

# Developing Industrial Parks As a Means of Mobilizing Sources of Capital

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In the past decade, industrial parks (IP) played an important role in attracting sources of capital, especially foreign ones. The strategy to develop industrial parks in Vietnam, however, includes many shortcomings that produced bad effects on the development of these parks and mobilization of sources of capital.

## I. DEVELOPMENT OF INDUSTRIAL PARKS IN THE PAST

### 1. Planning and building of IPs

From August 1996 to June 2004, the PM has approved the establishment of many IPs all over the country. It is planned that the number of

lion plus VND5,376 billion, or some 40% of the registered capital.

Vietnam's IPs have attracted investors from some 40 countries. They started 1,656 projects equaling 33% of FDI projects in Vietnam, with a total capital of US\$13,520 million, or 29.8% of the FDI in Vietnam. IP investors have put some 50% of their registered capital at work. Most FDI projects in IPs are from small and medium enterprises. The average capital per project varied from US\$23 million in 1997 to 21 million in 1998; 3.8 million in 1999; 3 million in 2000; 4.3 million in 2001; 3.2 million in 2002; 3.44 million in 2003 and 4.0 million in 2004.

Table 1: Distribution of IPs over regions

Region	Up to 2010 as planned		Realized up to June 2004		
	Number	Area (hectare)	Number	Area (hectare)	% of the planned target
Mountainous area in the North	5	553	4	353	63.80
Hồng Delta	35	5,645	23	3,345	59.25
Coastal Central Vietnam	29	3,206	17	2,466	76.90
Western Highlands	5	681	2	274	40.20
Eastern South	55	13,271	50	11,579	87.17
Mekong Delta	23	4,573	10	2,226	48.60
<b>Total</b>	<b>152</b>	<b>25,400</b>	<b>106</b>	<b>20,223</b>	<b>79.61</b>

Source: MPI IP Management Bureau

IP will reach 152 by 2010. The following table shows the distribution of IPs.

In the past 12 years (1991-2004) 106 IPs with a total area of 20,223 hectares (not including Dung Quất and Chu Lai Open Economic Zone) have been built, and 13,809 hectares of which are for lease. Of these IPs, 38 are under construction; 47 are in land clearance stage and 21 in operation and expansion. Of 106 IP developers, 19 are foreign ones capitalized at US\$969 million and 87 local ones capitalized at VND20,077 billion. The realized capital of IP infrastructure building are worth US\$500 mil-

Naturally, FDI projects tended to concentrate in provinces with good infrastructure. In the years 1988-2004, the Southern Pivotal Economic Zone (HCMC, Đồng Nai, Bình Dương, and Bà Rịa- Vũng Tàu) accounted for 56% of projects; the Northern Pivotal Economic Zone (Hà Nội, Hải Phòng, Quảng Ninh, Hải Dương, and Vĩnh Phúc) 25%. In the Mekong Delta, 23 IPs with a total area of 4,573 hectares equaling 18% of the total area of IPs all over the country attracted only US\$1,358 million of FDI in the same period representing only 3% of the total registered FDI.

Domestic investment concentrated in 1,422 projects amounted to VND72,000 billion. The most attractive provinces include HCMC, Bình Dương, Bình Định and Phú Yên.

Most foreign-run projects in IPs engaged in light industries. The food processing industry was the most labor-incentive and gained the highest rate of export. Projects in high-tech are rare.

As for the occupancy rate, IPs have leased 5,772 hectares up to June 2004 equaling 41.8% of the area for lease. If 38 IPs that were established in 2003 and 2004, and some others that exist only on paper are not taken into account, the occupancy rate was only 60%.

### 2. Assessment of IP development in the past

Table 2: IP occupancy rate up to June 2004

Occupancy rate	Number of IPs	%
Over 80%	25	23.5
From 50% to 80%	25	23.5
From 30% to 50%	17	16.0
From 10% to 30%	14	13.5
From 1% to 10%	4	3.7
No lease	21	19.8
<b>Total</b>	<b>106</b>	<b>100.0</b>

Source: MPI IP Management Bureau



Photo by Đặng Khoa

a. Shortcomings:

- The development plan for IPs isn't based on scientific grounds. Distribution of IPs over provinces is unruly and based on subjective decisions by local governments with the result that many IPs failed to attract investors after coming into being. The master plan failed to establish cooperation and links between IPs in the same region, encourage the development of high tech industries and solve basically environmental issues.

- IP developers are only interested in leasing the land to investors instead of specialization of IPs and environmental issues.

- Land clearance and compensation payments are huge obstacles to IP developers and investors as well, which means great waste of time and money. And as a result, the infrastructure in many IPs couldn't be built on time.

- Conditions for development of IPs are not favorable enough. The infrastructure outside the IPs isn't built properly because of the shortage of funds and lack of responsibility sense.

- In many provinces, there are small industrial estates and traditional guilds while the Government has no policy to include them in the development of IPs.

b. Some lessons from the past achievements:

- Open policies of the central government and support from local ones are much needed. In fact, sudden changes in economic policies forced investors to change the decisions on investment.

- Good location for the IP is a matter of great importance, so this

problem must be handled with great care.

- Public investment must be employed at the right time and place to create favorable conditions for investors. Local government should avoid investing in districts where the infrastructure is still lacking. Foreign experience shows that not all IPs with good infrastructure are attractive to investors.

- Patterns of IPs must be investor-oriented. The development of IPs must be based on investors' demands instead of subjective decisions by local authorities.

- Full attention must be given to prestige investors, thereby attracting other ones and their satellites.

## II SOME SUGGESTIONS

### 1. Better planning and implementation

- A system of scientific standards must be worked out to serve as a basis for the IP planning.

- The IP planning must be suitable for local needs and potentials, and make the best use of local advantages.

- In IPs, concerns of the same nature or in the same industry could be grouped with a view to facilitating the task of dealing with environmental issues. It's better to specialize IPs in appropriate industry so the infrastructure could be built according to industrial requirements.

- IP development plan should ensure links and cooperation between provinces and IPs, and appropriate to development plans for other fields.

- The legal infrastructure must be perfected to serve the planning task

and the state control over IP development.

### 2. Better business climate

- Building infrastructure both inside and outside of the IP in an effort to reduce costs and time for investors and ensure communication between IPs.

- Developing the human resource for IPs.

- Perfecting the bulk of subordinate legislation on foreign investment in IPs.

### 3. Effective marketing strategies

IP developers should ensure the quality of the infrastructure and market the IP they built to potential investors. The Government could support this effort by adopting open policies and perfect the investment climate. Moreover, cooperation between local government could reduce unnecessary competition between provincial IPs for foreign investment.

### 4. Sources of finance for the infrastructure building

The public investment could be used for depressed areas only while private and foreign investment or debts could be encouraged in areas that produce profit within a short period.

### 5. Controlling pollution

In existing industrial estates, pollution treatment plants must be built. The plan to develop IPs must include the building of these plants. Regulations on the environment protection must be strict and relevant authorities must beef up the task of inspection for violations. ■