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Joint Centre for Asia Pacific Studies

Regional Development in Vietnam: Local Dynamics, Market Forces and State Policies

Hy Van Luong

Adam Fforde

with a contribution
by Raymond Gauthier

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University of Toronto-York University
Joint Centre for Asia Pacific Studies
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York University
4700 Keele Street
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Series Preface

What lies behind the dynamic economic growth that East and Southeast Asia have experienced in the past two decades? What is the extent of economic integration in the region? Is the process of regionalization likely to foster distinct regional institutions and processes? What are the specific connections between economic, social and political development? How do the security issues of the post–Cold War agenda link to development concerns? What strategies are Eastern Asian governments using to integrate into the region and what devices are they using to protect themselves from the accompanying environmental and social dislocations? What implications do these changes have for Canadian developmental assistance programs in the region?

These are some of the questions that are being addressed in an innovative three-year research program supported by the Canadian International Development Agency and administered by the Joint Centre for Asia Pacific Studies.

The main element of the program is the commissioning of some thirty papers prepared by academic specialists in Canada and Asia. The immediate audience for the papers is officials in the Asia Branch of CIDA and their colleagues in other government departments.

An additional objective, which CIDA has encouraged, is the enrichment of public discussion of Canadian interests and involvement in the region. This is being pursued through broader dissemination of the papers and through a series of meetings involving government officials, academics, businesspeople and representatives of nongovernmental organizations.

We are thus grateful to CIDA for permitting us to publish in slightly altered form some of the papers produced for the project. It should be emphasized that the views expressed are the responsibility of the authors themselves and not CIDA.

Paul M. Evans
Director and Series Editor

September 1994

Introduction

We are departing from our usual format to present two essays in one volume. The first, by Adam Fforde and Hy Van Luong, was commissioned as part of the Joint Centre's research program on economic regionalization. The second, by Raymond Gauthier, was commissioned separately by CIDA through the Hanoi office.

The essays complement each other in several ways in underlining the numerous constraints faced by the central government in its attempts to orient economic growth in a country that is marked by sharp regional differences. Fforde and Luong present a broad assessment of the history, institutional structure and political economy of the central government's efforts to promote development in different regions of Vietnam. They conclude that "local dynamics," including the actions of provincial governments and market forces, are considerably more powerful than the policies of the central government and party.

Gauthier's essay on the economic decision-making process in Vietnam examines the export-processing zone (EPZ) experiment that raised great domestic expectations. The experiment has encountered numerous difficulties. Of the six that have been authorized, only one is actually operating. Like Fforde and Luong, Gauthier argues that the EPZs and the more robust industrial zones reflect East Asian trade and investment dynamics rather than national policy. In part this is because of an absence of institutional mechanisms to coordinate and implement regional development policies. Administrative complexity and weakness are greater impediments to foreign investment than the absence of a detailed legal framework.

We appreciate CIDA's cooperation in allowing us to combine the essays into a single publication in the Eastern Asia Policy Paper series.

About the Authors

Hy Van Luong is currently Professor of Anthropology at the University of Toronto, and Associate Director of the Joint Centre for Asia Pacific Studies of the University of Toronto and York University. Having conducted extensive field research in Vietnam since 1987, Luong is the author of two scholarly books, and numerous book chapters and academic articles on Vietnamese political economy, social organization, discourse, and culture. He is currently completing a book manuscript *Culture, Capital and the State: Labour Relations in Vietnamese Pottery Enterprises, 1930–1990*, and engaging in field research on discourse, gender, and the political economy of industrial and agrarian reforms in Vietnam.

Adam Fforde has been carrying out consultancy work and part-time academic research as a Visiting Fellow at the Faculty of Economics, Research School of Pacific Studies, Australian National University since 1992. His academic and consultancy work has covered many areas of the Vietnamese economy, including agriculture, industry and the reform process. He has worked as a consultant for both the UNDP and the Asian Development Bank. His recent publications include *From Plan to Market: The Transition in Vietnam, 1989–94*, with Stefan De Vylder, and *The Agrarian Question in North Vietnam 1974–79: A Study of Cooperator Resistance to State Policy.*

Raymond Gauthier is Senior Resident Consultant in Hanoi to the Vietnam Sustainable Economic Development Project of the International Development Research Centre (IDRC) and the Canadian International Development Agency (CIDA). He holds degrees in Economics from the University of British Columbia (B.A. Hons.) and the University of Toronto (M.A.). In addition to Vietnam, he has worked as a consultant in the Philippines, Indonesia, Singapore, and Thailand.

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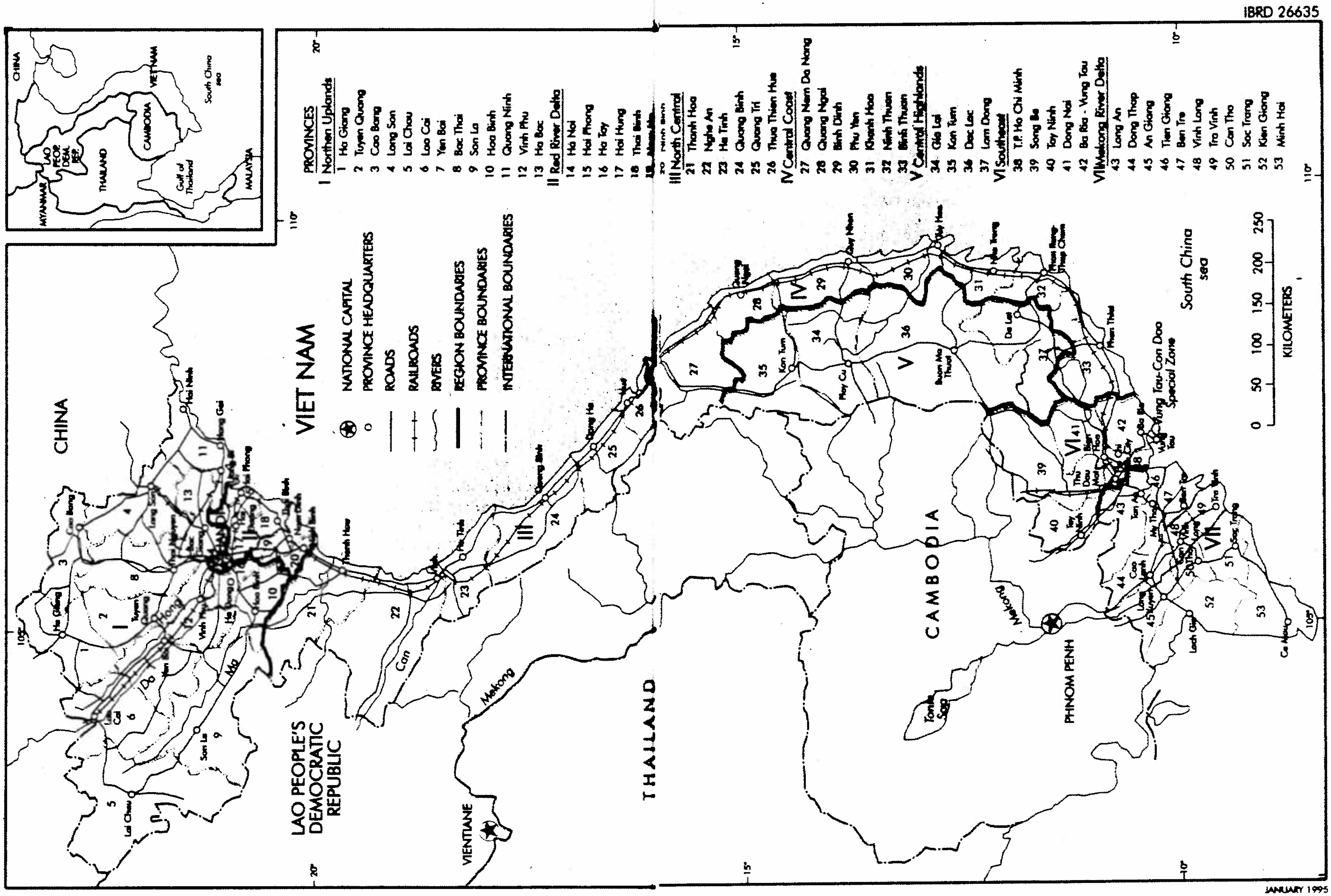
Abbreviations

CPV – Communist Party of Vietnam
DRV – Democratic Republic of Vietnam
EPZ – Export-Processing Zone
FDI – Foreign Direct Investment
GSO – General Statistical Office
ODA – Overseas Development Assistance
RoV – Republic of Vietnam
SER – Socio-Economic Region
SOE – State-Owned Enterprise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Regional Development in Vietnam: Local Dynamics, Market Forces and State Policies

by Hy Van Luong and Adam Fforde

Executive Summary

In the past four years, Vietnamese policy analysts and media have frequently mentioned the growth zone concept in the economic development process, and more specifically the three growth areas of Hanoi-Haiphong-Quang Ninh in the north, Quang Nam-Da Nang in the centre, and Ho Chi Minh-Dong Nai-Vung Tau-Ba Ria in the south.

We argue that the Vietnamese policy on growth zones has emerged gradually, partly in response to local dynamics and market forces, and partly in order to formulate a development strategy in face of the scarcity of the state's economic resources. Except for general statements at the Seventh Communist Party Congress (1991) and in the documents circulated to prospective donors in Paris in 1993 and 1994, the Vietnamese government has neither issued any official decrees on the growth zones and their boundaries, nor institutionalized any regional mechanisms for the discussion and effective implementation of the growth zone policy within each region. The boundaries of two of the three designated growth zones seem to be shifting. Subtle signals appeared in 1995 regarding the intensification of the debate on, and a possible fundamental shift in, the growth zone policy. These problems indicate that Vietnamese authorities are responding to events, albeit in a positive manner, and attempting to articulate a strategic framework for their decisions on economic and infrastructural developments in face of resource scarcity. They also suggest that in Vietnam, in both the transition to the market economy and in the emergence of growth zones, central governmental and party policies tend to be reactive and relatively less important than local dynamics. Most significant among these dynamics were the powerful force of the provinces, and the differential impacts of market forces on the different provinces and regions of Vietnam.

Whatever the effectiveness of the Vietnamese growth zone policy, the current patterns of Vietnam's economic growth and external relations point toward a stronger economic integration of Vietnam, not with a Bangkok-centred Mainland Southeast Asian subregion, but with three others in Eastern Asia: Japan-Korea-northern China, Taiwan-Hongkong-southern China, and the Singapore-led insular Southeast Asian subregion.

Introduction[1]

Vietnamese policy analysts and media have frequently mentioned the growth zone concept in the economic development process, and more specifically the three growth areas of Hanoi-Haiphong-Quang Ninh in the north, Quang Nam-Da Nang in the centre, and Ho Chi Minh-Dong Nai-Vung Tau-Ba Ria in the south (see map). This paper assesses the emerging Vietnamese policy on regional development issues in general and the three "growth zones" in particular. It discusses: (*a*) the historical context of regional development thinking in Vietnam; (*b*) the socio-economic conditions in the three growth zones in relation to surrounding areas; (*c*) the emergence of the Vietnamese growth zone policy; and (*d*) the implications of the emerging Vietnamese growth zones for regionalization hypotheses on East and Southeast Asia.

The Vietnamese policy on growth zones has emerged partly in response to local dynamics and partly in order to formulate a development strategy that takes into account the scarcity of the state's economic resources. In relation to the major discussion on the relative importance of state policy and other forces in Vietnamese socio-economic transformation, we argue that in Vietnam, in both the transition to the market economy and in the emergence of growth zones, central governmental and party policies tend to be reactive and relatively less important than local dynamics (see also De Vylder and Fforde 1995; Luong 1992). This pattern is related to the considerable *de facto* power of Vietnam's fifty-three provinces and province-level cities, notwithstanding the efforts of the national government to increase centralization. Except for general statements at the Seventh Communist Party Congress (1991) and in the documents circulated to prospective donors in Paris in 1993 and 1994, the Vietnamese government has neither issued any official decrees on the growth zones and their boundaries, nor institutionalized any regional mechanisms for the discussion and implementation of the growth zone policy within each region. These problems indicate that Vietnamese authorities are responding to events, albeit in a positive manner, and attempting to articulate a strategic framework for their decisions on economic and infrastructural developments in face of resource scarcity. The paper will also examine the implications of the emerging Vietnamese growth zones for the economic linkages of Vietnam to other parts of East and Southeast Asia (cf. Abonyi and Ninsananda 1991, 29–30).

Vietnamese Economy and Regional Policy: Origins of Contemporary Trends and Implications for Regional Development Strategy

The evolution of Vietnamese thinking about growth zones is shaped by the long-standing tension between central planning and local dynamics, and more specifically, by three main factors:

- The consequences of political decisions taken in the late 1960s, which created a distinctly peculiar pattern of decentralization. Perhaps suitable to wartime conditions, the formal structures created more than twenty-five years ago have survived largely intact to date.
- The legacy of decades of largely failed attempts to develop the country through the use of central-planning techniques.
- The powerful but largely unplanned effects of the emergence of the market economy from 1979, and its further development with greatly increased force from 1989 onward.

It should be stressed that the processes of social and economic change in Vietnam have been largely spontaneous in character. Policy has tended to be accommodative and reactive. We have elaborated elsewhere that the shift to a market economy in Vietnam should be seen not as "reform" as much as "transition"; the former viewpoint credits the main source of change to government or party policy, while the latter gives greater explanatory weight to such other processes as market forces and local socio-political and economic dynamics (De Vylder and Fforde 1995; Luong 1992). Contemporary policy on regional development and growth zones is in the same mould. For example, it is generally accepted that there was little thinking in Hanoi about the likely consequences of the reunification of the country in 1975–76. The complicated process of "fitting" (*thich nghi hoa*) the two parts together was to take over a decade, and did not move on the right track until the market reforms of the late 1980s.

The Decentralization of a Stalinist System in the Late 1960s

In the context of the long-standing tension between central planning and local forces, Vietnamese economic policy took a marked turn towards decentralization in the late 1960s and during most of the 1970s. At the time of heavy U.S. military pressure in the late 1960s, the Communist Party Secretary General, Le Duan, started a series of pronouncements on regional developments. These pronouncements in essence argued that under Vietnamese conditions, a province with a population of 1 to 2 million was to be a regional development focus—in effect, a growth zone (Le Duan 1968 and 1979).[2] The functions of each and every province were understood and defined as though each was close to being an independent country. More specifically, each province was to act as a planning level, and to set up a long-term development plan. Many provinces were amalgamated to reduce the resulting high administrative costs. The administrative apparatus at the central level was largely duplicated at the provincial level, with banks, departments of planning, industry, agriculture, education, and so forth.[3] Provincial authorities and the parallel party organizations were of comparable authority to central government ministries. One important element of this decentralization was the responsibility placed upon local authorities to provide consumer goods, especially foods, to their area—mainly to state employees. The general objectives of the decentralized process of provincial-level planning were: (*a*) to encourage maximal and adaptive use of local resources in a combination of agricultural and industrial initiatives in order to meet local needs; and (*b*) to reduce the potential for widening the urban-rural gap due to the high concentration of industries around certain cities. During wartime, the decentralized system could also reduce the damage from enemies' selective strikes on key economic areas.

