



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

How to Set Up a Factory in Vietnam: From Location to Compliance

Dustin Daugherty





DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia



- Dezan Shira & Associates Offices
- Dezan Shira Asian Alliance Members

Business Intelligence

Corporate Establishment and Structuring

Due Diligence

Accounting

Tax

Audit and Risk Advisory

Technology

HR and Payroll

www.dezshira.com



Table of Contents

- I. Snapshot of Vietnam**
- II. Choosing a Location**
- III. Setting up the Facility**
- IV. Case Study**
- V. Case Study**

Snapshot of Vietnam





Vietnam



2.91%
GDP Growth Rate



7%
Export Growth Rate



US\$19.98 billion
FDI Disbursement



US\$543 billion
Import and Export Turnover



2,523
New Projects
Granted investment
certificate in 2020

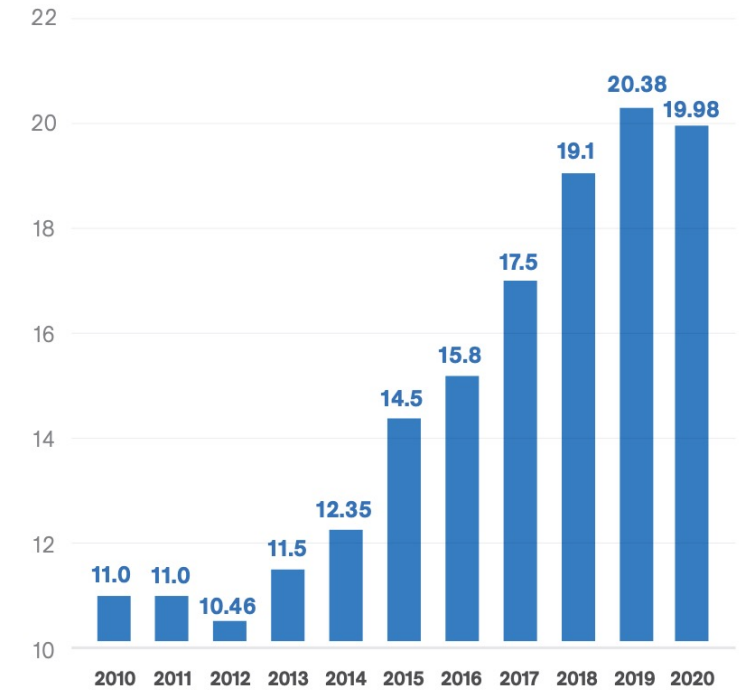


112
Investor Countries
and Territories



FDI Disbursement in Vietnam (US\$ Billion)

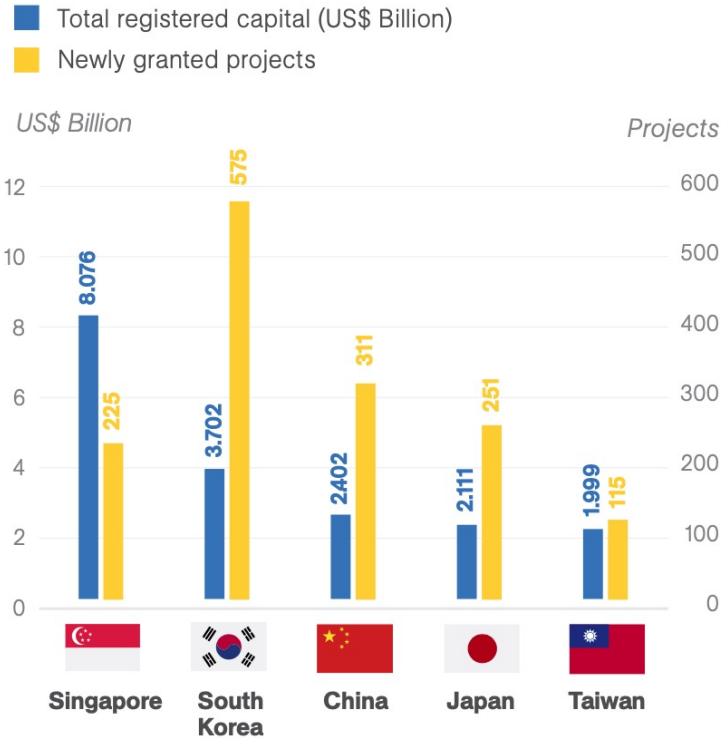
From 2010 to 2020



Source: Ministry of Planning and Investment

Vietnam

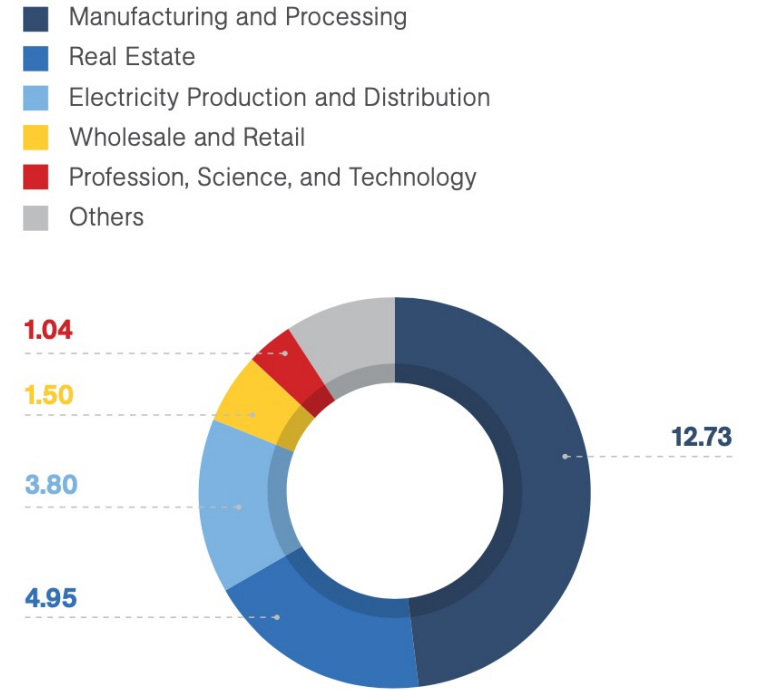
Top 5 Countries Investing in Vietnam



Source: Ministry of Planning and Investment
 Data as from January 1 to November 20, 2020



Top 5 Sectors Receiving Investment (US\$ Billion)



