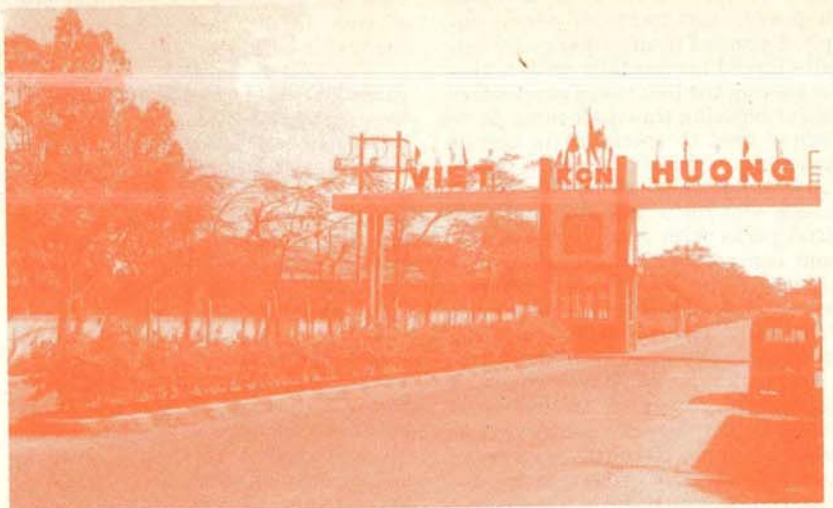


The year 2001 witnesses signs of recovery of flows of foreign capital to Vietnam, including both foreign direct investment and official development aid. The total registered foreign investment in Vietnam in 2001 reached US\$2,436 million increasing by 22.6% as compared with 2000. HCMC ranked second among the most attractive provinces and cities in the eyes of foreign investors. In 2001, it attracted US\$527.58 million of foreign investment, raising the total foreign investment in its economy to US\$10.2 billion, the highest level in the country. HCMC industrial parks and export processing zones (referred to commonly as industrial parks, or IP, hereafter) have played an important role in these achievements. To ensure further developments for these IPs, and the whole HCMC economy as well, a new strat-



HCMC INDUSTRIAL PARKS AND A STRATEGY FOR THEIR DEVELOPMENT

by Dr. TRẦN HOÀNG NGÂN & MEcon. TRẦN CÔNG KHA

egy must be worked out and carried out as soon as possible.

I ACHIEVEMENTS BY HCMC INDUSTRIAL PARKS

1. Increases in investment

Up to April 30, 2002, HCMC IPs have attracted 617 projects (taking only valid ones into account). Of these projects, 288 were invested by foreign parties with a total capital of US\$1.254 billion; 305 were invested by local parties with a total capital of VND6,054 billion. The average investment was US\$4.35 million in foreign-invested projects (increasing by 2.6% as compared with the same period last year) and VND19.85 billion in local ones (a year-on-year increase of 10.4%). The average area occupied by a project was 8,248 square meters.

Regarding the number of projects, Vietnam investors ranked first (307 project representing 49.75% of projects in IPs) followed by Taiwanese (113 projects, 18.31%) and Japan (59 projects, 9.56%).

Regarding the volume of capital, Japan ranked first (US\$424 million

representing 25.71 of the total capital invested in HCMC IPs) followed by Vietnam (US\$395 million, 23.95%) and Taiwan (US\$287 million, 17.4%).

Two IPs alone, Tân Thuận and Linh Trung, attracted 169 foreign-invested projects (55.41% of the number of foreign-invested projects) capitalized at US\$850 million (67.78% of total foreign investment).

The most attractive industries to foreign investors are clothing and footwear (US\$270 million, or 21.53% of total foreign investment), and electronics and electric appliance (US\$238 million, or 19%).

In the first four months of 2002, HCMC IPs attracted 54 projects, including 26 foreign-invested ones capitalized at US\$28.33 million and 28 locally-invested ones capitalized at VND1,240 billion. In these months, 22 foreign-invested projects asked to add US\$19.96 million to their registered capital while seven local ones wanted to add VND63.7 billion to their capital.

The average occupation rate of IPs was 66.4%. Many IPs have had their total areas let (Bình Chiểu,

Linh Trung I, Tân Thuận and Tân Tạo). This rate in Tân Bình IP was 61%; Vĩnh Lộc 63%, Northwest Củ Chi 75%, Lê Minh Xuân 68%, Tân Thới Hiệp 98%, Hiệp Phước 57% and Linh Trung II 70%.

2. Foreign trade

Up to the end of 2001, over 350 companies in HCMC IPs have come into operation and exported some US\$3 billion worth of their goods to some 50 countries and territories. In 2001, the export value of HCMC IPs was US\$850 million (812.4 million of which were from Tân Thuận and Linh Trung I). Main importers of goods from HCMC IPs were Japan (45.3%), the EU (24.1%) and Taiwan (10%).

