** BRVT industrial infrastructure is already advantageous for large investments and heavy manufacturing. SMEs, especially in the component industry, will also find a lot of support from the BRVT government.
- Recruit or develop skilled workers.** Businesses will find it hard to recruit unskilled workers and the BRVT government does not encourage it. Skilled workforce needs can be met through working with training institutions, applying for training support from the BRVT government, or recruiting from Ho Chi Minh City.
- Environmental protection is a top priority.** If prospective investors have a project with a high environmental risk profile, they must consider the following: whether it is a conditional investment or in a negative category, and which industrial zones are designated and meet the environmental requirements for the project. They must be aware of industry-specific conditions.
- Make use of logistical advantages.** Many investors have chosen BRVT for its connectivity infrastructure. Recent developments will strengthen such advantages for new investors. If a project is in the logistics industry or contributes to the use of the international seaport, it will be welcomed by the BRVT government with incentives.



## Endnotes

- 1 For more on the geographic features of Ba Ria-Vung Tau, see Kyle Springer (2021), 'Ba Ria-Vung Tau Province: A vanguard for advancing the Australia-Vietnam economic relationship', Perth USAsia Centre. [https://perthusasia.edu.au/events/upcoming-events/pu-223-vietbrvt\\_report\\_web.aspx?utm\\_source=web&utm\\_medium=digitalpub&utm\\_campaign=BRVT](https://perthusasia.edu.au/events/upcoming-events/pu-223-vietbrvt_report_web.aspx?utm_source=web&utm_medium=digitalpub&utm_campaign=BRVT).
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- 8 The People's Committee of Ba Ria - Vung Tau Province 2018, Decision 2511/QĐ-UBND dated 10 September 2018, Approve "Provincial Based Economic Growth - PBED" of Japan International Cooperation Agency, <https://baria-vungtau.gov.vn/sphere/baria/vungtau/page/xem-vanban.cpx?uuiid=5cd530985256892e61ea20c6&authorUnitCode=000.00.01.H06>. [Accessed: 06 February 2022]
- 9 The People's Committee of Ba Ria - Vung Tau Province 2021, Decision No. 3431/QĐ-UBND dated 25 October 2021, Promulgate the list of products prioritised for investment in the field of manufacturing in Ba Ria - Vung Tau province until 2025, <https://sonnptnt.baria-vungtau.gov.vn/document/?item=ad282ae61954861b8bbdb89f3f1cb305>. [Accessed: 06 February 2022]
- 10 The Socialist Republic of Vietnam government 2021, Decree 31/2021/NĐ-CP dated 26 March 2021, Guidelines for some articles of the law on investment, <https://vanban.chinhphu.vn/default.aspx?pageid=27160&docid=202988>. [Accessed: 06 February 2022]
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- 17 Ibid.
- 18 Ibid.

## About the Perth USAsia Centre

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For more information, contact: **Dr Lisa Cluett**, External Relations Director, [lisa.cluett@perthusasia.edu.au](mailto:lisa.cluett@perthusasia.edu.au)

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M265, 3<sup>rd</sup> Floor, Old Economics Building, The University of Western Australia, 35 Stirling Highway, Crawley WA 6009, Australia



Perth USAsia Centre

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