

SITUATION IN SOUTHERN KEY ECONOMIC ZONE AND MEASURES TO ACCELERATE ITS ECONOMIC GROWTH

by HUỖNH ĐỨC THIÊN, MA*

Vietnam's Southern Key Economic Zone has become an important engine of growth with its vibrant economy and affected other parts of the country since its establishment in 1998, making positive contribution to the competitiveness of Vietnam economy. However, the Southern Key Economic Zone is facing certain challenges despite its remarkable achievements. This paper attempts to examine the present socioeconomic situation of the Southern Key Economic Zone (SKEZ) and to propose some solutions to its development.

Keywords: Southern Key Economic Zone (SKEZ), socioeconomic development, master plan.

1. Location, role, and potentials for development of Southern Key Economic Zone

The SKEZ was established as per the PM Decision 44/1998/QĐ-TTg dated February 23, 1998, including four provinces namely HCMC, Đồng Nai, Bình Dương, and Bà Rịa – Vũng Tàu. In 2003, three more provinces - Tây Ninh, Bình Phước and Long An – were added to the SKEZ as per Announcement 99/2003/TB-VPCP dated July 2, 2003. In September 2005, Tiền Giang Province was supplemented as per Official Document 4973/2005/CV-VPCP from the Government Office, raising the total number of provinces in this Zone to eight, namely HCMC, Đồng Nai, Bình Dương, Bà Rịa - Vũng Tàu, Tây Ninh, Bình Phước, Long An and Tiền Giang.

The SKEZ has an area of 30,585.8 km², a population of 17.2 million people, a population

density of 563 persons/km², and an urbanization rate of 49.6%¹.

Its center is HCMC – the Vietnam's biggest multi-functional hub where source of skilled labor is abundant, and various educational and research institutions are contributing considerably to development of the Zone and the whole South Vietnam. Vũng Tàu with its ports and developed service sector at the east side of the Zone is a gate and a bridge to international markets. Thủ Dầu Một City, Southern Sông Bé, Biên Hòa City and towns along National Route 51 in this Zone enjoy favorable conditions for industrial development.

The SKEZ plays a particularly important role in socioeconomic development in Vietnam because it is the only zone that has all necessary conditions and advantages for industrial and

¹ GSO, *Niên giám thống kê năm 2009* (Statistical Yearbook 2009), Thống Kê Publisher, Hà Nội, 2010.

service development, industrialization and modernization, especially in development of high-tech industries, electronics, information, oil-petrochemical industry, tourism, telecommunications, banking and finance, R&D, and development of high-quality human resources.

In 10 tens from 1998 to 2008, the SKEZ gross output rose steadily and quickly, from VND68.8 billion in 1998 to 147,71 billion in 2003 and 369 billion in 2008.

With such a gross regional output, the SKEZ accounts for a big share in the GDP, 31.3% in 1998 and 32.3% in 2008. Its gross regional output

Table 1: SKEZ gross output and per capita output in 1998 - 2008

Indicator \ Year	1998	2003	2005	2008
Gross output (VND billion) As % of the GDP	69,812.0 31.3	147,706.0 36.5	307,500.0 36.6	369,022.0 32.3
Per capita output (VND million) As % of per capita GDP	7.5 234.4	14.1 247.3	26.1 258.4	29.6 221.0

Source: Nguyễn Tiến Huy & Nguyễn Hà Phương (2009), “Đóng góp của ba vùng kinh tế trọng điểm vào sự phát triển kinh tế – xã hội chung của cả nước” (Contributions from three major key economic zones to national socioeconomic development), *Kinh tế và Dự báo*, No. 12

The SKEZ enjoys a good infrastructure, a wide range of education and research centers, numerous hospitals and abundant human resources, which made it attractive to all investors. It is also a service and trading center of regional and international levels. A network of satellite towns around HCMC linked by arteries has taken shape.

