The Vietnam Industrial Sector
*Today & Tomorrow*

Presented by:
Greg Ohan, National Head of Industrial & Logistics Services
15th Sept 2011
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The Hot Topics

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  - Is Vietnam Experiencing ‘Industrial Renaissance’?
  - Is China + 1 Actually Happening?

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  - Why Vietnam? The North, the South, the Central?

- The Future Outlook for the Industrial Sector?
  - The industrial sectors to watch
Should We Believe The Hype?

Is Vietnam Experiencing an ‘Industrial Renaissance’?

- **2010 Facts of Industrial Parks (IPs) in Vietnam**
  - IPs in Vietnam employ over 1.5 million ppl
  - There were over 250 IPs
    - 171 fully operational and 84 under development
  - IPs and Economic Processing Zones (EPZs) attracted 8,500 projects worth a total of US$ 70 billion
  - 48% of Provinces in the South have Industrial Zones as opposed to 20% in the North

- IPs and EPZs are the driving force behind economic development with production value reaching US$ 25 billion in 2010, 25% of total GDP
Vietnam Industrial Concentration Map

1. **Industrial Parks**
2. **High Tech Parks**
3. **Export Processing Zones**
4. **Economic Zones**

Central Key Economic Region
- **Industry**: Petrochem, Construction material, Steel, Ship building
- **No of Industrial Parks**: 40
- **No of Economic Zone**: 09

Northern Key Economic Region
- **Industry**: Vehicle parts, Machining, Electronics, Pharma, Precision, Mechanics, Logistics, Petrochem, Construction material
- **No of Industrial Park**: 90
- **No of High Tech Park**: 01
- **No of Economic Zone**: 02

Southern Key Economic Region
- **Industry**: Electronics, Software, BPO, Pharma, Autoparts, Garment, FMCG, Agricultural food, Sea food, Vehicle parts, Steel, F&B, Ceramics, Chemical, Logistics, Shoewear
- **No of Industrial Parks**: 120
- **No of High Tech Park**: 01
- **No of Export Processing Zone**: 3
Should We Believe The Hype?
Is Vietnam experiencing an ‘Industrial Renaissance’?

- **Industrial Supply --- More than Ever Before**
  - Occupancy rates are slightly down on 2008, however North and Central are experiencing increases since last year as NEW supply is absorbed
  - Driven by improved incentives, infrastructure and supply with good connectivity

![IP Occupancy Rates 2008 – 2010 (CBRE)](chart.png)
Should We Believe The Hype?

Is Vietnam experiencing an ‘Industrial Renaissance’?

**Growing FDI into IPs and EPZs**
- Vietnam witnessed a drop in new OVERALL FDI during the 1st 8 months of 2011, 26% < the same period last year
- While FDI is declining, new IP investment registration shows signs of attractiveness for foreign manufacturers
- Committed FDI into IPs 1H 2011 up 15% YOY to $US3.315 Billion

- Vietnam has seen several major commitments in 2011
  1. **First Solar** – US$ 300 million plant
  2. **Nokia** – US$ 280 million plant, on 17.25 hectares, to be their largest plant in Southeast Asia
  3. **Kyocera Mita** – US$ 250 million initial investment
  4. **Samsung** – Increasing project capital commitment to US$ 1.5 billion (the largest outside Korea as well as largest in Vietnam)
Should We Believe The Hype?

Is Vietnam experiencing an ‘Industrial Renaissance’?

- **Sector Interest**
  - Strong interest from the Auto / Motor Cycle Industry fueled by proposed new incentives, foreign & domestic demand
    - e.g. Hyundai from 400K units to 600K for export by 2020.
    - Yamaha, Piaggio, and Honda all in expansion mode
  - Growth not limited to emergence of High Tech as low cost sourcing opportunities exist for retailers;
    - *VN is the 3rd largest producer of leather and footwear*
    - Exports of bags, hats, wallets, umbrellas rose in 1H 2011 by 35.6% vs same time last year
Should We Believe The Hype?

Is Vietnam experiencing an ‘Industrial Renaissance’?

