Policies Affecting Unfavorably the Development of Industrial Parks

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Vietnamese authorities usually stress that Vietnam, an ASEAN member, is in the Pacific Rim with many advantages in terms of geographic location, natural resources and labor, along with political and economic stability. These factors make Vietnam an attractive market for foreign investment and development of IPs. But why does Vietnam attract less FDI than China, Thailand, Malaysia or Indonesia? In Vietnam, moreover, what help such provinces as Bình Dương and Vĩnh Phúc succeed in attracting the FDP and developing IPs? Why did Hà Tây, by the gate to Hà Nội, fail to do so? In 1994, Long An's gross products reached VND733.6 billion and Bình Dương's was VND521.5 billion (both of them are adjacent to HCMC) and what make Bình Dương more successful than Long An at developing IPs? We can easily see that the decisive factor to the success of these provinces is the policy they have adopted.

Up to 2005, 15 years after the policy to develop the IPs was introduced, Vietnam has 130 IPs with 4,516 valid investment projects, including 2,202 ones invested by companies from some 40 countries and territories. In 2005, the IPs accounted for 28% of the national industrial output and 19% of the export value. They are employing 740,000 laborers.

Their development in the past 15 years, however, reveals many shortcomings.

- IPs have tried their best to attract investment projects regardless of their size, industry and modernity. Most projects in IPs are in light and food processing industries. Large size and technology-intensive ones are rare. Over 60% of export from IPs are made according to subcontracts, which explains why their added value is small. The average size of a project tends to fall, from some VND23 million in 1997 to 3.44 million in 2005. Most IP companies employ technology of medium level, which leads to low export value per capita – US$8,711 compared with 140,000 by Taiwanese IPs. The better part of foreign investors come from emerging economies and only a few come from the U.S., the EU, or from multinationals. This situation makes Vietnamese IPs fail to stand comparison with IPs in regional countries.

There is no specialized IP. They lack specialization and a reasonable structure that is suitable to local advantages. Similar IPs could be found in any province, which leads to unnecessary competition. To ensure success in the competition, many provinces have offered incentives or preferential treatment that are beyond their reach, especially incentives relating to tax and land rental. Cutting the land rental (some provinces in the Mekong Delta offered the land rental that was lower than the cost of infrastructure building) and giving tax reduction (the rate of company income tax in Vietnam is 28% while it is 33% in China and 30% in Thailand, this means that the provincial government has to spend more money from the provincial budget) are common measures taken by provincial authorities to improve their competitiveness instead of making the best use of local advantages, such as convenient locations, supply of power and water, source of skilled labor, simplified procedures, etc. while they are factors that help investors reduce the production cost and overheads.

Thus financial incentives don't certainly attract the investment. Provinces in the Mekong Delta that offered land rental of US$0.6 – 0.9 a square meter per year could not attract much investment as Bình Dương (US$32-38 for a square meter per year) or HCMC (US$55 – 70). The case of Bình Dương shows that most investors who moved from HCMC to Bình Dương agree that this province is not far from HCMC, has good infrastructure and allows low overheads (equaling some 65% of the required overheads in HCMC) and has a lot of land to lease (only 33.6% of the land stock has been leased compared with the national average of 45%). In 2004, Đồng Nai attracted US$1.01 billion of foreign investment, the highest level in Vietnam because its government knew how to deal with obstacles to the business circle, expand markets for exports and encourage the supply of local goods needed for reduction in production cost.

The development of IPs is not linked with social progress. Residents around IPs enjoyed almost nothing from IPs. Moreover, their land is bought at low prices by authorities; they had to wait for compensation or the building of new residential areas and suffer pollution from IPs. Some 97% laborers in IPs have to secure housing by themselves or live in poor rented rooms in areas flooded with social evils. IPs didn't offer more employment opportunities because they have no vocational training. China has experienced the same lessons and Vietnam learned almost nothing from it.

Local authorities paid almost no attention to environmental issues. Some of them even accept fast development of IPs at the expense of the environment. The Ministry of Planning and Investment has issued many rules and regulations on this problem but up to now, only 16 out of 106 IPs finished the building of sewage works. According to the World Economic Forum, Vietnam has felt behind ASEAN countries in ensuring the environmental sustainability.

The main cause of these shortcomings is the policy on the development of the IPs. The following are some facts.

1. Financial policy

The current tax policy, effective as of May 2005, give the same treatment to companies inside and outside of IPs with the result that the flow of investment to IPs slows down. The company income tax rate is 28% while China imposes a rate of 15%, or even 10% if the company exports 70% of its output. In addition, foreign companies running warehouses are required to enter joint venture with local partners while China allows them to do it alone. These factors make Chinese IPs more attractive than Vietnamese ones.

The tax policy fails to encourage the industrial production. For example, no incentives are given to companies that make goods with high local content; or a recent reduction in taxes on imported electronic parts only encourages assembling factories instead of makers of such spare parts.

Incentives are usually given to small companies in their first years of operation, which leads to low tax take. In Nhơn Trạch District (Đồng Nai) there are seven IPs, the tax payment from these IPs equaled only 2% of the district budget income in 2000; and 10% in 2005. It's a low percentage in comparison with other districts, including ones with no IP. This policy makes investors to open many small companies, instead of big one, in order to get incentives. And as a result, too many small companies come into being and their competitiveness is poor. This will be a risk when Vietnam joins the WTO.

