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# Ba Ria-Vung Tau Province: A vanguard for advancing the Australia-Vietnam economic relationship

Kyle Springer



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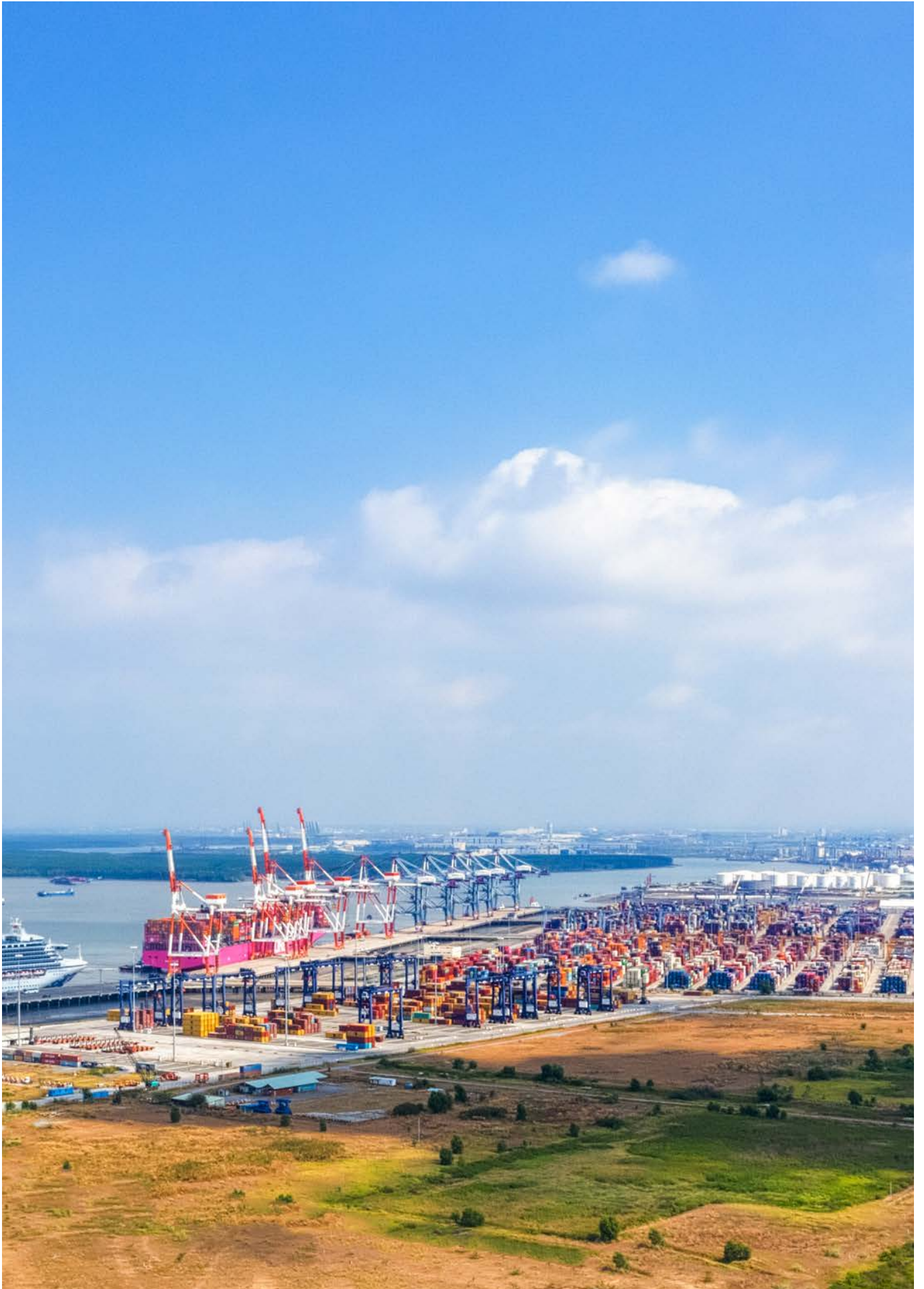
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## EXECUTIVE SUMMARY

**Ba Ria-Vung Tau (BRVT) province is an emerging economic hub in Vietnam.** It is the gateway for international trade for the greater Ho Chi Minh City Metropolitan region, an area with a population of 21 million. BRVT is the fourth-most popular destination in Vietnam for foreign investment.

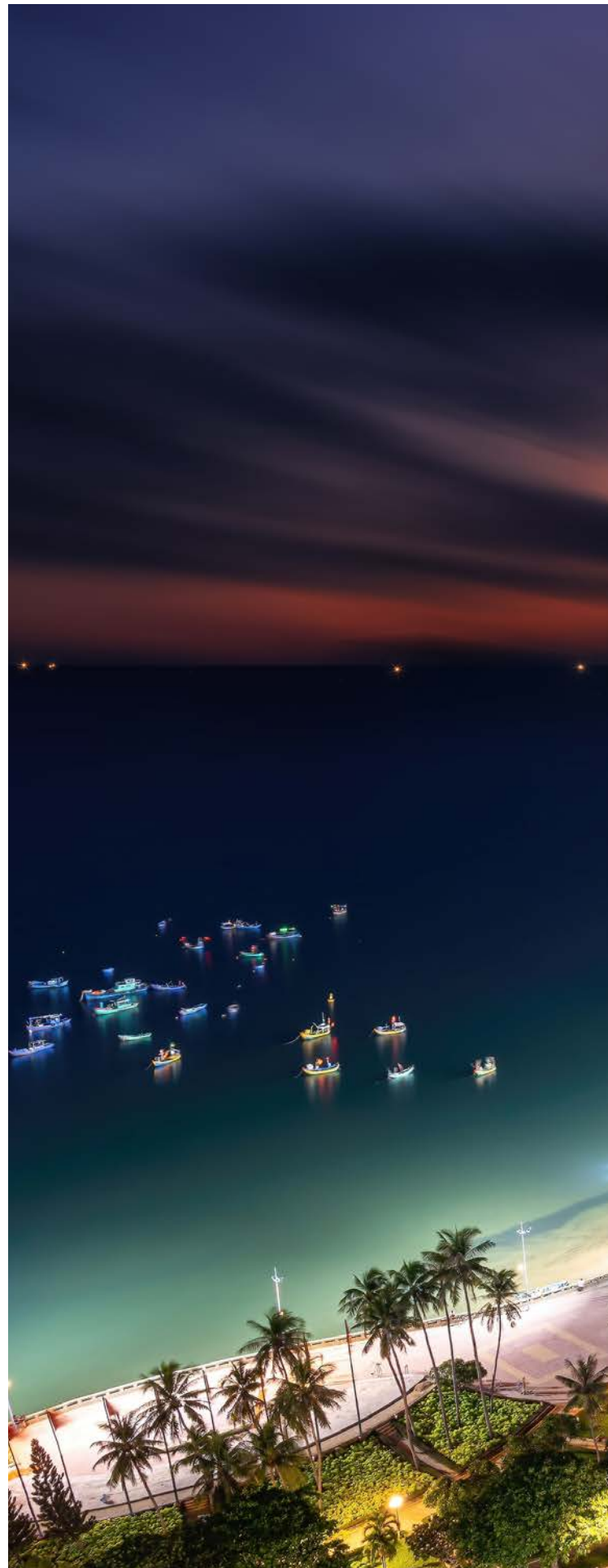
**New developments in and around BRVT make it a competitive destination for Australian investment.** Seaport infrastructure and a new international airport under construction in a neighbouring province promise to boost its international connectivity. The province is also the location of national LNG import infrastructure, which is likely to expand as Vietnam's energy system is modernised.