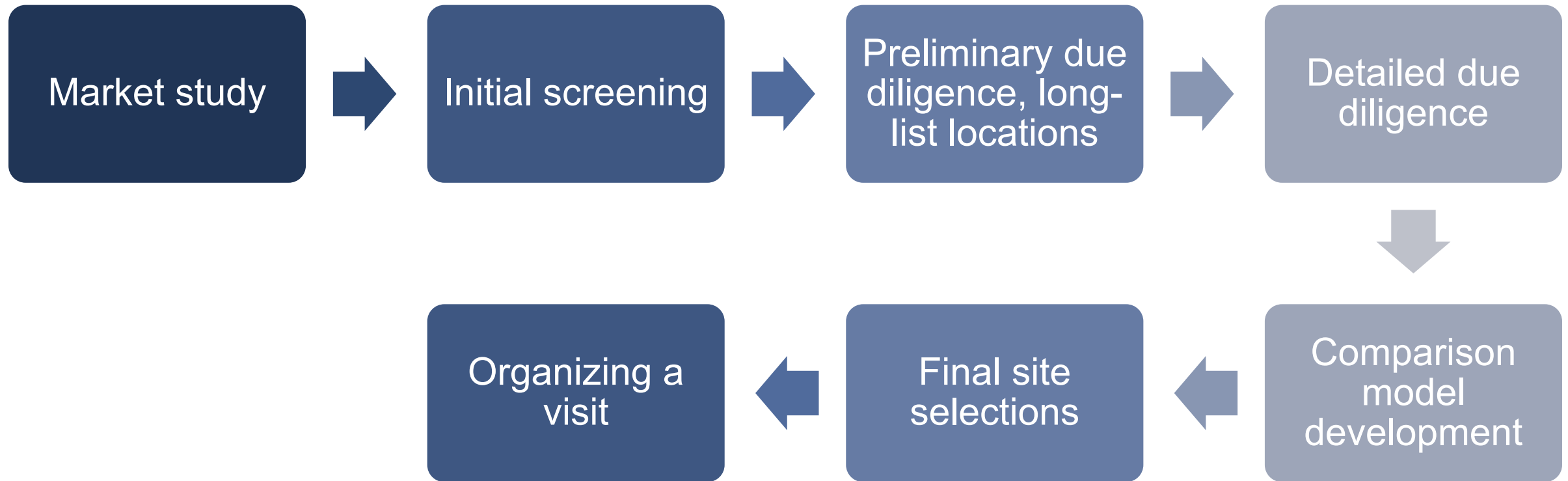
Source: Ministry of Planning and Investment
 Data as from January 1 to November 20, 2020

Vietnam

Choosing a Location

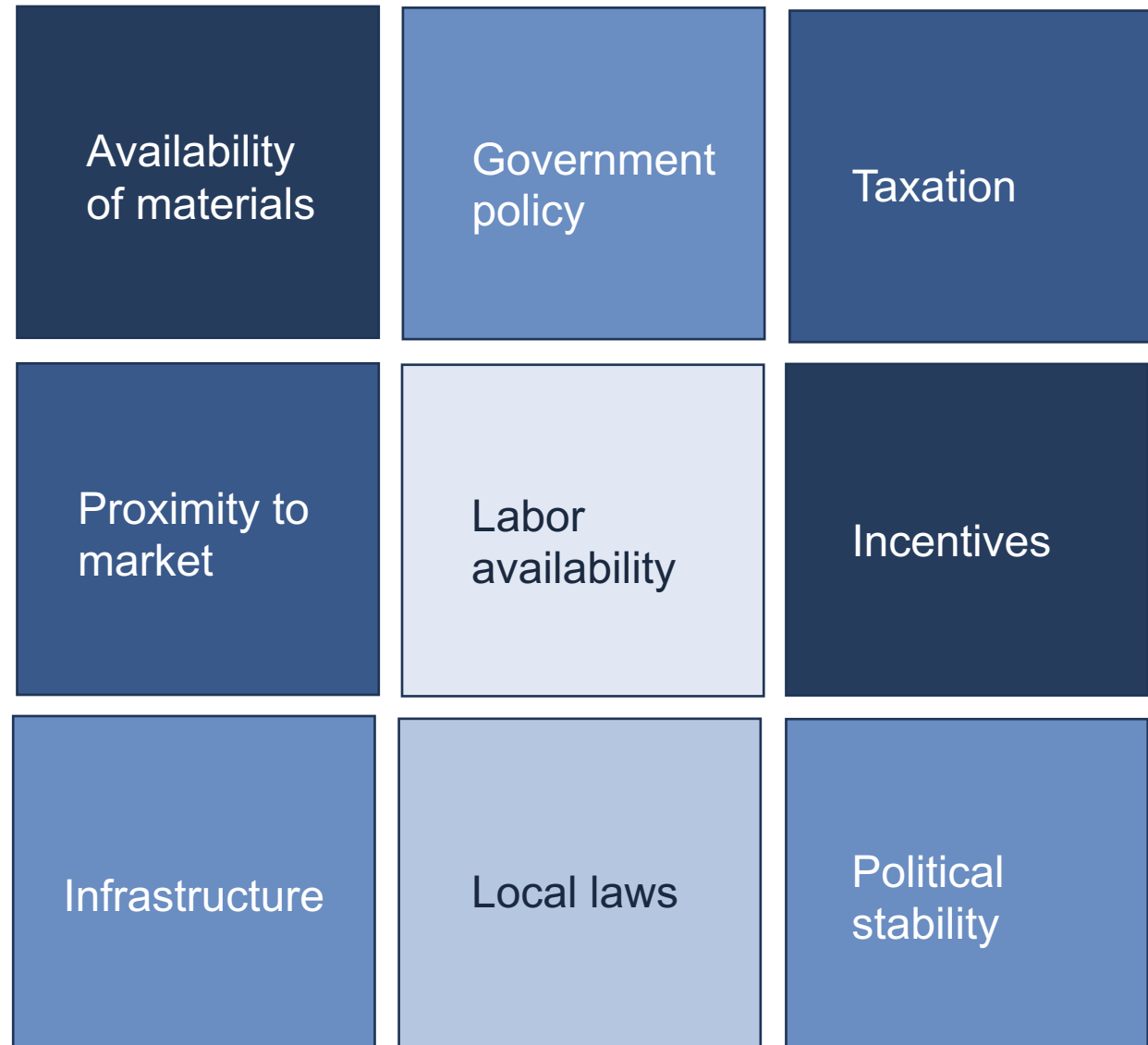


Typical Process of Looking for a New Location



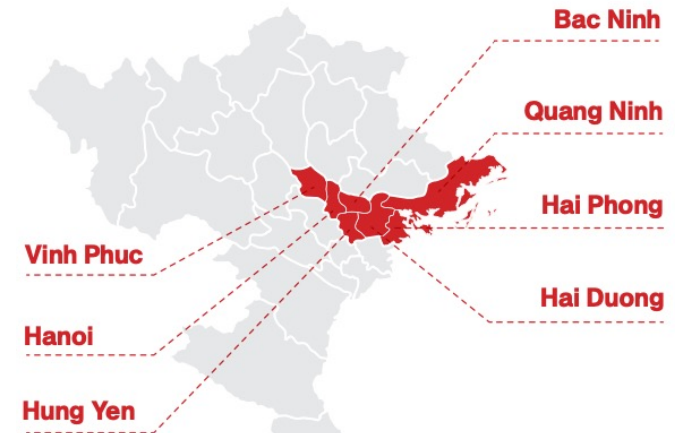
Factors to Evaluate Potential Locations

No one-size-fits all. Each industry, market, and location is different. A tailor-made approach is essential

