

# Investing In the Mekong River Delta of Vietnam – The Opportunity for Small and Medium Enterprises of Korea

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## Abstract

This article provides a direction for future research in small and medium enterprises invest in foreigner countries; specially in Vietnam market. The major projects that Korea Enterprises invested covered mostly in the Northern of Vietnam provinces such as Bac Ninh, Ha Noi, Hai Phong, Thai Nguyen. Meanwhile, in southern Vietnam, the Mekong River Delta region with many projects calling for investment in agriculture and tourism has not attracted much attention from Korean investors.

The article using the method of descriptive statistics to overview the project investment in agriculture and tourism of the Mekong Delta of Vietnam and points out the advantages of Korean small and medium enterprises (SMEs) in these two sectors. The results of study showed that Mekong River Delta has incentive policies for investment. Besides, with the general policy of Vietnamese government for agriculture and tourism projects, they had incentive policies for foreigner invest in these fields. Moreover, Korea has many small and

medium enterprises (SMEs) as well as investing experience in Vietnam. This articles strongly encourages the research of the opportunity for foreigner SMEs invest in tourism and agriculture in other countries, especially emerging market as Vietnam.

**Keywords:** Investment, Opportunity, Korea, Southwest of Vietnam

## 1. Introduction

Vietnam was the fourth largest destination of investment of Korea. According to reports from General Statistics Office of Vietnam, in 2016, the invested capital of Korea accounted for 30.8% of total foreign invested capital in Vietnam. Korean enterprises invested mostly on manufacturing, made up 71% of Korea's total invested capital in Vietnam. Electronics and telecommunications are the two fields that have been invested the most (Oh & Mah, 2017). From 2014 backwards, Korean investors in Vietnam were large industry corporations, namely Samsung, LG, Kumho, Posco, Lotte, E-Mart,... For the past three years, there have been many small and medium enterprises (SMEs) investors investing independently or representative office of the large corporations. Oh and Mah (2017) found that the reason why Korean SMEs have continuously increased their investment in Vietnam is because of the attractiveness of low-wage and high-quality labor. Although some enterprises did not invest successfully, the proportion was not considerable. In 2014, SMEs accounted for 46.6% Korea's foreign direct investment (FDI) in the world, particularly in Vietnam the proportion was 60%. Therefore, SMEs played an important role in Korea's FDI in Vietnam.

The majority of Korean SMEs' investment projects have been in Northern provinces of Vietnam, while Southern provinces, especially the Mekong River Delta of Vietnam, have hardly had any project. Meanwhile, this region has quite many projects inviting investment in many fields, including small-scale projects on green agriculture and green tourism suitable for SMEs' ability. This article used descriptive statistics and inferential statistics to systematize the agricultural and tourist projects which the Mekong River Delta of Vietnam has called for investment, in order to provide an overview of the projects inviting investment in these two fields of the region. On this ground, the article analyzed the opportunity of investment for Korean SMEs.

## 2. Overview of Korean SMEs

SMEs play an important role in the economy of Korea. Within 10 years (2005 - 2014), the number of SMEs increased from 2,863,583 firms to 3,542,350 firms. The number of employees in SMEs accounted for 87.8% of the total employees in all industries. The five fields where SMEs made up the largest proportion were Wholesale and Retail, Accommodation and Restaurants, Manufacturing, Transportation, and Repair & Other Individual Services (see Table 1). Therefore, it is not surprising that for the past years many SMEs in Wholesale and Retail have invested in Vietnam. The field of Accommodation and Restaurants came second with a proportion of nearly 20%, which shows that this field was also a strength of Korean SMEs. However, the field of Agriculture, Forestry, and Fishery had few SMEs with a very small proportion of only 0.03%, but the average number of employees in each SME was much higher with more than 10 employees while the average number of

employees was only 4 employees.

Table 1. Five industries Korean SMEs most involved, 2014

		No. of Firms	Proportion (%)	No. of Employees	Proportion (%)
	All SMEs	3,542,350	100.00	14,027,636	100.00
1	Wholesale & Retail	986,370	27.85	2,833,469	18.40
2	Accommodation & Restaurants	701,181	19.79	2,021,946	14.41
3	Manufacturing	392,665	11.08	3,185,560	22.71
4	Transportation	375,381	10.60	914,971	6.52
5	Repair & Other Individual Service	300,532	8.48	656,650	4.68

Source: Statistics Korea (2014)