**Australian businesses have an established footprint in BRVT.** Australian companies were among the first foreign firms to invest in the province after Vietnam's economic reforms began in the late 1980s. These businesses understand the province's regulatory environment, and are a resource for other Australian businesses seeking to enter the province.

**BRVT is an ideal focal point for efforts to upgrade Australia-Vietnam economic ties.** Australia has established policy frameworks to build trade and investment links with Vietnam, including the CPTPP and RCEP. BRVT's features make it an ideal geographic gateway to realise this agenda.

**The Western Australia government signed a Memorandum of Understanding (MoU) with BRVT province in September 2020.** The MoU establishes three pillars of cooperation between the two governments: economic cooperation, education, and culture and the arts. The MoU aims to develop trade and build closer links between government and business.

**A clear understanding of BRVT's economic environment is key to unlocking deeper connections.** An opportunity exists to gather together the expertise of Australian entities in BRVT, and to develop a "roadmap" program for building stronger bilateral economies ties using BRVT as a base.









## INTRODUCTION

Australia is recalibrating its economic relations in the Indo-Pacific region. A renewed focus on building trade and investment ties with its fast-growing neighbours in Southeast Asia has accompanied a new economic architecture. This includes the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) with eleven regional economies; and soon the Regional Comprehensive Economic Partnership (RCEP) between ASEAN and five of its partners. In different ways and with different memberships, both agreements establish new rules for investment, regulatory alignment, trade in services, and tariff elimination. The CPTPP offers a strong framework for investment partnerships and RCEP, once it enters into force, will contribute a regionally-focused foundation for value chain links. Vietnam is one of very few major economies – along with Singapore, Malaysia, Japan and Australia – that are party to both RCEP and the CPTPP. These agreements open up new opportunities to deepen Australia-Vietnam economic ties.

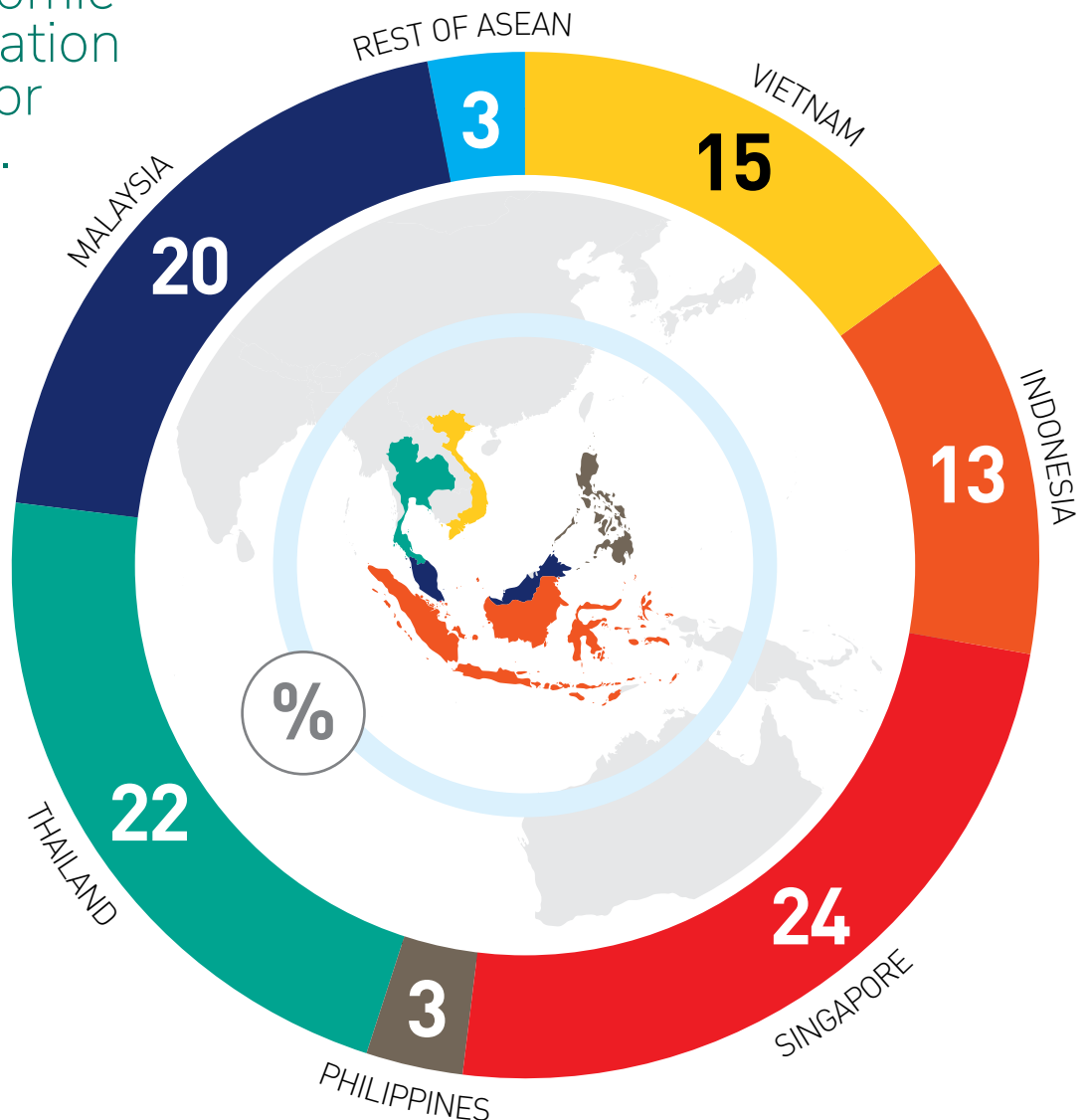
Vietnam’s economy is characterised by high-speed growth, open trade policies, and policy frameworks designed to attract foreign investment. Vietnam’s participation in the international economic architecture has been instrumental in its growth. This has paved the way for Vietnam to become a preferred destination for firms seeking alternatives to China as a manufacturing base under the so-called “China plus one” strategy. This industrialisation trend is an engine for continued high-speed growth of the kind that will propel Vietnam to join the ranks of the world’s top 20 economies by 2050.