The role of the central government, while not insignificant, was restricted primarily to: (*a*) the redistribution of goods and the allocation of the large aid flows that were supplied by the Soviet bloc and China during and immediately after the war years; and (*b*) the management of ministry-owned enterprises that served in principle as leaders in their fields, drawing upon local resources and labour, assisting local production units with their managerial and technical knowledge, and stimulating economic growth (Le Duan 1979, 30).

With the end of the American war in 1975, the Fourth Party Congress (1976) attempted to rationalize the economic system by emphasizing that each province had to specialize in certain sectors or products in order to make the full use of their potential instead of attempting to be economically independent (Le Duan 1985, 11). Le Duan also mentioned the pre-eminent role of Hanoi and Ho Chi Minh City in the Vietnamese economic system (1985, 11). However, the tendency toward decentralization has been strong and has major long-term implications for regional developments.[4]

Consequences for the Economy

Many of the norms of neo-Stalinism did not hold in the Vietnamese economy that grew up under such a decentralized system (Fforde and Paine 1987; Beresford 1988). The rigid discipline required by the central plan was lacking, and there was extensive local adaptation in response to local interests. This provided a basis for the rise of commercial and manufacturing activities outside the state system, which became far more extensive through the 1980s and resulted eventually in the extinction of central planning (Luong 1993). In such areas as the distribution of foreign aid where central planning had an impact, the level of waste was high because capital investments financed by the socialist bloc aid program were usually put in sites and conditions where economic efficiency was often low and where large subsidies were required. The distribution of resources to provinces was based mainly upon such political considerations as the relative equality among the provinces, with the party playing the major role. This economic weakness was *one* of the main reasons why a united Vietnam after 1976 failed to create rising levels of accumulation, helping to precipitate the economic crisis of 1979–80. However, the powerful forces of decentralization do not seem to have resulted in a fundamental fragmentation of the Vietnamese polity; local progressives or conservatives usually carried out their moves in the context of national debates and manoeuvres.

In Vietnam, as in China, the central-planning socialist model worked primarily in reducing regional development and income differentials (Beresford and McFarlane 1995, 55). From a microscopic perspective, regional retail sale data during the American war period show that, due to the rationing system, certain inequalities of production did not translate into a wide variation in the personal access to retail sales. Within a macroscopic framework, after reunification in 1975–76, and until the transition to a market economy in 1979–80, state controls over consumption were associated with attempts to favour the less advanced areas of the north, which also led to a reduction in inequalities. Since the start of the transition, however, market forces have played an increasingly powerful role in determining output and resource access.

The Basic Dimensions of the Vietnamese Economy since 1989

Reforms

The reform process in Vietnam is part of a wider process of transition (De Vylder and Fforde 1995). A lesson learnt by some senior Vietnamese makers and analysts has been the importance of caution and pragmatism (Fforde 1994a). The independence of local authorities played an important role in providing support for *de facto* "reforms from below." Progressive provinces in both the northern and southern parts of the country were often sites for experiments or for effective violations of state policies when they remained too conservative for local interests.[5] These violations undermined the effectiveness of state policies and further weakened the centrally planned economic system. In 1978–79, for example, in combination with bad weather, southern cultivators' successful withholding of paddies from the state's procurement system led to a subsistence crisis throughout the economy and lent impetus to reforms.

Although reforms in agriculture and state industry started simultaneously in early 1981, the former was far from a decollectivization. In state industry, there was a rapid emergence of commercial activities beyond state-administered targets. It was not until 1985 (prior to the emergence of *doi moi* as formal policy adopted at the 1986 Sixth Party Congress) that a more fundamental shift in policy led to greater autonomy to state-owned enterprises (SOEs). A second reform in agriculture was adopted in 1988, in effect, to decollectivize the system. In 1989, as a part of the fundamental transformation of the economic system, and with a strong political commitment to supporting business activities, the government adopted anti-inflationary measures and decontrolled all major prices (including foreign currency). Price stability has been on the whole maintained: the rate of inflation dropped from 400 percent–700 percent in 1987–88, to approximately 70 percent in 1990–91, 17.5 percent in 1992, 5.2 percent in 1993, and 14.4 percent in 1994. In terms of the balance between the state and nonstate sectors of the economy, the share of the state sector in the economy has paradoxically increased, partly because of the growing importance of the state-controlled oil and electricity industries, but also because of the widespread use of SOE "shells" as havens for private or quasi-private capitals. Thus while there has been no formal program of privatization, the budget constraint on SOEs has hardened considerably. Vietnam has essentially become a market economy, but with still highly informal and unregulated markets of land, labour, and capital (Fforde 1993). Other major changes of the late 1980s were the opening of the borders in 1989 and the passing of a liberal Foreign Investment Code. Together they signalled Vietnam's emergence as one of the most open economies in the Far East.

Vietnam—An Open Economy in East and Southeast Asia

Beyond the reform policy, the other issue that dominates the discussion of regional developments in Vietnam is the extraordinary degree of openness of the Vietnamese economy since 1989, and the sheer power of the economic forces unleashed by the integration of Vietnam into the world market system through trade, capital flows, and information. Approximately one-quarter to one-third of Vietnamese gross investment is now financed by private foreign sources, and with the exception of 1991, exports have annually grown at least 12 percent since 1989.[6] How to cope with the differential effects of integration into the world economy in different regions is certainly a key issue for policy makers and advisers in Vietnam.

Since 1989 the Vietnamese economy has entered a period of comparatively rapid growth. According to official statistics, the annual rate of growth has accelerated from 5–6 percent in the 1989–91 period to an average of 8 percent over 1992–1995. Some Vietnam specialists have estimated that the GDP growth actually approached 10.5 percent in 1993, more than 2 percent above the official figure (Fforde 1994b, 98). Domestic savings have also rapidly increased, again greatly undervalued by the official data; total accumulation was probably near 25 percent of GDP in 1994, compared with 13 percent in 1989 (Fforde 1994b, 98).[7] Almost all of this rapid increase in savings has been utilized, not through the official banking system, but within informal channels, testifying both to the high rates of return in the commercial sector and the continuing lack of confidence in the state banking system. This growth has been buoyed by rapid exports: it was initially fuelled by rice and oil, and has recently been strengthened by the significant increase in the export of such other products as seafoods, textiles, and shoes (Table 1). Foreign direct investment, on a disbursement basis, reached approximately U.S. $700 million in 1993 and U.S. $1.2 billion in 1994 (Table 2; cf. Vo Dai Luoc *et al.* 1995, 184). The figures are even higher if informal flows are included (Fforde 1994b, 50–51).[8] The largest proportion comes from Chinese-speaking countries, with Taiwan, Hongkong, and Singapore in the lead (Table 3).

Table 1
Top Ten Export Goods from Vietnam
(in millions of U.S. dollars)

	1992	1993	1994
Crude oil	805	861	976
Garment and textile	221	350	550
Marine products	307	370	480
Rice	418	350	406
Coal	62	84	100
Shoes and sandals	16	24	115
Coffee	91	85	98
Rubber	67	70	70
Cashew nuts	41	31	60
Peanuts	32	47	45

Source: Luu Tien Hai 1995, 12.

Sectorally, there has been a structural shift away from agriculture and towards services and industry (Table 4), yet agriculture has been growing at the average annual rate of 4 percent since 1989. There are signs that the group of lower-middle-level farming households common in the north and centre has come up well from the deep poverty and hunger that it faced in the late 1980s, and is poised to capitalize upon better markets and better staple availability in the second half of the 1990s (Luong and Unger 1995; Le van Toan *et al.* 1991; Nguyen van Tiem *et al.* 1993). The great mass of Vietnamese farming families in the north and the centre retain usufruct rights to land. This virtually universal access to land by farming households has slowed down the process of social polarization in rural areas, and constitutes a major source of social stability. However, many parts of the country remain very poor. World Bank survey data have indicated that the areas far from markets and without an easy access to the main transportation system suffer from the weakness of the state investment program (World Bank 1995).

Table 2
Foreign Direct Investment in Vietnam, 1988–94
(in millions of U.S. dollars)

	1988	1989	1990	1991	1992	1993	1994	Total
(*a*) Capital in newly licensed foreign investment projects	366	539	596	1288	1938	2777	4041	11 545
(*b*) Capital disbursement	60	100	200	260	535	1001	1722	3878
(*c*) Estimated FDI disbursements (70% of [*b*])*	42	70	140	182	409.5	700	1205	2714.6
(*d*) % of (*b*) to (*a*)	16.4	18.6	33.6	20.2	27.6	36.0	42.6	33.6

Source: Ha Hai 1995, 28.

*See note 7 and Nguyen Anh Tuan *et al.* 1994, 107.

Table 3
Sources of FDI in Vietnam, 1988–1994

Location	No. of licensed projects	Capital in licensed projects (in millions of U.S. dollars)
Taiwan	164	1901
Hongkong	165	1574
Singapore	77	1058
South Korea	92	860
Japan	69	695
Australia	43	670
Malaysia	33	586
France	58	503
Switzerland	12	461
The Netherlands	16	354

Source: Ha Hai 1995, 29

Table 4
Vietnamese Economic Growth, 1989–94

	1989	1990	1991	1992	1993	1994 (est.)
% GDP change	8.0	5.1	6.0	8.3	7.9	8.5
GDP per capita (U.S. dollars)	$85	$110	$117	$129	$167	$190
Industrial						
% of GDP	23.3	23.3	24.0	24.6	25.5	27.6
% change	–2.6	2.9	8.8	11.4	11.4	13.7
Agricultural						
% of GDP	40.5	39.1	38.9	38.2	36.2	34.4
% change	6.9	1.5	2.2	6.3	3.3	3.9
Services						
% of GDP	36.2	36.3	37.1	37.2	38.2	38.0
% change	17.7	10.4	8.3	8.8	10.6	10.2

Regional Developments and the Vietnamese Growth Zone Policy

Market Forces and Regional Inequalities

Economic growth has been far from even in different regions of Vietnam, no matter whether one adopts the popular distinction among the north, the centre, and the south; or the more technical division of the country into seven socio-economic regions (SER).

The normally accepted and linguistically marked regional divisions that mark deep cultural and social differences are called "north," " south, " and "centre." These divisions also correspond to the colonial divisions of Cochinchina, Annam and Tonkin.[9]

Within the north, south, and centre, further regional distinctions are popularly accepted, generally corresponding to the sevenfold socio-economic regions (SERs) adopted by the General Statistical Office (GSO). The south is divided into the Mekong delta (popularly known as the "west"), and Ho Chi Minh City and "the rest" (the east, called the "southeast" in this paper); the centre into the central highlands and the two northern and southern coastal regions;[10] while the north is divided into the Red River delta and "the rest" (the uplands).

Official Vietnamese statistics reveal marked differences in GDP per capita among the seven SERs in the early 1990s (Table 5). In 1993, the per capita GDP in the southeast stood at 234 percent of the national average, while those in the northern and southern central coasts and the northern uplands reached respectively only 58 percent, 69 percent, and 70 percent of the national average. In the south, the Mekong delta, although primarily agricultural, was able to exploit its fertile land to generate large rice exports and witnessed the quick expansion of the service sector to meet agricultural production and consumption needs. Its GDP per capita has stood at the national average. In the centre, many Vietnamese migrants to the sparsely populated central highlands quickly switched to such cash crops as coffee for the world market, and strengthened the regional economy in relative terms, even though the per capita GDP in this region remained at only 80 percent of the national average. In combination with the strong foreign direct investment (FDI) flow, the offshore oil boom, and the trade and thriving smuggling activities along the Vietnamese-Cambodian border, these export-oriented developments in the context of decollectivized agriculture fueled the growth of the southeast because Ho Chi Minh City had long served as the international commercial hub for at least the southern half of the country. In the north, both the removal of domestic trade barriers in 1987 and the opening of the border with China in 1989 had a strong positive effect upon commerce and trade. At the same time, small-scale capital investments, mainly based in Hanoi and Haiphong, started to increase sharply. These developments enabled the Red River delta to remain close to the national average in per capita GDP. In contrast, the northern uplands remained poor because their infrastructural development costs were high. The history of relations between the indigenous populations and ethnic Vietnamese migrants since 1954 was also complicated in this region. The northern central coast, famed for its poverty and ideological conservatism (Confucianism in the nineteenth century, and socialism more recently), was hardly able to diversify its economy and to benefit from the general economic growth.[11] The southern central coast fared better with a GDP per capita growth rate of 3.7 percent in 1993, but remained constrained by its distance from markets and generally conservative local administrations which were less willing than their counterparts in the south and the north to undertake socio-economic innovations. In general, a strong correlation exists between the diversification of the regional economy beyond subsistence agriculture and forestry on the one hand, and the per capita GDP for the region on the other.

A survey of living standards in Vietnam provides strong data illustrating the relation between economic diversification and per capita income (Table 6) (see also Luong and Unger 1995; Beresford and McFarlane 1995; World Bank 1994, xiv).

There also existed significant variations within each region in 1993. Three of the five provinces in the southeast ranked among the top four in GDP per capita (interspersed only by Hanoi). All sixteen provinces in the south (southeast

Table 5
Economic Structure and Average GDP Per Capita
(in thousands of Vietnamese dong)
in Seven Socio-Economic Regions and Selected Provinces

	1992	(U.S.$)	1993	(U.S.$)	Real growth per capita in 1993 (%)	Agri.& Forestry (%)	Industry (%)	Services (%)
Northern Uplands	**332**	**(95)**	**334**	**(114)**	**0.7**	44.5	21.9	33.6
Quang Ninh	585	(167)	593	(205)	1.4			
(1993 Range: from 151 000 dong in Son La to 593 000 dong per person in Quang Ninh)								
Red River Delta	**438**	**(125)**	**448**	**(158)**	**2.4**	33	25.0	42.0
Hanoi	941	(269)	968	(335)	2.9			
Haiphong	552	(158)	556	(192)	0.7			
(1993 Range: from 284 000 dong in Ninh Binh to 968 000 dong per person in Hanoi)								
North Central Coast	**278**	**(81)**	**278**	**(99)**	**0**	46	18.7	35.3
(1993 Range: from 244 000 dong in Ha Tinh to 322 000 dong per person in Thanh Hoa)								
South Central Coast	**320**	**(93)**	**331**	**(114)**	**3.7**	31.2	25.8	43.0
Quang Nam-Da Nang	368	(105)	367	(127)	–0.3			
Khanh Hoa	571	(163)	586	(203)	0.9			
(1993 Range: from 246 000 dong in Quang Ngai to 586 000 dong per person in Khanh Hoa)								
Central Highlands	**354**	**(101)**	**381**	**(130)**	**7.5**	64.7	10.3	25.0
(1993 Range: from 271 000 dong in Gia Lai to 454 000 dong per person in Dac Lac)								
Southeast	**1001**	**(287)**	**1118**	**(387)**	**11.6**	11.2	47.1	41.1
Ho Chi Minh City	1187	(341)	1322	(457)	11.4			
Dong Nai	583	(168)	635	(220)	8.9			
Ba Ria-Vung Tau	2779	(799)	3177	(1099)	14.3			
(1993 Range: from 399 000 dong in Song Be to 3 177 000 in Vung Tau-Ba Ria)								
Mekong Delta	**452**	**(125)**	**472**	**(159)**	**4.5**	58.8	15.1	26.1
(1993 Range: from 367 000 dong in Dong Thap to 623 000 dong per person in Kien Giang)								
Vietnam	**454**	**(126)**	**478**	**(161)***	**5.3**			

Sources: World Bank 1995, 160; and Andersen 1994, 41, 42.

