

TÂN THUẬN EXPORT PROCESSING ZONE AND THE NEED FOR TRANSFORMATION

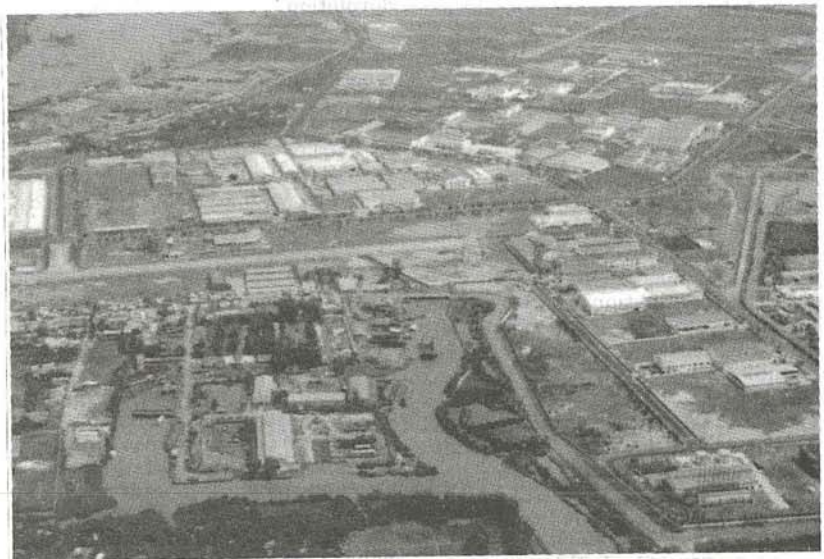
by Dr. THÁI NGUYỄN BẠCH LIÊN

After operating successfully for three decades, Taiwan's export processing zones (EPZ) started to transform themselves. Is it early for the Tân Thuận EPZ to enter the same process after having come into operation for only 10 years? Many foreign experts, however, have thought that it would be too late and many opportunities would be missed if the Tân Thuận failed to prepare for transformation in 2001. This article shares the same opinion and aims at giving some interpretations.

1. Achievements in the past 10 years

The Tân Thuận, as a successful economic model in Vietnam, will be 10 years old on Sep. 24, 2001. Both local and foreign experts have recognized it as a successful EPZ that ensured four main targets set by the Government. Firstly, it attracted 152 investors from 10 countries or territories of four continents; and a total investment of over US\$650 million in 103 operational factories. It's worth noting that 68 existing factories increased their working capital (US\$221.23 million) and rented more land (29.12 hectares) because the business climate became more favorable. Its second target is to promote export and import. Up to now, its export value reached US\$1,913 million and import value US\$1,814 million. It has enjoyed the trade surplus since 1998. Its exports grew by 30% a year and accounted for some 16% of export value by the foreign sector in Vietnam. Thirdly, it provided jobs for 30,661 workers and thousands of laborers in building sites. Fourthly, it helped transfer modern technology and managerial skills to Vietnam. At present, 17% of its factories use high technology, 83% are labor-intensive concerns and this structure is changing favorably when factories are oriented toward high-tech industries.

Tân Thuận Joint Venture Company (between local and Taiwanese partners) has spent US\$89 million



changing 300 hectares of swamp in a suburb of HCMC to an EPZ of international standards that was ranked first among Asian EPZs. At present, 72% of the Tân Thuận area has been filled in. If the Asian financial crisis hadn't broken out, the U.S.-Vietnamese trade relation had been normalized earlier and preferential treatment for EPZ hadn't changed, the whole Tân Thuận EPZ would have filled in.

With the development rate in the past 10 years and improved public image of the Tân Thuận Joint Venture, the work of renting the remaining 28% of the area (some 55 hectares) in the coming years isn't a difficult task. To play well the role as a bridge between local and foreign markets and produce greater effects on the local economy, however, Tân Thuận should be free from restrictions (it has been treated as part of the foreign sector) and free to diversify its functions with a view to shifting from "processing things for export" to "adding more value to its products."

