

INCREASES IN LOCAL INPUTS TO TÂN THUẬN EXPORT PROCESSING ZONE

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I. TÂN THUẬN AMONG ASIAN EXPORT PROCESSING ZONES

After seven years of operation, Tân Thuận EPZ was ranked first in 1999 among top ten EPZs in the Asia-Pacific region by the Hong Kong-based magazine Corporate Location (it had been ranked third in 1997 and 1998). In late October 1999, it became the first EPZ in Vietnam that received the ISO 9002 certificate.

1. The first development stage

The Tân Thuận EPZ, HCMC, was established by the Decision 394/CT made by the Chairman of the Council of Ministers on Nov. 25, 1991. The building and running of infrastructure are undertaken by Tân Thuận EPZ Construction and Development Company, a joint venture between the Tân Thuận Industrial Development Company (IDC) under the HCMC People Committee and Taiwan Central Trading and Investment Company.

The total investment in the infrastructure building in the Tân Thuận EPZ is US\$88.92 million. The legal capital of the joint venture is US\$30 million and 30% of which is contributed by the IDC in form of the land use right over 300 hectares during a 50-year period.

It's planned that the building of infrastructure of the Tân Thuận EPZ, with its total area of 300 hectares, would be completed seven years after the project was started and after 12 years, the whole usable area (around 210 hectares) would be let. The EPZ would receive some 300 companies with the total investment of US\$700 million at most, create some 70,000 jobs and gain export earnings of US\$2 billion a year.

The Tân Thuận EPZ, an even peninsula surrounded by the Saigon River, is 4km far from the city center, 13km from the Tân Sơn Nhất International Airport and near the cluster of HCMC ports and South Saigon new town. Road and waterway networks provide the EPZ with



good communications with Western and Eastern South Vietnam, and with Central Vietnam as well.

The building of Tân Thuận EPZ was started on Feb. 6, 1992 and it has come into operation since 1993.

2. Current situation of the Tân Thuận EPZ

Up to Dec.31, 1999, there were 107 valid licenses in this EPZ, including:

- 87 companies have come into operation.

- 5 companies are installing production lines or in trial stage.

- 3 companies are constructing their factory buildings.

- 11 companies are waiting for building licenses.

- 1 company has just received the investment license.

The EPZ authorities have leased 121.2 hectares out of the usable area of 210 hectares (or 57.7%). The total realized investment in the EPZ has reached US\$522.25 million, equaling 74.61% of the target of US\$700 million planned for its 12th year of op-

Table 1: Investment by nations and territories

Nation or territory	Investment (US\$ mil.)	%	Company
Japan	297.35	56.94	44
Taiwan	156.94	30.05	42
Hong Kong	34.92	6.69	7
South Korea	9.74	1.87	5
England	8.75	1.68	4
USA	5.15	0.99	2
Singapore	5.00	0.96	1
Vietnam	4.40	0.84	2
Total	522.25	100.0	107

Source: HCMC Board of EPZs and IPs, 1999.

Table 2: Export and import values in 1996-1999 (US\$)

Year	Export	Growth rate	Import	Growth rate
1996	102,724,190		133,794,120	
1997	209,995,490	104.4%	233,378,170	74.4%
1998	326,314,150	55.4%	286,585,580	22.8%
1999	409,874,540	25.6%	337,563,670	17.8%

Source: HCMC Board of EPZs and IPs, 1999.

eration. This is really an encouraging achievement.

The table shows that the leading investors in Tân Thuận are from Asian countries (Japan, Taiwan and Hong Kong accounted for over 90% of the total investment in this EPZ), investors from many developed countries haven't made appearance yet.

The export earnings by companies in Tân Thuận have increased remarkably. In 1998 the export value started to exceed the import value: US\$326,314,150 compared with US\$286,585,580. Those figures in 1999 were US\$409,874,540 and US\$337,563,670. In the period 1996-1999, the export value rose annually by 61.8% while the import value rose by 38.3%.

In the EPZ, the most attractive industries are electronics and electric appliance; textile and garment, engineering and plastics-rubber, and the amount of companies in these industries is also high. However, most of these industries are consumer ones.

Table 4: Labor force in Tân Thuận in 1993-1999

Year	Local laborer	Increase (times)
1993	182	
1994	1,395	7.66
1995	4,298	3.08
1996	9,543	2.22
1997	16,000	1.67
1998	20,000	1.25
1999	24,672	1.23

Source: HCMC Board of EPZs and IPs, 1999.

Up to the end of 1999, the labor force working in the EPZ companies and building works reached over 25,000 persons (73% of them are female) equaling 35.71% of the planned target. After 1994, the labor force rose by 766% compared with 1993 because an increase in the amount of operational companies.

During the 7-year period, the labor force in the Tân Thuận rose by 285% (or 2.85 times) annually. The average wage for a laborer was US\$60 a month, or US\$720 a year (not including allowances and bonuses). The total labor cost in Tân Thuận was US\$17,763,840.