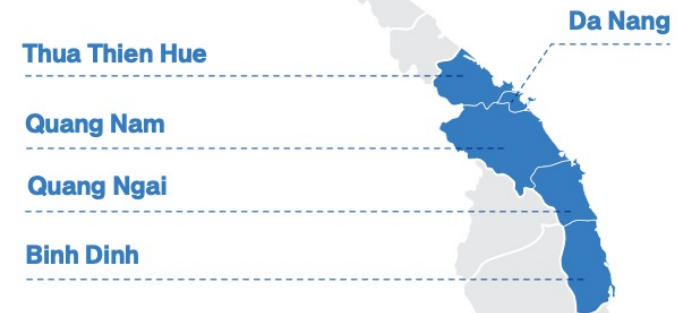


Key Economic Regions

North



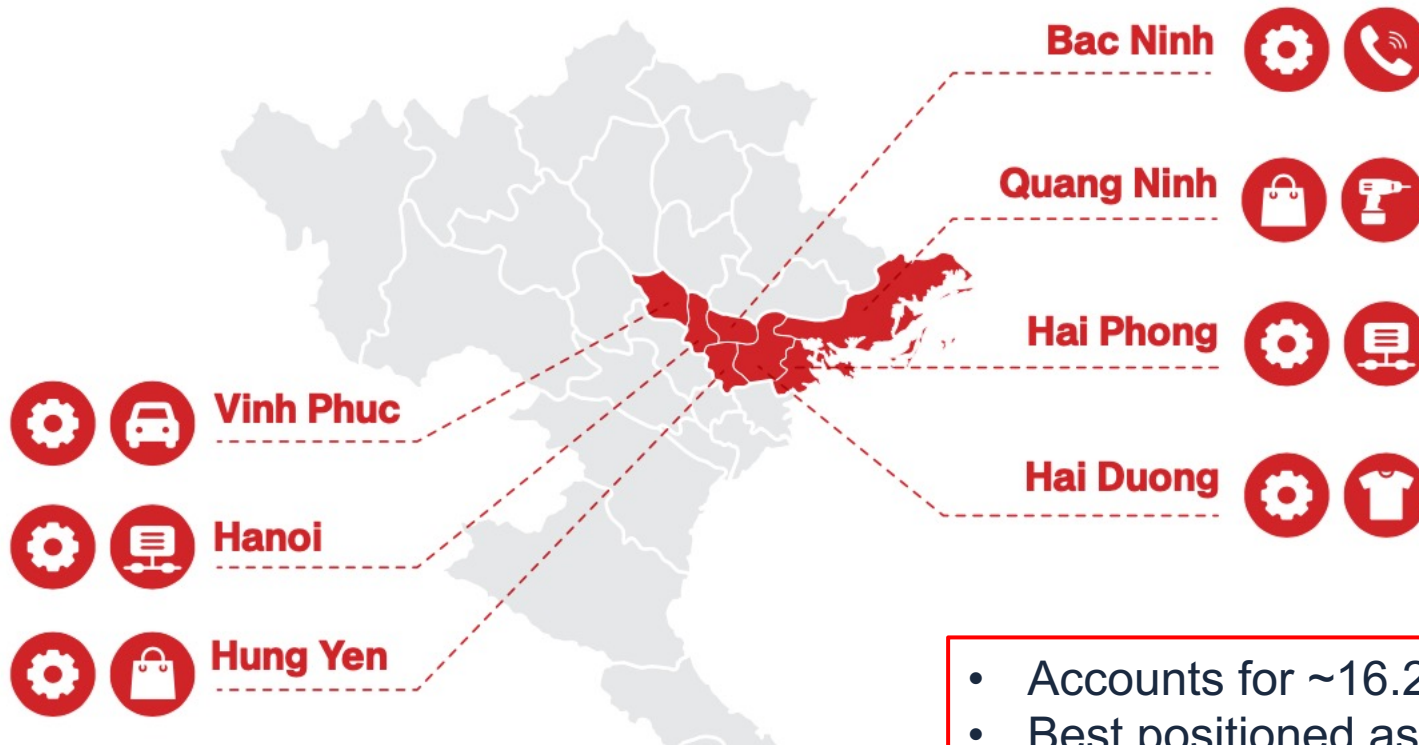
Center



South



Key Economic Regions – the North

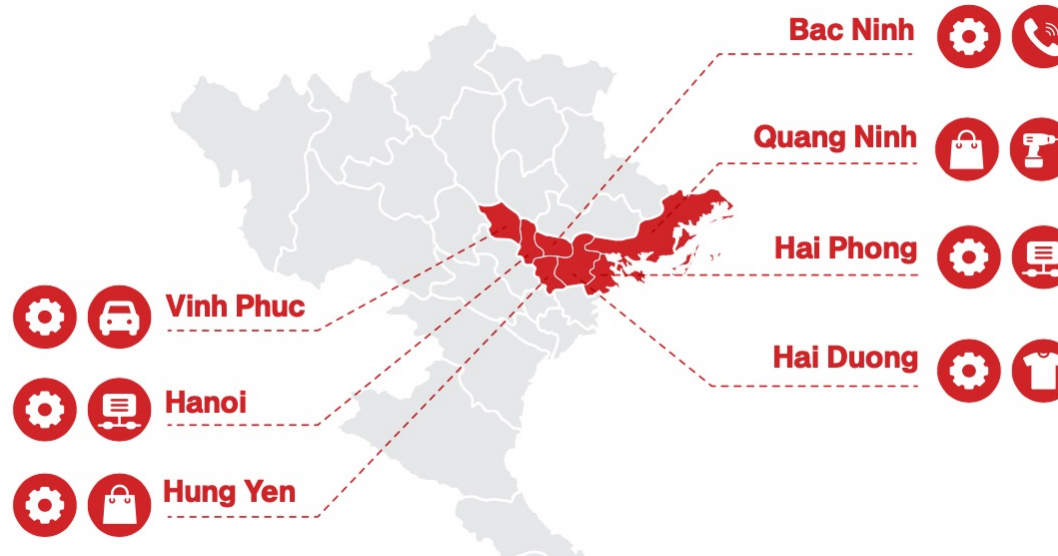


Electronics and Mechanical engineering	Consumer goods
IT	Construction materials
Automobile	Forestry and Fisheries
Textile and Garment	Chemical and Chemical products
Telecommunication	

- Accounts for ~16.2 % of Vietnam’s total population
- Best positioned as hub for China plus one manufacturing investors, with time sensitive production chains, especially when shipping components between factories in China.

Labor Availability – Hanoi to Haiphong Metro Area

- **Abundant labor force** with **young** labor structure - greatest skilled labor supply in Vietnam
- Concentrated in **industrial clusters** such as Hanoi, Bac Ninh, Bac Giang, Hai Phong
- Labor shortages occur frequently in manufacturing sector due to **high turnover** rate, especially in peak seasons. Factories generally employ many migrant workers, both unskilled and skilled
- Short-term: labor demand will rise as more industrial parks will open in the next few years, particularly for unskilled labor. This will lead to higher competition in recruitment. Salary and other welfares are key factors to attract and retain workers
- In long-term, demand will gradually decline as factories apply more automation machinery and technology



Labor Cost – Hanoi to Haiphong Metro Area

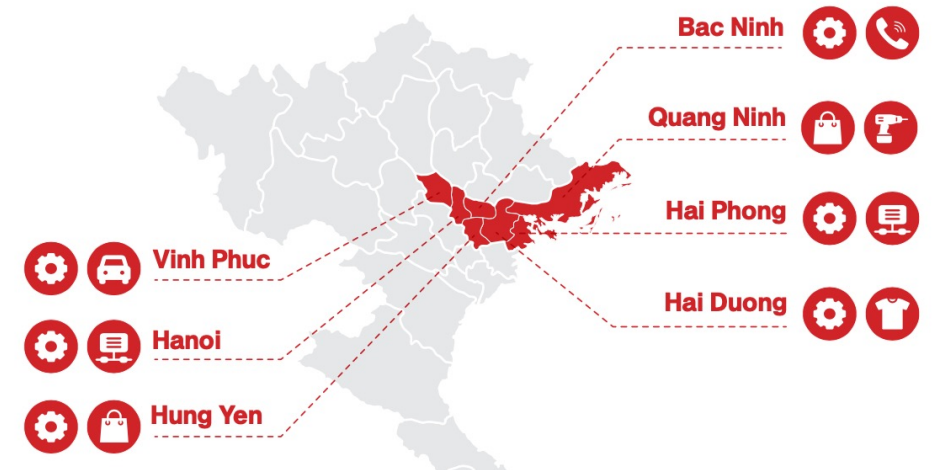
- Due to high living standards and good labor quality, **labor cost in the area is relatively high**
- Labor cost is the highest in Hanoi and Bac Ninh, followed by Bac Giang, Vinh Phuc, Hung Yen, Hai Phong.
- Hai Duong, Ha Nam, Phu Tho (not shown below) are provinces with lower labor cost.
- Minimum wage largely affects the regional wage disparity

Annual salary increase

Based on economic situation, adjustments of the gov. and enterprises' budgets and strategies, is normally 5 - 12%

- Unskilled and semi-skilled labor generally get 5 - 7% wage increase
- Skilled labor would get a maximum increase of 12%

Salary raise also depends on the business scale and origin of the enterprises. i.e. European companies have a higher wage increase rate, while the Korean and Japanese are lower.