*The GDP per capita in U.S. currency increased more significantly than that in Vietnamese dong because of the appreciation of Vietnamese dong during this period.

Table 6
Composition of Main Income Sources by Region

Income Sources	N. Uplands	Red River	N. C. Coast	S. C. Coast	C. Highlands	S.E Delta	Mekong
Agriculture/Forestry	63.1	39.9	47.0	21.2	64.6	11.3	40.7
Non-farm self-employment	19.8	36.5	34.1	45.8	14.4	50.7	33.5
Salaries/Wages	11.1	16.6	12.2	28.0	20.0	32.7	22.9
Other	6.1	7.0	7.7	5.0	1.1	5.3	5.1
*Household-Reported Per Capita Income (U.S.$)**	$73	$100	$69	$78	$77	$172	$105

Source: Vietnam, State Planning Commission 1994, 217, 219.

* The per capita income figures in the survey of living standards are lower than the GDP per capita figures partly because the former exclude taxes collected directly from enterprises by the central government, and partly because households did not fully report incomes from the informal economy.

and the Mekong delta) ranked among the top twenty-six provinces (top half), while the remaining ten included four in the northern uplands (out of thirteen), two in the Red River delta (out of seven), two in the south central coast (out of seven), two in the central highlands (out of four), and none in the north central coast (out of six). The GDP per capita differences were rooted in historical legacies, locations, and natural resource bases. Even before an influx of foreign direct investments, Hanoi and Ho Chi Minh had long served as two leading industrial and commercial centres of the country, while Hai Phong had been the major seaport for the northern part of the country. The economy in Quang Ninh benefitted from the coal-mining industry, the growing Vietnam-China border trade, and the increase in tourism to Ha Long Bay. In the south, Vung Tau-Ba Ria, the inland headquarters of the new Vietnamese oil industry and the major southern seaside resort, benefitted from the offshore oil boom as the oil production had increased from 208 000 tons in 1987 to 6.3 million tons in 1993;[12] while Dong Nai, neighbouring on both Ho Chi Minh and Vung Tau-Ba Ria, had become a part of the southern industrial corridor since the 1960s. In Central Vietnam, although the GDP per capita in Quang Nam-Da Nang was exceeded by three other provinces (Khanh Hoa [tourism], Lam Dong [tourism and agriculture], and Dac Lac [forestry and cash crops]), Quang Nam-Da Nang had the largest civilian seaport and airport in central Vietnam.

Besides the uneven impact of natural resource bases and the expanding foreign and domestic trade on different regions of Vietnam, foreign capital flows, and to a lesser extent, overseas remittances by ethnic Vietnamese, have also favoured some regions over others (Table 7). By the end of 1993, the southeast with only 12.4 percent of the population, became the destination for 57.9 percent of the capital in licensed foreign investment projects, while the northern uplands, the northern central coast, and even the Mekong delta each had less than 3 percent of licensed FDI. Within both the southeast and the country at large, Ho Chi Minh City maintained a strongly dominant position. It had received 46.6 percent of the capital in licensed foreign investment projects by the end of 1993. Its advantages include: (*a*) its position as the commercial and economic hub for the southern half of the country; (*b*) the proximity to the natural resource bases in Vung Tau-Ba Ria, the central highlands, and the Mekong delta; and (*c*) better physical and human infrastructure. Its entrepreneurs, the most skilled in the country in independent large-scale commerce, were better placed than others to exploit the new market opportunities open to the country. Given the strong capital flows from Taiwan, Hongkong, and Singapore, the presence of local ethnic Chinese entrepreneurs in Ho Chi Minh City probably also facilitated the flow of foreign capital. It consequently received most of the attention from overseas investors, while Dong Nai and Vung Tau-Ba Ria also enjoyed relative advantages in terms of physical and human infrastructure. It is likely that remittances from ethnic Vietnamese in the West also helped to fuel private domestic investments in the southeast: by the end of 1992, this region had 34.9 percent of the total value of nonstate domestic enterprises (Table 7). The Mekong delta with 22.2 percent of the population had 19.1 percent of the total value, probably for the same reason. The Red River delta, with 19.7 percent of the population and 19.2 percent of the total domestic investment value, probably benefitted partly from the remittances of temporary Vietnamese workers in the former Soviet Union, Eastern Europe, and the Persian Gulf, and partly from the sideline incomes of national-level bureaucrats in the national centre of power in Hanoi (cf. Tuong Lai 1994).

From Table 7, it is apparent that the larger GDP shares of the southeast in general and Ho Chi Minh City, Dong Nai, and Vung Tau-Ba Ria in particular have little to do with state investments. They were fueled by FDI and domestic investments outside the state sector. For example, although Ho Chi Minh City had 7 percent of the Vietnamese population and accounted for an increasing percentage of the national GDP in the past few years (17.7 percent of the GDP in 1993, Figure 1), it received less than 6 percent of the state capital investments in the 1990–1992 period. Significantly, it was the location of choice for almost half of the FDI flow to Vietnam by this time. Similarly, while the southeast had only 12.4 percent of the Vietnamese population in 1993, it had 34.9 percent of the nonstate domestic investment capital by 1992, 57.9 percent of the approved FDI capital flow by 1993, and 29 percent of the 1993 GDP. At the other extreme, although the northern highlands with 17.3 percent of the population had its fair share of state capital investments (15.3 percent–20.9 percent in 1990–1992), it had only 8.1 percent of the nonstate domestic investment capital, 2.1 percent of

Table 7

Comparison of Seven Socio-Economic Regions and Selected Provinces in Population, GDP, FDI, and Domestic Investments

	Pop. 1993 (%)	GDP 1993 (%)	GDP Growth 1992 (%)	GDP Growth 1993 (%)	FDI by 12/93 (%)	FDI by 12/94 (%)	Value of Vietnamese Nonstate Enterprises in Dec. 1992 (%)	State Capital Investments 1990 (%)	State Capital Investments 1991 (%)	State Capital Investments 1992 (%)
Northern Uplands	**17.3**	**12.1**		**3.1**	**2.1**	**2.3**	**8.1**	**15.3**	**18.4**	**20.9***
Quang Ninh	1.3	1.6	15.2	9.2	0.7	1.0		5.2	4.9	2.4
Red River Delta	**19.7**	**18.5**		**4.6**	**29.0**	**32.3**	**19.2**	**26.4**	**25.5**	**21.5**
Hanoi	3.1	6.2	13.1	12.3	19.4	24.3		16.1	16.9	12.4
Haiphong	2.3	2.6	12.6	13.7	8.5	8.4		1.6	1.8	2.7
N. Central Coast	**13.6**	**8.0**		**2.5**	**1.7**	**2.2**	**6.8**	**15.2**	**12.4**	**11.3**
S. Central Coast	**10.5**	**7.1**		**6.3**	**4.9**	**3.4**	**8.5**	**10.9**	**10.3**	**9.1**
Quang Nam-Danang	2.7	2.1	3.6	7.4	3.7	2.3		1.3	1.8	1.4
Khanh Hoa	1.3	1.6			0.8	0.4		1.8	1.1	0.9
Central Highlands	**4.1**	**3.3**		**11.3**	**1.7**	**1.2**	**3.4**	**3.6**	**4.4**	**4.8**
Southeast	**12.4**	**29.0**		**15.4**	**57.9**	**51.2**	**34.9**	**12.6**	**14.5**	**17.5**
Ho Chi Minh City	7.0	17.1	11.6	12.5	46.6	34.6		3.5	5.9	5.9
Dong Nai	1.4	3.3	8.6	13.8	6.3	10.1		2.7	3.0	2.8
Vung Tau-Ba Ria	0.9	6.2	39.5	16.7	3.9	3.3		1.4	1.2	1.4
Mekong Delta	**22.2**	**21.9**		**6.6**	**2.7**	**5.4**	**19.1**	**15.1**	**14.5**	**14.9**

Sources: Vietnam, Ministry of Labour 1994, 153–154; Vietnam, General Statistical Office 1994a, 104, 108,113, 117, 121, 125, 129, 134, 138, 142, 147, 152, 157, 162, 167, 172, 176, 180, 184, 188, 193, 198, 203, 108, 212, 216, 221, 226, 230, 235, 240, 244, 248, 252, 255, 259, 263, 268, 272, 277, 282, 286, 290, 295, 300, 305, 309, 313, 316, 320, 324, 328; Vietnam, General Statistical Office 1994b, 164–165, 177; World Bank 1995,160.

* This figure included the construction costs of the Hoa Binh dam that provided electricity for the entire Red River delta, surrounding provinces, as well as, through the 500-kv line, to the southern part of the country.

approved FDI capital, and only 12.1 percent of the national GDP. The southeast had thus enjoyed the highest regional growth rate independently of central planning, and before the central government formulated any plan for and invested any disproportionate amount of resources in a southern growth triangle. We suggest that the key factor influencing Vietnamese regional development since 1989 has been the operation of market forces in the context of a government facing both highly limited resources and weak implementation capacity.

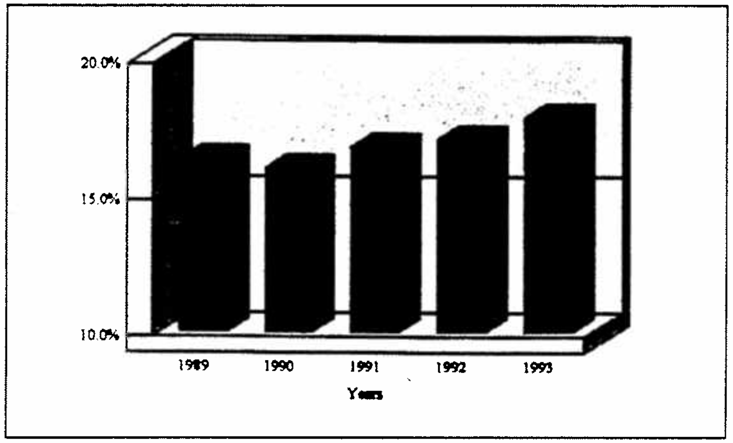

Figure 1
Ho Chi Minh City Share of GDP

Around 1993, the southeast started to become relatively less attractive for three main reasons:

1. The increase in commercial activity, the obviously inadequate levels of investment in infrastructure, and the rising costs of land and other inputs, all pushed capital toward other regions and other provinces in the same region.
2. Power cuts in Ho Chi Minh City encouraged some light manufacturing investors to explore investment opportunities in Hanoi, which they found surprisingly amenable to the prospect of joint ventures.
3. Hanoi started to put together substantial and relatively coherent infrastructural investment plans, thus supporting the strategy to use the north as a jumping off point for southern China, especially by investors from Chinese-speaking countries.

The operation of those market forces led to the decline in the FDI flow to Ho Chi Minh City to the advantage of the neighbouring provinces of Dong Nai, Song Be, and Long An in the south, and Hanoi, Haiphong, and Ha Tay in the north. Between December 1993 and December 1994, the share of the total FDI by Ho Chi Minh City dropped from 46.6 percent to 34.6 percent, while those of Dong Nai, the Mekong delta, and Hanoi rose respectively from 6.3 percent, 2.7 percent, and 19.4 percent to 10.1 percent, 5.4 percent, and 24.3 percent. Many provinces neighbouring on Ho Chi Minh City and Hanoi emerged among the top twelve FDI recipients by December 1994: Song Be (southeast, neighbouring on Ho Chi Minh and Dong Nai, 3.1 percent), Ha Tay (Red River delta, neighbouring on Hanoi, 1.2 percent), and Long An (Mekong delta, neighbouring on Ho Chi Minh, 0.9 percent).[13]

As a result, the regional variations in various key indicators had started to shift by the mid-1990s toward greater balance and away from the previously strong focus upon Ho Chi Minh City. By the mid-1990s the regional question in Vietnam had shown itself to be greatly influenced by market forces as well as interregional and interprovincial competition over various resources:

- Domestic capital flows. Shifts in prices, especially land prices, were encouraging Vietnamese capital to move out to cheaper areas where possible—this was more marked in the Red River delta with its tradition of township commerce.
- Tactical and strategic considerations by foreign investors, extending from "risk spreading" to attempts to gain access to south China.
- Competition to gain access to rural cash crops both for direct marketing and for processing.

Sources of Policy: The Role of the State

Facing the scarcity of domestic resources for infrastructural developments for regionally balanced growth, yet not wishing to increase significantly regional imbalance, the Vietnamese state encountered a fundamental policy dilemma. Andersen has perceptively commented on the resource allocation dilemma of the Vietnamese government.

> To achieve maximum growth investments would have to be made where the highest returns may be expected. To equally involve all regions in the immediate development may, however, require resources to be invested disregarding the level of expected returns. [Andersen 1994, 39]

The Vietnamese solution was articulated most clearly in the statement of regional development objectives circulated at the Paris Donor Conference in 1993. It was designed to:

- Encourage expanded food production in the Mekong and Red River deltas, and other areas with comparative advantage.
- Focus the limited investment resources available to develop the infrastructure needed to promote investment in services and industries in three

priority areas: (i) Hanoi-Haiphong-Quang Ninh; (ii) Ho-Chi-Minh-City-Bien Hoa-Vung Tau; and (iii) the Da Nang area.

- Encourage the upland and mountainous regions to shift to a commodity economy by developing the forestry industry and opportunities for perennial crops, animal husbandry, and mining.
- Encourage coastal and island regions to concentrate on development of fishery, tourism and offshore oil.
- Encourage the growth of medium and small centres, avoiding too great a concentration of the population in major cities. Establish economic development zones to induce domestic and foreign investment in the production and processing of goods for export. (Vietnam 1993, 10)

The statement went on to note that "in the immediate future, attention will be given to developing priority economic zones which are expected to bring about high returns, in order to facilitate and support the development of other regions. At the same time, close monitoring will be required to ensure that there is an equitable distribution of the benefits of development." (Vietnam 1993, 75)

A comparison of the economic structure of the designated growth areas is presented in Table 8. It is worth noting that although the southern triangle has only 9.3 percent of the Vietnamese population, in 1993, its economy accounted for 52.2 percent of the national industrial output value and 29.5 percent of the service output. In contrast, with 6.7 percent of the population, the economy in the northern triangle accounted for only 11.9 percent and 17.7 percent respectively of the industrial and service output. The designated growth zone in Quang Nam-Da Nang accounted even more modestly for 2.2 percent and 2.7 percent of the 1993 national output in industries and services. The choice of the growth zone in the centre seems to have been made not on the basis of the economic advantages of this region, but out of the political need to deflect any potential criticism that the central government had ignored central Vietnam.

The Vietnamese government has formulated its growth zone strategy in terms of two consecutive steps: first, the use of ODA to improve the physical infrastructure and the establishment of export-processing zones in order to make an area even more attractive to foreign capital (see Raymond Gauthier's paper, this volume); and second, the flow of foreign capital to the three growth zones with its trickle-down benefits to other parts of the country.