Meanwhile, Australia’s trade with Vietnam has increased within this positive environment. Vietnam is emerging as one of Australia’s top trading partners among members of the Association of Southeast Asian Nations (ASEAN) (See Figure 1). While Malaysia, Singapore and Thailand account for almost three-quarters of Australia’s trade with the region, Vietnam has seen a steady increase in its share of trade with Australia over the past ten years, reaching 15 percent in 2020. With robust economic frameworks in place, their trade is poised to continue this upward trajectory.

Vietnam is a top economic diversification partner for Australia.

**FIGURE 1.** Share of Australia’s Two-Way Trade with ASEAN in 2020

Source: Author’s Calculations, DFAT Trade Statistical Pivot Tables



The economic frameworks that Australia and Vietnam share in RCEP and CPTPP are complemented by a high-level Strategic Partnership completed in 2018. The Strategic Partnership establishes an annual ministerial-level Economic Partnership Meeting to identify opportunities and expand economic ties. It also includes pledges to deepen bilateral trade and investment. These developments have created a much-needed and timely framework for deeper Australia-Vietnam economic relations at a national and international policy level. Diversification efforts also need sub-national element. This is important particularly in the case of large economies such as Vietnam to account for the fact foreign investment policies and incentives can be augmented at the provincial and local levels.

## Australia's approach to economic engagement with Vietnam must include sub-national engagement.

Tools for economic engagement at the sub-national level can take the form of provincial-level arrangements such as sister-province programs, and municipal-level programs such as sister-cities. One example of provincial-level engagement between Australia and Vietnam is the memorandum of understanding (MoU) between the provinces of Western Australia and Ba Ria-Vung Tau, signed in September 2020. This MoU has a focus on promoting economic cooperation, education links, and culture and arts exchanges between the two provinces. The economic cooperation elements of the MoU are a particularly relevant tool given the province's standing within Vietnam (See Table 1).

Ba Ria-Vung Tau (BRVT) has many characteristics making it an important base for industry in its surrounding region in south-eastern Vietnam. It is part of the greater Ho Chi Minh City metropolitan area, the most highly populated region in the country. It has trade-relevant infrastructure, including deep-water ports and foreign-invested industrial parks (See Map 1). However, the key feature of the province for Australia is that it is already host to a number of Australian companies operating in Vietnam. As Australia seeks to build relationships and business partnerships in Vietnam, BRVT will become an important geographic base to concentrate its economic efforts. A pathway can be built on the success and experience of the Australian companies there. Western Australia's initiative to establish a MoU with BRVT with a strong economic cooperation component adds a much-needed tool to Australia's diversification toolkit.

### ECONOMIC COOPERATION

- Facilitating business-to-business links
- Exchange of annual trade delegations
- Public service exchange between government and industry agencies



### EDUCATION

- Connecting education and training providers
- Promotion of sister school arrangements
- Cooperation on curriculum delivery



### CULTURE AND THE ARTS

Artist exchanges between cultural and educational institutions



**TABLE 1.** The Western Australia – Ba Ria-Vung Tau Province MoU At-a-Glance



## GATEWAY FOR AUSTRALIA: DEVELOPMENTS IN BRVT PROVINCE

BRVT has outsized importance in its role in the economy of south-eastern Vietnam. Its population centres are a mere 100kms from Ho Chi Minh City, the most populated city in Vietnam, and is part of the city's broader metropolitan area. While BRVT's population itself is only 1.1 million, the metropolitan area of which it is a part is populated by 21 million people. It is a top destination for foreign direct investment (FDI) in Vietnam. In 2021, the province had USD 33 billion in investment, making it the fourth-most popular province for FDI out of the country's 63 subnational destinations<sup>1</sup>.

A coastal province, BRVT has a significant network of deep-water seaports making it a gateway for international commerce for south-eastern Vietnam (See Map 1). The Cai Mep-Thi Vai international port complex has a strategic position with a central geographic location in Southeast Asia and easy access to the region's major shipping routes. A network of highways connects the port complex with neighbouring provinces and the government is planning a railway connecting it to Bien Hoa, a neighbouring industrial province<sup>2</sup>.

The port complex has an annual capacity of 6.8 million twenty-foot equivalent units (TEUs), a unit of cargo capacity based on the standard size of intermodal containers. The Thi Vai River has a natural depth of 14 meters, allowing access to large ships that other ports such as Cat Lai, an inner-city river terminal at Ho Chi Minh City cannot provide. The capabilities of this port complex supports BRVT's fifteen industrial zones, many of which are adjacent to the port complex.

### BRVT's infrastructure make it an economic gateway to south-eastern Vietnam.

The BRVT provincial government has established four new industrial zones, and many existing zones are operating at full capacity. Key industries supported in these developments include oil and gas, engineering and mechanical, metallurgy, medical equipment, components, and chemicals. The province's expanding industrial base is driven by a larger trend known as the "China plus one" strategy. Under this strategy, firms with international value chains are relocating labour-intensive stages of production to other countries such as Vietnam, which offer more competitive labour costs. This trend has been accelerated by US-China trade disputes and the COVID-19 pandemic.

