

Export demand a boon for Vietnam provinces, pre-built factories

Supply chains for Samsung, Lazada push trade to second-tier industrial zones



An audio parts factory outside Hanoi. Foreign manufacturers are moving beyond big cities, distributing the fruits of trade more evenly around Vietnam. (Photo by Lien Hoang)

LIEN HOANG, Nikkei staff writer

HO CHI MINH CITY -- Leafy jungles are turning into concrete jungles in Vietnam as suppliers to the likes of Samsung and Walmart move into ready-built factories and second-tier provinces after prime real estate was scooped up in an earlier wave of supply-chain relocations.

Among 20 top cities and provinces, Vietnam's foreign direct investment from 2016 to 2021 more than doubled in just five places -- all of them second-tier provinces and a sign that such industrial investment is reaching beyond greater Hanoi and Ho Chi Minh City. The five provinces include Ha Nam, home to Apple supplier Seoul Semiconductor, and Bac Giang, a manufacturing hotspot for Samsung.

Production of MacBooks, washers, solar panels and other exports has been shifting to Vietnam, driving demand in industrial zones. But domestic factors are also at play. An e-commerce explosion has required more warehousing, while a COVID-fueled exodus from the cities has factories relocating to the countryside where workers have fled.

The supply of ready-built factories jumped 53.8% this year versus 2018 in provinces surrounding Hanoi and Ho Chi Minh City, according to real estate services company Cushman & Wakefield.

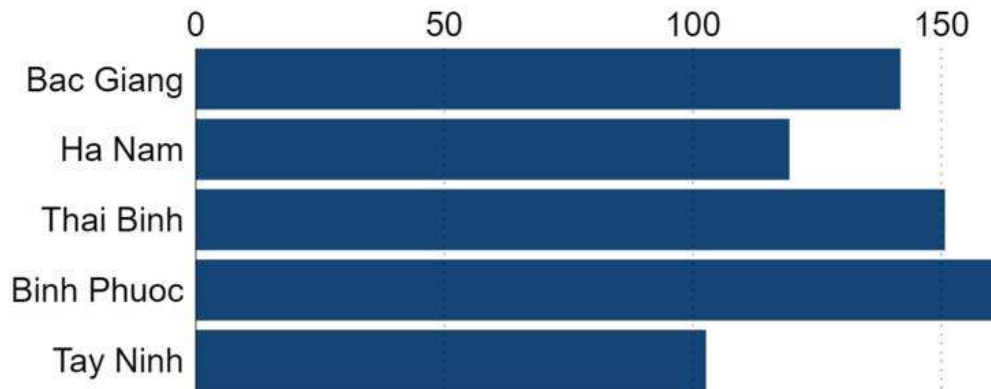
"I think there's a lot of money being left on the table," said Tran Phuong, head of Vietnam operations at venture capital company Wavemaker.

She said the country has "a major influx of warehouse suppliers" to serve e-commerce and other clients, but still needs far more logistics to satisfy industrial appetite.

Investors have been moving in from China, Malaysia and Thailand for years, with early birds able to nab land in and around Vietnam's two biggest cities. But as industrial parks fill up, newer arrivals have two other options: move farther out, or lease ready-built warehouses and mills from companies that have already amassed land.

Vietnam FDI growth (%) by province, 2016-21

Top 5 second-tier provinces beat growth in greater Hanoi, HCMC



Source: Vietnam Ministry of Planning and Investment

Wareflex -- something of an Airbnb for warehouses -- said that while many businesses build their own storage facilities, others increasingly are opting to rent. Construction is costly, whereas tenants may save money if inventory fluctuates and they only pay for storage when needed, according to Chief Operating Officer Nong Tu Lam.

"The trend indicates that more professional warehouse providers are coming to Vietnam and local providers are improving," he said in an interview.

As manufacturers enter the communist country, logistics giants and construction companies are following -- from Taiwan's ALP to Japan's Kajima, which just co-launched a \$421 million construction project for custom-built factories and warehouses up and down the country.

In October, Vietnam lifted its strictest pandemic lockdown, enabling migrant workers to return to the safety of their rural hometowns. Struggling to win them back, some employers have reached out. Walmart and Primark garment supplier Nha Be, for example, shifted operations to the Mekong Delta and central Vietnam when the exodus made it harder to hire in Ho Chi Minh City, the trade and industry ministry's magazine reported.

But a bigger contributor to the industrial sprawl is online shopping, which jumped 53% from 2020 to 2021, according to a joint report by Google, Temasek and Bain. To store and process goods ordered on Shopee and Lazada, warehouses are springing up all over Vietnam, with supply rising about 25% a year from 2018 to 2020, according to Mirae Asset.

JLL Vietnam research head Le Thi Huyen Trang says choice locations have already been snapped up within 30 kilometers of Ho Chi Minh City and Hanoi.

"Large investment is gradually shifting to industrial parks in the lower-tier provinces owing to competitive land cost, strong tax incentives and remaining labor force," she told Nikkei Asia. "Due to the scarcity of land, ready-built facility developers are also looking to expand their presence in second-tier regions."

All the new facilities will need access to roads and ports. Vietnam must increase connectivity if it is to move up the global value chain, Maybank economist Brian Lee Shun Rong said in an interview.

Otherwise: "Infrastructure will not be able to keep up with industrialization demand," he said. "After that, there will be more bottlenecks and more supply disruptions within the country because of congestion."