In terms of ODA-financed infrastructure capital that the Vietnamese government hopes to receive by the year 2000, the majority is earmarked to the three growth zones (Table 9). Among the growth zones, the northern triangle in particular was to receive 34 percent of ODA-financed infrastructure capital, a disproportionately high percentage as its population and GDP shares amounted respectively to 6.7 percent and 10.7 percent of the national totals. In a 1995-revised plan, the central zone around Quang Nam-Da Nang will receive a larger share of national infrastructural investments due to the prime minister's decision

Table 8
Comparison of the Economic Structures of Three Designated Growth Areas in Vietnam, 1993

	Vietnam (%)	Southern triangle (%) Total	(1)	(2)	(3)	QN-DN (%)	Northern triangle (%) Total	(1)	(2)	(3)
Industrial	**25.5**	**51.5**	**42.3**	**33.0**	**80.5**	**25.0**	**29.4**	**29.5**	**27.4**	**32.5**
% of national output in 93		52.2	25.9	4.2	22.1	2.2	11.9	7.3	2.9	1.7
Annual rate of growth 91–93	11.4	21.2	15.6	27.4	28.0	6.9		18.1	36.1	18.4
Agriculture	**36.4**	**8.3**	**3.1**	**38.1**	**5.8**	**32.3**	**11.5**	**6.4**	**19.6**	**17.7**
% of national output in 93		6.1	1.4	3.5	1.2	2.1	3.8	1.2	1.5	1.1
Annual rate of growth 91–93	4.8	3.4	3.0	-0.2	18.3	-0.8		11.8	7.5	3.1
Service	**38.0**	**40.3**	**54.5**	**28.9**	**13.7**	**42.7**	**59.1**	**64.0**	**53.0**	**49.8**
% of national output in 93		29.5	23.6	2.6	2.6	2.7	17.7	11.1	4.1	2.2
Annual rate of growth 91–93	9.7	12.6	10.7	14.0	34.5	10.2		10.8	6.8	N/A

Southern triangle: (1) Ho Chi Minh City; (2) Dong Nai; (3) Vung Tau-Ba Ria; QN-DN: Quang Nam-Da Nang
Northern triangle: (1) Hanoi; (2) Haiphong; (3) Quang Ninh.

Sources: Hanoi 1994, 20, 21, 64; Ho Chi Minh City 1994a, 43–44, 59–60, 73–74; 1994b, 59, 73; Vietnam, General Statistical Office 1994b, 27.

Table 9
Priority Infrastructure Investments from ODA Sources, 1993–2000
(in millions of U.S. dollars)

	Transport	Power	Other	Total	% ODA Infrastructure Investments	% Population	% GDP 1993
Northern triangle	1190	580	400	2170	34.1	6.7	10.4
Central growth zone	220			220	3.5	2.7	2.1
Southern triangle	1134	750	20	1904	29.9	9.3	26.6
Other northern areas	160		50	210	3.3	30.3	20.2
Other central areas	268	440	110	818	12.8	25.5	16.3
Other southern areas	150		150	300	4.7	25.3	25.6
Country-wide	60		685	745	11.7		
Total				6367	100.0		

Source: Vietnam 1994, 28–31.

to move the Vietnamese oil refinery project from the southern triangle to Dung Quat (about 100 kilometres south of Da Nang) and to develop the infrastructure in the Da Nang-Dung Quat coastal stretch.

As a part of the growth zone strategy, five of the six export-processing zones licensed to date by the government are located in the three growth areas: Tan Thuan (300 hectares) and Linh Trung (60 hectares) in Ho Chi Minh City, An Don (almost 300 hectares) in Quang Nam-Da Nang, Noi Bai (50 hectares) in Hanoi, and Haiphong (300 hectares). (The sixth authorized zone is located in Can Tho, in the heart of the Mekong delta.) Other EPZs in various planning stages are also in the three growth areas: Quang Ninh, Sai Dong (180 hectares) in Hanoi, and Phuoc Thang (105 hectares) in Vung Tau-Ba Ria (Cyon 1994; Nguyen Anh Tuan *et al.* 1994, 72–85; Raymond Gauthier's paper, this volume). All the EPZs are to be financed by FDI: Hongkong capital for Haiphong and Linh Trung (Ho Chi Minh City), Taiwanese capital for Tan Thuan, Malaysian capital for Noi Bai (Hanoi) and An Don (Quang Nam-Da Nang), and some Indonesian capital for Can Tho.[14] In order to finance the development of EPZs and to balance out the future concentration of ODA resources in the three growth areas, the Vietnamese government has also offered tax incentives to foreign firms that invest in EPZ developments or decide to locate in poorly developed parts of Vietnam. If in general, foreign firms have to pay a 25 percent profit tax and may receive one-year exemption and a 50 percent tax reduction for the

following two years, those investing in infrastructural developments, build-operate-and-transfer projects, heavy industries, export crops, and poor and mountainous areas automatically receive two years of tax exemption, four years of 50 percent tax reduction, and pay only 15 percent on their profits afterwards (Nguyen Anh Tuan *et al.* 1994, 22–23).

Fundamental Problems in Policy Implementation

Two major issues dominate the discussion about future regional development in Vietnam: (*a*) the unequal regional impact of the current processes of socio-economic development, including the varying degrees of integration of different Vietnamese regions into the world economy; and (*b*) the tension between "region" and "locality"—between areas defined by economic and/or social parameters, and administrative units.

The historical background to regional development issues in Vietnam is of great importance. In Vietnam, unlike in many other centralized nation states, local authorities possess considerable autonomy: provincial and city leaders are not central appointees, and provincial budgets can be changed at will so long as additional revenues can be justified.[15] Vietnam, a country of 72 million people, possesses fifty-three units at this level. This means first of all that localities strongly compete for access to the limited national resources, both bureaucratic and financial.[16] Localities remain extremely important levels within the party-state apparatus, and carry considerable weight within the Party Central Committee.

The powerful political forces of localities in the Vietnamese political arena have two major implications for the Vietnamese growth zone policy: first, the decision-making pattern in the central government tends towards a gradual accommodation and compromise with localities, even over the specification of growth zone boundaries and the policy itself, in order to avoid overt local antagonisms; second, there are difficulties in establishing regional mechanisms for planning and implementing the growth zone policy.

It is no coincidence that besides the policy statements at the Seventh Communist Party Congress in 1991 and to international donors at the Paris conference in 1993 and 1994, the Vietnamese government has neither issued any official decrees on the growth zones and their boundaries, nor institutionalized any regional mechanisms for the discussion and implementation of the growth zone policy within each region.[17] In fact, the semiofficial boundaries of the growth zones have been revised on more than one occasion. For example, in the 1994 document at the Paris donor conference, the central growth zone was extended southwards to the province of Khanh Hoa. It reflects the specific resolution at the seventh Plenum of the Communist Party Central Committee in 1994 that the central growth zone would extend from Hue to the province of Khanh Hoa.[18] It was mainly for this reason and for a more equal distribution of growth that Prime Minister Vo Van Kiet decided in November 1994 to move the location of the first Vietnamese oil refinery away from the centre of the oil industry in Vung Tau-Ba Ria to Dung Quat in the poor province of Quang Ngai, approximately 100 kilometres south of Da Nang and within the newly redrawn central growth area.[19] The top national leadership reportedly hoped that the oil refinery would serve as the starting point for an industrial corridor from Da Nang to Dung Quat, although the construction of a seaport and preliminary road improvements for Dung Quat alone would cost U.S. $100–200 million, and the eventual development of an industrial corridor would cost half a billion U.S. dollars in infrastructure investments. This controversial decision to move the oil refinery to Dung Quat was made in face of the considerable ambivalence of domestic and foreign oil executives due to the considerably greater distance between the newly designated refinery location, and the sources of crude oil and the major consumption market in the south (*Vietnam Investment Review* 176: 28 [27 Feb.–5 March 1995]).[20]

Another example of the shifting boundaries of growth zones, according to news reports (The Hung 1994, 2; Truong van Khoi 1995, 13), was the extension of the boundaries of the southern growth area beyond the three original provinces in order to include parts of the southeastern provinces of Song Be, Tay Ninh, the Mekong delta province of Long An, and the southern central coastal province of Binh Thuan. Similarly, although Can Tho in the Mekong delta is located at a significant distance from the southern growth triangle, an export-processing zone is approved for this area. It is the only EPZ to be financed by domestic funds and presumably by the central government. The lack of clear boundaries helps to avoid the time-consuming conflicts over the inclusion or exclusion of particular localities.

The powerful voices of the localities not included in the three designated growth zones have intensified the debate at the national level about regional inequalities. According to informal but authoritative sources, there is a strong possibility that, in a fundamental shift from the 1994 government plan for the use of ODA, the influential Politburo of the Vietnamese Communist Party will recommend that the infrastructure investment by the national government in the three growth zones should not exceed 40 percent of the total. Under this scenario, the disbursement of infrastructure funds for the southern growth triangle may also slow down, especially if its annual rate of economic growth exceeds 20 percent. Since the three targeted growth zones accounted for approximately 50 percent of the GDP and over one-third of the population in 1993, such a policy shift will mean the virtual abandonment of the growth zone concept despite the fact that government agencies will have to complete specific plans for the three growth zones under firm deadlines in the near future. The top-level policy debate and the possibility of a fundamental policy shift have arisen as an accommodation of local power, as well as out of the concern about growing regional inequalities with their negative implications for national political and social stability. However, if the infrastructure investment in the southern and northern growth zones declines, it remains unclear whether FDI will move to other regions of Vietnam or to other countries. The Vietnamese government is dealing with the very powerful socio-economic processes at work by avoiding a structured bureaucratic solution and constantly searching for compromises.

As far as regional planning and policy implementation mechanisms are concerned, the central government faces the problem of how to coordinate the powerful local socio-economic dynamics in different localities when the influence of regional economic forces inevitably acts across local administrative boundaries. There is as yet no scope for the creation of administrative bodies—"super localities"—to address issues of infrastructural investment, planning and other questions. Existing party and state structures will not accept arguments for such a level. There is considerable hostility to introducing an additional administrative level between the localities and the central government in order to address regional development issues. One major reason is the distaste for introducing additional levels of authority into an already cumbersome system. In this context, although plans can be formulated at regional level, their implementation of course must devolve to existing administrative levels, which in practice means the provinces. The key question is the extent to which regional interests can be effectively mediated through existing political structures, with their strong stress upon the provincial level. A basic dilemma to the central Vietnamese government in its regional growth zone policy is that the failure to coordinate infrastructure planning will lead to waste;[21] and the lack of an overall vision and planning capability, to confusion and a higher risk of failure. At this particular juncture, various central governmental agencies have filled on an *ad hoc* basis the gaps in the planning and implementation processes: the State Planning Commission is designated as the clearing house for ODA (Vietnam 1994, 24); the State Commission on Cooperation and Investment, for the establishment of EPZs and the approval of FDI projects; and the prime minister's and deputy prime minister's offices, for the overall policy formulation and implementation. The limitations of the current coordination mechanisms are reflected in the fact that one year after the initial 1993 donor conference in Paris, ODA disbursements were well below the pledged level, partly because feasibility reports and specific plans for infrastructural developments could not be prepared in time. There has developed in Vietnam a more urgent sense of the need for better coordination in the policy formulation and implementation processes on regional developments (Vietnam 1994, 22–23). It was in this context that in October 1995, on the recommendation of Prime Minister Vo Van Kiet, the Vietnamese National Assembly approved the merger of the State Planning Commission and State Commission on Cooperation and Investment into the Ministry of Planning and Foreign Investment.[22] It is possible that by 1996, the central government will be able to create incipient regional and national institutional frameworks to plan and to coordinate the implementa-

Table 10
Top Twelve Trading Partners
(two-way trade figures in millions of U.S. dollars)

1994 Rank		1992 ($)	(%)	1993 ($)	(%)	1994 ($)	(%)
1.	Japan	1073	21.0	1482	23.2	1755	17.8
2.	Singapore	1233	23.9	1479	23.2	1639	16.6
3.	S. Korea	305	6.0	489	7.7	1585	16.0
4.	Taiwan	140	2.7	266	4.2	616	6.2
5.	Hongkong	344	6.7	378	5.9	515	5.2
6.	China**	127	2.5	N/A	4.4*	440	4.5
7.	Russia	205	4.0	N/A	N/A	379	3.8
8.	France	294	5.7	391	6.1	356	3.6
9.	Thailand	113	2.2	N/A	3.9*	323	3.3
10.	Germany	75	1.5	137	2.1	264	2.7
11.	Indonesia	51	1.0	N/A	4.3*	152	1.5
12.	Malaysia	104	2.0	N/A	5.1*	131	1.3
	Total	5121		6385		9880	

Sources: Vietnam, General Statistical Office 1994b: 238–239, 243–244; Fforde 1994c: 73; Vietnam, General Statistical Office, 1995.

* Estimates in Vo Dai Luoc *et al.* 1995, 220

* * Not including illegal border trade

tion of the emerging growth zone policy, or what is left of this policy from the Communist Party Politburo recommendations. More specifically, former Cabinet members may be appointed as growth zone coordinators, reporting directly to the prime minister. However, in the context of the power of localities and market forces, as well as questions from certain top Communist Party leaders, the effectiveness of these institutional frameworks remains to be seen.

Conclusion

The Vietnamese growth zone policy to date can be best seen as reactive to the underlying regional nature of market development, rather than active. The economic growth of Vietnam in general and in the designated growth zones in particular will be shaped at least as much by the market forces within each region and in the world system as by any growth zone policy by the central government.

Questions on the effectiveness of the evolving Vietnamese growth zone policy notwithstanding, within the regional framework of Eastern Asia, the strong flow of capital from Hongkong, Taiwan, and South Korea to Vietnam, as well as the greater importance of Vietnam's trade with Japan and Singapore (Table 10), have implications for a major hypothesis presented by George Abonyi and B. Ninsananda on the emergence of transnational subregions in East and Southeast Asia (Abonyi and Ninsananda 1991, 29–30). They have hypothesized, for example, that in Southeast Asia, one subregion would comprise Singapore, Malaysia, Indonesia, and possibly southern Thailand and the Philippines. The second subregion, according to this hypothesis, includes Thailand, Myanmar, Laos, Cambodia, Vietnam, and Southwestern China (Yunnan). In East Asia, the northern triangle includes Japan, Korea, and northern China; while the southern triangle would comprise Hongkong, Taiwan, and southern China. However, Vietnam's leading trading partners in the Far East include not Thailand, but Japan, Singapore, South Korea, and Hongkong, while the major sources of FDI are Taiwan, Hongkong, Singapore, South Korea, and Malaysia. To the extent that the transnational subregion hypothesis is correct regarding the approximate boundaries of the subregions, Vietnam will most probably be linked more strongly to the two subregions in East Asia and the Singapore-led insular Southeast Asian one than with a Bangkok-centred Mainland Southeast Asia subregion. This linkage would apply both to the northern and southern parts of Vietnam since there exists no evidence that the national economy has become highly fragmented and differentially pulled into different economic subregions in the Far East.

Notes

1. We would like to acknowledge the research assistance of Ms. Pham Lan Huong of the Central Institute for Economic Management Research, Hanoi, and of the National Centre for Development Studies at the Australian National University, Canberra, Australia. We have also benefitted from discussion with the following senior Vietnamese economists: Luu Bich Ho, President, Development Strategy Institute, State Planning Commission, Hanoi; Le Dang Doanh, President, Central Institute for Economic Management Research (CIEM), State Planning Commission, Hanoi; and Ton Sy Kinh, Deputy Director, Institute of Economics, Ho Chi Minh City. We also appreciated the comments of Lisa Drummond, Paul Evans, and Brian Hunter on the earlier versions of this paper. Needless to say, we are solely responsible for its contents.