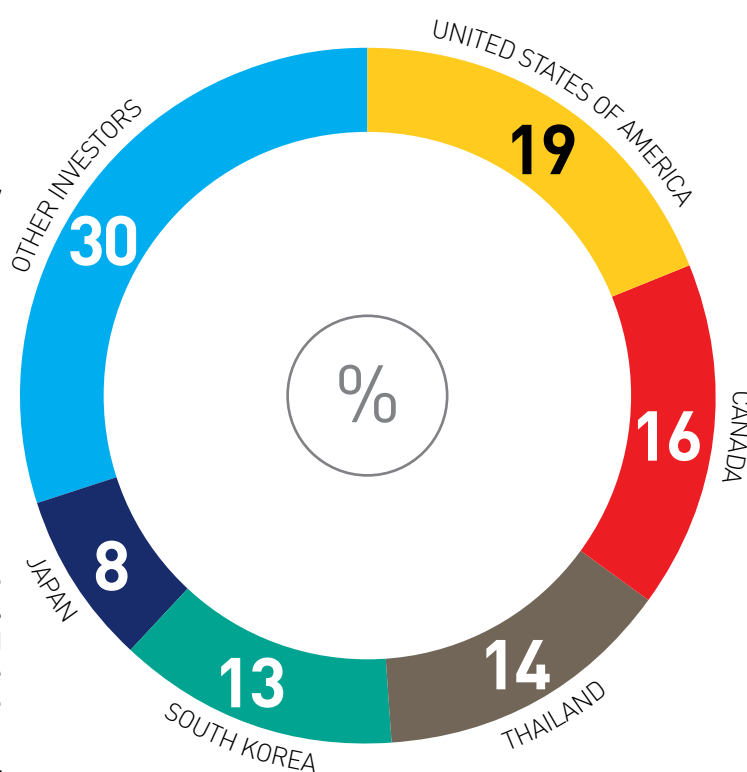
In recent years, US tariffs on Chinese manufactures have prompted companies to move or consider moving operations from China to industrial zones in Vietnam to avoid duties and preserve the cost structure of their products<sup>3</sup>. Firms are re-examining their value chains to see where they could be over-exposed to geoeconomic risks such as the US-China trade war. BRVT's economic geography, its international connectivity, reliable infrastructure, and proximity to Vietnam's most populated city makes the province a strong contender

for "China plus one" investment from international firms. This industrial expansion will, in turn, drive demand for Australian primary products, technology, and services<sup>4</sup>. Positioning Australia as an important economic actor in the province will support these opportunities.

The province's connectivity will be enhanced by a new international airport development in neighbouring Dong Nai province. Long Thanh International Airport is currently under construction and is assessed as one of the most expensive infrastructure projects in Vietnam, expected to cost almost USD 20 billion. Long Thanh Airport is designed to relieve the overcrowded and land-constrained Tan Son Nhat Airport in central Ho Chi Minh City and serve as the major airport for the metropolitan area. The airport at Long Thanh will open up the region to another 100 million passengers once all three phases of construction are complete. A mere 40kms from the Cai Mep-Thi Vai port complex, the airport is situated at BRVT's doorstep. Australian airports are looking at establishing direct routes to Ho Chi Minh City (See Box 1).

The first phase of Long Thanh International Airport is planned to be completed in 2025, and combined with the port complex, BRVT is set to be a highly connected region, attracting international business interest in the province. Indeed, the province's status as an international investment destination has increased in recent years. Many major foreign investors in the province include many of Australia's economic partners in the region, including the US, South Korea, and Japan<sup>5</sup> (See Figure 2).

**FIGURE 2.** Top Foreign Investors in Ba Ria-Vung Tau (% of total FDI in province)



Source: Author's calculations based on 'Ba Ria-Vung Tau: Destination for investors' (2016), Provincial Government factsheet.



Other developments in BRVT will make it more relevant to Australian industries. Vietnam's need for power generation is driving demand for LNG, but has been constrained by a lack of infrastructure. Coal-fired power plants have been used to meet rapidly growing electricity demand and accounted for 53 percent of Vietnam's energy mix<sup>6</sup>. This has driven increased imports of coal, including from Australia. In 2021, Vietnam's power shortage is estimated at 6.6 billion kWh<sup>7</sup>. BRVT is also a hub for power generation in southern Vietnam. Power plants in the province have a total capacity of 4,244MW, supplying 17 percent of the country's electricity<sup>8</sup>. Phu My industrial zone hosts five natural gas-fuelled power plants which contribute most of the power to this mix alongside solar farms at Da Bac and Chau Duc.

## Vietnam's LNG import infrastructure is being developed in and around BRVT province.

To both increase power generation capacity and shift the fuel mix, Vietnam's government plans to import more LNG, particularly in southern Vietnam<sup>9</sup>. Vietnam's fledgling LNG import infrastructure is concentrated in and around BRVT province. The country's first import facility is the Hai Linh import terminal and regasification plant at Cai Mep. Test runs of the facility were reportedly planned for late 2020 for operations to begin as early as 2021<sup>10</sup>. It will supply natural gas through a pipeline to power plants closer to Ho Chi Minh City. Other projects exist, but are in earlier stages of planning and development. Vietnam's state-owned energy company, PetroVietnam, announced in 2019 the construction of a gas terminal on the Thi Vai River in the province. This terminal would supply power generators in neighbouring Dong Nai province starting in 2022. There are two other notional LNG terminals proposed for BRVT province at Long Son<sup>11</sup> industrial zone and another at Cai Mep<sup>12</sup>.

### BOX 1

## Connecting post-COVID: a Perth - Ho Chi Minh City direct flight?



Perth Airport in Western Australia is seeking to establish a direct route with Ho Chi Minh City. Passenger traffic between Perth and Vietnam has grown at a strong 5 percent per year between 2015 and 2019. Traffic in the 12-month period ending in November 2019 was 80,000 passengers, enough to justify a non-stop service. The notional route would boost Perth's connectivity with Vietnam, and support the development of closer ties between Western Australia and BRVT with regular passenger flows and immediate freight opportunities, even while borders remain closed. The service would operate out of Tan Son Nhat Airport, with the potential for moving operations closer to the doorstep of BRVT province after Long Thanh International Airport's construction is complete.

While industry is a key feature of BRVT's economic geography, it is by no means the only focus of the province's growing economy. With a coastline of 300kms, BRVT is a popular coastal getaway for local and international tourists, reporting almost 2 million visitors in the first half of 2017<sup>13</sup>. The province also encompasses the Con Dao islands national park and with these features BRVT is quickly becoming an attractive tourism destination, with investment in world-class hotels to meet domestic and international demand. With the consistent increase in tourism revenue, the industry is expected to drive sustainable economic transformation and support employment in the province.

## BRVT has long been a major destination for international and domestic tourists.



BRVT's coastline supports an aquaculture production area of over 6200 hectares. The provincial Agriculture and Rural Development Department has driven the growth in sustainable fishing through incentivising and implementing policies to develop high-tech aquaculture models. Farmers have embraced high-density polyethylene (HDPE) floating cages and nets with anti-fouling coatings based on Norwegian technology, which can exploit the deeper and cleaner waters off the coast<sup>14</sup>. This sector's growth is well-positioned to continue, making the province a regional aquaculture hub.

The advanced status of the province's infrastructure, its international connectivity and its industrial base justify a serious examination of the province as an investment destination. BRVT has an additional feature uniquely justifying Australia's attention: that Australian businesses have had a presence in the province for the past three decades.