The SKEZ also accounts for the biggest share in the national industrial output from a network of IPs specializing in many key industries, such as oil processing, steel rolling, electricity, information technology, chemicals, and fertilizer, etc. supporting the national industrialization. Its networks of hospitals, research centers and educational institutions have developed well and supplied high-quality services to all southern provinces.

In short, the SKEZ is the only zone in Vietnam that achieves enough conditions and advantages for development of industrial production and services and accelerates economic growth.

2. Economic development of SKEZ

a. Size and rate of economic growth:

is very high as compared with other zones in Vietnam, equaling 1.4 times of output from the Northern Key Economic Zone; 1.8 times of that from the Mekong Delta; 8.5 times of that from Central Vietnam KEZ; and 22 times of that from Northwestern KEZ. Its average growth rate is 9.3% - the highest one in Vietnam: with 13.6% in manufacturing sector; 11% in service and 5.4% in agricultural sectors².

Its per capita output also increases continuously, from VND7.5 million in 1998 to 14.1 million in 2000 and 29.6 million in 2008. This personal income is of the highest in Vietnam, equaling 2.2 times of the national average, and 2.1 times of the income in Northern KEZ.

b. Structure of industry

Statistics up to 2008 show that SKEZ structure of industry moves clearly in the direction of industrialization and modernization. The share of agriculture-forestry-fisheries is small and on the decrease while the share of manufacturing-construction sector rises steadily and ranks first among three sectors. The share of service sector is high but unstable.

² Nguyễn Tiến Huy & Nguyễn Hà Phương (2009), op. cit.

Development of industries over provinces in the zone is not even. HCMC accounts for 62% of the SKEZ output (and 20% of the GDP) while this figure is 13.6% for Bà Rịa - Vũng Tàu; 11.6% for Đồng Nai; and 6.1% for Bình Dương.³

- Industrial production: Value of SKEZ industrial output rises continuously from VND98,514 billion in 1998 to 230,084 billion in 2006 and 263,217 billion in 2008 equaling 46.1% of the national industrial output.

-Service: SKEZ total sales from domestic market increased steadily from 1998 to 2008.

Table 4: SKEZ foreign trade value (US\$ billion)

Indicator \ Year	1998	2005	2006	2008
Total	17.21	28.37	44.95	66.8
Export value	10.64	23.86	28.85	37.0
Import value	6.57	4.51	16.1	29.8
Trade balance	+4.07	+19.35	+12.75	+7.2

Source: Nguyễn Văn Nam & Ngô Thắng Lợi (2010), *Chính sách phát triển bền vững các vùng kinh tế trọng điểm ở Việt Nam* (Policy on a sustainable development for key economic zones in Vietnam), Thông tin và Truyền thông Publisher, Hà Nội

Table 2: Industrial output value by province in the SKEZ (VND billion)

Year	1998	2005	2008
SKEZ	98,514.0	199,622.5	230,084.0
As % of the national output	49.7	47.9	47.2
Bình Phước	289.9	896.9	910.4
Tây Ninh	1,049.1	2,437.3	2,969.0
Bình Dương	6,635.3	25,900.4	31,628.4
Đồng Nai	14,558.3	34,741.3	42,473.0
Bà Rịa – Vũng Tàu	25,448.7	37,242.9	41,175.6
HCMC	50,532.7	98,403.7	110,927.6

Source: GSO (2009), *Niên giám thống kê 2008* (Statistical Yearbook 2008), Thống kê Publisher, Hà Nội

Table 3: Retail sales of consumer goods and services in the SKEZ (VND billion, actual price)

Market \ Year	1998	2005	2006	2008
SKEZ	77,361.1	157,144.2	196,026.9	244,031.7
As % of the national retail sales	35.1	32.7	32.9	33.3
Bình Phước	1,328.1	3,271.8	4,570.4	5,206.0
Tây Ninh	4,633.9	8,550.8	11,259.3	14,458.7
Bình Dương	4,082.1	10,683.9	13,771.0	17,604.0
Đồng Nai	5,053.2	17,364.1	21,158.5	26,421.0
Bà Rịa - Vũng Tàu	4,275.8	9,296.2	8,762.4	12,398.0
HCMC	57,988.0	107,977.4	136,506.3	167,934.0

Source: GSO (2009), op. cit.