2. The Vietnamese administrative terminology refers to five quasi-hierarchical levels of state administration:
   - Centre—*Trung uong*
   - Major City—Province-*Thanh pho-Tinh*
   - District—*Quan-Huyen*
   - Quarter—Commune – *Phuong-Xa*
   - Village (Rural)—*Thon* (*Ban* in upland areas)

   The last level has semiofficially reemerged only in the last half a decade in the northern part of Vietnam where many a village is *de facto* governed by a local team comprising the village head (*thon truong*), the local Communist Party secretary (*bi thu chi bo*), and village representatives to communal people's councils (*to hoi dong nhan dan*). Only the first three levels are formally incorporated into the state budget. Commune level spending is included when the commune acts as a disbursement conduit. In many areas districts no longer constitute a separate budgetary level; that means, they no longer have independent budgets. Throughout this paper the term "province" refers to the second tier—major city and province.

3. The language in the work of Le Duan (Le Duan 1968 and 1979) was often designed to support the underlying idea of strengthening the province level. Later on, the district level was further built up as a way of integrating the rural base into the overall system.

4. Three important changes have occurred since the onset of reforms in the past decade: (*a*) the establishment of integrated vertical structures under the Ministry of Finance responsible for treasury and tax collection; (*b*) the removal from the districts of their previous status as a budgetary level comparable to the province; and (*c*) the splitting of the old monolithic state banking system into a more normal two-tier structure: the National Bank on one level, and state commercial banks on another. The latter would have to compete among themselves as well as with foreign banks and other emerging financial institutions.

5. For example, subsidies were abolished and salaries, indexed to inflation, in one central and three southern provinces before the state attempted to adopt the system in 1985 (Gough 1990, 160). For another example, land had been decollectivized in the southern province of Long An before the state sanctioned it in 1988 (Luong 1994). Since then, land had been bought and sold as a private commodity in Long An and throughout southern Vietnam even before the government allowed the transfer of "usufruct" rights on land and despite the reaffirmation in the 1992 Constitution that land would remain under state or collective ownership.

6. In U.S. dollar terms, Vietnamese exports grew 87 percent in 1989, 23.5 percent in 1990, –13.2 percent in 1991, 23.2 percent in 1992, 12.8 percent in 1993, and 20.6 percent in 1994 (Fforde 1994b, 97; Dinh Hoang Thang 1995, 26).

7. Official estimates have recently matched unofficial figures (Le Dang Doanh 1995).

8. Official international reports are far lower. The International Monetary Fund, for example, puts FDI disbursements at only U.S.$300 million in 1993 (IMF 1994, 36). In contrast, Vietnamese reports put the 1993 FDI disbursements at U.S.$1 billion (Table 2). We believe that official international reports vastly underestimate reality. However, official Vietnamese FDI figures have to be discounted by 30 percent because they include the 30 percent normally put up by Vietnamese partners in joint enterprises in the form of land.

9. This division stands in contrast to the "north," "south" one that refers mainly to the political division between 1954 and 1975, when the Democratic Republic of Vietnam (DRV) was the sovereign state authority north of the 17th parallel and the Republic of Vietnam (RoV) south of it. In the Vietnamese language, a northerner (*nguoi Bac*) is understood not in terms of the 1954–1976 political division, but in terms of the "north," "centre," "south" one.

10. The northern and southern coastal regions are often known as Regions IV and V after the old (DRV) military classification.

11. In the nineteenth century, the northern central coast, the birth place of Ho Chi Minh, was known for the strength of the Confucian mandarinate. In the post-1954 period, it has been a stronghold of the Marxism-oriented political system.

12. The oil reserve from the three discovered oil fields is estimated at 8 billion barrels or 1.2 billion tons. The Vietnamese State Committee on Cooperation and Investment estimates the total offshore oil reserve at 30–70 billion barrels.

13. Two other provinces outside the three designated growth zones and among the top twelve FDI recipients by 1994 were Kien Giang (Mekong delta, 2.7 percent), and Lam Dong (central highlands, 1.1 percent).

14. As reported in Gauthier's paper in this volume, the joint venture with a Hongkong firm to develop the Haiphong export-processing zone was disbanded in October 1995 when the foreign partner failed to meet the deadline for legal capital contribution.

15. For a discussion in English see International Monetary Fund 1994, 18ff.

16. In the debates prior to the passing of the new Constitution in 1992, the "statist" group around now Prime Minister Vo Van Kiet argued strongly for a change in the authority of the prime minister as head of government in order to allow him to appoint province and city heads. This move did not gain sufficient support in the constitution debate.

17. The ADUKI data bases in Canberra contain all the issues of the *Official Gazette* from 1984, with computerized access to titles. A search of all plausible words was followed by a hand search through the hard copy, neither of which revealed any official decrees on the growth zones. The lack of specific official plans to date within Vietnam has also been confirmed by senior middle-level policy officials in informal discussions with Hy V. Luong in Hanoi and Ho Chi Minh City in February 1995.

18. The 1991 resolution of the Seventh Party Congress mentioned only Quang Nam-Da Nang, and more vaguely, surrounding provinces.

19. According to Dr. Luu Bich Ho, the secondary reason for moving the oil refinery to Dung Quat was the concern about possible environmental damage to the popular seaside tourist area around Vung Tau from oil-tanker accidents (personal communication, October 1995).

20. On 6 September 1995, France's Total oil firm withdrew from the Vietnamese first oil refinery project, citing a "weak return on investment, bearing in mind the site authorities have chosen for the refinery and the difficulty that would pose in raising the finance" (*Indochina Digest* VIII(36): 1).

21. Many already point to the absurdities of newly laid roads that are quickly ripped up again to install telecomms or water supplies.

22. The Vietnamese National Assembly also approved two other mergers: that of the three Ministries of Agriculture, Forestry, and Irrigation into the Ministry of Agricul-

ture and Rural Development, and of the three Ministries of Energy, Light Industry, and Heavy Industry into the Ministry of Industry (*Indochina Digest* VIII (43): 2).

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The Export-Processing Zone Experiment and Economic Decision Making in Vietnam

by Raymond Gauthier

Executive Summary

Of the six Vietnamese export-processing zones (EPZs) officially licensed between September 1991 and May 1994, only one had shown visible signs of success as of late 1995. Another, in contrast, has seen its license revoked in October 1995, and prospects for the remaining four appear dim. Despite considerable media and policy attention through 1993, EPZ development in Vietnam, conspicuously slow from the start, now looks a failed experiment in national economic policy making. Currently, industrial zone projects, not specifically dedicated to exports, have taken a new momentum—surpassing total commitments originally pledged for the EPZs—albeit prudently, without policy or media excitement.

The EPZ experiment, however, offers interesting insights into governmental attitude toward foreign investment, central and local government relationships, and regional investment patterns. For instance, while no central government public funds at all have been invested in the zones, foreign investors in partnership with local authorities (People's Committees) have been the prime movers in EPZ and other zone initiatives. The EPZs themselves first came into existence much more as a direct result of regional trade and investment dynamics than through a deliberate and effectively applied national EPZ policy. The same is true for the industrial zones now being developed or proposed. Thus, in addition to insights into Vietnamese institutions and policies, the zone projects offer interesting case studies of ongoing regional economic integration with, firstly, Taiwan and Hongkong; then Singapore, South Korea, Japan, Malaysia; and then, to a lesser extent, Thailand and Indonesia.

Other than as a useful experiment in bureaucratic streamlining, the zones are not likely to have a significant impact either on economic development or on policy. The central government's reaction to the EPZ phenomenon itself, including interpretations of its failure, illustrates significant weaknesses in understanding market economics and policy particularly with respect to investor motivation and the concept of appropriate technology. Further, administrative complexity and weakness remain, in fact, a greater impediment to foreign investment than the much discussed absence of a coherent and detailed legal framework. However, with annual growth rates estimated to reach or surpass 8 percent for the next few years, Vietnam has the potential to integrate quickly and successfully with the dynamic economies of its region if it determinedly pursues its administrative and economic reform agenda.

Introduction: the EPZ as Economic Policy Concept in Asia[1]

The easiest and perhaps clearest way to summarize the conceptual framework of "export-processing zones" (EPZs) is to consider them under their dual aspect of economic policy instrument and actual physical project. As a policy instrument, through exports produced by foreign direct investment (FDI), EPZs generally aim to increase employment levels, boost foreign exchange earnings, and enhance technology and skills transfer through linkages with the local economy. As projects, for which actual capital disbursements need to be made, EPZs are industrial estates developed under a special regulatory regime designed to attract FDI. The provision of infrastructure in these estates also represents a key, if sometimes costly, incentive. The package of incentives—regulatory and infrastructural—is usually offered under a streamlined administrative jurisdiction or dedicated EPZ authority. The empirical part of this study (in the sections entitled "The Current Policy and Institutional Framework for EPZs in Vietnam" and "Overview of EPZ Initiatives") focuses on how the elements of these packages were put together in Vietnam.

The policy and project aspects of EPZs clearly come together in the "zonal" delimitation. By definition, industrial estates concentrate manufacturing activity in a certain geographic area, usually in suburban localities where land is not prohibitively expensive, where manufacturing is permissible and proximity to major transportation infrastructure is offered. To this territorial cost advantage, EPZs add a legal boundary whereby specific incentives such as duty-free inputs are made available to the exclusion of economic agents outside the zone's territory. The basic rationale is thus to attempt to obtain the economic benefits to be derived from producing exports with local resources, especially labour, while protecting locally oriented domestic industries from competition by submitting, as the case may be, EPZ-produced goods "reexported" into the country at prevailing tariffs.

The long-term effectiveness or degree of success of EPZs can be evaluated in terms of relative indicators (e.g., share of employment, export value-added) but also, and perhaps more importantly, in contrast to other policy instruments that have the same objectives such as duty draw-back fiscal incentives (that is, mechanisms that allow duty paid on imported inputs to be reimbursed when output is exported). These alternative instruments are applicable regardless of firm location and, as such, are free from territorial or "zonal" constraints. However, they pose administrative demands of their own since they apply to entire tax jurisdictions at national or provincial levels.

In cases where public money is spent on developing EPZs as, unlike Vietnam, has been the common historical precedent, the zones, like any other project, should be submitted to financial and economic cost-benefit analyses in order to ensure that they are financially viable and economically justified. In many instances—the Philippines in the 1970s offers a notorious example—project evaluation was not properly carried out and the EPZ proved an unjustifiable drain on public resources. Such wastage never became an issue in Vietnam; rather, the heralded and rapid rise, and then gradual demise, of the EPZ as a straightforward "recipe for success" was.

The first EPZs having emerged about forty years ago, sufficient evidence now exists to outline some of their general features. For instance, they are largely a developing country phenomenon. Moreover, aside from a few important exceptions, EPZs, whether successful or not, do not tend to add significantly to aggregate employment and exports—as the case of Taiwan's successful EPZs demonstrates. In the absence of relevant case studies, the technology transfer or "demonstration effect"—very important to Vietnamese policymakers—is harder to evaluate, but it may have been quite important in some cases such as in the electronics industry in Malaysia.

In some countries, EPZs have been used primarily as an additional, rather than principal, device to attract foreign investors within an economic framework—including particularly exchange rate and trade policy—that was generally favourable to export-oriented private investment. This is true, for instance, of Singapore, Malaysia, South Korea, and Taiwan. In others—for example, in India and the Philippines—EPZs became isolated enclaves designed to obtain the exporting benefits outlined above while the rest of the country's economic territory remained inward-oriented and import-substituting. Under any set of criteria the latter EPZs have generally been considered clear failures. In summary, the EPZs, whether successful or not as projects, have not been, in aggregate relative terms, significant generators of exports, employment or growth. However, China represents, as will be discussed below, a very significant exception to this general statement.

In a historical perspective, the EPZ concept displays its limitation as only a partial tool, at best, rather than a comprehensive growth-spurring policy framework. Trade and investment linkages, as they firm up in geographic and political economy patterns, underlie and sustain growth for open economies. In both sectoral and macroeconomic perspectives, national policy frameworks do play a role in domestically shaping these linkages by, in various ways, facilitating or impeding them. These frameworks, be they wobbly or solid, passive or active, transparent or opaque, are at the interface of the nation-state and economic forces, both internal and external. Fforde and Luong, in their discussion on "Regional Development in Vietnam: Local Dynamics, Market Forces and State Policies" have illustrated how the "regional nature of market development" has impacted primarily on the Vietnamese economy in a way that showed the national policy framework as "reactive ... rather than active," posing domestic institutional challenges that have yet to be solved, or even understood. This discussion, after looking more closely at the EPZ experiment, concurs and expounds in the same direction.

The EPZs in Vietnam: Regional Dynamics' Impact on National Policy

The Demonstrative Effect of China

Featuring a centrally planned (or transitional) economy, China offers the most glaring and alluring contrast to the general picture arising out of the stylized facts outlined in the introduction. The "special economic zones" (SEZs), initially modelled after Taiwan's EPZs, have indeed, by all measures, significantly contributed to its employment and export value-added performance. They are seen as a key element of the economic engine that has propelled China to near record-breaking growth rates during the past decade. This in itself currently contributes, probably more than any other factor, to the enduring appeal that EPZs may still retain as an economic development tool; and it has certainly much exercised the minds of Vietnamese policymakers and analysts.

China's SEZs were, and still are, meant to be bold but gradual and geographically contained experiments with capitalism. Standard indicators suggest that the experiment can be deemed successful within its terms. In 1992, China's SEZs accounted for 66 percent of national exports as compared, for instance, with India's EPZs share of 7 percent. (In 1986, this share was about 53 percent in Malaysia while in Taiwan, another successful exporter, it was only about 6 percent in 1987.)

It could be noted, however, that if China's experiment with geographically contained laissez-faire capitalism did generate spectacular growth, it also appears to have caused—in addition to urgent concerns about environmental sustainability—an exacerbation of regional imbalances, a likely and perhaps irreversible weakening of the federal fiscal system, and a postponing of necessary reforms in the financial and fiscal areas that will make them more difficult to carry out and thus prolong structural weaknesses in macroeconomic management (most notably inflation control). From another point of view, it also amounted to a regional development "policy" by default.

In other words, China has in the SEZs, for all practical purposes, created a separate economic state within its borders—a "one-country, two-systems" situation even before Hongkong's integration—which may render further structural reform, applicable to the country as a whole, more difficult than they otherwise could have been and may contribute to social and political instability.

National Policy Environment and International Trade and Investment Dynamics

The level and composition of foreign direct investment in a given country can be seen to be jointly determined over time by, on the one hand, the country's policy environment and resource endowment (including infrastructure) and by prevailing international and regional trade and investment dynamics, on the other. The latter principally include: (1) the regulatory trading environment both bilateral (e.g., MFN status, GSP tariffs) and multilateral (e.g., GATT/WTO, NAFTA, Multi-Fibre Agreement); (2) macroeconomic factors, including, most importantly, exchange rate regimes and fluctuations; (3) dynamic shifts in national comparative advantage that themselves result from trade; and (4) the deepening and transformation of industrial structure, such as through TNC expansion and restructuring.