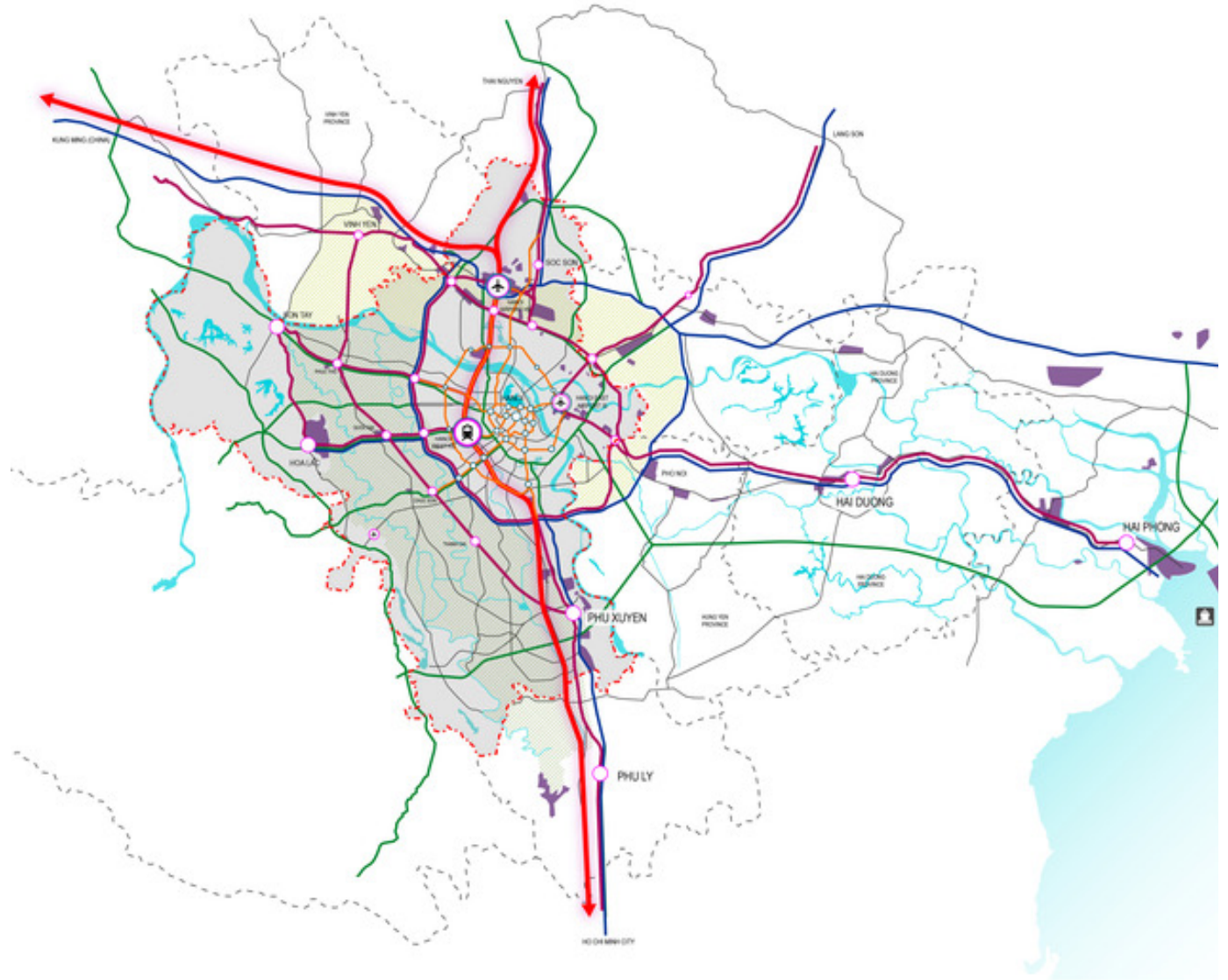


Labor Markets in Vietnam's Northern Provinces

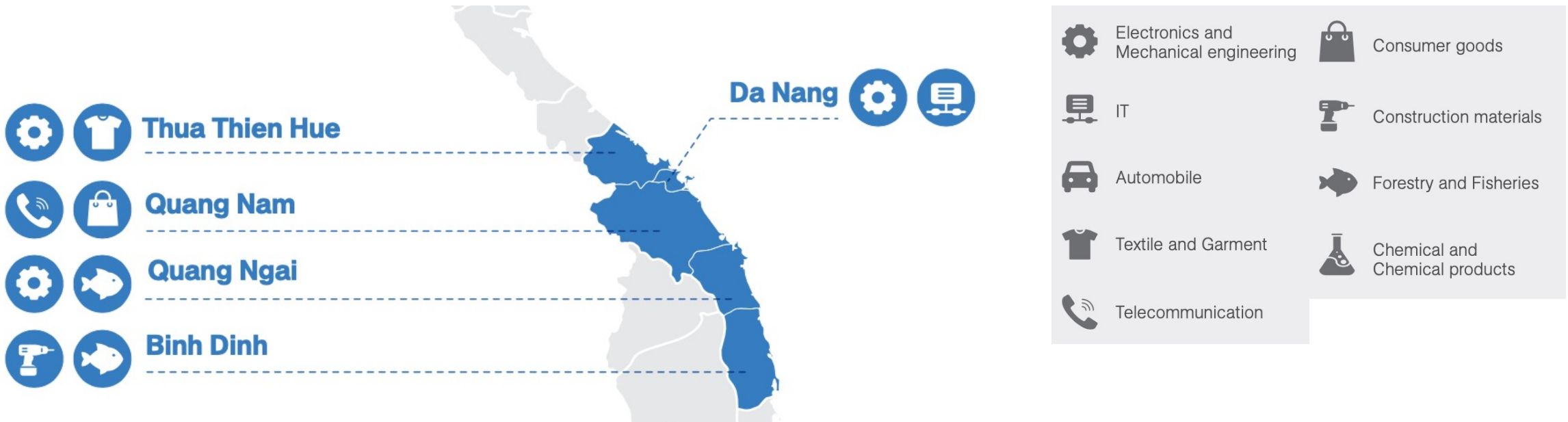
Qualifications	National Avg.	Hanoi	Bac Ninh
Average labor cost	\$290	\$407	\$421
Supply of labor (avg. # of applications per position)	-	45	55
Overall satisfaction with labor quality	90%	90%	92%
Secondary school graduates as a % of workforce	8%	16%	12%
% of workers having completed training at vocational schools	48%	51%	53%
Good vocational training	38%	32%	45%
% of total business costs spent on training	5.98%	7%	4.3%
% of total business costs spent on recruitment	4.9%	4.6%	5.1%