Subcontracts IPs gave to local companies in 2001 were worth US\$6.5 million while subcontracts done by IP companies for local partners were worth US\$1.98 million (the added value was only US\$0.348 million).

In 2001, IPs bought US\$51.258 million worth of goods (an increase of 141% as compared with 2000) from local suppliers. This was a good sign

that shows improvement in business performance of the domestic production.

In the first three months of 2002, the export value made by IP companies reached some US\$200 million decreasing by 6.7% as compared with the same period in 2001.

3. Labor

Some 100,000 laborers are working in IP companies and thousands of jobs are available for laborers outside IPs. The 62-hectare Linh Trung IP for example, is employing over 46,000 laborers and has led the way in job creation (there are only some

The state management mechanism failed to keep pace with developments of the HCMC economy and of its IPs in particular. The "one-stop" mechanism adopted by the HCMC IP Board hasn't been perfected in spite of recent improvements. Many rights and duties haven't been delegated to local government and the Board as planned.

Policies on taxation, subcontracts carried out by local parties and purchase of goods and services from local suppliers are too strict to encourage cooperation between domestic suppliers and IP companies. At pres-

Overheads and fees of services in HCMC (land rental, labor cost, fees of public utility services, etc.) are high in comparison with neighboring provinces.

III. A STRATEGY FOR IP DEVELOPMENT

1. On IP planning

- The HCMC government must revise the IP Development Plan and make adjustments if need be. Ten years after the building of the first export processing zone and five years after the first industrial park, this task seems necessary and meaningful. In revising the Plan, the HCMC government must think of conditions needed for turning IPs into centers that stimulate economic activities in surrounding districts, and provide for measures to deal with environmental issues. The plan for each IP should also be revised with a view to preventing one factory from causing environmental problems to others (this situation is found in the Vinh LỘC IP).

- The HCMC IP Board could cooperate with municipal authorities in making plans to develop traditional businesses or industrial estates at district level.

2. Infrastructure in IPs

- For the time being, available resources must be mobilize to complete and perfect the infrastructure inside existing IPs. Chinese experience tells us that there must be special incentives for investors, especially foreign ones, to invest in infrastructure inside IPs. The HCMC had better start programs to develop the infrastructure outside the IPs and the central government had better allow the HCMC government to retain some 50% of receipts from IPs in order to finance these programs.

Infrastructure companies must pay full attention to the quality of works they undertake. In some IPs, the infrastructure hasn't built properly and fully because their governing bodies were competing against one another to attract potential investors, which produced bad effects on the business climate in HCMC.

- IP infrastructure companies and related authorities must facilitate the supply of services needed for business circle, such as telecommunications, banking, insurance, auditing, warehousing and customs services to export processing zones with a view to helping companies save time and money.

3. Investment promotion



380,000 laborers working in all IPs in Vietnam). Some 65% of the IP labor force is working for clothing and footwear companies. Most of laborers in IP companies, however, aren't well trained. And as a result, many technology-intensive companies found it hard to recruit good laborers.

Another problem is accommodation for laborers. Most of them live in boarding houses with poor living conditions because no IP company had plans to provide their workers with housing.

II. OBSTACLES TO IP DEVELOPMENT

After ten years of operation, HCMC IPs have faced and caused many problems. The following are some of them.

- There is no master development plan for IPs and surrounding areas. The infrastructure outside the IPs is too poor to meet requirements posed by IP companies.

ent, export processing zones aren't allowed to enjoy more preferential treatment than industrial parks while they are a main instrument for attracting foreign investment and facilitating foreign trade. Industrial parks are usually used in program to move factories from the inner city and produce goods for the domestic market. This means that they are less important to the export business, and the economy as a whole, than export processing zones. These policies proved unreasonable and needs to be amended.