2. Some inadequacies

Statistics collected and presented by the HCMC EPZ and IP Board contain some unclear facts that could make researchers confused. In its first days when the Tân Thuận EPZ imported the first lots of goods they should have been noted down properly. In statistics, goods that would be turned into fixed assets or capital goods should have been separated from raw materials or components that would be turned into products for export. Regrettably, the import value presented by statistics up to June 30, 2001, included both fixed assets and raw materials amounting to US\$1,814 million. This means that the Tân Thuận EPZ might have enjoyed trade surplus before 1998, and its aggregated trade surplus might have been bigger than the number 99 million dollars shown in statistics. According to my rough estimate, if 70% of the total investment is spent on fixed assets (US\$650 million x 70% = US\$455 million), then the trade surplus in the past 10 years made by the Tân Thuận EPZ is US\$554 million (or US\$99 million + US\$455 million).



If my estimate is reasonable enough, the record of the Tân Thuận EPZ in its first 10 years in achieving a trade surplus of US\$554 million is remarkable because it is a great contribution to the foreign exchange reserve of the State. But until now, the

Tân Thuận EPZ is still included in the foreign sector and treated as foreign companies, instead of as part of the Vietnamese economy. There are four channels of exchange between EPZs and domestic sectors: EPZs buy raw materials from and give subcon-

tracts to domestic sectors, and in the reverse direction, EPZs sell finished goods to and do subcontract work for domestic sectors. With those two directions and four channels, the exchange of goods between EPZs and domestic sectors could lead to "indi-

Table 1: Tân Thuận's Export and Import (US\$ mil.)

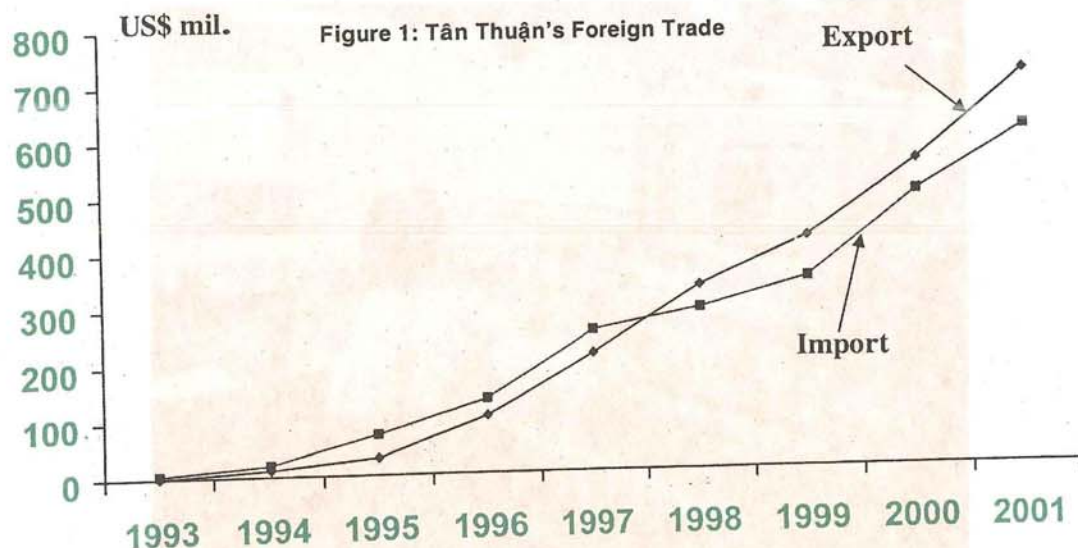
Indicator	1993	1994	1995	1996	1997	1998	1999	2000	2001	
									Planned target	Realized in the first half
Export	0.27	11.29	30.35	102.72	210.00	326.31	409.88	543.35	700.00	278.54
Import	5.07	19.93	72.74	133.80	250.45	286.59	337.56	488.65	600.00	219.52
Trade Surplus						39.72	72.32	54.70	100.00	59.02
Trade Gap	4.80	8.64	42.39	31.08	40.45					
Export-Import value	5.34	31.22	103.09	236.52	460.45	612.90	747.44	1,032.00	1,300.00	498.06

Table 2: Exchange Between Tân Thuận EPZ and Domestic Sectors (US\$)

Year	Bought from domestic sectors	Sold to domestic sectors	Subcontracts given to domestic sectors	Subcontracts done for domestic sectors
1994	420,000	1,000,851	61,300	94,660
1995	1,700,000	4,053,685	110,078	234,654
1996	7,400,000	6,365,340	779,241	745,940
1997	18,300,000	4,952,360	813,190	597,180
1998	15,500,000	5,318,430	5,629,200	1,171,970
1999	20,600,000	3,828,224	6,615,269	2,013,833
2000	36,300,000	4,134,630	4,053,548	158,384
Total	100,220,000	29,653,520	18,061,826	5,016,621

rect export" and "imports substitution" for the benefit of the Vietnamese economy. But when the Tân Thuận EPZ is treated as part of the foreign sector in terms of tax and custom formalities, the cooperation between two sides fails to make the best use of their potentials.