- Why is Industrial Sector in Vietnam continuing to attract interest?
  - Foreign manufacturers are taking a long term view on Vietnam and overlooking immediate challenges
    - Labour Market
    - Market Potential
    - Political Stability
  - Investment commitment in 2011 alone from major global manufacturers is a testament to this
  - Rising FDI into IPs is helping to turn the page on Vietnam’s hard luck story

Vietnam’s effort to attract foreign direct investment in the high tech sector took off when Intel “the world’s largest chipmaker,” opened a US$ 1 billion assembly and testing plant last year
Should We Believe The Hype?

Is “China + 1” Actually Happening?

- Realities in China
  - T-shirts in The Gap stores in China are labeled, "Made in Malaysia"
  - The cheapest toothbrushes are made in Vietnam
  - Has doubled living standards every decade since opening its doors
    - this took the U.S. 30 years even in times of its fastest growth
  - Government has growing concerns to close the gap between the rich and the poor
    - in the 5 largest manufacturing provinces, the government raised the minimum wage 14 – 21% in the past year
Should We Believe The Hype?

Is “China + 1” Actually Happening?

The Rise of Labour Costs
- Previously, the average wage rate was 36% of the US’s*
- In 2010, gap shrunk to 48%
- By 2015, the gap is estimated to be 69%
  *Adjusted for productivity

- Manufacturers face high-profile labour protests, work discontent and worker suicide – all in regard to higher wages (Foxconn – i-Pad mftr)

“The era of cheap labor in China is over”
- Mr. Seyedin, President of AMCHAM South China
Concerns in China – Why Look Elsewhere?

- Rising labour costs dilute Chinese factory competitiveness
- Appreciating RMB
- Tightening labour regulations

*All create pressure on manufacturers in China forcing them to consider relocating*

- In boardrooms across China, the discussion is:

  “Where will we locate our next plant? Inland China or regionally?”
Inland China Shifts

- Seeking areas that are less economically developed
Should We Believe The Hype?

Is “China + 1” Actually Happening?

**Inland China Shifts**
- Results in the rise of 2\textsuperscript{nd} & 3\textsuperscript{rd} tier cities in rapid development

**Key Emerging Cities**
- Tianjin
- Qingdao
- Dalian
- Shenyang
- Xian
- Nanjing
- Hangzhou
- Ningbo
- Suzhou
- Wuhan
- Wuxi
- Xiamen
- Chongqing
- Shenyang
- Kunming
Should We Believe The Hype?
Is “China + 1” Actually Happening?

- **Inland China Shifts – Who has done it?**
  - **Fountain Set (Holdings) Limited:**
    - Dongguan to Jiangyin, Jiangsu
  - **The Rambo Chemicals Hong Kong:**
    - Shenzhen to Huizhou, Guangdong and Qingzhou, Hunan
  - **Yulong Maochang Textile:**
    - Lechang city to Northern Guangdong
  - **Flextronics International:**
    - Expand their production line to Ganzhou, Jiangxi from Shenzhen
Inland Shifts have Challenges
• With rising wages the reason for the inland shifts, foreign manufacturers now faced other issues, as key operational efficiencies are compromised:
  • Access to infrastructure, international airports, ports,
  • Availability of skilled labour,
  • Access to institutes of higher learning, etc

• Labour costs alone are no longer the case…
Now moving to interior cities & Vietnam to:
- reduce the labour costs
- expand its retail sales to inland consumer markets

(2010) Taiyuan – iPad manufacturing base
(2010) Chengdu – iPad manufacturing base
(2010) Zhengzhou – iPhone manufacturing base
(2010) Que Vo Industrial Park, Vietnam – i.Phone, i.Pad
(2011) Wuhan – Desktop PC manufacturing base
(2011) Vinh Phuc, Vietnam - mobile phone manufacturing unit
Moving from China to Vietnam
- Confirmed at Quang Chau IP, in Bac Giang Province
- Reasons for move:
  - Lower labour cost - 1/3 cheaper than China
  - Less regulatory restrictions
  - Improving infrastructure and access to skilled labour
  - Proximity to China was also key
- New US$ 150 million new plant for high-end devices and smart phones
  - First touch screen manufacturing base in Vietnam, 1 of 2 companies in the world to manufacture i-pod touch screens
  - Initial capacity for 10 million thin-film transistor modules a month and “several million” touch-panels
• **Now moving to interior cities & Vietnam to:**
  - find sufficient labour supply
  - gain from attractive offers from city governments