## AUSTRALIA'S BUSINESS FOOTPRINT IN BRVT

Australian companies were among the first foreign firms to invest in Vietnam shortly after the launch of the Doi Moi economic reforms. As early as 1988, Australia had become one of the top five foreign investors in Vietnam and by 1991 Australian companies had USD 300 million invested in Vietnam<sup>15</sup>. This was significant for Vietnam at that time, which in the years before had virtually no investment from any western country. BRVT province was a focal point for Australian companies even at this early stage.

As early as 1994, BHP had interests in an AUD 1 billion power and fertiliser project along the Thi Vai River in the province, which would have been the largest foreign investment in terms of value in Vietnam in that period<sup>16</sup>. BHP's subsidiary, BHP Petroleum, planned to fuel the power project with flare gas, then a by-product of oil production, from the nearby Dai Hung oil field off the coast of the province<sup>17</sup>. The power project eventuated in the Phu My power generation complex, powered by gas from Dai Hung and Bach Ho oilfields. BHP Steel in 2003 made an AUD 160 million investment in a metallic coating and painting facility in the province<sup>18</sup>. This legacy continues in the province with BlueScope Steel's operations at the Phu My industrial zone.

Australian companies were among the first investors in BRVT when Vietnam opened to foreign investment.

Since these early years, other foreign investors quickly overshadowed Australia's early contributions to Vietnam's industrialisation. Today, Australian investment in the province is estimated at USD 279 million<sup>19</sup>. While this is not insignificant, this level of investment has been dwarfed by the province's major FDI partners such as the USA (USD 5.5 billion), Thailand (USD 3.6 billion), South Korea (USD 3.5 billion), and Japan (USD 2.2 billion) (See Figure 2). In the intervening years, two major companies with a Western Australian presence – Austal and Interflour - have established themselves in BRVT (See Box 2).

### BOX 2

## Western Australian Business in BRVT

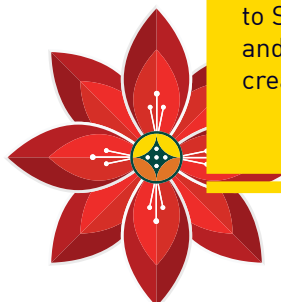


### AUSTAL VIETNAM

is a global shipbuilder, defence contractor and maritime technology partner, specialising in customised commercial vessel solutions. The Vung Tau shipyard was acquired by Austal in 2018 as part of a strategy to expand manufacturing operations for commercial vessels. It is a valuable asset in Austal's shipbuilding network, it complements growing demand and frees up capacity in Austal's WA shipyard for additional defence contracts for the Australian Navy and export markets. The company expects to continue adding value to both the local Vietnamese community and the broader economy by generating local employment and supply chain opportunities. Using innovative shipbuilding techniques, advanced technology, and a modular construction process, Austal has positioned itself with its Vung Tau operations to meet global market demands.

### INTERFLOUR GROUP

is a leading grain processing company in Southeast Asia. In Vietnam, Interflour was established in 2005 with the acquisition of one flour mill at Cai Mep Port in Ba Ria-Vung Tau. It has another mill near Tien Sa Port in central Vietnam. Both mills have a wheat milling capacity of over 1200 tons per day. Interflour expanded in 2017 to include malt production. The new Intermalt facility was built next to the existing mill in Ba Ria-Vung Tau. Interflour and Intermalt have a global supply chain and source grain from Australia, Europe, and North and South America. As well as servicing Vietnam's domestic market, they export to Southeast Asia and around the world. Interflour and Intermalt facilities are placed alongside ports, creating efficiencies in transport and production.







**LEGEND**

-  SEAPORT
-  LNG TERMINAL
-  GRAIN TERMINAL
-  FACTORY / INDUSTRIAL PARK
-  SHIPBUILDING

**LABELS**

 AUSTRALIAN BUSINESS & INFRASTRUCTURE

 BlueScope Steel

 Interflour/Intermalt Facilities

 Austal

 Highway 51

 KEY INFRASTRUCTURE

 1 Saigon International Terminals

2 SP-PSA International Port

3 Tan Cang-Cai Mep Thi Vai Container Terminal

4 SP-SSA International Terminal

5 Cai Mep International Terminal

 6 Hai Linh LNG Terminal

7 PV Gas Thi Vai LNG Terminal

 8 Long Son Petrochemical Industrial Park

9 Phu My I Industrial Park

HO CHI MINH CITY  
(60KM)

Dong Nai

HANOI  
(1,200KM)

Thi Vai River

Ba Ria

Vinh Ganh Rai Bay

Vung Tau

# BA RIA-VUNG TAU

- 1. Anchor icon
- 2. Anchor icon
- 3. Anchor icon
- 4. Anchor icon
- 5. Anchor icon
- 6. Ship icon
- 7. Ship icon
- 8. Factory icon
- 9. Factory icon



The presence of companies such as Austal and Interflour constitute a critical mass of expertise and familiarity with the province and business operations in Vietnam. This institutional knowledge of the province's business environment is a valuable resource to consider as Australian companies seek to diversify. They can attest to the benefits of BRVT's infrastructure and connectivity and can give a prospective company a case study for how the province offers unparalleled access to Southeast Asian markets and opportunities integrate into regional supply chains. A mechanism to capture this expertise and turn it from institutional knowledge to public knowledge can be found in the Western Australia's MoU with BRVT. Through the economic cooperation pillar, a program can be established to create documents and materials to help Australian investors navigate BRVT's regulatory requirements and processes.

## Established Australian companies are an invaluable resource for understanding the business environment in BRVT.

Australia has yet to be represented in other key areas of BRVT's economy which complement Australia's capabilities. Since BHP petroleum divested from the Dai Hung oilfield in 1997, Australia has not had significant involvement in the oil and gas industry in or around BRVT. The present opportunities for Australian involvement in this sector is the continued development of Vietnam's LNG import infrastructure. Investment in import infrastructure would also in turn drive demand for Vietnam to import more LNG. Two barriers stand in the way of Australia selling LNG to Vietnam: US-Vietnam relations and LNG's status as a sensitive public policy issue in Vietnam<sup>20</sup>.

Vietnam's relations with the US is shaping Vietnam's decisions on LNG. US policymakers have seen LNG contracts as a tool to help close the US trade deficit with Vietnam, an approach that was prioritised under the Trump Administration<sup>21</sup>. Although trade tensions remain, Vietnam sees the US as its principal LNG import partner<sup>22</sup>. US-based AES Corporation is accelerating efforts to build a power plant and LNG import infrastructure adjacent to BRVT province in Binh Thuan<sup>23</sup>. Australia competes with US incentives for LNG exports including financing from the Export-Import Bank of the United States (EXIM). The EXIM bank has shown interest in investing in U.S. LNG projects in Vietnam<sup>24</sup>.