Just as the policy environment has a significant impact on the behaviour of domestic investors, it will also greatly determine the degree of interest of foreign investors. This "environment" not only includes fiscal incentives such as tax and tariff treatment but also less easily quantifiable factors such as the extent of administrative impediments ("red tape") in investment approval and business management, and psychological factors such as perceived political stability and policy credibility and "market attractiveness." EPZs are but one type of policy instrument. It could well be that one of their greatest incentive values, greater even than favourable fiscal treatment, lies in downsizing and streamlining red tape. But, in any event, as discussion of the evidence will illustrate below, Vietnamese EPZs have come into existence much more as a direct result of regional trade and investment dynamics than through a deliberate national EPZ policy.

The EPZ Experiment in Vietnam's Political Economy

Vietnam has, since 1986, affirmed an increasingly clear and credible political commitment to high economic and export-led growth. Moreover, industrial growth is expected to signal this development with industry targeted to account for as much as 30 percent of GDP by the year 2000—as per resolutions from the July 1994 meeting of the Central Committee of the Communist Party of Vietnam. Could EPZs, whether or not they emulate Chinese examples, be expected to play a significant role in this process?

Before determining this, answers to the following preliminary questions are required:

1. Does a coherent policy framework exist, of which EPZs would form a part, to promote and orient FDI?
2. What advantages, if any, do EPZs have, in Vietnam's context, over other export-oriented incentives? (In other words, are EPZs the best means to attract FDI? Would they complement or complicate offering other incentives?)
3. What regional and international dynamics are likely to impact on the flow of FDI into Vietnam?

After a brief review of the current institutional framework for economic policy making in Vietnam and an examination of evidence, it will be argued below that the answer to the first question is patently negative; that, for the second, the advantages of EPZs have proved, thus far, minimal—in fact, close to nullity in the general economic context—although they are unlikely to preempt putting together more comprehensive FDI policy regimes and have furnished an interesting case of administrative innovation; and, lastly, that Vietnam already engages very actively in discernable, mostly regional for now, trade and investment dynamics. However, the country will be able to maximize national benefits to be derived from these dynamics only if it decisively and clear-sightedly advances the economic and administrative reform agenda it is attempting to set for itself. This includes creating a fiscal system that alone can sustainably mitigate the distributive impact of market-based growth or by finding ways, as Fforde and Luong put it, "to cope with the differential effects of integration into the world economy [which is] certainly a key issue for policy makers and advisers."

The Current Policy and Institutional Framework for EPZs in Vietnam

Economic Policy Making and Implementation

One can divide economic policy making into two interlinked but functionally independent aspects: policy analysis, and policy decision making. Political powers and the government machinery—the decision makers and their advisers—obviously condition the latter; while policy analysis, because of the complex issues involved, is usually at least partly devolved to specialized agencies—research centres (whether attached or not to universities or governmental agencies), think tanks, and the like.

It is by now well understood that Vietnam's policy analysis capacity and management are in dire need of development and support. The scarcity of social scientists with graduate training in "modern methods" forms an overwhelming constraint. Another is the severe lack of resources available to existing institutes or agencies which makes concentrating on "pure research" difficult and fosters an unhealthy competitive atmosphere. Finally, the institutional set-up itself needs to be reconfigured. For instance, there are too many research institutions, with overlapping or ill-defined mandates, while there are not enough organic, or informal, linkages with universities, which themselves need to be reorganized, strengthened, and better funded.

Moreover, policymakers in Vietnam currently tend to favour a "dialectical" approach to research and analysis whereby at least two agencies—which, in theory have access to the same information—will each be asked to produce independent opinions on a particular issue. Decision makers are then left to conclude or ponder. When resources are scarce and agencies compete for financial support and influence, the drawbacks are obvious, the more so if issues require complex analytical efforts. This state of affairs ultimately results in a deficiency in both general foresight and informed specific analyses. Urgent

issues, sometimes of crisis proportion (such as the current fiscal imbalance), tend to drive an *ad hoc* agenda. More systematic and wide-ranging research, often necessitated by multilateral agency requirements, tends as a result to emerge only with heavy and sustained doses of foreign technical assistance.

On the decision making side, the picture is even more complex. There is *de facto* no clear separation of powers between the Party, the executive branch of government (cabinet and ministries), and the National Assembly, even though the 1992 Constitution appears to have strengthened the last two. The judiciary remains weak. Adding to the complexity, the central government apparatus intends to reorganize itself—and indeed consistently attempts to do so—as part of the administrative reform agenda, and as explicitly mandated by the Governmental Organization Law of 1992.

The government is also stratified into lower levels (the People's Committees) that effectively display, *de facto*, substantial administrative autonomy. Their respective powers nonetheless currently form an area of discussion and reform. The Party itself possesses its own administrative structure, including functional and operational departments and specialized research units. This very structure, in turn, is replicated in lower jurisdictional levels (the provinces and districts). To outsiders (and many Vietnamese themselves), decision making centres, and hence the channels through which policy analyses travel, are not easily, if at all, fathomable.

An alternative way to assess policy making, other than analyzing often vague or general official pronouncements from sources whose authority is sometime hard to ascertain precisely, is to examine policy as observed in practice. What, for instance, is the Vietnamese policy as regards EPZs? If policy means a deliberate stance, articulated both in law and for economic reasons, the short and provocative answer is that, even though the first of (now) five EPZs was licensed in 1991, for all practical purposes no EPZ policy is effectively applied in Vietnam. The driving force behind EPZ initiatives is not governmentally spurred or even oriented, but rather arises out of domestic and international economic forces that are imperfectly or poorly understood by the government.

Policies and the Regulatory Framework

In policy terms, EPZs amount to a mechanism designed to elicit and channel FDI. EPZ policies would normally be embodied in: (1) regulations and laws governing FDI in general and EPZs in particular; (2) project approval processes as they apply in this context; and (3) governmental agencies' understanding of the role of such investments or projects in economic development. The current status of some aspects of these elements is discussed below.

The Government of Vietnam issued EPZ regulations first in the form of a prime ministerial decree in October 1991, and then as an amendment, passed by the National Assembly in December 1992, to the 1987 Foreign Investment Law.

The amendment explicitly states that, in the event of any interpretational conflict between the Law and the EPZ stipulations, the latter would prevail. The original EPZ decree was finalized by an interministerial committee that deliberated for about a year. (It is interesting to note that the decree was signed about one month *after* the Tan Thuan EPZ, the first in Vietnam, received its license.)

The law states that the supervisory body for an EPZ is an "EPZ Administrative Board" created with authority to write and enforce an "EPZ Charter." Members of this board are appointed by the prime minister on advice of the chairman of the State Committee for Cooperation and Investment (SCCI) and the chairman of the People's Committee in which the EPZ is located. No procedures were established as to the composition and working style of an EPZ's administrative board. In the case of the Ho Chi Minh City Export Processing Zone Authority (HEPZA), its current chairman is also a SCCI vice-chairman while the HEPZA vice-chairman was formerly a very senior official of Ho Chi Minh City's People's Committee. HEPZA also pioneered the "one-door service" offered to potential investors. This service, at first, was not available elsewhere in the country. New regulations, introduced in 1994, have since extended the possibility of providing it in "industrial zones"—a framework similar to the EPZs but one which allows for companies in the zones to produce either or both for the domestic market or exporting.

An EPZ charter, subject to the approval of the SCCI in the form of a ministerial decree issued by the SCCI chairman, outlines regulations and procedures to be applied to a particular zone, consistent with the law's general provisions. (It also seems, in practice, that EPZ charters must be approved by the prime minister.) Each EPZ thus has its own charter, but a single EPZ administrative board can exercise authority over more than one EPZ, as is currently the case with HEPZA.

Other important duties and responsibilities of the administrative boards include granting licenses to individual EPZ investors (which therefore do not need to apply for such a license to the SCCI) and acting as the first resort for settling disputes before going to court. The board is not expected to generate income; its expenses are to be covered by, and revenues remitted to, the state budget. Indeed, the law even stipulates that the board "shall not have its own budget." The law also allows for, and current practice clearly encourages, the creation of "EPZ Construction and Trading Companies." Created with the anticipation of commercial viability, these companies are formed to develop and provide required infrastructure, including a general design and master plan, to operate the zones effectively and to obtain revenue from renting or selling factory space to investors. Though not mandatory by law, it is expected that an EPZ's Construction and Trading Company will be a joint venture between a Vietnamese and a foreign partner which would thus be established under the Foreign Investment Law and approved, as with any other joint-venture investment, through a license issued by the SCCI. The license itself, rather than

Ministry of Finance regulations, specifies the level of corporate income tax to be paid. (As will be seen below, the creation of an EPZ Joint-Venture Company is the crucial starting point for any EPZ.)

The law, which remains fairly general, can be further specified, although in theory not contradicted, through decrees issued by concerned Ministries, State Committees, and People's Committees. Incentives to be granted to EPZ investors, as specified by the law, are all typical of and consistent with the EPZ concept outlined above. Incentives already granted to EPZ investors by a license cannot be taken away by changes in regulations.

The EPZ Project Approval Process

A typical scenario for the approval of an EPZ project comprises the following steps:

Step 1: A local authority (e.g., a People's Committee's Planning Department) prepares, with or without the assistance of foreign partners, an EPZ concept paper.

Step 2: The concept paper is forwarded to the prime minister for endorsement. (This is not legally required and does not constitute formal approval, but it can be seen as a means of eliciting interest from potential joint-venture partners and of assessing and asserting the level of commitment of higher authorities.)

Step 3: The local authority attempts to find, and then establish an agreement with, a foreign joint-venture partner to create an EPZ Construction and Trading Company.

Step 4: After agreement is reached, formal request for approval is sent to the SCCI.

Step 5: After the SCCI grants a license, an "EPZ Administrative Board" is created.

Step 6: The project is ready to begin, that is, to proceed with constructing infrastructure and with plans to attract investors.

The general approval process for any project in Vietnam is quite complex because specific clearance is required from each agency responsible for different functional areas. For instance, the Ministry of Construction needs to approve land-levelling and building plans (as does the Architectural Department of local authorities), the Ministry of Finance clears taxation issues, the Ministry of Environment makes relevant assessments, and so on. The SCCI is generally seen as providing the final seal of approval. Circumventing cumbersome procedures through the EPZ Board single-approval process—the so-called "one-door service"—constitutes a main drawing card for potential EPZ or industrial zone investors. In addition, any large foreign investment project needs vetting by the "National Committee for Project Evaluation" (or State Commission for Project Evaluation). This body is composed of senior officials from the State Planning

Committee (SPC), the SCCI, the Ministry of Commerce, the State Bank of Vietnam, the Ministry of Finance, the Ministry of Science, Technology and the Environment, the Ministry of Construction, and the Government Bureau for Land Management. The committee statutorily must reach a decision within three months of receiving complete project documentation. The National Committee for Project Evaluation is currently headed by the State Planning Committee chairman, and its vice-chairman is a SCCI vice-chairman. Finally, all large projects require final approval by the prime minister, who, it is understood, cannot act single-handedly.

Government Attitudes toward EPZ Investments

Local and central governments have reacted differently to the EPZ phenomenon. Both are keen to attract foreign investment. Indeed, at least through 1993, EPZs had been a very fashionable way to think about foreign investment strategies. (Some publications even featured "EPZ Watch" columns.) Through 1994, the fashion tapered seriously as news of project delays and problems surfaced with increasing regularity, usually, at first, through the foreign media. By 1995, it died altogether, as one of the six original (and the largest) EPZs seriously faltered and finally collapsed. Industrial zones have overtaken the EPZs as a "promising vehicle" without the palpable excitement that greeted the first EPZs' creation.

Most local government planning committees have given at least some thought to energizing their communities and reviving their existing infrastructure through EPZ, or industrial zone, projects. Even if approached on other matters, a local Planning Committee could easily find, it seems, in its drawers an EPZ paper awaiting a foreign partner's attention. In the same breath, the committee might not express much anxiety about higher authorities' approval, the greater problem being finding a foreign joint-venture partner.

Central government agencies, particularly the State Committees, have a different perspective given their sense of national responsibility. In general, there appears to be a wide range of conceptions, if not confusion, about the potential role of EPZs and industrial zones. The general value, indeed the necessity, of foreign investment is widely appreciated; however, there is serious concern as to the type of foreign investment that could come in and whether it would fulfil "official expectations." This concern is often expressed about the visible technologies assumed to accompany different types of investments (i.e., which could be considered "obsolete" or not). No clear approach has emerged as to how to respond to this.

The concept of "zone" itself may, as a policy tool, also lead to some confusion. Often, it seems, when regional and sectoral issues are simultaneously addressed, the idea of "zone" permeates the conceptual framework. One thus hears not only of EPZs and industrial zones, but also, separately or together, of

"special economic zones," "free trade zones," "free economic zones," "high-tech zones," "tourism zones," and so on, that could exist in this or that region. There seemed, at least for a while, to be a "zone" for every type of desirable but yet-to-be-developed economic activity.

Overall, there still exists no clear policy framework, and therefore little guidance, from central authorities. As the government embarked in earnest in 1995 in the preparation of the first market-based Five-Year Plan, its attention concentrated even more clearly on the three "focal economic areas," respectively in the country's northern, central and southern parts. Draft plans for the Southern Focal Economic Area (SFEA) have been known to exist since 1993. They even informed the investment list attached to the government's statement at the first donor Consultative Group (CG) held in Paris in 1993. Bilateral donor assistance is now provided for furthering the SFEA planning effort; but plans for the other areas have yet to reach the comprehensive draft stage. Meanwhile the State Planning Committee unveiled to the donor community in September 1995 its first draft Public Investment Plan (PIP) seen as a key building block for the Five-Year and the focal area plans. But, ultimately, as in many Asian countries, who one knows and trusts in Vietnam rather than regulations, principles or plans—that may or may not exist, may or may not be clear—still provides the primary foundation, together with balance sheet calculus, for *private* (or quasi-private) investment decisions.

Overview of EPZ Initiatives

In 1993, the perception of the EPZs as an effective mechanism to attract foreign investment, in Vietnamese government circles and the press, had reached its peak. By the end of that year, six officially licensed EPZs existed in Vietnam. In addition, several other projects of similar magnitude were then being considered. Among those, three were in Southern Vietnam (Ho Chi Minh City, Vung Tau, Phu Quoc Island), while two were in the North (Hanoi, Quang Ninh). For all projects, licensed or not, the Vietnamese partner was usually the local People's Committee or a state-owned construction company. In virtually all licensed cases, the foreign partner contributed 65–70 percent of capital and the Vietnamese partner 30–35 percent (usually in the form of land-use rights). According to SCCI sources, in the middle of 1994 licensed EPZs accounted for approximately 14 percent of all officially approved planned investment in Vietnam.

Foreign joint-venture partners originated from Taiwan, Hongkong, Malaysia, and Indonesia. Taiwan was the earliest and most systematic player; Hongkong groups then came on the scene, and Malaysia arrived later, jumping somewhat belatedly on the EPZ bandwagon. Through a conglomerate, Indonesia is involved in only a relatively small project that started—uniquely so in the case of all EPZs—on the sole initiative of the local People's Committee at Can Tho.