SKEZ foreign trade gained high growth rates in the surveyed period. Its foreign trade value in 2008 was US\$66.8 billion accounting for 60.5% of the national foreign trade value⁴.

SKEZ structure of exports – imports also changed remarkably. In the past, it exported mostly raw materials and farm products and imported machines, and capital and consumer

³ GSO (2009), op. cit.

⁴ Nguyễn Văn Nam & Ngô Thắng Lợi (2010), *Chính sách phát triển bền vững các vùng kinh tế trọng điểm ở*

Việt Nam (Policy on a sustainable development for key economic zones in Vietnam), Thông tin và Truyền thông Publisher, Hà Nội.

goods, etc., and so suffering huge trade gaps. In recent years, exports of partly processed goods have started to increase along with improvements in product design and quality, which helped expand its export markets.

- Agriculture-forestry-fisheries:

Despite its small share in the SKEZ gross output, this sector still plays an important role in the SKEZ development, especially in supplying raw materials to processing industries and foodstuff for domestic market, thereby helping maintaining ecological balance during urbanization and industrialization.

development. If this situation is not improved per policies on service and trading development, negative factors to economic growth may emerge and reduce the SKEZ industrial and economic growth.

A look back on past development of the SKEZ reveals that positive aspects have been strengthened, but its economic growth is lower than the original plan and its potentials.

The biggest shortcoming in its development is a lack of a cooperating mechanism for making the best use of provincial advantage in the zone. The region also lacks coordination efforts among

Table 5: Value and structure of farm products (VND billion, comparative price and %)

Sub-sector \ Year	1998	2000	2005	2008
SKEZ	9,258.1	12,337.5	16,729.7	17,658.4
As % of the national value	9.2	8.8	9.2	9.2
+ Crop farming (%)	83.8	86.5	82.9	82.8
+ Forestry (%)	2.8	2.3	1.9	1.9
+ Fisheries (%)	13.4	11.2	15.2	15.3

Source: GSO (2009), op. cit.

Achievements in economic development affirmed that right policies have been adopted and implemented properly to turn the SKEZ into a driving force for the socioeconomic development of the South and Vietnam as well on the way to industrialization and modernization by making the best use of its comparative advantages and realizing breakthroughs in various fields.

In spite of those achievements, the SKEZ is suffering certain shortcomings. Firstly, its staple industrial products are not mass-produced while the share of unprocessed goods in its exports is still large. Secondly, no comprehensive strategy is introduced to develop intra- and inter-zonal cooperation. And thirdly, gaps between industrial centers and agricultural areas tend to widen.

One more worrying fact is the slowdown in the service sector after many years of high growth. Its growth rate in recent years has been lower than the GDP growth rate, which limits the positive effects of the SKEZ industrial

provinces for a more even development. Additionally, economic relations between the SKEZ and surrounding provinces are not close enough. For example, the SKEZ industrial production is not linked effectively with sources of farm products as for raw materials from other zones such as the Mekong Delta and Western Highlands while this relation may help develop the agricultural production in these zones, add more values to local farm products, and shape a reliable supply of raw materials for relevant industries.

Moreover, there is no mechanism for cooperation between the SKEZ with other zones to avoid duplication of investment and improve competitiveness of Vietnamese industries. Inter-zonal cooperation in exploiting sources of raw materials for processing industries is poor: many provinces export unprocessed products, such as rubber, cashew nuts, coffee, black pepper, and aquatic products while processing factories in

other provinces cannot run at full capacity due to shortages of raw materials.

Besides failure to reach its full potentials, the SKEZ also suffers poor competitiveness because of obsolete technology, poor product quality and low labor productivity. Staple product for each province has not been identified, so many provinces produce similar products. High and eco-friendly technologies have not been developed, even in HCMC. Trading service did not help much with tapping local advantages while high-class services such as banking, financial, insurance and technology transfer fall short of expectations.