Source: Vietnamworks; Vietnam's Provincial Competitiveness Index

North Vietnam's Infrastructure Network



Key Economic Regions – the Center



- Comparatively less competition
- Region's largest city Da Nang has benefited from good urban planning and development
- Low-cost destination because the north and south have become saturated with investment, driving up costs and congesting logistics networks

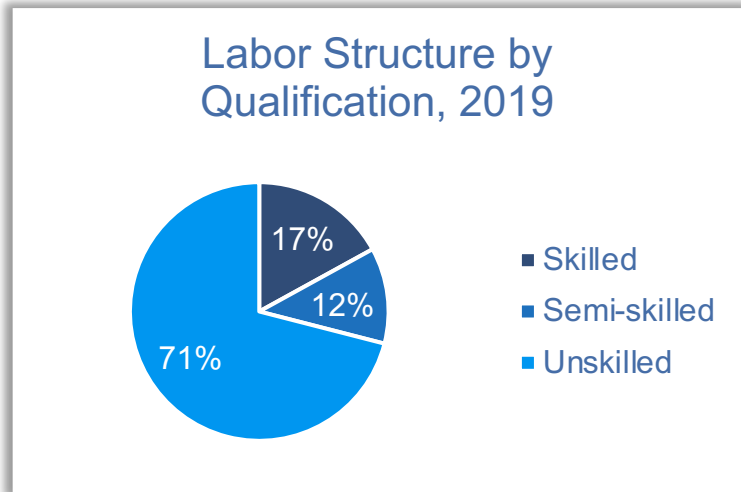
Labor Availability – Da Nang Metro Area

- Over **2.1 million** labor force
- Its young and dynamic labor force has **benefitted** from area's **educational offerings**. Employers find it comparatively easier to source qualified labor due to well established universities and vocational school in the area.
- Training courses predominantly focus on **science, engineering, IT, and economics**
- Investment in Da Nang is creating more jobs – and competition for talent – in tourism, real estate, education, entertainment and IT. While this has helped attract workers to the area, some businesses find it **difficult to hire and retain high-tech workers and senior managers**.
- In contrast to other areas where Industrial Parks (IPs) are far removed from city centers, most of the IPs in Da Nang are within the city and nearby areas on the outskirts of the city. For IPs that are away, employees are willing to work there if investors arrange transportation.



Labor Cost & Situation – Da Nang Metro Area

- Labor cost in Da Nang Metro Area is higher than Hanoi – Hai Phong Metro Area, but lower than Ho Chi Minh Metro Area
- High labor cost in the area may contribute to its great and stable supply of qualified labor, accompanied by increasing demand in the recent years
- Average wage a month is \$425



Da Nang at a Glance

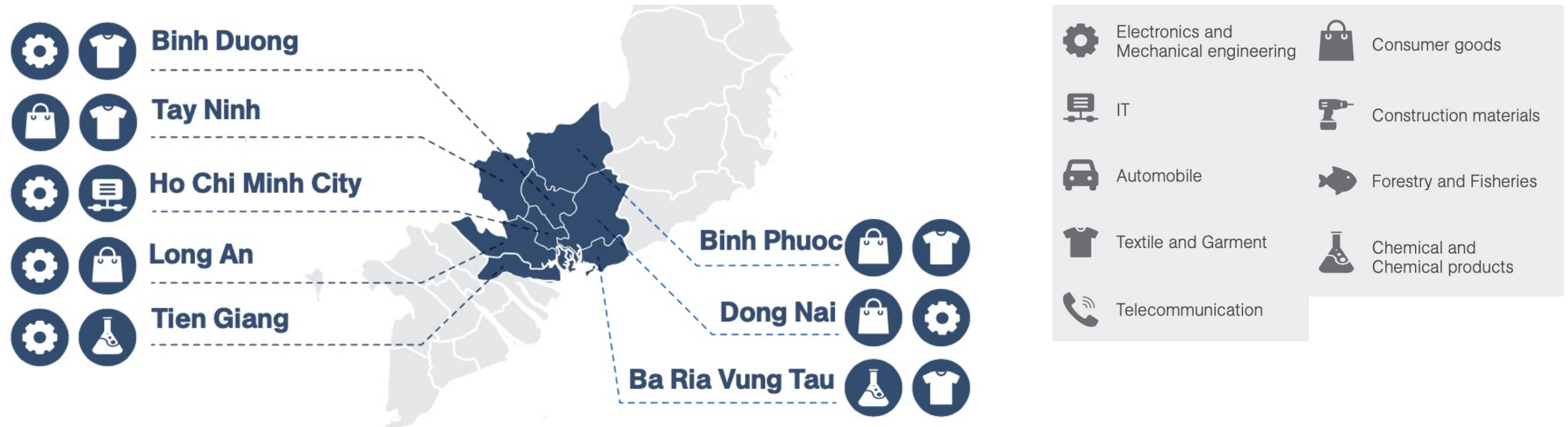


GRDP 8% growth per annum	Area 1,285 km ²
Districts 8	Population 1 million
Expats in Da Nang 5,000	Workforce 549,602
Job creation rate 4.80%	Urban unemployment rate 4.15%
Number of non-state enterprises 27,168	Number of universities and colleges 36
Inward FDI in Da Nang US\$3.12 billion / 715 projects	Top FDI sectors High-tech manufacturing, IT, Tourism, Education

Central Vietnam's Infrastructure Network



Key Economic Regions – the South



- Attracts the most FDI projects
- **HCMC** has become a hub for **start-ups and tech entrepreneurs**
- Consumption another major advantage, investors seeking to establish brand identity with Vietnamese consumers = more opportunities in the south
- HCMC is the preferred destination for companies trialing food and beverage products, pharmaceuticals, and luxury goods

Labor Availability – Ho Chi Minh City Metro Area

- Labor force: **10.6 million** - the **most abundant in Vietnam**, with a high share of migrant labor
- Labor is concentrated in large cities and industrial clusters in the region, such as **Ho Chi Minh City, Binh Duong and Dong Nai**
- Labor pools in the area are **more diverse** - investment in services and a wider range of manufacturing provides more niche talents than in the Center and North
- Professional services, IT, and hospitality are key labor pools that have seen significant growth in the last decade.
- While talent is available and supported by numerous institutions within Ho Chi Minh City, **competition is high between employers** for talent in the area. Turnover, particularly during & immediately following the initial hiring process can create significant delays for companies seeking for initiate production