In the past 10 years, goods from domestic sectors to Tân Thuận were worth only US\$118.28 million, equaling 6.25% of its import value. This means that Tân Thuận bought 93.48% of its raw materials from abroad and Tân Thuận is only a source of cheap labor to foreign companies. Similarly, goods from Tân Thuận to domestic sectors were worth US\$34.67 million, equaling 0.34% of its export value. In other



words, Tân Thuận sold 99.66% of its output to foreign countries.

In short, Tân Thuận EPZ with two functions – doing processing work for foreign companies and selling its products to foreign markets – is almost separated from the domestic market. Goods from Tân Thuận to the domestic market are treated as imported goods although they are made almost locally. Ironically, many products from Tân Thuận marked with “Made in Vietnam”, after exportation, could return to Vietnam and could be sold at a much higher price. Tân Thuận produces them and foreign companies make profit by adding more value to them. This is the first thing to worry about.

Statistics collected in the first half of 2001 show that Tân Thuận attracted 19.54 million of foreign investment and leased 2.44 hectares. Of this increase in investment, only one million dollars came from an American newcomer, the rest came from investors in Tân Thuận who increased their working capital. This fact makes us both happy and worried. We feel happy because Tân Thuận seems trustworthy when investors decided to increase their investment, and feel worried because the flow of newcomers shows signs of decline when they are denied the access to domestic market.

In recent years, competition for foreign investment among Asian countries has become keener. China has given the red-carpet treatment to foreign investors by imposing almost no requirement, and as a result, the flow of foreign capital to China is much bigger in comparison with its neighboring countries. In this period,

the Government has allowed the same treatment to all foreign companies, whether they are in EPZs or not, provided that they export 80% of output. Those two factors made investors refuse to rent land in EPZs because they could sell 20% of their output to the domestic market while enjoying the same preferential treatment having their factories built outside the EPZ. This becomes the second worry for the EPZ Management Company. The Government had better free companies in EPZs from the regulation that forces them to export 100% of their output.

3. The need for transformation

In 1999, the World Export Processing Zone Association (WEPZA) was officially renamed the World Economic Processing Zone Association with the aim of encouraging EPZs to diversify their functions instead of limiting themselves to processing things for export. In September 2000, the WEPZA 20th annual meeting was held in Kaohsiung (Taiwan) to discuss how to achieve this aim. The report by the members from Taiwan – the cradle of EPZ-presented functions of their “Economic Value Adding Zone” in the following table.

At present, Taiwanese has made a plan to build a Global Logistics

Center that serves as a basis for their trading and international trade. Its government needs only work out the managing mechanism and the Center depends on three existing EPZs (Taichung, Kaohsiung and Nantzu) and other five newly built EPZs for facilities. Three old EPZs are trying to change from “processing things for export” to “adding more value to products” while the five new ones are allowed to undertake the four above-mentioned functions. EPZs have also built in China but there is no borderline between these EPZs and the domestic market. EPZ companies are allowed to sell their products on any market. Chinese EPZs are usually called “Economic Development Zone”.

Tân Thuận joined the WEPZA in 1996 and it is still the only Vietnamese member in this organization. Maybe changing the name isn't an urgent problem to Tân Thuận, it is badly in need of transformation with a view to overcoming the two said inadequacies and taking a lead in integrating into the world economy. Transformation isn't an effort to follow foreign examples but a matter of life and death to the Tân Thuận EPZ in its second decade. ■

Table 3: Functions of Taiwanese New Economic Processing Zone

	Production under subcontracts (%)	Trading (%)	International trade (%)	Other services (%)
1999	48.86	0.17	24.40	26.57
2000	44.07	0.13	28.48	27.32
Planned target	30.00	10.00	35.00	25.00