• (2009) Chengdu – testing and packaging plant
• (2010) Dalian – first wafer manufacturing base in Asia
• (2010) Saigon High Tech Park, Vietnam – opened US$ 1 billion chip manufacturing plant (1 line but 3 by years-end)
  - 1 of 7 global plants | Largest US investment in Vietnam
  - Largest campus globally for Intel
Consolidating two Chinese factories into 1 building in Vietnam due to:
- supporting suppliers in Vietnam
- infrastructure in Vietnam
- significantly reducing costs by consolidating in 1 building at a total costs of US$ 88 million

(2009) Long Thanh, Dong Nai, Vietnam – digital camera factory dedicated to manufacturing compact cameras and SLR models
**Results of “Chinese Manufacturers Association of HK” Survey**

<table>
<thead>
<tr>
<th>Southern China Manufacturers</th>
<th>% of companies</th>
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<tbody>
<tr>
<td>Shutdown the plant, close the business</td>
<td>4.2% 5.6%</td>
</tr>
<tr>
<td>Give up the production and switch to merchandized trade</td>
<td>6.6% 14.4%</td>
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<tr>
<td>Undertake re-organization and consolidation of manufacturing operations</td>
<td>44.6% 33.1%</td>
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<tr>
<td><strong>Shift the manufacturing operations elsewhere</strong></td>
<td>23.5% 33.1%</td>
</tr>
<tr>
<td>- of which :</td>
<td></td>
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<tr>
<td>&quot;Pearl River Delta&quot; environmental industry park</td>
<td>3.6% 3.8%</td>
</tr>
<tr>
<td>Economically less developed areas in Guangdong</td>
<td>7.2% 15.0%</td>
</tr>
<tr>
<td>Central or Western areas of Mainland China</td>
<td>5.4% 10.6%</td>
</tr>
<tr>
<td>Other parts of the Mainland</td>
<td>3.6% 5.0%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3.6% 3.8%</td>
</tr>
<tr>
<td>Other countries/manufacturing districts</td>
<td>0.6% 5.6%</td>
</tr>
</tbody>
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*Note : 166 companies response for the survey*

*Source: Pearl River Delta business prospects CMA Survey Analysis Report 2010, Chinese Manufacturers Association of Hong Kong*

- Of the 33% of companies who shifted manufacturing operations in 2010, **5.6% did so to other countries** – up from 2009
Why Vietnam?

Labour Cost & Quality

Labour Costs: Vietnam, China, Thailand (US$ /mth)

- Newly proposed vocational colleges, institutes for higher learning
- A rapidly urbanizing & young labour force is attractive
  - 60% under 30 vs China’s aging population
- Labour costs are: 35% - 45% cheaper than 2nd / 3rd tier China cities
  - 20% - 35% cheaper than Thailand
- Trade unions have set up at 600 out of 1,000 businesses in IP’s – 20% increase on 2010 – Minimal wage enforcement

Sources: Nanjing Chemical Industrial Park, China - My Phuoc Industrial Park, Vietnam - Board of Investment, Thailand - Compiled by Business-in-Asia.com
Constructions costs in HCMC are:
- almost 35% - 40% cheaper than Beijing and Shanghai (1st tier cities)
- 30% - 35% cheaper than Guangzhou (2nd tier city – Southern China)
Why Vietnam?

Infrastructure, Connectivity, Support Industries

Infrastructure & Connectivity

- Good connectivity to key infrastructure
  - Major hubs /
  - IP’s with large / available land within 20 – 30Km from the city centre, international airports / sea ports very attractive e.g. Binh Duong, District 7, Bac Ninh, etc.

- Challenges at domestic level with lengthy delays between, planning, approval and delivery – UNAVOIDABLE e.g. Thu Thiem Tunnel

Supporting Services

- Locally made and supplied components/parts are essential
  - Intel and SHTP conference to seek local suppliers. SHTP will zone off 14.5 Ha offering incentives + funding

- Challenges - Investment encouragement policies need to pay more attention on developing industrial clusters within IZ’s - China example
Why Vietnam?