## An opportunity exists for Australia to engage in the development of LNG import infrastructure in the province.

At this early stage, Australia's opportunity for engagement in the LNG sector is the development of infrastructure, and the concentration of this activity is in BRVT. Within the province, a particular zone of focus for LNG import infrastructure and related operations is the Long Son industrial zone. This zone is under development to become a national centre of petrochemical production. It offers waterfront access to Ganh Rai bay and consequently offers the opportunity for the deep water port development needed to receive large LNG carriers.

Further strategic investment in the vocational education and training (VET) sector in BRVT would have significant trickle-down effects for Australia's business efforts in the province. Partnerships do presently exist, such as TAFE Victoria's mechatronics trial program with the Ba Ria-Vung Tau College of Technology<sup>25</sup>. The presence of VET institutions providing training based on Australian standards establishes a workforce familiar with the safety policies and work culture of Australian industry. Access to a skilled workforce trained to these standards simplifies recruiting and would offer yet another advantage for Australian industry seeking to establish operations in the province.

There are also opportunities for Australian small and medium size enterprises to gain exposure to the Vietnamese market through establishing operations in BRVT. Tourism and aquaculture are promising sectors as well. An Australian entrant in each sector would significantly raise its profile as an impactful investor in the province and its standing as a partner in Vietnam's continued economic development.

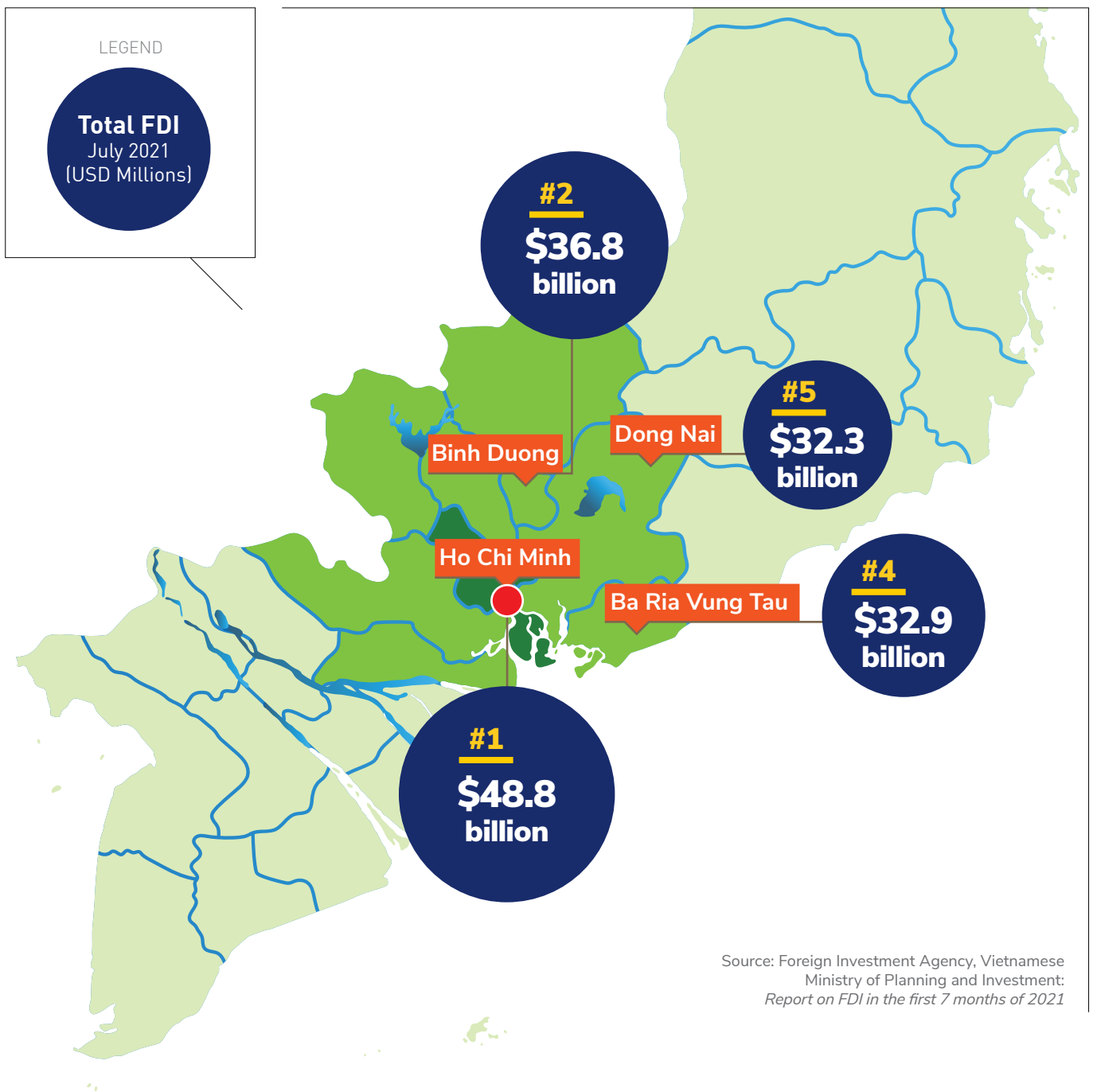


## BRVT AS AN INVESTMENT HUB: INCENTIVES AND EXISTING FRAMEWORKS

BRVT is one of the top destinations for foreign investment in Vietnam. As a testament to the province's favourable policies, total foreign direct investment (FDI) in the province has almost doubled, from USD 18 million in 2010 to almost USD

33 billion in 2021<sup>26</sup>. BRVT's also draws benefits from being co-located with other provinces which are also top investment destinations (See Map 2 Below). This agglomeration of FDI has established the province as an investment hub.

**MAP 2.** Top destinations for foreign investment in Vietnam are concentrated around BRVT



Australia has established policy frameworks to direct Australian investment to a dynamic BRVT. Australia and Vietnam do not share a bilateral free trade agreement. But Vietnam's engagement in the international economic architecture means it now shares membership with Australia in three major multilateral trade agreements: the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP), and the finalised but not yet ratified Regional Comprehensive Economic Agreement (RCEP). These multilateral frameworks can be leveraged for further trade development between Australia and Vietnam.

AANZFTA has been a component of economic cooperation for the past decade, a period that has seen Vietnam rise as one of Australia's fastest growing trade markets in Southeast Asia. Over the past 20 years, two-way trade has grown at an average of almost 9 percent per year<sup>27</sup>. AANZFTA is a stand-in for a bilateral FTA between both countries, while taking meaningful steps towards trade liberalisation. In 2020, AANZFTA's wide-ranging tariff reduction provisions were completed.

