

SOLUTIONS TO THE DEVELOPMENT OF EXPORT PROCESSING ZONES AND INDUSTRIAL ESTATES IN VIETNAM



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I. ESTIMATE OF THE SITUATION

From Dec. 25, 1991 when the Chairman of the Council of Ministers signed the Decision 394-CT allowing the establishment of the first export processing zone (EPZ) in Vietnam to Dec. 31, 1997, that is, within seven years, 48 industrial parks (IP) were established according government regulations. Of this amount, three are EPZs and the rest are industrial estates (IE) with a total area of 7,000 hectares (not including the 14,000-hectare Dung Quat Industrial Estate). Studying the operation of these licensed industrial estates, we could make the following remarks:

1. Distribution of IPs

IPs were only developed in provinces with well-developed infrastructure or near industrial and trading centers. Statistics show that of 48 IPs, ten were in the North, six in the Central Vietnam and 32 in the South. The distribution of these IPs is as follows:

- a. The North
 - Hà Nội: 5
 - Hải Phòng: 3
 - Phú Thọ: 1
 - Quảng Ninh: 1
- b. Central Vietnam
 - Đà Nẵng: 2
 - Quảng Nam: 1
 - Quảng Ngãi: 1
 - Khánh Hòa: 1
- The Dung Quat IE on the border between Quảng Nam and Quảng Ngãi
- c. The South
 - HCMC: 12
 - Đồng Nai: 7
 - Bình Dương: 7
 - Long An: 2
 - Bà Rịa-Vũng Tàu: 2
 - Cần Thơ: 1
 - Tiền Giang: 1

Thus, the IPs were built in 15 provinces and cities where land price is of the highest level (the average area of an IP is 150 hectares). This means that the land rental produces no effect of investors' decision.

2. Estimate of investment form

We could also classify 48 licensed IPs according to

their investment form:

- One IP is invested and run totally by foreign parties (Đài Tư IE, Hà Nội)
- Twelve IPS or EPZs are invested and run by local and foreign parties under partnership.
- Thirty five IPs are invested by local parties (state run or private companies or their partnership)

Foreign parties could make big investment in infrastructure while local counterparts could only develop small IPs with some infrastructure and operational companies and near sources of raw materials by upgrading existing infrastructure and fulfilling environment regulations.

3. Speed of development of IPs

Besides three IPs Tân Thuận, Linh Trung and Cần Thơ were licensed in 1991-92, the rest have been licensed since 1994 (50% of them were licensed in 1996-97). Twenty-five IPs representing 50% of the total area have finished site clearing and started to build infrastructure. Up to the end of 1997, IPs have attracted 543 companies (115 of which are local ones) with total registered capital of about US\$5 billion.

According to the plan approved by the PM, by 2000 there will be some 70-80 IPs with a total area of 10,000 hectares distributed among 30 provinces and cities; and this amount will reach 100 after 2000. Many people are of the opinion that this amount isn't too big in comparison with surrounding countries. However, we think that the speed of development of IPs must be proportional to the industrialization and modernization process and the problem isn't how many IPs are licensed but how to fill these IPs with investment projects. IPs must be developed reasonably otherwise they will lead to two problems:

- If the IPs attract no investors, investment in infrastructure will be a great waste of money and land.
- Unfair competition between IPs will cause the land price to fall and cause losses to the budget income and IP Investment Companies.

4. On the mechanism for controlling IPs

Since the first documents dealing with the EPZ in Vietnam issued along with the Decree 322/HDBT on Oct. 18, 1991, these IPs have been mentioned in many rules and regulations on foreign investment in Vietnam,

especially the Decree 10/CP providing measures to encourage and ensure foreign investments in Vietnam by introducing more incentives to companies operating in IPs.

However, PM Phan Văn Khải in his speech delivered at the IP operation conference held on Feb. 17, 1998, said that the mechanism for controlling IPs were still complicated and cumbersome although many efforts had been made to improve it. He also remarked that there had been no good cooperation between Ministries, provincial IP management boards and provincial governments although up to now there had been 14 provincial IP management boards all over the country authorized by the Decision 969/TTg (Dec.28, 1996) to grant investment licenses, approve export and import plans and supervise the operation in IPs. A new law on IPs, therefore, is of great importance to the development of IPs.