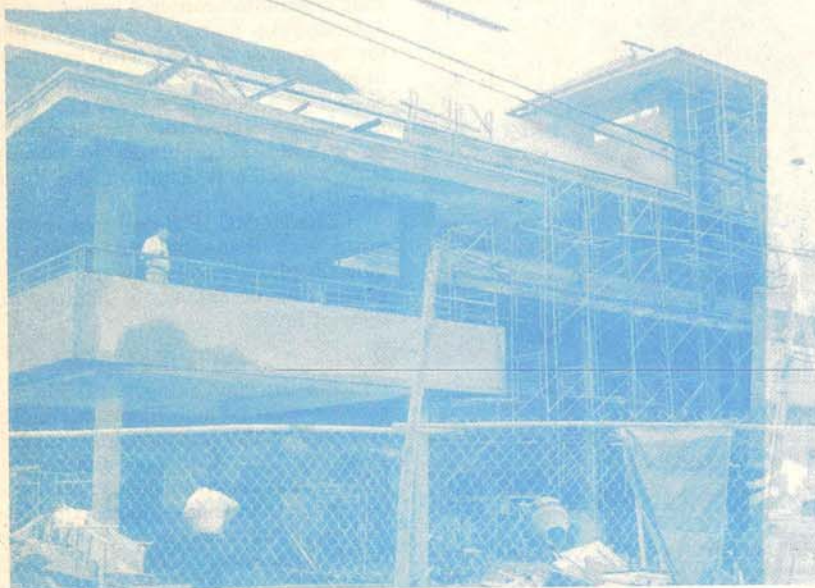
Clearance of land needed for the development of IPs in HCMC is time consuming and costly, which discourages foreign investors. Besides some infrastructure projects in partnership with foreign parties, others projects are badly in need of capital. That is why most infrastructure works weren't completed on time as planned. Poor or slowly built infrastructure is also one of factors causing harm to the business climate.

- The HCMC IP Board must soon open websites for HCMC IPs to make necessary information available for potential investors.

The HCMC government had better establish bodies specializing in promoting investment in HCMC IPs among business circles in foreign countries. Beside traditional markets in Asia, the IP Board must carry out overall researches on potential partners from the EU and North America with a view to attracting more modern technology and managerial skills needed for improvements in competitiveness of Vietnamese products and services.

- Priority could be given to small- and medium -size projects that em-

ploy modern technology. No encouragement could be offered to foreign investment in production of goods that could be made by local producers.



- To promote foreign investment in Vietnam, the Government should ensure a level playing ground and sound business climate needed for success of foreign-invested companies. Their success is the most important factor that will help attract more investors from abroad.

- Each IP also needs an investment promotion program of its own with suitable measures targeting at potential markets. The Government should help IPs hold workshops in foreign countries on business opportunities in Vietnam.

4. More perfect legal infrastructure

- For the time being the Decree 36/CP dated April 24, 1997 providing the statute of export processing

zones and industrial parks must be amended to make it consistent with the Foreign Investment Law and Decree 24/2000/ ND-CP issued on June 31, 2000.

- We suggest the following measures to encourage production of exports: (1) the more the export value, the more tax incentives received; and (2) companies that export 30% of their output are eligible for tax incentives and other preferential treatment (this 30% criterion is, in my opinion, reasonable regarding present capacity of local companies).

- The Government had better allow foreign-invested companies to mortgage their assets connected with the value of land use rights to

banks of all kinds for loan capital they need.

5. Changes in functions of the Tân Thuận IP

Tân Thuận is the first IP in Vietnam that is considered as one of the most successful in the Asia - Pacific region. Since 1999, the WEPZA has advised successful EPZs to make plan to change their functions, from doing subcontracts for foreign companies to engaging in the international trade by producing their own goods. With the globalization and fierce competition in the world economy now, especially for foreign investment, Vietnam had better encourage changes in functions of IPs and EPZs.

The HCMC government, the HCMC IP Board and the Tân Thuận Infrastructure Joint Venture should complete the plan for this effort soon

and submit it to the Government for approval.

6. "One-stop" mechanism for the HCMC IP Board

- The one-stop mechanism for all IPs must be made into law, or when amending the Decree 36/CP for the time being.

- According to existing regulations set by the industrial authorities, the IP Boards all over the country must be delegated the right to grant all certificates of origin of all forms to IP companies that export goods to any markets, instead of granting only certificate of origin form D to goods exported to ASEAN markets as allowed by current mechanism.

- The Ministry of Finance had better allow the IP Boards to examine and deal with problems relating to day-to-day operation of IP companies, and delegate the right to supervise business finance of IP companies (including companies that built infrastructure inside the IPs) to the IP Boards.

- The Ministry of Labor, War Invalids and Social Affairs must reform procedures for issuing working license to foreigners or local laborers working for foreign companies.

- The ISO 9002 criteria could be applied to the IP Boards in order to improve service they supply. The Internet could be used for exchanging information between the IP Boards and the central authorities, and between the IP Boards and IP companies with a view to saving time and money and avoiding missing business opportunities, because many problems could be solved by using the Internet (recruiting laborers, making customs and tax declarations, giving orders for goods, studying new law documents, etc.)

- The HCMC authorities had better think of future developments for the industrial sector, such as the formation of techno-economic development zones or special economic zones following foreign examples.

In short, HCMC IPs gained good achievements in the past decade but they failed to reach full potential of the city because HCMC has favorable conditions for the development of industrial estates of all kinds. A new strategy for their development in the future is of great urgency and this is becoming a great challenge to the HCMC authorities when the HCMC economy is trying to integrate into the regional and the world economy. ■