## Australia and Vietnam are together in three major trade agreements: AANZFTA, CPTPP, and now RCEP.

The CPTPP is a new and advanced framework, with strong provisions to support a greater Australia-Vietnam investment partnership. The features of the CPTPP that distinguish it from other agreements is its reform agenda and the standards it places on its members. The reform areas of particular importance to companies investing in Vietnam is CPTPP's chapters on state-owned enterprises (SOEs) and designated monopolies, investment, labour, environment and transparency and anti-corruption. Australian business in Vietnam can now compete with local firms in a fairer business environment with more consistent standards, lowering the risks of doing business there.

## KEY PROVISIONS OF CPTPP SUPPORTING AUSTRALIA-BRVT BUSINESS TIES



### CHAPTER 9 INVESTMENT:

Includes an investor-state dispute

(ISDS) mechanism to enforce provisions; minimum standard of treatment, compensation if investment is appropriated; and ISDS safeguards.



### CHAPTER 17 STATE-OWNED ENTERPRISES (SOES) AND DESIGNATED MONOPOLIES:

Guarantees that SOEs act in accordance with commercial considerations when it purchases or sells a good or service; public availability of a SOE list within a timeframe after the agreement's entry into force.



### CHAPTER 18 INTELLECTUAL PROPERTY:

Builds on the existing WTO Trade-Related

aspects of Intellectual Property Rights (TRIPS) agreement: covers copyright, trademarks, geographical indications, patents, industrial designs, confidential information, plant variety protection, and civil, border and criminal enforcement. Not subject to ISDS.



### CHAPTER 19 LABOUR

Effective enforcement of domestic labour

laws; elimination of forced or compulsory labour from supply chains.



### CHAPTER 20 ENVIRONMENT

Supports effective compliance and observance of

domestic environmental laws; cooperation among members in environmental protection and conservation.



### CHAPTER 26 TRANSPARENCY AND ANTI-CORRUPTION:

Requires members to adopt of maintain domestic laws and regulations which criminalise and punish corrupt behaviour in matters related to international trade or investment.



CPTPP's investment provisions includes the establishment of Investor State Dispute Settlement (ISDS) mechanism to help improve investor confidence. CPTPP's investment chapter is a key mechanism for both governments to promote as a method to improve investor confidence as Australia and Vietnam have pledged to double investment stocks as part of their economic partnership objectives. This investment framework creates a new opportunity for Australian companies to confidently invest in dynamic regions of Vietnam such as BRVT. In the case of Vietnam's outbound investment there has been an early outcome under CPTPP. Australia was the top destination for Vietnamese foreign direct investment in 2020. It totalled USD 322 million and accounted for 40 percent of Vietnam's outbound FDI that year<sup>28</sup>.

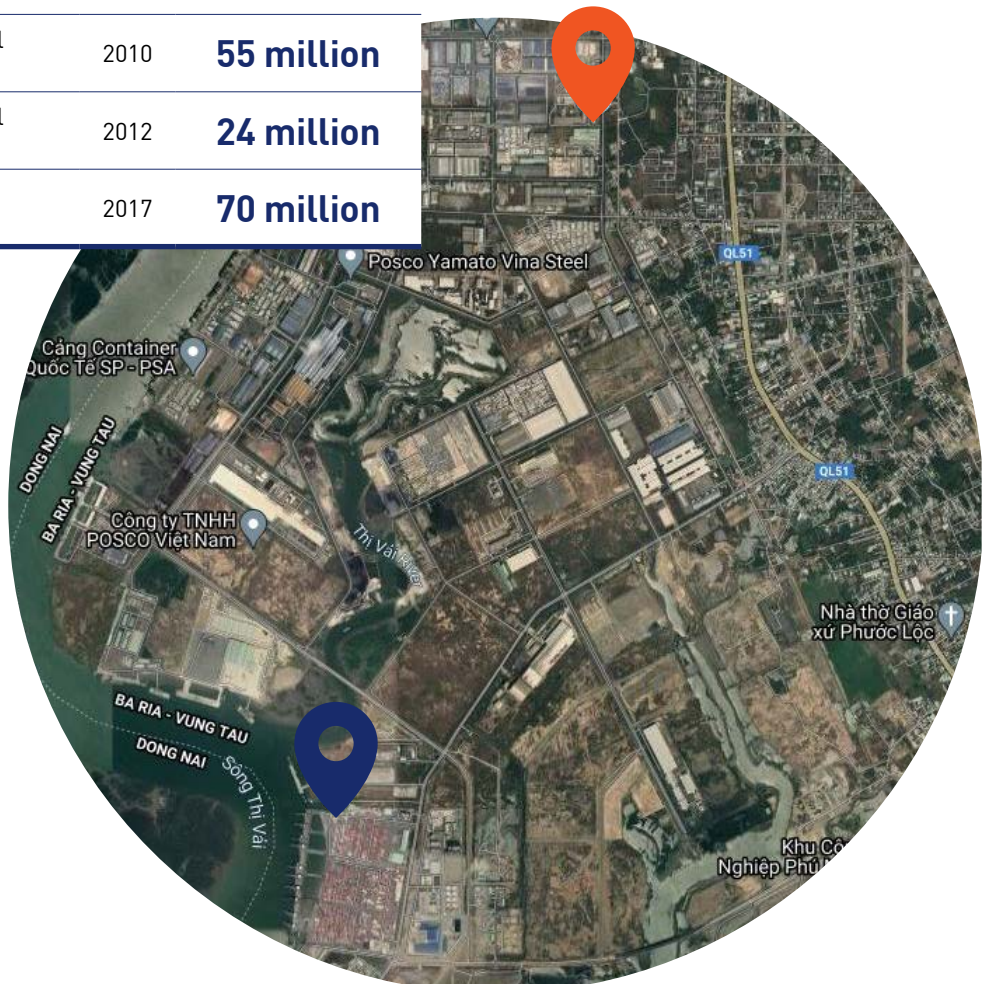
RCEP offers broader membership than the CPTPP, and a regionally-focussed foundation for value chain integration. RCEP's single set of rules of origin (ROO) provisions will allow countries such as Australia and Vietnam to achieve greater value chain integration with Northeast Asia. This means there will now be an agreed-upon protocol for determining the

origin of goods within the Indo-Pacific region. For example, a manufacturer based in BRVT can use Australian inputs in its products and still qualify for tariff preferences when exporting value-added goods to China, Japan, or South Korea. RCEP straightens out this process and places Vietnam as a regional value chain powerhouse. For Australia, RCEP gives its agricultural and mining inputs an advantage in the region driving global economic growth.