In reference to their initial planning schedules, all of Vietnam's EPZs have experienced significant delays in building infrastructure and witnessing actual plant building, opening, and operations. For instance, the earliest and most advanced EPZ—Ho Chi Minh City's Tan Thuan Zone, licensed in September 1991—saw its very first factory begin production only in November 1993. At that time, six other investors had licenses to operate. By the middle of 1995, licenses for 94 projects had been granted in total—11 of which had then also started operations—and the number of licenses was expected to rise to over 150 through 1996.

For all the other EPZs, infrastructure construction has barely begun, if at all. For instance, the largest EPZ—in terms of planned investment capital at U.S.$150 million—located in Hai Phong and licensed in January 1993, was only a rice field with a sign in August 1993. A year later, in August 1994, the only additional work had been the fencing-in of the area. By the middle of 1995, the entire project appeared in jeopardy as the foreign partner faced bankruptcy proceedings in its Hongkong home base while the SCCI threatened to withdraw the license altogether. In the first week of October 1995, the collapse of the EPZ, described initially as "a pivotal development for the north of Vietnam," was announced in the press as the joint venture was ordered disbanded. This brought down the number of legally existing EPZs from six, where it stood in 1993, to five. Further, the SCCI announced in the same month that it would no longer issue licenses for EPZs noting that "only one of the six licensed zones ... was a feasible project that had attracted foreign investment."[2]

It is useful to contrast this state of affairs with the development of industrial estates, also called "zones," that, until 1994, would have fallen under a normal (non-EPZ) investment category. The Government of Vietnam then issued new regulations that granted industrial zones powers to extend "one-door service" to both exporters and companies producing for the domestic market. By 1995, the acronym "IPZ" (industrial-processing zone) entered the standard Vietnamese business press lexicon.

Thus, the same Taiwanese investors involved in the Tan Tuan EPZ are building an industrial (non-EPZ) zone in Ho Chi Minh City with a capital commitment said to amount to U.S. $300 million—equivalent in magnitude to the *total* commitments for all EPZ projects in the country. In March 1994, a Thai group entered into a similar joint venture in Dong Nai Province in Southern Vietnam for a projected investment of U.S. $400 million. A Singapore group had also officially presented a 200-hectare project in Dong Nai, while a South Korean group was exploring possibilities in Northern Vietnam. A Singapore-led consortium, including major Singapore government-owned or -controlled companies and one Indonesian partner, announced plans in October 1995 to sign on a 500-hectare, high-technology park project in Song Be Province with infrastructure investment alone likely to exceed U.S. $250 million.

The International External Cooperation Fund of Taiwan will lend U.S. $10 million to help develop an estate for Taiwanese investors in Sai Dong (Hanoi). Even the Japanese (in this case the Nomura Group), until recently perceived to be reluctant investors in Vietnam, on 1 September 1994 signed a U.S. $120 million joint-venture agreement to develop an estate for Japanese investors in Hai Phong. (In the following year, this project had progressed well and consistently received positive comments from local authorities at least in terms of tangible commitment from the foreign partner and in contrast with the ailing EPZ.) As with the EPZs, foreign partners contribute a typical 70 percent of planned investment capital for the industrial zones or estates. It appears noteworthy that these estates would primarily orient their efforts to attracting and accommodating investors from the home country of the estate's joint-venture partner. By October 1995, six industrial zones, with planned infrastructure commitments reaching U.S. $400 million, had been officially licensed, thus surpassing the EPZs both in number and capital commitments.

Since 1993, many industrial zones have been created or planned by local authorities, at least on paper, with or without foreign partners. For instance, in Dong Nai Province near Ho Chi Minh City, forty-five projects had received SCCI licenses in "Bien Hoa Industrial Zone II" alone by the middle of 1995—a number that then surpassed any EPZ's performance excepting Tan Thuan. However, of all these projects, none had yet gone beyond the licensing stage and prospects for "investment dynamism" appeared at best uncertain. The Dong Nai Industrial Zone Management Authority even requested the SCCI, in September 1995, to withdraw licenses for seven projects because their slow implementation was perceived to have a deterrent effect on potential new investment.

Finally, while it is early to outline a definite investment pattern in the remaining EPZs, looking at the small pool of investors with projects already operational or due to come on-line in the near future (all located in the Tan Thuan zone), production sectors involved are clearly those in which the country of origin has lost, or is losing, international comparative advantage. It is here perhaps that one sees most tellingly, but without much surprise, the trade and investment dynamics at work in the whole East Asian region and now reaching into Vietnam. What is less obvious, but nonetheless interesting, is the role of national governments in prodding their private or even public or semipublic sectors into investing offshore.

EPZs in Northern Vietnam

EPZs in Hanoi

At the end of 1993 the People's Committee of the provincial territory approved a master plan for the development of the national capital region. Among four planned industrial zones, at least one was expected to become an EPZ—in Soc

Son near Noi Bai International Airport. This EPZ was one of two U.S. $20 million joint-venture projects negotiated by the "Renong" Malaysian industrial group (the other being a golf course cum resort in Hanoi). Documentation was submitted to the National Committee for Project Evaluation October 1993, and a license was granted by the SCCI in May 1994. Land-levelling work had already begun in October 1993, and a fence was erected apparently to preempt land disputes. However, it was not until the middle of 1995 that a license to construct the infrastructure was actually awarded.

In addition to offering proximity to the airport, the zone is thought to be advantaged by its location near one of the main road transportation axis planned for the Northern Focal Economic Area (NFEA)—one of the three components under the State Planning Committee's responsibility of what is to become the country's first market-based development plan. Power supply for the Soc Son Zone is to be provided by a hydroelectric power plant at Ta Pu that was being studied by the Ministry of Energy by August 1993, subsequently approved by the Ministry and then submitted for final approval to the prime minister, who by November 1993, had already chaired two meetings on this matter. A significant number of Taiwanese and South Korean investors have apparently visited the People's Committee and expressed serious interest in ventures such as toys, electrical goods, and telephone assembly. They will, however, wait for infrastructure to be in place before investing.

The People's Committee has held discussions with the World Bank and Asian Development Bank on assistance with financing such infrastructure, but the banks made clear that they would give priority to public utility projects applying to cities and regions as a whole. Loans would also have to be cleared through the Ministry of Finance. The committee places its greatest hopes, then, on finding private sector investors. It has also sent delegations to Ho Chi Minh City to learn from the Tan Thuan Zone experience. An interesting development, on the financing chapter, occurred in October 1995 when it was revealed that the Industrial Development Bank of Malaysia would be prepared to lend up to U.S. $14.5 million to the infrastructure joint-venture project licensed for the Soc Son Zone to be developed by the Renong group.

EPZs in Hai Phong

In addition to transportation and other infrastructure, location advantages of EPZs may include such factors as easy access to raw materials. For instance, the border province of Quang Ninh, immediately to the north of Hai Phong, is rich in mineral resources. Such conditions have been carefully considered, along with all other relevant factors, by the senior managers of the Hai Phong Export Processing Zone Development Corporation. In carrying out preliminary studies, they have visited, out of joint-venture project funds, EPZs in China, Taiwan, Hongkong, South Korea, Malaysia, South Africa, India, and Madagascar. It was

even asserted that they had produced an EPZ master plan for the country as a whole that would have recommended establishing three such zones.

Given the admittedly favourable conditions of Hai Phong, a license was granted in January 1993 to a EPZ joint venture with a Hongkong-based group, to be located at Do Son. A detailed master plan was produced by a Dutch firm, but the joint-venture partner would only commit itself further if there were strong expectations that investors would come. Discussions also revealed pending issues such as: (1) delays in granting land-use rights from the Government Land Bureau even after license approval (by law, permission should be granted within a month); (2) a similar problem exists with construction permits to be obtained from the local branch of the Ministry of Construction; (3) the requisition for a guaranteed annual power supply of ninety-three megawatts still has to be granted by the central Ministry of Energy; and (4) delays of weeks for senior zone officials to get immigration permission to go to Hongkong.

The issue of domestic competition between Vietnamese EPZs was also raised. It was felt that there was room for only two or three well-planned EPZs for the whole country, but that bureaucratic in-fighting and favouritism could make this difficult. On the question of Hai Phong's port siltation problem, which severely constrains vessel tonnage-handling capacity, and current plans for a major deep-seaport at Cai Lan (Quang Ninh) to serve the northern part of the country, it was asserted that even both ports, once fully operational, could not handle total anticipated demand. As of August 1993, no construction had taken place at Do Son. By November 1993, thirty investors had purportedly shown interest, but no construction had begun. It was also revealed that the EPZ could not provide a "one-door service" in contrast with Southern Vietnam's EPZs. At the end of August 1994, it consisted of a fenced-in flooded field. By mid-1995, the whole project appeared terminally compromised with regular threats of impending dissolution reported in the local press. In the first week of October 1995, the project's official collapse was announced when the EPZ joint venture was ordered to disband after the foreign partner failed to meet a 30 September deadline to provide a scheduled legal capital contribution.

The People's Committee has meanwhile pursued industrial estate joint-venture projects with Taiwanese, U.S., and Japanese concerns. As noted above, an agreement was already reached with the Japanese group in September 1994 at a time when no progress had been made on the EPZ itself. Local authorities then explained this by the weakness of the EPZ foreign partner's capital position, while they expressed confidence that the industrial estate's Japanese partner, the Nomura Group, should have no such problems. The industrial zone's infrastructure is planned for completion by 1997–98. Relatedly, it is interesting to note that the Hai Phong People's Committee had plans to set up a free trade zone, but that its plans were ultimately rejected by central authorities.

EPZs in Quang Ninh

No licensed EPZ projects or even joint-venture agreements exist in Quang Ninh, although ideas, tentative plans, and draft proposals abound. The border area of Mon Cai, for instance, has been suggested as the site of Vietnam's first special economic zone (SEZ). Trade flows with China have greatly increased over the past few years, bringing prosperity of a sort to the region. However, much of this trade is extra-legal and causes concern to central authorities, both as regards lost tax revenues and competition with domestically produced goods.

Local authorities have proposed creating a "Special Trading Zone" which has evolved into a SEZ concept that the State Planning Committee (SPC) was asked to develop further. Lengthy discussions followed between the SPC and the Ministry of Construction on project development and between the SPC, SCCI, and the Office of Government on drafting regulations. The prime minister apparently even considered submitting draft SEZ legislation to the National Assembly but in the end decided not to proceed with the concept at least for the time being. The SPC has not abandoned the idea, which could be revived in the coming years, but expressed a need for external assistance in surveying and defining a regulatory and conceptual framework.

Another project that seriously exercised many planning agents is an EPZ at the site of the planned deep-seaport of Cai Lan, at Halong Bay, near Quang Ninh's provincial capital. Taiwanese investors have expressed interest but would become involved only after adequate infrastructure is provided. The port is the only natural deep-seaport in Northern Vietnam and widely seen as a necessary, if perhaps long-term, alternative to the silting port of Hai Phong. A feasibility study on the port was carried out in 1987, with Russian assistance, by the Ministry of Construction. Work has since begun, entirely with domestic funds, and one wharf was near completion by the end of August 1993. Construction technology, however, is primitive and progress slow. By 1995 only that one wharf had been completed. Moreover, commercially adequate road connections to Hai Phong and Hanoi are completely lacking—not to mention risks to Halong Bay's environmental and tourism prospects. (Taiwanese and South Korean assistance projects for certain segments of these roads are expected to begin soon, however.) Quang Ninh's People's Committee has requested assistance with conceptualizing the region's development and attracting investors. Preparatory work for the Cai Lan EPZ project has since been entrusted to the SPC.

EPZs in Central Vietnam

EPZ Projects in Quang Nam-Da Nang

The Quang Nam-Da Nang EPZ Development Corporation originally planned to develop zones at An Don, Nuoc Man, and Ngoc Nam, all located in or near Da Nang. An Don is a former U.S. Army warehouse while Nuoc Man was a secondary air base. The land, therefore, was already levelled and fenced for both.

Only An Don, however, is actively being developed at present. A joint-venture agreement to this effect, between the People's Committee and a Malaysian consortium composed of private companies and Malaysian government agencies (the Renong group), was licensed in October 1993. (This consortium is the same one involved in the Soc Son Zone in Hanoi, discussed above.) The project, apparently partly spurred on by the 1992 trade visit headed by the Malaysian prime minister and trumpeted by the International Trade and Investment minister in April 1993, is explicitly seen by the chairman of the Malaysian consortium as providing "a sort of private enclave [where Malaysian companies] can have management control and cut down on red tape and bureaucracy."[3]

This project is strongly supported by central authorities who view Central Vietnam as more backward than the rest of the country and in need of further attention. However, it admittedly has difficulties in attracting investors. In turn the senior joint-venture partner appears short of capital to develop infrastructure. (The Asian Development Bank has visited the zone's authorities as part of its infrastructural need assessment but made no commitments.) No construction has begun, and power requirements are simply expected to be provided by the North-South transmission line. Among the promoted advantages of the zones, one hears that there are railway and road connections to the deep-seaport of Tien Sa. The road to the port indeed exists, but the rail tracks have fallen into disuse and have been partly paved over by private driveways leading to roadside houses. By mid-1995, only one small project had been granted a license for operation in the zone. The corporation's management admitted, early on, requiring more managerial experience while also expressing concern about international competitive pressures from, for instance, the Hainan SEZ and the Subic Bay EPZ project (itself a joint venture with two Taiwanese Kuomintang-controlled companies).

EPZs in Thua Thien-Hue

The People's Committee has produced a draft plan for two EPZs in the Hue area, one near a port and the other near the local airport, but no further feasibility studies have been undertaken for lack of funds and no potential joint-venture partner has been identified. Taiwanese investors visited the province in May 1993, and provincial officials in turn visited Taiwan, but the visits brought no specific results. Thailand has expressed an interest in the province's development—former Prime Minister Chatichai Choonhavan being acquainted with People's Committee officials—but nothing further has developed to complement already established regional projects (such as proposed road networks through Laos between northeastern Thailand and the Vietnamese coast). Because of good connections with top government officials, it has been asserted that obtaining project approval would not be difficult, and that the SCCI license would be a formality. Finding a joint-venture partner was, however, considered problematic.

EPZs in Southern Vietnam

EPZs in Ho Chi Minh City

The earliest and most advanced of all Vietnamese EPZs is that of the Tan Thuan Corporation (TTC) in Ho Chi Minh City's Nha Be District, licensed in September 1991 with a registered capital of U.S. $89 million. It is a joint venture between Ho Chi Minh City's People's Committee and Taiwan's Central Trading and Development Corporation (CTD), a Kuomintang-controlled company. Initial discussions on the project started in 1988. People's Committee officials visited the Kaoshiung EPZ in southern Taiwan, and Taiwanese business delegations held frequent discussions in Vietnam. Taiwanese experts contributed to drafting Vietnamese EPZ regulations and have a significant presence in key management positions in the TTC. A former SCCI official is a senior Vietnamese management partner.

The TTC is the only EPZ in Vietnam to have actually seen any production and exports. Among investors who have applied for licenses, as of the beginning of 1994, about 70 percent originated from Taiwan. Investors from South Korea and Japan have also expressed serious interest.

The TTC management is confident of its investors's competitiveness. Significantly, it also sees no difficulty in "exporting" to the domestic market (provided duty is paid) and anticipates no set limits to such exports—competitiveness would be the only criterion that could constrain domestic sales. Business plans stretch outside the zone since 60 000 hectares of land have been secured to plant eucalyptus trees for a paper mill to be built inside the zone.

