

17 million inhabitants, more than 1000 foreign direct investment projects, 50 existing industrial parks and one of the biggest seafood exporters in the world – the Mekong Delta.

The GIZ/ICMP (German Organization for International Cooperation/Integrated Coastal Management Programme) recently published a new investment brochure about this region located in the south of Vietnam.

BDG Vietnam is proud to be part of this valuable project, to which our team contributed with field research, expert interviews and analysis. Following the recent rise of the Mekong Delta as an attractive investment location, this publication will provide you with an overview of the region's investment opportunities and main challenges.

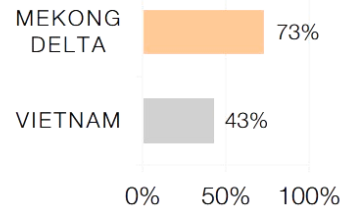
The Mekong Delta is one of the five biggest regions of Vietnam and is well known for its agriculture and aquaculture. However, nowadays, the region is much more than the rice basket of Vietnam, with its continuous socio-economic growth, improving infrastructure and a good investment climate. Still, many investors are not aware of its fast development and rising opportunities, mainly due to a lack of information about the region.

Why investing in the Mekong Delta?

Four crucial reasons to invest in the Mekong Delta are (1) strong economic growth, (2) good investment climate, (3) improving infrastructure and (4) abundant workforce.

(1) In recent years, **economic growth** has been influenced, in particular, by a strong increase in Foreign Direct Investment (FDI). Like never before, this led to the emergence of a diverse range of economic projects. Compared to the country level, the number of FDI projects is currently below national average, but is growing at a faster pace than in the rest of the country (first chart).

Chart 1: Total growth rate of FDI project volume (from 2010-2014)



Source: GSO, BDG Vietnam, 2015

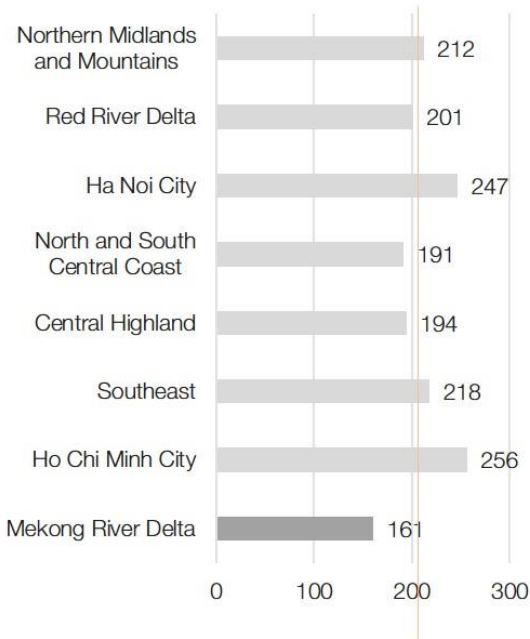
(2) According to the Provincial competitiveness index (PCI), three of the 10 most competitive provinces in Vietnam are located in the Mekong Delta: Dong Thap, Long An and Kien Giang. Entry costs, legal institutions and time costs (e.g. fast response from official bodies) are rated very good compared to other Vietnamese provinces, leading to a **positive investment climate**. Regarding projects implemented by BDG Vietnam, our experience with local institutions and industrial parks has been very positive.

In addition, the **improving infrastructure** and **strong workforce** are further criteria for investors to choose the Mekong Delta.

(3) Many new highways and bridges are now connecting the business center of Vietnam (Greater Ho Chi Minh City) with the Central Mekong Delta. Travel time between its two biggest cities Can Tho and Ho Chi Minh City (HCMC) was drastically reduced. In 2010, the travel time between the cities was full 6 hours, while today is between 3-4 hours. It is estimated that in 2020 average travel time between the two cities will be about 2-3 hours. Furthermore, besides the 50 currently operational industrial parks (IPs), 45 are in planning or under construction. Current investors in these IPs are coming from countries such as Japan, Korea, China and even Germany.

(4) With 10 million people the region has a big workforce. Because of less labor competition, beneficial labor costs and high social standards, the region offers significant human capital advantages. As shown in the following chart, the average salary is currently amongst the lowest in Vietnam.

Chart 2: Overview over the wage costs (in USD)



Source: GSO Wage Survey 2014
Exchange rate from October 2015

National average
(206 USD)

What are remaining challenges?