At the provincial level, foreign companies have incentives to invest in specific economic zones. This primarily takes the form of corporate income tax incentives for investment in specific districts and in priority sectors. Corporate income tax incentives in Tan Thanh District, which includes Phu My Industrial Zone, includes a 2 year exemption for newly established enterprises from the first year in which a company generates taxable income<sup>29</sup>. Australian companies presently have approximately USD254 million in investments in the Tan Thanh District (see Table 2). These, combined with the national-level frameworks discussed above lower the risk and increase the attractiveness of investing in BRVT province.

**TABLE 2.** Australian investments projects in Tan Thanh District, Ba Ria-Vung Tau<sup>30</sup>

COMPANY	PROJECT	YEAR	VALUE (USD)
 <b>BlueScope Steel</b>	Facility at Phu My 1 Industrial Zone	2005	<b>105 million</b>
 <b>Interflour</b>	Grain Terminal at Cai Mep	2010	<b>55 million</b>
<b>Interflour</b>	Grain Terminal Mill Expansion	2012	<b>24 million</b>
<b>Interflour</b>	Malt Plant at Cai Mep	2017	<b>70 million</b>





In establishing a memorandum of understanding (MoU) with BRVT, Western Australia's government has shown foresight in anticipating the role that the province will play in Vietnam's continued economic growth. The economic pillar of the MoU is of particular relevance. One of its ambitions is to establish a public service exchange between "government and industry agencies" of Western Australia and BRVT (See Table 1). When activated, this mechanism provides the WA government an unparalleled opportunity to engage in policy exchange with the province. The objective of exchanges should be a mutual understanding of business policy in both jurisdictions, which can in turn aid business entrants as they navigate different regulatory environments.

## Western Australia is leading engagement with BRVT through its MoU focussed on economic cooperation.

However, the MoU does not commit any funds towards implementing economic cooperation programs at this stage. Western Australia will need to put resources behind impactful project designs such as the public service exchange. International travel restrictions mean different modes of delivering an exchange program will need to be developed. One possibility is a project bringing public servants in both jurisdictions together to develop a 'roadmap' program for Australian businesses seeking to invest in BRVT mentioned in the previous section.

An economic partnership with Australia is promoted at the highest level of government. The July 2021 visit by Australia's Trade Minister Dan Tehan, during which he met with top members of the Politburo, Vietnam's decision-making body, signalled Vietnam's commitment to expanding economic ties with Australia and attracting Australian business. Discussion on cooperation spanned a number of economic issues including increasing mineral exports from Australia to support Vietnam's growing industry<sup>31</sup>.

In 2021, Australia put new policy incentives in place to aid companies with diversification and promote closer ties with Vietnam. The Australian Government announced in July 2021 it will provide AUD 2.5 million to fund 28 small-scale projects under the Australia-Vietnam Enhanced Economic Engagement Grant (AVEG) pilot program. It disbursed grants to help 300 Australian business to diversify their exports and supply chains with Vietnam<sup>32</sup>.

## Closer business ties with Vietnam has support from the top levels of government in both countries.

Another development are reforms to the Australian Government's export credit agency in 2021. Legislation was introduced to expand Export Finance Australia (EFA) the power to offer equity finance for projects. This reform puts EFA on par with the mechanisms Australia's partners in the Indo-Pacific region possess to take equity positions in infrastructure and major strategic projects linked to export-oriented activities<sup>33</sup>. This is an important addition to Australia's diversification toolkit. While this development is in its early stages, BRVT has potential to be the locus for an infrastructure project in which the Australian Government could make a strategic investment.

The combination of BRVT's geography, infrastructure developments, presence of Australian companies, and detailed frameworks make it a focus for Australia's diversification efforts and a desirable location for investment and infrastructure which drives demand for Australian products.

## STEPS TOWARDS DEEPER CONNECTIONS WITH BRVT PROVINCE

Australia and Vietnam have the elements necessary for a partnership concentrated on the economic hub of BRVT province. Government policy on both sides has aligned with business interests, trade frameworks, and broader economic trends. But the core of a true economic partnership is a network of people-to-people links which can seize the opportunities emerging between Australia and BRVT province. Governments and business must push for new momentum to overcome the stagnation of the COVID-19 period, otherwise risk losing opportunities to countries with more significant investments in the province. The following steps towards deeper connections with BRVT will contribute towards a more active people-to-people network with the capabilities to activate an economic partnership.

### NEXT STEPS TO ESTABLISH DEEPER CONNECTIONS WITH BRVT INCLUDE THE FOLLOWING:

- 1 ESTABLISH AN AUSTRALIAN COMMERCIAL PRESENCE IN EACH OF BRVT'S MAIN SECTORS.** While Australia does not have the scale to be one of the largest investors in BRVT overall, there are significant benefits from ensuring an Australian commercial presence across the sectors in which both countries share economic complementarities. Establishing Australian companies, as both investment and/or trade partners, in the LNG, mineral processing, manufacturing, tourism and agriculture sectors, will open doors to deeper commercial engagement.
- 2 DEVELOP A 'ROADMAP' PROGRAM TO HELP AUSTRALIAN COMPANIES ESTABLISH OPERATIONS IN BRVT.** This program would make full use of the existing knowledge and expertise of companies already operating in BRVT. The roadmap program would serve as a resource for the clarifying of local bureaucratic processes, provincial-level incentives, and utilising existing trade agreements with Vietnam such as CPTPP and RCEP. The program would also include a component that promotes networks between Australian companies, local government officials and industries in BRVT province.
- 3 THE WESTERN AUSTRALIAN GOVERNMENT HAS AN OPPORTUNITY TO ALLOCATE RESOURCES TOWARDS IMPLEMENTING THE ECONOMIC PILLAR OF ITS MOU WITH BRVT.** Western Australia is ahead of other Australian states in their engagement with BRVT. Allocating resources towards implementing the economic pillar of its MoU with the province will solidify its leadership in understanding the economic opportunities in Vietnam. It will open doors for WA business interested in Vietnam as a diversification partner, with BRVT as a focal point.
- 4 THE WESTERN AUSTRALIAN GOVERNMENT SHOULD IMPLEMENT THE PUBLIC SERVICE EXCHANGE COMPONENT OF ITS MOU WITH BRVT.** This exchange offers a unique pathway facilitate exchange of policy ideas and promote understanding of respective business environments. As Vietnam continues its economic reform, Western Australia's policy settings can serve as a standard for provincial and national-level governance. This, in turn, will make Vietnam's regulatory and business environment more attractive for Australian companies and decreases perceptions of risk.

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