Table 3: Investment by industry

Industry	Investment (US\$ mil.)	%	Company
Electronics and electric appliance	155.82	29.84	14
Textile and garment	105.31	20.16	30
Engineering	71.99	13.78	16
Plastics-rubber	63.19	12.10	6
Wood processing, paper and wrapping	38.79	7.43	4
Food-alcoholic beverage	25.82	4.94	7
Sport equipment	12.83	2.46	4
Others	48.50	9.29	26
Total	522.25	100.0	107

Source: HCMC Board of EPZs and IPs, 1999.

II. INCREASES IN LOCAL INPUTS

One of the targets set for the EPZ authorities is to increase local inputs to foreign-invested companies. In other words, local companies and organizations should try to sell their goods and services to foreign-invested companies. Besides certain goods and services that foreign-invested companies should buy from local suppliers (power and water supply, post and telecommunications, administrative services, etc.), local companies can also supply a wide range of other goods and services, but we want to discuss here two possibilities: supply of raw materials and subcontractor's services, because the supply of such inputs as capital, technology or machinery depends on a long-term strategy and effective measures.

1. Effects of increases in inputs to EPZ companies

a. Beefing up the export-oriented economy: By doing subcontract work

for foreign-invested companies, local subcontractors have chances to gain knowledge of modern production and managerial methods, and get accustomed to production of goods of international standards when cooperating with foreign export-oriented companies. This cooperation will help them modernize their companies and contribute more to the industrialization and modernization process.

b. Enhancing the efficiency of investment: By diversifying their cooperation, local and foreign-invested companies will be able to make better use of their existing resources: Foreign companies, for example, are saved from investment in infrastructure and many expenditures, including capital ones. The EPZ companies, when using local raw materials,

could reduce a lot of costs (transport, insurance, import duties, customs fee, etc.) and enjoy prices lower than those of imported raw materials. This situation allows foreign companies to cut production cost, enhance their competitiveness in traditional markets and open up the new ones.

c. Encouraging the local production: The use of local raw materials by foreign companies will produce an increasing chain reaction on the local production, especially on agricultural production by farms which can supply products in large quantity, thereby helping with forming specialized farming areas, changing the agricultural structure and accelerating the industrialization and modernization in rural areas.

d. Improving local technological level: The cooperation between local and EPZ companies, through subcontract agreements particularly, will lead to the smooth and effective transfer of technologies and technical expertise to local partners.

Table 5: Raw materials used by companies in the Tân Thuận EPZ in 1996-1999 (US\$)

	1996	1997	1998	1999
Imported raw materials (1)	80,765,910	187,823,160	251,706,084	311,161,250
Local raw materials (2)	5,400,991	14,276,429	10,150,254	15,079,573
Total (2+1)	86,166,901	202,099,589	261,856,338	326,240,823
% of local ones	6.27	7.06	3.88	4.62

e. More employment and income: Subcontract work and orders given by EPZ companies will open up more job opportunities and income for local companies and laborers, both inside and outside the EPZ.

2. Initial encouraging achievements

All EPZ companies, either foreign-owned or local ones, have used more and more local supplies, especially raw materials, with the result that the value of local inputs increased remarkably. However, the local production couldn't ensure the supplies of various raw materials

while more and more EPZ companies came into operation. That is why the local supply accounted for only a small proportion of raw materials used by the EPZ companies although the absolute value of local raw materials showed sign of increase over years.

3. Tân Thuận and other EPZs in the region

The Table 6 provides us with data about some EPZs established in the past decades in Asia-Pacific region, including the Tân Thuận EPZ, in their sixth year of operation.

The Table shows that the Tân Thuận was second only to the Masan EPZ (since 1970) in the number of companies and export value, and employed a smaller labor force in comparison with those employed by the Pennang and Masan EPZs. As for the supply of local raw materials, however, the result achieved by the Tân Thuận EPZ was modest, only higher than the Pennang EPZ.

4. Conclusion

Increasing local inputs to EPZ companies, and all foreign-invested ones as well, is a matter of great importance to the realization of Vietnam's policy on foreign investment which aims at dealing with the shortage of capital, technology and managerial skill. From the success of the Tân Thuận EPZ, we could conclude that the aim of increasing local inputs to foreign-invested companies is acceptable to both local and foreign investors. However, this effort has just produced some limited results and the Government has a lot of work to do in order to improve the situation. ■

Table 6: Tân Thuận and some neighboring EPZs in their sixth year of operation

Indicator	South Korean Masan EPZ (1976)	Indonesian Jakarta EPZ (1982)	Malaysian Pennang EPZ (1977)	Philippine Bratan EPZ (1977)	Tân Thuận EPZ (1998)
Company	99	18	34	38	94
Export value (US\$ mil.)	441	37.5	226.1	39.7	326.3
Labor force (person)	26,615	7,742	27,895	12,821	19,032
% of local raw materials used	30%	41%	3%	20%	3.88%