The publication also illustrates key challenges of the region:

- **Remaining infrastructure challenges:**
Although many upgrades have been implemented over the last decade, some provinces are not able to keep pace with the increasing demand for infrastructure. For instance, some investors reported remaining problems with insufficient bridge connections. However, massive infrastructure investments are still in progress.
- **Skilled labor shortages:**
High-skilled labor is hard to find in the Mekong Delta and has to be recruited from HCMC.
- **Limited options for heavy industry:**
There are limited options for heavy industry because of the sandy soil.
- **Weak supporting services:**
The region is still characterized by strong agriculture and aquaculture. Other industries are in the inception stage, resulting in a yet small number of suppliers and support services.

- **Environmental and climate risks:**

On average, the Mekong Delta is just one meter above sea level. Many parts of the region are strongly affected by climate change, making it crucial for investment projects to conduct a location analysis. While climate change is a big challenge, the region faces fewer environmental risks than neighboring countries (e.g. typhoons, earthquakes, volcanic eruptions, etc.).

Which industries are attractive?

The region is attractive for industries such as **agriculture, aquaculture, light industries, construction and services.**

Over the past decade, Vietnam experienced a major change when organizations and companies started adding more value to end products. The Mekong Delta followed this trend, which can especially be seen in its main sectors: agriculture and aquaculture. An increasing number of products from these two sectors are being processed rather than being sold as a commodity. Companies such as the German trading company Binca Seafood or French-owned Les Vergers du Mekong (high-end fruit based products) are exporting high quality products worldwide.

Within the light industries, many investors are active in the field of garment, footwear and leather goods. Famous brands like Adidas and Nike are sourcing from this region, which benefits from competitive transport costs, a large labor pool and good manufacturing facilities.

The construction market in Vietnam grows between 7-8% annually. A rising real estate sector, infrastructure upgrades and new industrial sites make the Mekong Delta appealing to the construction industry.

Within the service sector, industries such as retail, tourism and IT are perceived to have great potential by the brochure authors. We have already seen companies which are moving and/or extending their IT and business process outsourcing (BPO) operations from HCMC to Can Tho. One such success story is Swiss Post Solutions Vietnam. This company, which provides BPO, software development and other IT services, has established a production site in Can Tho to supplement its central offices in HCMC.

Recommendations for the region

Considering current opportunities and challenges, in order for the region's potential to be fully unlocked, local authorities will continuously have to strive for improvement and progress. Especially with the upcoming Free Trade Agreements (FTAs like EVFTA, TPP, AEC), Vietnam and the Mekong Delta will gain greater attention and it is important to be prepared:

a) Improving investment climate:

Continuation of good work in the past to further improve the investment climate in all provinces (see [PCI](#)). In particular, support by authorities during registration, land clearance, connection to electricity and water supply, etc. are topics of the highest importance.

b) Further expansion of infrastructure:

Especially ports and roads/bridges

c) Interface contact person:

Introduction of an ombudsman, who is the contact person for international investors ensuring a better collaboration with authorities

d) Marketing strategy:

To develop a joint (inter-provincial) marketing strategy for the Mekong Delta as an investment destination: "Mekong Delta as a Brand".

BDG Insights

While many regions in Vietnam suffer from competitive regional labor markets and increasing investment costs, the Mekong Delta is becoming an increasingly attractive investment location. Gradually, the region follows the national trend shifting its industry focus towards value-adding activities. Over the last few years, BDG Vietnam has been working on projects of different investment targets and industries within the Mekong Delta region. We strongly believe that the Mekong Delta has great potential and should not be ignored by foreign investors.

It is, however, of utmost importance for the Mekong Delta provinces to continuously improve their competitiveness. Especially regarding climate change prevention and management, steady economic growth could

be a fundamental cornerstone in facing this challenge. A growing economy would allow for more investments in infrastructure (street network, dykes, water canals) and necessary technology as well as in education and research, thus enabling more adequate climate change prevention and management initiatives.

The Integrated Coastal Management Programme (ICMP) from the GIZ aims to lay foundations for sustainable growth. Major funds are also assigned by other international development partners, providing opportunities for investors in the field of climate protection.

We at **BDG** are driven by the passion for Vietnam. Besides being devoted to contributing to the country's economic growth, we strongly believe in sustainable development. In cooperation with our partner Axel Mierke, we were very pleased to be able to support the ICMP in the creation of this publication, increasing awareness of the opportunities and challenges faced by the Mekong Delta. If you are interested in more information about the Mekong Delta and Vietnam at large, or you are considering other investment options in South East Asia, we would gladly support you in your exciting new journey.

The full publication can be downloaded [here](#). Please find additional materials and information on the following webpage: www.invest-mekong-delta.com

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More information about ICMP and the publication:

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