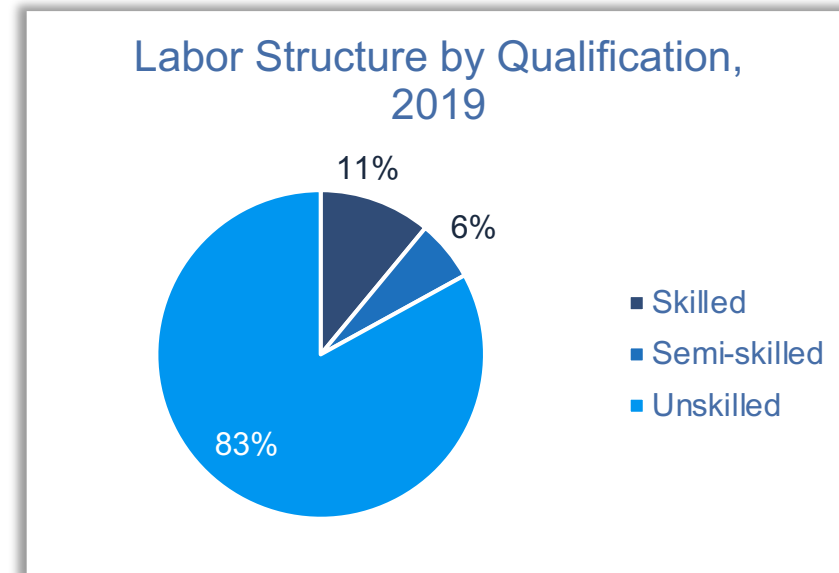


Labor Cost – Ho Chi Minh City Metro Area

- Labor costs in Ho Chi Minh City Metro Area are **some of the highest in Vietnam**
- Within the area, labor cost is the highest in HCMC, followed by Binh Duong and Dong Nai Province.
- Manufacturing operations have all but left the city center and those remaining are forced to pay a premium for workers to account for increased living costs within the city. The level of experience of an employee will play a large role in their expectations



Average Wages:
Ho Chi Minh City - \$456
Binh Duong - \$444

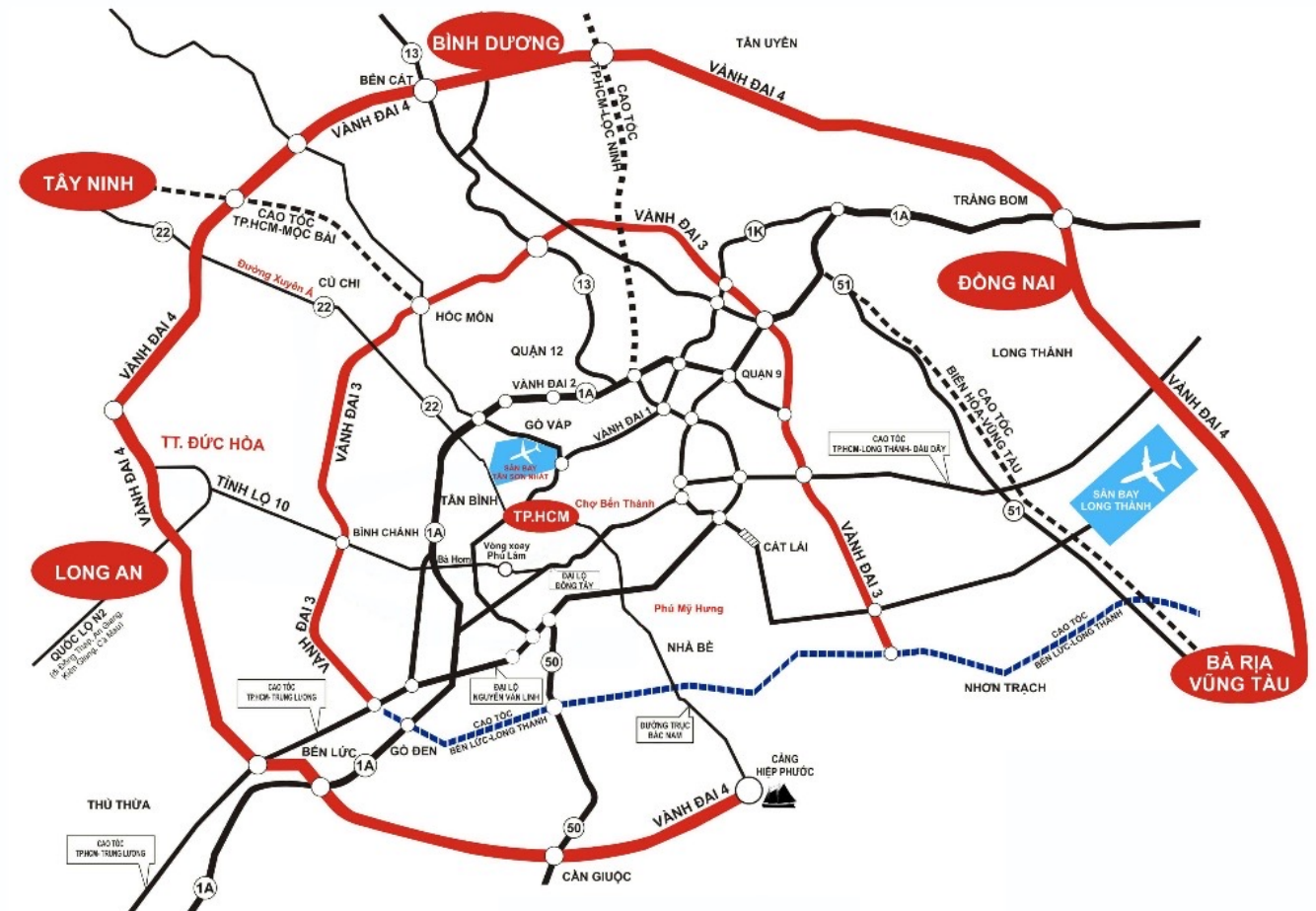


Labor Markets in Vietnam's Southern Provinces

Qualifications	National Avg.	Ho Chi Minh City	Binh Duong
Average labor cost	\$290	\$456	\$444
Supply of labor (avg. # of applications per position)	-	54	44
Overall satisfaction with labor quality	90%	92%	94%
Secondary school graduates as a % of workforce	8%	10%	7%
% of workers having completed training at vocational schools	48%	49%	45%
Good vocational training	38%	41%	49%
% of total business costs spent on training	5.98%	7.6%	7.89%
% of total business costs spent on recruitment	4.9%	5.56%	6.14%

Source: Vietnamworks; Vietnam's Provincial Competitiveness Index

Southern Vietnam's Infrastructure Network



Minimum Wages by Region

Region	Areas Included	2020 Minimum Wage
I	Hanoi; Hai Phong; Ho Chi Minh City and its neighboring provinces of Dong Nai, Binh Duong, and Ba Ria; Vung Tau	VND 4,420,000 (\$190 USD)
II	Outskirts of Hanoi and Ho Chi Minh City; other large and medium-sized cities such as Da Nang, Nha Trang, and Can Tho	VND 3,920,000 (\$168 USD)
III	Smaller provincial cities and suburban districts	VND 3,430,000 (\$148 USD)
IV	The least developed and sparsely populated rural and mountainous regions of Vietnam	VND 3,070,000 (\$132 USD)

Minimum wages **did not increase** for 2021 because of Covid-19.