The SKEZ arable land has been contracted due to very fast urbanization and industrialization while prices of farm products are not stable because of low added values.

These shortcomings require a better development plan based on careful analyses of social and economic factors.

3. Suggested directions and measures to develop the SKEZ

a. Directions:

All policies and governmental bodies should aim at encouraging investment from all sectors, ensuring a high and stable growth rate and an even development among industries and provinces, and supporting basic changes in quality of economic growth in all sectors.

- Manufacturing sector: High technologies needed for producing goods with high added values should be developed, and a close link between development of new products based on modern technologies with protection for the environment should be introduced. Specific directions are as follows:

+ Develop software, hardware, automation and R&D into key industries to produce robots, automatic equipment, new materials, and high-quality steel of all kinds. Expand such industries as shipbuilding, clothing, mining, building materials and farm product processing.

+ Develop support industries based on comparative advantages in order to increase the

added value and competitiveness, especially industries producing spare parts for automobiles, motorbikes, electric and electronic appliances and engines (and generators of high capacity in particular).

+ Build specialized economic zones (in supplying technical innovations and solutions to factories for example), transit complexes, express ways, deep-water ports, railways and subways.

+ Move factories to barren areas in Tây Ninh and Bình Phước to preserve farming land and separate industrial estates from residential areas. Develop green industries in all provinces to ensure a well-balanced economic growth.

- Service sector: All services, especially high-class ones (financial, banking, insurance, transport, warehousing, port, post and telecommunications, IT, communications, real estate, advisory service, R&D, tourism, health care, and education) should be developed and closely linked with developments of agricultural and manufacturing sectors.

The role as a center for international and national trading of HCMC should be strengthened. Full attention should be paid to transport service to strengthen cooperation between provinces in the zone and between the SKEZ and other zones. Eco-and cultural tourism is also worth more investment.

- Agricultural sector: Agricultural development should be linked with rural development and solutions to rural problems in their relations with industrialization and modernization in order to develop commercial farming based on higher productivity and quality, thereby satisfying demand from urban areas and industrial estates, and promoting export revenue.

Crop growing should be replaced by animal husbandry, and crops of low values by ones of higher values. New techniques of developing new strains, preserving and processing farm products should be transferred freely to farmers to develop commercial farming around big cities. More attention should be paid to eco-friendly farming, relations between agricultural development, and building of modern rural communities by

developing processing industries and large-scale farms.

It is necessary to restore and grow farm forests, mangrove forests, national parks, and wildlife sanctuaries; grow forests on hills, and expand greenery in cities and industrial parks

More investment should be put in large-scale fish farms. Development of sea farming should be linked with building of marine sanctuaries, growing tidal forests, and developing sea product processing industries.

b. Measures to support economic growth:

Reviewing and amending mechanisms and policies to perfect the business and investment climate should be prioritized. Investment should replace factors of production as a foundation of the economy. A list of priorities for investment projects should be established to avoid scattering. Decisions on public investment should be based on a master plan on human resources, geographical and demographical conditions, natural resources and environment. Tax, financial and monetary policies should also support industrialization and modernization.

Other measures are:

- + Diversify forms of investment, encourage the development of capital market and both foreign and domestic investment. Impose strong measures to enhance efficiency of public investment, limiting unruly programs to attract investment, keeping a balance between borrowing and repaying debts and ensuring long-term macroeconomic balances (for example, keeping government and corporate debt at 30% of the gross investment).

- + Plan development of all sectors during industrialization and modernization up to 2020 within the master plan for socioeconomic development. Encourage and create favorable condition for cooperation among social classes, especially in rural, remote, depressed and mountainous areas.

- + Improve land policies, especially the ones on long-term land use right, compensation and relocation for expropriated citizens, and land

clearance in order to ensure “clean” plots of land for prioritized investment projects.

- + Complete and systematize rules and regulations on the use of ODA sources, ensuring transparency in delegation of rights and duties, harmonizing procedures adopted by Vietnam and foreign donors, disseminating right viewpoints on ODA among authorities of all levels, strengthening national sovereignty, encouraging public participation in ODA-financed projects, and training experts in ODA policies.