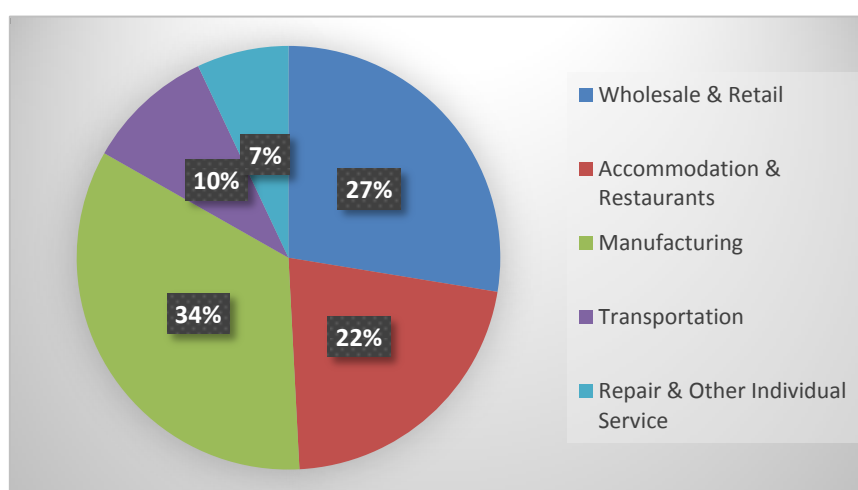


Figure 1. Five industries Korea SMEs invested in Viet Nam

Source: Statistics Korea (2014)

According to the data from statistics of Korea, SMEs invested the most of projected for manufacturing, with 34% projects because of the attractiveness of the low-wage and high-quality labor. Besides, wholesales & retails are the second largest of projected that attracted SMEs for investing.

### 3. Korean SMEs' investment in Vietnam

Table 2. Top four countries investing in Vietnam (accumulation of projects having effect as of 31/12/2016)

	Number of projects	Proportion (%)	Total registered capital (Mill. USD)	Proportion (%)
Total	22,594		293,700.40	
Korea	5,773	25.55	50,553.50	17.21
Japan	3,292	14.57	42,433.90	14.45
Singapore	1,796	7.95	38,255.40	13.03
Taiwan	2,516	11.14	31,885.50	10.86

Source: Vietnam General Statistics Office (2017)

According to the General Statistics Office of Vietnam, in 2016, the number of Korean FDI projects in Vietnam made up nearly 26% of the total foreign investment projects in Vietnam, and Korea was the country with the most FDI projects. The total registered capital of Korean investors was also the most (more than 50 billion USD), making up 17.21% of the total registered FDI capital (see Table 2).

Table 2 shows the number of projects and the total registered capital accumulated until 2016. Particularly in 2016, Korea also stood first with 849 projects, making up 32.49% of the total projects and the total registered capital accounted for nearly 30% of the total investment capital in Vietnam (see Table 3).

Table 3. Top four countries investing in Vietnam in 2016

	Number of projects	Proportion %	Total registered capital (Mill. USD)	Proportion %
Total	2,613		26,890.50	
Korea	849	32.49	7,965.20	29.62
Japan	351	13.43	3,035.90	11.29
Singapore	213	8.15	2,414.70	8.98
Taiwan	125	7.48	2,194.40	8.16

Source: Vietnam General Statistics Office (2017)

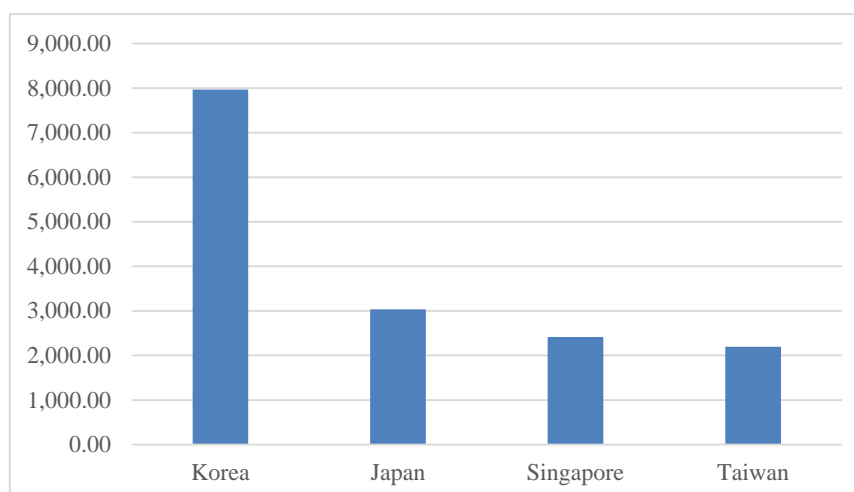


Figure 2. Four countries invested in Viet Nam (source Vietnam General Statistics Office 2017)

Oh (2017) found out the total of number of overseas enterprises, small and medium-sized enterprises (SMEs) accounted for 46.6% of Korea's FDI in the world, while they took up 60% in Vietnam as of 2014. Besides, Korea is a country that had the largest of the total registered capital in Viet Nam, with nearly 8,000,000 million USD.