- In 2020 they raised 5.3%
- In 2019 5.7%
- 2018 6.5%

Infrastructure Side-by-Side

	North	Central	South
Industrial Zone Area (ha)	23,401.3	12,862.6	62,143.1
Occupancy Rate	78%	77%	90%
Avg. factory rent (USD / sqm / month)	3.7	3	4
Avg. industrial land price (USD / sqm)	75.8	32.8	83
Water (USD / m3 / month)	0.28-0.77	0.25-0.54	0.4-0.6
Electricity (USD / kWh / month)	0.05-0.13	0.05-0.13	0.05-0.13
Waste water treatment (USD / m3 / month)	0.2-0.7	0.2-0.6	0.28-0.72

***Electricity:** Paid monthly and directly to Vietnam Electricity Corporation (EVN) using VND. (same price for the whole country)

****Water / Waste water:** Paid to industrial park developers (prices are different depending on each industrial park's policy)

Regional Summary

Vietnam's Market Entry Locations Compared

	North	Central	South
Key provinces for industrial investment	Bac Ninh, Hai Duong, Hai Phong	Quang Nai, Hue, Da Nang	Long An, Binh Duong, Dong Nai
Notable Industrial Zones	Dinh Vu, Yen Phong Industrial Park, VSIP Hai Phong	VSIP Quang Ngai, Phong Dien IP	Long Hau, My Phuc III, Nhon Trach 3 IP
Pros	Close proximity to China, reducing logistics costs for companies importing components from China	Low costs, room to relocate, along with suppliers and other partners if required	Diversified supply base and close proximity to the rest of Southeast Asia
Cons	Production, infrastructure, and labor more specialized than in the south	Supplier networks and many high end industrial zones not yet fully established locally	Congested logistics networks
Investment Strategy Best Suited	Companies seeking to quickly relocate operations and seeking high level of integration with Chinese supply chains	Companies seeking low costs, long term investment strategy, and willing to relocate majority of supply chain over time	Companies seeking to diversify its supply chain and distribution network; companies interested in targeting the domestic market

Realistic Corporate Structures

100% FOE	√	√	√
RO + OEM	√		√
M&A	√		√

Industrial Parks

Advantages and disadvantages of Industrial Parks (IPs) must be weighed during location selection

- There are **326** spread throughout Vietnam; bulk are in the North (125) & South (183)
- IPs often cater to certain industries and offer special incentives to them

Ex:

General Industrial Zone Information							Utilities		
Province	Name	Surface (ha)	Occupied Status	Industries	Land price (\$/m2)	Factory price (\$/m2)	CIT (%)	CIT holiday (years)	CIT reduction (year)
Quang Nam	Tam Thang II	103	50%	Leather shoes, electronics, IT, clean industry	37	3	10% for 15 years	4	50% for 9 years
	Tam Thang	197.1	80%	Textile and garments, electronics, machinery, chemical, pharmaceutical, plastic	35	3	10% for 15 years	4	50% for 9 years

Setting up the Facility and Staying in Compliance



Market Entry Options

Rent Existing
Factory

Rent Land &
Build Factory

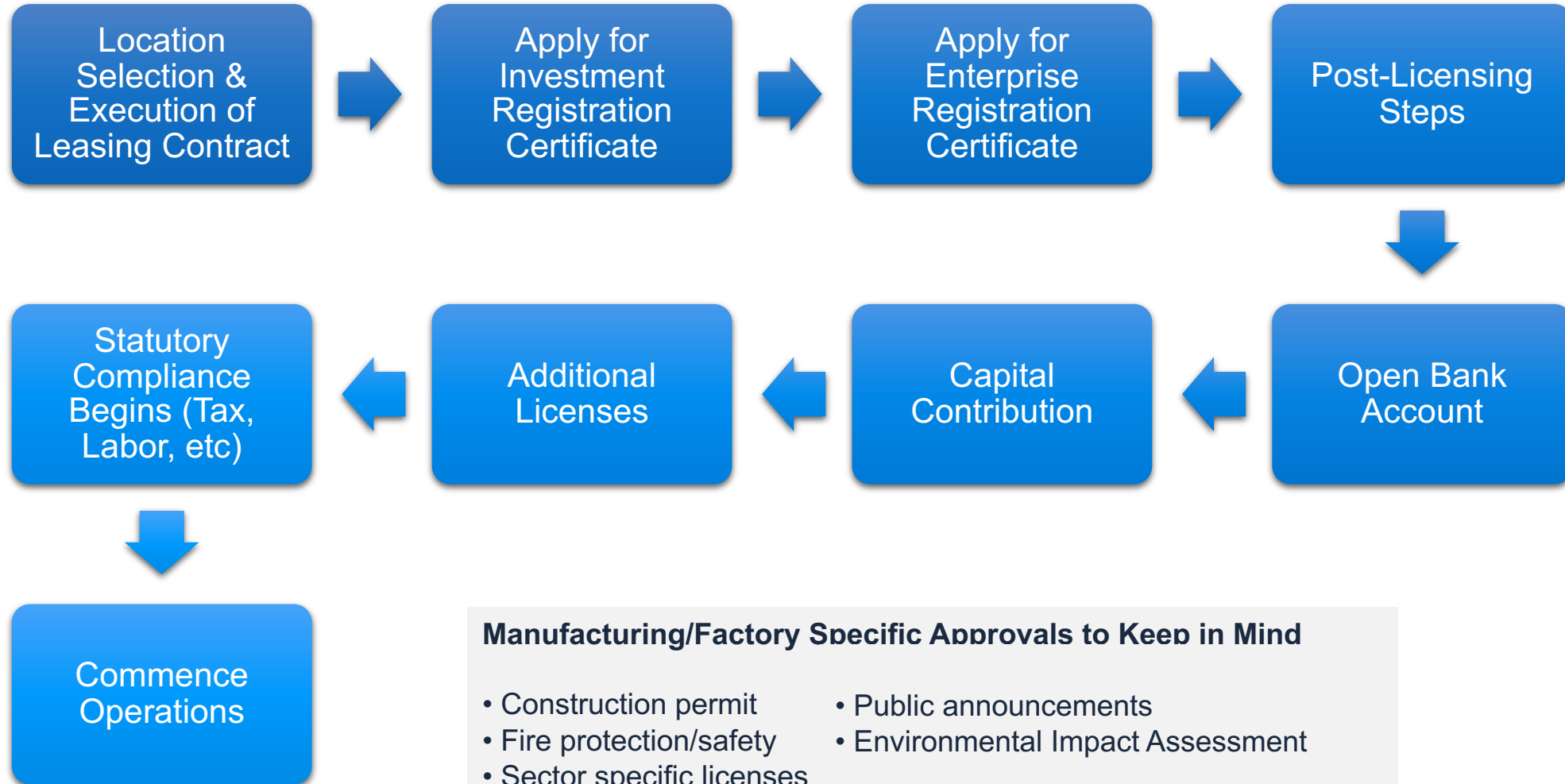
Use of LURs
and Build
Factory

Use of LURs
and Existing
Factory

*LUR = Land Use Right

Factory Set Up Process

Timeframe: Time to find a location + 2 to 4 months



Manufacturing/Factory Specific Approvals to Keep in Mind

- Construction permit
- Fire protection/safety
- Sector specific licenses
- Public announcements
- Environmental Impact Assessment

Investment Registration Certificate Application – 15 Days from Application

Required of all 100% owned foreign enterprises

Application for implementation of investment project (this should include details of the project in Vietnam)

Proposal of investment project (should include the details of the investment project, including lease agreements or land use needs)

Financial statements (to be provided for the last two years of a company's operation; additional information may be required to prove financial capacity)

Enterprise Registration Certificate Application – 3 Days From Application

ERC will be accompanied by a number doubling as tax registration number

Application for enterprise registration

Company charter

List of all board members

List of legal representatives

Letters of appointment and authorization

*Any foreign doc. or supporting information will need to be notarized, legalized by consular officials and translated into Vietnamese by competent authorities

Post Licensing Procedures

Seal carving

Open bank account

Labor registration

Business license tax payment

Charter capital contribution

Public announcement of company

Major Taxes

Business License Tax (BLT)

- Indirect tax imposed on entities conducting business activities in Vietnam
- Paid annually

Corporate Income Tax (CIT)

- Direct tax levied on profit earned by companies / organizations
- Typically 20%

Value-added Tax (VAT)