Generally, the tax take accounts for a high percentage of the GDP - 21.3% compared with 15.7% in China and an average of 19.7% in the ASEAN bloc. A survey of HCMC-based companies shows that 50% of companies surveyed thought that difficulties they met in recent years were from the tax policy.

2. Land policy

The development of IPs is meeting with difficulties caused by the land policy. IP management boards hold large stock of land but they can't lease it because the cost of land clearance and compensation is rising. According to the JETRO, the land rental in Vietnam is of the highest level in Southeast Asia; and the price of land in big cities in Vietnam, such as HCMC, is from four to six times higher than in China and Thailand. In short, the land policy didn't serve the development of IPs.

In addition, IPs developed in all provinces have reduce the areas for agricultural production. Up to January 2006, there are 106 IPs with a total area of some 14,000 hectares but only 45% of this area could be leased. Many IPs that were established from two to five years ago such as Hải Phòng 96, Sài Đồng A (Hà Nội) and Kim Hoa (Vĩnh Phúc), attracted no investors and became a waste of land.

3. Labor policy

All IPs need skilled workers and managers but they couldn't recruit what they need. There are many problems with the labor force: knowledge, work skills, work ethics, and discipline, etc. This is a factor affecting the decision on investment in IPs.

The education service fails to play its role in the development of IPs. Trained labor represents only 24.8% of the working population. In HCMC, only 40% of labor force got vocational training and only 20% of the labor force in IPs have got some training while the skilled labor in developed countries reaches 65%.

The shortage of skilled personnel is becoming a great obstacle to the development of IPs and a cheap and abundant supply of labor is no longer an advantage. Moreover, local residents will benefit nothing from the development of IPs if they get no training to work as industrial workers after their land is used for developing IPs.

4. Price controlling policy

Foreign experts estimate that the production cost in all sectors in Vietnam is very high. High cost and expenditure reduce the competitiveness and discourage foreign investors. JETRO says fees for telecommunications, communications, power and water supply are high in comparison what offered by neighboring countries. Local companies are suffering increases in three items causing their production cost to rise: fuel, transport and insurance; along with services at ports and airports.

5. Policy on technology transfer

Some 65% of machines and technologies in all industries are at least 20 years old, some of them are 40 or 50 years old. Most leading investors in Vietnam are from Asian dragons (South Korea, Taiwan and Hong Kong) where the technology is not much modern. The technology policy only encourages foreign companies to transfer machines and fails to force them to transfer practical skills or know-how. Local companies receive no incentives to import technology.

6. Urbanization

The development of IPs isn't linked with the urbanization plan and distribution of population. IPs are usually developed separately and developers have to build everything, including infrastructure and new residential areas if necessary with the result that IPs are not harmoniously combined with the urbanization and require very big investments.

The living cost of laborers in IPs is on the increase. Hà Nội and HCMC are among cities with the highest cost of living. The living cost in Hà Nội and HCMC is higher than that in many Southeast Asian cities, such as Singapore, Bangkok, Kuala Lumpur and Jakarta where the personal income is always higher. According to Mercer, a London-based advisory company specializing in human resource, Hà Nội ranks 29 and HCMC 36 in terms of the cost of living, while Jakarta ranks 45, Singapore 46, Kuala Lumpur 104 and Bangkok 106.

7. Development of service

Many services in Vietnam, such as finance, insurance, air transport, shipping, telecommunications, vocational training and advisory services, didn't serve the development of IPs. In provinces with many IPs, the manufacturing sector has a bigger share in comparison with the service sector in the structure of products while the services sector represented only 26%. These figures in Bình Dương were 63% and 26%. The service sector usually represents a 40% share in developing countries and some 60% in developed ones. This fact shows that the development of IPs in Vietnam is less sustainable.

8. Infrastructure

The infrastructure must be developed evenly inside and outside the IP in order to help producers reduce their expenses. It is a good infrastructure that allowed HCMC to attract many FDI projects to its IPs. The policy on infrastructure building is not consistent and reasonable enough and it only tries to meet the demand posed by the economic development. In HCMC for example, river ports are adjacent to residential areas and there are only a few highways for big lorries. The limited source of public funds are distributed among too many IPs with the result that the infrastructure is developed too slowly.

9. Administrative reform

According to many foreign advisory firms, incentives and preferential treatment offered by local governments are not taken into consideration by investors when estimating efficiency of the project. Some 80% of projects are carried out without considering preferential treatment. Investors, on the other hand, pay much attention to the business climate, attitudes of authorities, administrative procedures, and consistency and transparency of policies.

In Vietnam, taxation and customs formalities are very complicated. The mechanism for giving preferential treatment, according to foreign investors, is one of the most complex in the world. The administrative machinery only wants to keep a close watch on everything, including economic activities, and fails to supply the one-stop public services as required. The legal infrastructure, according to many experts, is not transparent, consistent, uniform, stable, feasible and predictable.

Of the above-mentioned problems, the most urgent that have affected badly the development of IPs are financial policy, land policy, administrative procedures and implementation of policies at provincial level. The central government had better deal with these problems as soon as possible in order to achieve a sustainable development before the domestic market is open to foreign competition as required by the WTO.■

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