According to Korea Trade-Investment Promotion Agency (KOTRA, 2017), around 95% of all Korean investment projects were from SMEs with employees less than 500 and sales less

than 150 million USD. These projects were mostly in the fields of processing and manufacturing industries. Korean large corporations, though accounted for only 5% of all investment projects, achieved more than 70% of the total registered capital in Vietnam. The invested areas were mainly provinces in the Northern Vietnam such as Bac Ninh, Ha Noi, Hai Phong, Thai Nguyen (KOTRA, 2017).

Moreover, a survey on 540 Korean enterprises of Korea International Trade Association (KITA) studied in 2015, all enterprises confirmed that they had plans to develop business in the Vietnamese market. The invested fields were mainly processing and manufacturing industries and real estate. Accommodation and catering services accounted for 2.1% of the total invested capital.

On the other hand, the reasons why Korean SMEs enthusiastically invested in Vietnam is because of the attractiveness of the low-wage and high-quality labor. Oh (2017) pointed out the attractiveness of Vietnam's labor force came not only from its low wage but also from its high quality and education. Wright and Blomenhofer (2017) studied that from 2015 Vietnam had 91.7 million population, with 69.6 million being aged 15 and above. A young, generally well-educated labor force presents significant opportunity for the next phase of Korean manufacturers. With monthly minimum wages ranging between VND 2.4 million and VND 3.5 million (USD 106 - USD 154), Vietnam remains competitive in comparison with other regional FDI destinations such as Thailand (approximately USD 168 per month) and China (approximately USD 240 per month). Vietnam is also a potential consumer market. Besides, Vietnam is one of the most attractive markets in the world with their substantial economic growth and increasing number of middle class. The economy grew 6.81% with 8% construction, 7.44% service increase and 10.9% of retail sales gain in 2017 (Phuong, 2017). In addition, Vietnam is an attracting market for foreign marketers with over 90 million people and an average annual growth rate of 10-15% (Tran, 2015). Besides, it is forecasted that the middle class will be tripled in Vietnam between 2012 and 2020 ("Vietnamese Consumers", 2013). With significant growth in middle class, Vietnamese consumers are buying more sophisticated products and services. For example, urban Vietnamese women aged between 20 and 45 have increased their spending on apparel up to 18% of their monthly income (Breu et al., 2010). Vietnamese consumers show great interests in foreign products as well as travel in foreign countries as their demands get more cultivated (PricewaterhouseCoopers LLP. 2005).

#### **4. The opportunity for Korean SMEs in the Mekong River Delta of Vietnam**

The figures in Table 4 were taken from the list of the projects calling for investment from the provinces in the Mekong River Delta. There are totally 79 projects in the field of agriculture and 76 projects in the field of tourism (see table 4). The majority of the projects does not suggest the levels of investment capital but leave it to investors' decisions. The agricultural projects may need a lot of labor, so investors may benefit from low-wage and high-quality labor as mentioned above. High quality agricultural products can not only be exported to other markets, but they can also be consumed easily in Vietnam because of the increase of the middle class. Agriculture is also the field of investment which is incentivized: besides the general incentives of the government, the local authorities of the provinces in the region offer

their own incentive policies, such as remission of land rent fees and remission of water surface rent fees from within 10 years to the whole lifetime of the project, or reduction of 50 - 70% of the total rent fee (Ben Tre People's Committee, 2017).

Table 4. Numbers of agricultural and tourist projects calling for investment in 2017

Province	Agriculture	Tourism
Total	79	76
An Giang	21	9
Bac Lieu	7	9
Ben Tre	8	8
Ca Mau	0	2
Can Tho	1	2
Dong Thap	4	11
Hau Giang	3	2
Kien Giang	10	5
Long An	1	2
Soc Trang	3	9
Tien Giang	1	2
Tra Vinh	18	13
Vinh Long	2	2

Source: Extract from the list of projects calling for investment of provinces in the Mekong River Delta of Vietnam (2017)

The tourist projects are rather various, with ecotourism projects being a majority, such as riverside or coastal resorts, entertainment complexes, restaurants, hotels,... Some projects are small scale with an area of around 10 hectares and with no need for large investment capital, which is suitable for SMEs. This is the field in which SMEs have advantage as presented in the previous section of overview of Korean SMEs.

## 5. Conclusion

The Mekong River Delta of Vietnam currently has 60 agricultural projects and 48 tourist projects calling for foreign investment, mainly high-tech agriculture and ecotourism. Among these projects, there are quite many small scale projects with no need for large investment capital, so they are suitable for SMEs' financial ability. In addition, Korean SMEs have advantage in the field of accommodation and restaurants, so they may benefit from investing in small scale ecotourism projects. The opportunity for SMEs when investing in the Mekong River Delta of Vietnam may lie in the market of high quality agricultural products and ecotourism which are developing, because the middle class is increasing with the growth of the economy and incentives in land rent and water surface rent fees.

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