- Imposed on supply of goods & services
- 0%, 5%, 10%

Special Consumption Tax (SCT)

- Excise tax applied to import/export of:
 - 11 categories of products
 - 6 types of services

Custom Duties

- Applies to many imported or exported goods

Foreign Contractor Tax (FCT)

- Comprises of VAT & income tax (CIT / PIT)
- Imposed on payments from local org. to foreign contractors for goods/services/copyrights incurred and consumed in Vietnam

Vietnam's Compulsory Insurances

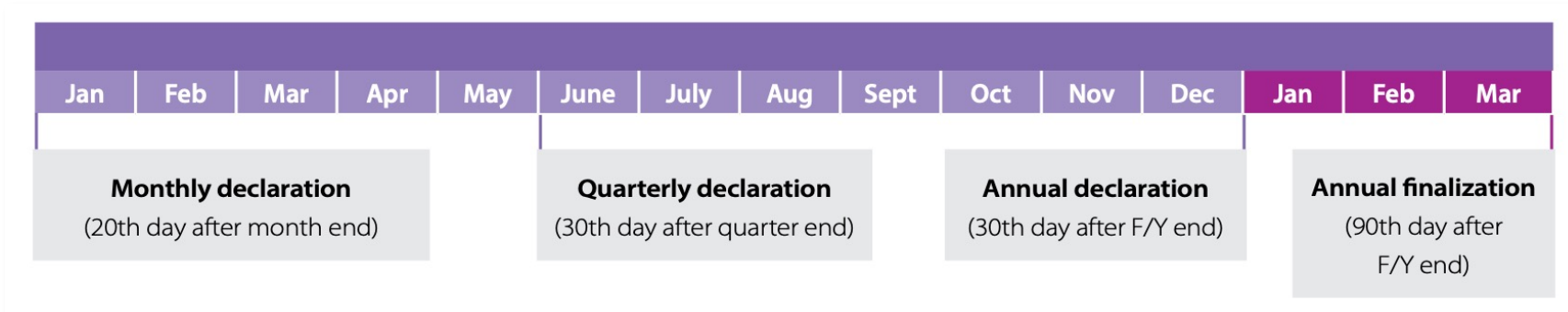
- Total contribution of 32% for Social insurance, Health Insurance, Unemployment insurance

SHUI	Employer	Employee
Social (SI)	17.5%	8%
Health (HI)	3%	1.5%
Unemployment (UI)	1%	1%
TOTAL	21.5%	10.5%

Calculated on salary but capped at 20 times statutory minimum salary ~27,000,000vnd. Cap higher for UI.

Accounting & Tax Compliance

- ✓ **Businesses must comply with Vietnam Accounting Standards (VAS)**
 - ✓ Accounting records must be in Vietnamese
 - ✓ Transactions must be in Vietnam Dong (VND)
 - ✓ Accounting reports are printed and filed on a monthly basis



Case Study – Site Selection



Fortune 500 Manufacturing Conglomerate Engages Site Selection Help

Background

▶ This Company sought to supplement Guangdong production after the US-China tariff war, seeking to move more labor-intensive functions elsewhere while retaining R&D and higher tech production lines in China. They needed a location close to Guangdong to complement the established supply chain there.

Challenge

▶ The Client did not know which Southeast Asian country would complement their supply chain best and lacked enough data to support a decision on both a macro and local level. The kind of evaluation needed was out of scope for their internal team.

Solution

▶ DSA conducted a site selection exercise comparing Hai Phong, Bac Ninh, Dong Nai and Binh Duong provinces, with the eventual selection of a factory in Binh Duong (roughly 40km from HCMC).

The Company established its entity and ramped up production on tariff inducing products that previously were China originating, thus saving up to 25% on duties alone, and close to 50% on labor costs.

Site Selection – Connection to Infrastructure



Site Selection - Costs

Industrial Park	Available leasing area	Leasing price	Management fee	Lease period
	(m2)	(USD/m2)	(USD/m2/month)	(until)
Ong Keo	265,900	140	0.05	2058
Thuan Dao	146,900	185	0.065	2061
Phuoc Dong IMG	93,518	138	0.035	2059
Tan Duc	88,267	170	0.035	2058
Phu My	300,000	160	0.065	2077

Note: Price is excluded VAT, 1USD=23,000VND

Site Selection – Tax Incentives

Industrial Park	CIT Incentives
Ong Keo	
Thuan Dao	CIT standard rate 20%, in which: <ul style="list-style-type: none"> • 2 years tax exemption from the first year of gaining taxable income • 50% tax reduction (by 10%) in the following 4 years
Phuoc Dong IMG	
Tan Duc	CIT of 17% for first 10 years from the first year of gaining turnover, in which:
Phu My	<ul style="list-style-type: none"> • 2 years tax exemption from the first year of gaining taxable income • 50% tax reduction (by 8.5%) in the following 4 years • 17% tax rate applied for the last 4 years.

Site Selection Competitive Analysis

Ranking	Ong Keo	Thuan Dao	Phuoc Dong	Tan Duc	Phu My 3
Proximity to key infrastructure	1	3	4	2	5
Operating costs	2	5	1	4	3
Labor cost	2	1	1	1	2
Tax incentives	2	2	2	2	2
Final Rank	+++	+	++	++	+

Note: Ranking from 1 to 5, with the highest rank being 1

Assessment – Practical Steps to Take

- **First question to ask – can we live with sourcing/contract manufacturing, or do we need or own facility?**
 - If we need our own facility, does it make sense to go greenfield or acquire an existing facility?
 - If we go greenfield, do we want to do build to suit and lease the facility, build to suit and buy, or can we find what we need among available stock?
- **Don't make assumptions about regional variation – do your homework**
- **Meet with multiple Industrial Zones (IZs), they vary widely in quality**
- **Do your due diligence to create a comparative matrix assessing localized data points such as (hardly exhaustive):**
 - Labor
 - Land cost
 - Supply chain depth
 - Infrastructure quality
 - Utilities cost
 - Tax and non-financial incentives
- **Be prepared to negotiate – some IZs will play ball, others will not, but it doesn't hurt to try**
- **Don't rely on IZs to handle all licensing issues – even if they provide it free of cost always have another set of professional eyes review their work**

Additional Investor Resources



www.asiabriefing.com

Asia Briefing, a subsidiary of Dezan Shira & Associates, publishes business magazines and guides for China, India, Vietnam, Singapore and other key nations in emerging Asia.



www.dezshira.com/library

Asiapedia is a collection of these resources based on the experiences we made on the ground.



All publications are available at DSA's online bookstore at www.asiabriefing.com/store

Additional Investor Resources



Find validated M&A opportunities in Asia and around the world. The **asiamerger**™ portal enables companies to list valid **buy** or **sell-side** projects, confidentially and at no charge.

How it Works:

- List your investment project with no membership or access fee
- Add or search projects in the US\$ 3m to \$100m range - any sector or country
- Access buyers or sellers via both the platform and our global M&A advisor network
- Get only validated interests, vetted by Dezan Shira & Associates

CONTACT ADVISOR



Vivian Mao
Partner



Project highlights

Vietnam skincare company is seeking buyers

Project description

With one joint stock company and 3 branches, the company prefers to sell 70%-80% of the shares. Company's forecast profit margin is estimated at 30% in both 2019 and 2020.

Get listed on asiamerger or learn more about your potential M&A opportunity



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia



Scan this QR code

Visit our mobile page and
get the latest updates investors
news and resources with us