

# Problems with the Development of Industrial Parks and Export Processing Zones

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industrialization, the building of IP and export processing zones (EPZ) is necessary and encouraged by the Government.

From 1995 on, IPs have been developed in order to provide favorable infrastructure and conditions for foreign investment projects, and encourage local companies of small and medium scales. The development of IPs helps save a lot of money needed for building infrastructure, administration and environment protection.

IPs and EPZs also prevents factories from intermingling with residential areas, which makes working conditions of factories unfavorable, the environment worse, and living conditions of local residents harmful.

Up to now, Vietnam has 82 IPs with a total area of 15,800 hectare and 11,000 of which could be leased. They are the main attraction to foreign direct investment. Their development and distribution are based on the following principles:

- Having favorable conditions for building the infrastructure (roads and waterways, power and water supply, effluent treatment, etc.) and ensuring sustainable development and application of modern technolo-

- Refraining from causing harm to surrounding areas of farming land.

- Having ability to meet requirements posed by the national defense under certain conditions and periods.

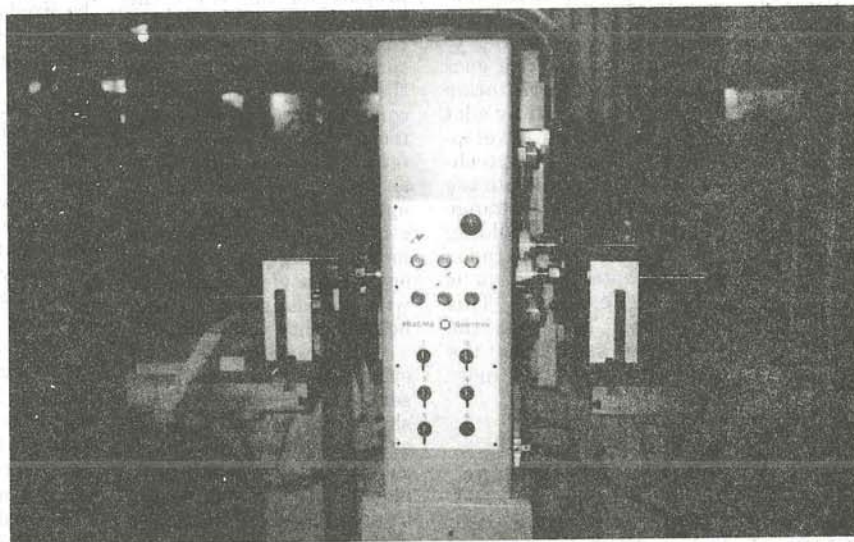
According to many Japanese experts, location, infrastructure, managerial skills are keys to the success of IPs and EPZs.

## 2. Shortcomings in the development of IPs

IPs act as a magnet for foreign and local investors. While the FDI increased steadily in the years 1994-1997, it showed signs of decline in recent years. The foreign investment in IPs in 2003 was especially low because of the following reasons:

- There is no master plan for the development of IPs over the country. All provinces tried to open IPs of the same functions with the result that they couldn't tap local comparative advantages and had to compete against one another fiercely for investment projects.

- There is no cooperation between IP authorities of different provinces. And as a result, each province has to cover all jobs and stages of the development, from building infrastructure



## I. INDUSTRIAL PARKS AND THEIR SHORTCOMINGS IN THE PAST FEW YEARS

### 1. Role of industrial parks

According to the Decree 192/CP dated Dec. 25, 1994, industrial parks (IP) are defined as concentrated industrial estates with specified borders and including no residential areas. During the modernization and

gies.

- Having reliable and convenient sources of raw materials (if not, the size of IP companies should be big enough to store and preserve raw materials.)

- Securing sources of labor with reliable quality and quantity needed for ensuring low labor cost and high productivity.

- Having potentials for getting access to local and foreign markets.

and rearranging residential areas to marketing their IPs to investors, which causes a lot of waste of time, money and energy.

- The task of selecting sites for IPs isn't done according to scientific principles. In certain provinces, too many IP were built in different places with the result that too much money was put for a long time in infrastructure projects and made the business less profitable.



- Another obstacle to the development of IPs is difficulty in land clearance and paying compensation for local residents. The fever in the real estate market made the land in Vietnam even dearer than in neighboring countries. And as a result, the rental of land in IPs made many investors reluctant to do business in Vietnam.

- In most IPs, the infrastructure is very poor. Local governments tend to ask investors to build the infrastructure in return for the right to use land in IPs, instead of making the infrastructure available before calling for investment projects.

- Too many IPs were established while the stock of land is limited. That is why only 45% of IP area could be leased. Many IPs, such as Hải Phòng (Hải Phòng), Sài Đồng A (Hà Nội), Kim Hoa (Vĩnh Phúc), attracted no investors when they have come

one another for foreign investment, local governments tend to license any projects proposed without selecting or estimating. The immediate target is to attract as many projects as possible. In my opinion, it's high time the Government worked out a master plan for IP development which gives priorities to certain industries, sets orientation for each province based on its comparative advantages in order to encourage their cooperation, and facilitates the trading between IPs and local markets.

b. Standardization of IPs: Companies that want to establish themselves in IP must meet certain requirements in terms of size, capital and technology. Moreover, local governments have to work out plans to develop sources of raw materials and trained labor for IP companies. The

isn't wise to build a residential area for each IP, which is not in accordance with the plan for urbanization and make the development of IP costlier.

f. Pollution and use of land in IPs: It's high time the Government had to stop allowing the development of more IPs in order to save land for the agricultural production and protect the environment. The environment protection must be a criterion for allowing the building of a concern in the IP. When some 50% of land in an IP is occupied, the local authorities must build an effluent treatment plant.

g. Marketing campaigns for IPs: Marketing campaigns for IP could be carried out in foreign cities or international conferences. It's worth noting that the cheap land or labor cost isn't decisive factors because most



into existence for four or five years, while the area of farming land contracted (in Bình Dương for example, the area of farming land reduced 3,642 hectares in 2000-02).

- Most provinces didn't develop the human resource before developing IPs. Most projects, after finishing construction, met with difficulties in recruiting well-trained laborers.

- Policies on IPs contain many unreasonable and obsolete regulations, especially on the trade between IPs and local markets: IP companies aren't allowed to sell their goods on local markets; and local companies have to pay export tax for goods supplied to IP companies.

### 3. Problems to solve

a. A master plan for all IPs in Vietnam: When IPs compete against

standardization will help improve the quality and prestige of goods exported from Vietnam.

c. Diversification of IPs: Instead of developing too many IPs in a province, local government could develop clusters of small and medium enterprises and handicraft guilds, especially in rural areas. This pattern could help create new jobs without requiring big investment in the infrastructure.

d. Better infrastructure for existing IPs: Proper investment in the infrastructure will make IPs more attractive to investors and prevent possible damage to the environment in the future that requires a lot of money to repair.

e. Developing new residential areas: The development of IPs must be included in the town planning. It

foreign companies want to ensure a source of trained labor, good infrastructure and location before deciding to launch a business. That is why most of them tend to do business in big cities instead of rural areas.

h. Better business climate: Improvements in the infrastructure is only a necessary condition, not a sufficient one. Policy on foreign investment must be improved frequently in order to make Vietnam more attractive, and at the same time, ensure favorable conditions for local companies instead of leading to discrimination against them. For the time being, the Government should pay attention to the tax system, the monopoly in certain industries, the administrative reform, and more important, the consistency of these policies. ■