5. Contribution from IPs

To the end of 1997, IPs have attracted 543 investment projects with a total capital of US\$5 billion, 93% of this sum came from foreign companies and 7% from local ones; and US\$2.114 billion of which (or 42%) have been realized.

The IPs employed some 88,000 laborers and created a lot of new jobs in construction and service businesses. In 1997, the IPs produced US\$1.115 billion worth of goods and exported US\$848 million (equaling 10% of the national export value).

In addition, the IPs also helped to accelerate the industrialization and modernization process, rationalize the town planning, protect the environment, and change poorly-developed regions into new towns with good infrastructure and employment opportunities.

II. EXISTING DIFFICULTIES

Studying the development of IPs in Vietnam, we saw the following difficulties:

1. Plan for IP development

The master plan for the IP development by 2010 has been approved by the PM. This plan anticipates that the amount of IPs will be doubled by 2000 while only 50% of total area of IPs are leveled and only 11 out of 48 IPs rented out some 50% of their areas. In addition, the regional economies are in the doldrums. Therefore, it's necessary to review the master plan with a view to preventing waste of land and capital and unfair competition between IPs.

2. Site clearance

This task was carried out slowly because investors didn't secure enough capital to pay damages to local residents. In certain localities, policies to pay damages and grant land were unreasonable and weren't communicated well to local residents with the result that it took certain investors two year to finish land clearance.

3. Lack of trained labor force

The IPs need a lot of trained workers while local labor forces are abundant but aren't well trained, that is why only a small amount of workers found employment opportunities in IPs.

4. One-door mechanism in IPs

Although the Government, in 1997, allowed IPs to enjoy the one-door mechanism, but the IP management boards had to get approval from the central government for many problems. In certain provinces, there was no good cooperation between the IP management boards and local authorities.

5. Marketing campaign for the IPs

Ill-conceived marketing campaigns have failed to attract investors to newly found IPs.

III. SOLUTIONS TO THE DEVELOPMENT OF IPs

1. Revising the master plan for IP development

The master plan for IP development must be revised in order to:

- Serve the industrialization and modernization process.

- Form specialized zones in big IPs with a view to preventing unfair competition between IPs and developing specialized services, such as effluent treatment service.

- Allow only IPs with high feasibility to come into being, that is, IPs that can be filled with investment projects within a short time.

- Ensure that the site clearance will be carried out smoothly and meet with no protest from local residents. The best way to achieve this is to develop existing industrial estates and cooperate with investors with great financial strength.

2. Delegating more power to the IP management boards

IP management boards could be delegated to set the land tax and term of payment. This will help to simplify procedures and facilitate investment process. In addition, the Government had better make law on IPs defining rights and duties of all related authorities, such as the Ministry of Planning and Investment, provincial governments and other authorities with a view to saving the IPs from being controlled by too many authorized bodies and helping investors enjoy the one-door mechanism.

3. Training workers needed for IPs

Vocational training centers could be formed to give specialized training courses, such as in engineering, electronics, electric and clothing technologies. The outlay on these centers could come from ODA source, local governments, companies in IPs and trainees. These centers must allow local laborers to take priority over non-residential laborers.

4. Encouragement to investors

- The Government had better reduce the land tax imposed on IPs to help IP management companies reduce land rental and make IPs more attractive. The Ministry of Planning and Investment had better start a publicity campaign to introduce Vietnamese IPs to foreign potential investors.

- Provincial governments could encourage, and force certain factories or investment projects to move to IPs.

- However, to make these policies more feasible, the IPs must offer reasonable land rental and ensure interests of tenants.

- Publicity campaigns must be launched to keep both foreign and local companies informed about incentives and advantages offered by IPs.

5. Policies on EPZs

The EPZ must be considered as organic part of the economy, therefore companies in the EPZ could be allowed to buy supplies and services that are consumed locally only from local markets.

In short, the development of IPs will help to realize the industrialization and modernization process and export-oriented strategy, therefore fuller attention must be paid to this form of investment ■