**Incentives**

- Incentives are necessary to attract *key influencers* in terms of domestic/IP location choice
  - Vietnam offers a ‘wider scope’ of incentives as opposed to China’s Industrial operations e.g. High Tech Vietnam, not High Tech China
  - Incentive examples:
    - **Tax**
      - CIT for High Tech Incentives + Special Economic Zones
      - 15 year exemption period
      - 0% 1st 4 years, the next 9 years 5%, the next 2 years 10%, 25% thereafter
    - **PIT**
      - Up to 50% inside TBC
    - **Land Rental Exemptions**
      - Reductions of land use tax, land use fee, land rent, and water surface rent in accordance with the law on land and law on taxation.
      - 15 year exemption period
      - 0% 1st 4 years, the next 9 years 5
    - **Others**
      - Technology transfer, training, investment in development of infrastructure zones
  - **HIGH TECH INCENTIVES** have received a lot of attention of late
  - Vietnam has an opportunity to become the workshop of the world, tax incentives need to have a clear approval and application process or investors WILL WALK AWAY
The Future Outlook for the Industrial Sector

What can we expect?

Areas of Growth

- The Key Sectors to watch in 2011 +
  1. Auto Industry
  2. Japanese Investment
  3. Supporting Industries
  4. Logistics Sector
  5. High Tech Manufacturing
The Future Outlook for the Industrial Sector

The Auto Industry

- Vietnam, 4th largest motorcycle market behind China, India, Indonesia
  - 2.7 million units in 2010, 20% increase
  - Honda’s 3rd Motorcycle Plant in the North: Dong Van II Industrial Park, Dong van province – 8% sales volume increase to 500,000 units p/year
  - Yamaha, in Noi Bai Industrial Zone is seeking to expand production capacity

  - Chu Lai Open Economic Zone, Central Vietnam (Quang Nam) will become a Auto Manufacturing Support hub in with a target for 40-80% of auto part manufacturing
  - Hyundai eyeing (20 Ha) engine manufacturing plant in Chu Lai Economic Zone. First foreign invested engine manufacturing plant in Vietnam
The Future Outlook for the Industrial Sector

Japanese Investment

- Japan is Vietnam’s 4th largest export partner
- 1 H 2011, $US300 million, 86 new projects
- Japan’s ‘post disaster’ recovery has created opportunities for Vietnam as a safe cost effective / stable production base
- Kyocera Mita - $US250 million laser printer factory
- The key to luring Japanese investment is
  - by creating supporting industries
  - Infrastructure (power, roads, etc.)
  - Legal improvements
- Japan International Cooperation Agency (JICA) is boosting Vietnam’s supporting services for Japanese manufacturers through ODA loans. Since 2009, targeting mechanical, automotive and electronic SME’s
- Gov. considering establishing IZ’s for Japanese only
The Future Outlook for the Industrial Sector

Supporting Industries

- As increased foreign manufacturers establish their production bases, supporting industries / suppliers need to be created to ensure operational efficiency
- Dedicated Industrial clusters are required reflecting IP’s in established manufacturing locations e.g. China
- Steps in the right direction:
  - MOF recent circular extending Tax Incentives for supporting industries in:
    1. Mechanical Engineering
    2. Apparel & Footwear
    3. Electronic
    4. IT
    5. Auto Assembly
- Tax exemptions for importation of machinery, equipment etc for production for the industries
Vietnam has moved from just being the 2\textsuperscript{nd} largest exporter of rice and coffee!

Rising labour costs, appreciating RMB, tightening labour regulations putting pressure on manufacturers in China.

Southeast Asian economies, such as Vietnam, are the places manufacturers are considering.

Vietnam needs improvement: A strong established supporting supplier industry for each of its Industrial sectors to flourish.

While Vietnam has its challenges such as well trained workers, infrastructure, complex incentives / taxation and provincial competition; at least for major multinationals with a long term view, it is proving a viable option.