- + Develop plans to attract more ODA to the SKEZ, especially its infrastructure projects, giving priority to industries based on local comparative advantages, developing commercial farming as a measure to alleviate poverty, and increasing investment in educational and research institutions to turn them into leading centers in their fields.

- + Direct FDI towards improving the quality of human resources, developing rural infrastructure by offering incentives in terms of tax cuts and lower land rental, and giving financial support to local companies that cooperate with foreign partners.

- + Modify structure of investments in IPs and EPZs, encouraging factories in light industry to come into operation soon, developing new IPs for factories of heavy industry, and expanding marine economy, tourism and other invisible services.

4. Conclusion

Current facts show that the SKEZ is the most active zone in Vietnam in the past 10 years that generates positive changes in the economy. Thus, mobilizing all possible resources to develop this zone is a good policy.

Shortcomings in development of the SKEZ, therefore, are worrisome, such as the big share of unprocessed goods in exports structure, poor intra- and inter-zonal cooperation, low growth rate of the service sector, and lack of a master plan for cooperation among SKEZ provinces to make the best use of their advantages.

Key economic zone is a new model of development in Vietnam as the Government cannot develop evenly all provinces or focus on certain cities or provinces. Fast development of a zone may serve as a driving force for surrounding provinces where public investment is small. In the SKEZ, well-devised mechanisms and policies

may produce great effects on its development and tap fully its potentials, thereby helping it gain higher growth rates■

References

1. GSO (2009), *Niên giám thống kê năm 2008* (Statistical Yearbook 2008), Thống Kê Publisher, Hà Nội.
2. GSO (2010), *Niên giám thống kê năm 2009* (Statistical Yearbook 2009), Thống Kê Publisher, Hà Nội.
3. *Kinh tế Việt Nam* (Vietnamese economic review), Feb. 5, 2011.
4. Nguyễn Tiến Huy & Nguyễn Hà Phương (2009), “Đóng góp của ba vùng kinh tế trọng điểm vào sự phát triển kinh tế – xã hội chung của cả nước” (Contributions from three economic zones to national socioeconomic development), *Kinh tế và Dự báo*, No. 12.
5. Nguyễn Văn Nam & Ngô Thắng Lợi (2010), *Chính sách phát triển bền vững các vùng kinh tế trọng điểm ở Việt Nam* (A sustainable development for key economic zones), Thông tin và Truyền thông Publisher, Hà Nội.
6. Nguyễn Văn Trịnh (2010), *Phát triển khu công nghiệp ở Vùng kinh tế trọng điểm phía Nam* (Development of industrial parks in the SKEZ), unpublished master thesis at University of Economics - HCMC.
7. Politburo, “Resolution 53-NQ/TW dated Aug. 29, 2005 on socioeconomic development and national defense in Eastern South and SKEZ up to 2010 and direction for 2010-2020 period.”
8. Trần Du Lịch (1996), *Các chính sách và cơ chế vận hành cho mục tiêu phát triển Vùng kinh tế phía Nam* (Policies and operating mechanism for SKEZ development), published by HCMC Institute of Economics.
9. Trần Sinh (2007), *Những vấn đề chung về phát triển Vùng kinh tế trọng điểm phía Nam* (General problems with development of the SKEZ), published by Southern Center for Economics.
10. Vietnamese PM (2004), Decision 146/2004/QĐ-TTg dated Aug. 13, 2004 on main direction for SKEZ socioeconomic development up to 2010 and a vision for 2020.
11. Vietnamese PM (1997), Decision 910/1997/QĐ-TTg dated Oct. 24, 1997 on approval of the master plan for socioeconomic development of Eastern South Vietnam up to 2010.
12. Vietnamese PM (1998), Decision 44/1998/QĐ-TTg dated Feb. 23, 1998 on approval of the master plan for socioeconomic development of the SKEZ up to 2010.