The TTC forms part of a comprehensive plan targeting not only infrastructure construction—including a power plant to be built by the Hiep Phuoc Power Company (controlled by the CTD) and a road link to National Highway 1, which is itself the second largest private investment in Vietnam—but also the development of the entire southern area of Ho Chi Minh City. A master plan has been put together to this effect by a consortium made up of one Japanese and two U.S. companies—under the responsibility of the CTD-controlled Phu My Hong Company, the joint-venture partner for the above-mentioned road link. The master plan includes roads and industrial as well as residential estates. (As noted above, the planned industrial estate involves a capital commitment of U.S. $300 million, a magnitude similar to all Vietnamese EPZs combined.) The master plan apparently does not assume exclusive Taiwanese capital sourcing as the Asian Development Bank would finance some road upgrading. Total CTD investment would still amount, however, to an impressive U.S. $500 million.

The other licensed EPZ in Ho Chi Minh City, the Saigon Export Processing Zone ("Sepzone") at Linh Trung, is a joint venture between a Hongkong company and the People's Committee and is the second most advanced EPZ in Vietnam. The zone is fairly small and wishes to attract higher value-added industry than normally expected in other zones and has turned down some applications on that basis. This zone's original features include imaginative leasing arrangements; financing plans through bank loans and anticipated share offerings from the Vietnamese partner; and future development plans for another zone at Cat Lai, also in Ho Chi Minh City, which would be the largest in Vietnam. Its senior management is said to have contributed to drafting the original EPZ regulations. By the middle of 1995, however, prospects did not appear promising for the Linh Trung zone. Space had yet to be cleared for construction to begin. Only four licenses for investors in the zone had been awarded. The Hongkong-based original foreign joint-venture partner for the zone corporation withdrew in 1994 from the project, invoking "unspecified difficulties" and has since been replaced by a Chinese company.

Licensing procedures for zone investors have been greatly streamlined by the Ho Chi Minh City Export Processing Authority (HEPZA), the EPZ administrative board that pioneered "one-door service." It has responsibility for all EPZs to be established in the Ho Chi Minh City area, and its board, headed by a standing SCCI vice-chairman, includes members from the SCCI, the Ho Chi Minh City People's Committee, the Ministry of Finance's Customs and Taxation Departments, the Ministries of Commerce, Labour, and Interior, and the State Bank of Vietnam. It has been described as a "miniature government" with the power to grant investment licenses in record time.

HEPZA sees itself as having an active role, but limited means, to promote investment, but is particularly keen to attract investors from outside the smaller Asian countries (that is, Western Europe, Japan, North America) which are perceived to contribute too slowly to the economy's expansion. Even though the lack of very clear lines of responsibility between HEPZA and central authorities remains to be addressed, the main issue for HEPZA is an ability to produce results. For instance, in the case of the very first factory to operate in an EPZ, the investor first visited the country in early 1993, obtained a license in March, a construction permit in April, finished building the factory in August, and began production in November 1993. This was thought to have been impossible to accomplish outside the HEPZA/EPZ framework. There are discussions about expanding HEPZA's administrative authority over all zones that could exist in Southern Vietnam. Overall, the one-door policy pioneered by HEPZA makes for, in the local press, a recurrent success story in red tape removal. After only two years of operation, HEPZA managed gradually to reduce the time required for zone investors to get a license to a record ten days by mid-1995.

EPZs in Ba Ria-Vung Tau Province

As part of a number of infrastructure and estate projects in Vietnam's "oil province," the local People's Committee first prepared a draft feasibility study in July 1992—apparently with some assistance from the Institute of Economic Research in Ho Chi Minh City—for an EPZ to be located near Vung Tau City. The Cabinet officially endorsed its efforts and encouraged the committee to look for a joint-venture partner. Officials have travelled to neighbouring countries, received delegations from Taiwan (other than from the CTD Corporation), from Malaysia (other than from the group involved in Da Nang), and from Singapore. But, aside from the signing of a memorandum of understanding with a Malaysian company in November 1993, no solid partnership prospects have developed.

The People's Committee considers its project attractive as a number of river and seaport installations are expected to be built or upgraded in coming years in addition to a 600 megawatt LNG power plant, the prefeasibility study for which was completed with Japanese ODA. (SNC-Lavalin has designed the pipeline that would transport the natural gas to the plant from the sea.) The People's Committee has carried out some preliminary work on the zone, but it still awaits a foreign partner for establishing an EPZ development corporation. No further progress had been reported by mid-1995.

Critical Analysis and Evaluation

Legal and Administrative Framework

Time and again, through the local press or interviews with officials, one hears that Vietnam lacks a legal framework for such and such an activity—that necessary laws do not exist or require further detailing. Foreign investors, usually from Western countries, occasionally voice similar concerns. While these assertions have a certain truth in them, Vietnam is not unique in the general Asian context where litigation is rarely a cost-effective option for settling disputes, if indeed an option at all. Here, as elsewhere in the region, existing laws and regulations are simply one more piece of evidence, albeit an important one, in a business environment whose predictability and stability—the truly crucial factors—depend on many other written and unwritten rules. For instance, what meaning can be found in considering that China has had a bankruptcy law since 1986 while the first state-owned enterprise allowed to go bankrupt did so only in 1994? Or that since 1987 Vietnam has had one of the most liberal foreign investment laws in Asia, allowing 100 percent foreign ownership, while few such ownerships exist in practice?

An independent and reliable judiciary represents one of the important goals of administrative reforms currently being pursued in Vietnam. But, as with any country with an effective judicial system, its value prevails more as that of a potent symbol since the "State of Law" endures first, as does economic activity, in behaviour and values—which change only over decades and not at the stroke of a pen—rather than in the courts.

It is remarkable that the first wave of extensive reform in Vietnam, with the introduction of *doi moi* (renovation) in 1986, quickly brought in enterprising individuals from neighbouring countries who with Vietnamese partners (all of whom seemed to have held government positions at the time) were the main actors behind the EPZ phenomenon. Research for this study shows that opportunities seem to have been fairly systematically surveyed early on, across the country, before the EPZ had any legal existence, or conceptual gel, in Vietnam. Indeed, the very rudiments of the legal framework came from the proponents of these projects themselves rather than from the government which appears to have merely been catching up, updating its understanding, and codifying *post facto* a reality to which it had consented.

As important and necessary as a legal text can be, the lesson to be derived from this is that while drafting laws may usefully concentrate the mind and put into place building blocks for the legal state, it proves to be no substitute for policy. An often-expressed opinion is that Vietnam needs a legal framework for "special economic zones" or for "high-tech zones," as if regulations alone would enhance economic activity or entice high technology.

Consciously or not, it so turns out that the concept of the "special economic zone" amounts more to a device designed to rationalize and legitimize uncontrollable border trade with China. If Vietnam were to decide on establishing free trade with China, it would appear desirable to do so with a clear understanding of the economic costs and benefits that this would bring and in confidence of its border-policing ability rather than by giving in to administrative wavering and allowing a quasi-state to develop, "Shenzen-style," experimentally.

Similarly the "high-tech zone" fantasy rests on the fragile premise that sophisticated machinery and industry secrete value-added like bees do honey—just by being what it is. Quite aside from the proposition's frailty that a new set of regulations would bring in machines that would help the country leap-frog into the future, this point of view displays a lack of understanding of how private investors motivate their capital goods purchases given the types of markets that they hope to sell in and the production resources that can be locally mobilized. Building a Silicon Valley in Vietnam would be unaffordable and senseless in the foreseeable future. The experience of the four largest investors in Vietnam at this time—Taiwan, Hongkong, South Korea, and Singapore, in that order—could show that private high-tech investments build up only after public investment in human resources development.

In summary, the legal framework as such does not seem to precondition economic activity significantly at this time in Vietnam, at least for the EPZs, and probably for other types of initiatives as well. It forms only one element of the "business environment," which matters more to investors unfamiliar with the context. But this does not mean that there would not be significant benefits in the long run in developing a credible court and litigation system as part of those intangible confidence assets agreeable to Western investors. Indeed, current jitters about the rule of law's shabby state in China could indicate that there eventually comes a time when investors, as attracted or unintimidated as they can be by a "Wild West" environment, yearn for predictable courts and sheriffs.

The "administrative framework," as contrasted to the legal one, may matter somewhat more. What role does the administrative machinery play in attracting and orienting foreign investment? It was noted above that the "one-door service" pioneered by the Ho Chi Minh City Export Processing Zone Authority (HEPZA) represented one of the significant administrative developments attached to the EPZs. This was the result of the initiative of the board members rather than of a framework present in law or in central government policy. The pattern of concurrent cross-appointments of officials to the board from different ministries and the SCCI itself could be interpreted as contributing to the board's powers and to its ability to produce results. But this would raise questions about the independence and objectivity of regulatory institutions, not to mention the risk of creating another personality-driven level of government or extra-legal issues.

Perhaps more importantly, it also postpones addressing the agenda of what are deemed to constitute efficient regulatory functions from central ministries and agencies. For instance, what role should the Ministry of Finance play in stimulating foreign investment, and how could it be given the means to assume this role, once defined, and for the whole country? Or what role should local authorities have in urban and regional planning? The background general issue is that of the state's role in private investment decisions. The central level might concentrate on providing, for instance, environmental regulations, a legal framework, and standard tax treatment, while local authorities might focus on territorial management.

EPZ, and now industrial zone, projects also offer interesting case studies of central-local relationships and administrative structures. Local authorities enjoy considerable autonomy in initiating projects. Depending upon their administrative resources, they may or may not rely on central authorities or agencies to provide assistance and become involved in project definition. When central approval or endorsement becomes necessary or useful, procedures are unclear—below the prime ministerial level—at either end of the chain. For example, local authorities have been known to forward projects, in the first instance, indiscriminately to either the State Planning Committee or the Office of Government. But, in any event, the pace and development of projects, and to some degree of institutional change, depends directly on the initiatives and resources of local authorities and the personal chemistry that evolves between them and project partners, both foreign and local.

The central government apparently has no coherent framework and settled means for establishing its administrative authority in the regions. For instance, desiring to concentrate power in the centre, it retrenched local offices of central agencies. Thus, it could be said that the State Planning Committee, the Ministry of Finance (excluding the Treasury), and the General Statistical Office have no local departments, a situation that seems to indicate confusion in addressing administrative malfunction through office relocation rather than by reforming administrative procedures and systems. The SCCI does maintain local offices, and it retains centralized authority—but apparently not very strongly in practice—at least over Southern Vietnam. This state of administrative vacillation reflects, it could be argued, other uncertainties about ideas and policies.

Planning and Policy Process

In a fashion very similar to Fforde and Luong's characterization of Vietnam's growth zone policy as "reactive to the underlying regional nature of market development, rather than active"; it was asserted above that Vietnamese EPZs have come into existence much more as a direct result of regional trade and investment dynamics than through any deliberate national EPZ policy. Field work and secondary evidence strongly support this view. But the question was also posed whether a coherent policy framework existed, of which EPZs would form a part, to promote and orient FDI. Although the country has now reached a basic political consensus to have an open, market-based, export-oriented economy—in itself no small achievement in terms of coherence and commitment in Vietnam—it must be said that a coherent FDI policy framework does not currently exist.

The main explanatory factor for this lies in the difficulty that central agencies have in grasping the functions and responsibilities of a government in a market economy. This appears true with respect to, among other topics, the dynamics of private investment, the nature and role of public investment and aid coordination, the basic orientation to follow in reforming the state-owned sector and assigning fiscal and other powers to local authorities, and macroeconomic management.

As evidenced from interviews and other sources, central agencies still struggle with basically ill-defined problems such as "how to ensure that FDI fulfills its assigned role," or "how to start EPZs in order to integrate into world markets," or "how to balance foreign and domestic investment," or else they issue brake-slamming threats that EPZs "showing signs of failure would be forced to close." Against the background of general administrative weakness from the centre, no clear conception of the respective role and effectiveness of economic (market signals) and policy-dependent incentives emerges. This looms importantly over the considerable reform agendas to be tackled with respect to state-owned enterprises, the assignment of taxation powers, and the role of the State Bank and of the Ministry of Finance in macroeconomic management. The reform agendas matter for FDI, or export promotion, policy since, should the government decide to offer EPZ-like but nonterritorial incentives such as duty draw-back facilities, it would require an effective tax administration apparatus.

Finally, Vietnam has made a virtue, perhaps unwittingly, of its lack of public funds to invest in EPZ projects by appropriately shifting infrastructure development responsibility and risk to (foreign) investors. But that leaves open the question of the existence of proper channelling methods for public investments and expenditures—infrastructure and others, when funds become available from taxes, domestic or foreign borrowing, and ODA. This will likely represent a topic of intense debate between the Government of Vietnam and the donor community at the Donor Consultative Group meeting to be held in Paris at the end of November 1995.

Regional Issues: Economic Integration and Investment Dynamics

The single largest investors in Vietnam, including that for the first and most advanced EPZ, are Taiwanese Kuomintang-controlled companies. Taiwan's desire to diversify its FDI portfolio away from China and to give further emphasis to its already large investment commitments in Southeast Asia has been well publicized. What is less known is that this process began several years ago, almost since the beginning of *doi moi,* in Vietnam. As a matter of public policy, it could be said to have culminated in the Taiwan government's proposal in November 1993 to form a free trade zone with the countries of ASEAN and Vietnam (not then an ASEAN member) within the next fifteen years. Moreover, in terms of deed if not policy, Taiwan has maintained a yet unchallenged lead as the largest investor in the country for quite a few years now.

The internal economic motivations that drive these investments could be seen as similar to those that accompanied the "Japanese investment waves" (i.e., currency appreciation, shift in comparative advantage). These can be seen to be at work in the same way—that is, with government support—in countries like Malaysia, Singapore and, to a lesser extent, South Korea. (Further research in the role of these governments in directing domestic and international investment would likely add a few twists to the growing "East Asian miracle" literature.)

Vietnam publicly welcomes all investment, but privately concerns are expressed about overconcentration from specific countries or regions, whereas investment from the "advanced economies" (Western Europe, North America, Japan) would be more desirable. Again these concerns often relate to the idea that the technology assumed to accompany investments from these sources is backward, second-hand, and not advanced. This perception could spur defensive reactions and attempts to impose administrative controls on technology. There is an urgent debate to conclude in Vietnam about what constitutes appropriate technology and the role of government in private technology decisions.

From the relatively modest proportion of EPZ and industrial zone-related investment in total FDI, and the institutional and economic context of their development, one could forecast that these zones are not yet likely to play a significant role in attracting FDI for the country as a whole. This would be even more true if the government decisively tackles its administrative reform program, and policy makers understand, accept, and facilitate, for the valuable contribution they can bring, foreign (and domestic) investment flows from all

sources and for the whole country. In this increasingly interdependent and integrated world, there appears to be little choice anyway.

Notes

1. CIDA commissioned the original field work, carried out by the author between the second half of 1993 and first half of 1994, for a special report on EPZs in Vietnam. Permission to use the primary evidence thus gathered is gratefully acknowledged.
2. *Bangkok Post*, 12 Oct. 1995, p. 19.
3. *Heritage*, Nov.–Dec. 1993, pp. 8–11.

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