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**Policy Reform on Industrial Zones in Vietnam:**  
**The Case of Yen Phong Industrial Zone**

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# **I. Contextualisation of the Reform Policies for industrial zones in Vietnam**

- Radical economic reform in 1986.
- The “open door” policy has become an integrated part of Economic Reform leading to promulgation of the first foreign investment law of Viet Nam in 1987.
- Weak infrastructure was apparently one of the most important obstacles for FDI's inflows in the early stage of implementing 1987 FI Law. After 4 years of the Law's implementation, there had not been any industrial zone in Vietnam.
- The 7<sup>th</sup> National Congress CPV (1991) witnessed strong will of the government to have deeper acknowledgement of industrialization and modernization.

## Contextualisation of the Reform Policies ...

- FDI performance: 1991-1995 - first “booming” period -→ total registered capital of US\$ 18.376 billion: more than 10 times higher than that of 1988-1990 period--→ attributed partly to the growth of industrial zones starting with the first one in 1991.
- FDI promotion: 1st driver for policy reform on industrial zones.
- The 2<sup>nd</sup> driver for establishing industrial zones lies in its effects on technology transfer to local economy.
- The third driver comes from its impact on human resource development especially on high professional labourers.

## The contextualisation ....

- Political stability: present during the whole process of this policy reform --→ a very important advantage not only for the reform but for the investment environment as well.
- The development of IZs in some provinces is resulted from the “crowd effects” which lead subsequently to many unwanted outcomes for their localities.
- Even some industrial zones’ licences have been withdrawn resulting in the waste of social resources such as land left uncultivated for a long time or incomplete compensation procedures for affected citizens.
- *These situations have caused unstable social and economic conditions for the government to solve.*

## II. Policy making process on Industrial Zone

- UNIDO (1997) definition: “An industrial park can be defined as a tract of land developed and subdivided into plots according to a comprehensive plan with or without built-up (advance) factories, sometimes with common facilities and sometimes without them, for the use of a group of industrialist”.
- In Viet Nam: + Formally defined first in Decree No. 192/CP (1994) as “concentrated industrial areas without residents, were established by identified borders with the purpose of supplying supporting services for production”
- + New viewpoints of the government reflected in 2005 Law on Investment: “An industrial park is a concentrated area for businesses being specialized in industrial product manufacturing and providing services for industrial production, has its identified geographical borders and no residents and is established according to the government stipulations.”

# Policy making process on Industrial Zone...

Year	Reform milestones
1991	Decree No. 322/HDBT - Export processing Zones
1994	*Decree No. 192-CP issued on December 28, 1994 promulgating the regulation on industrial parks; Law on Promotion of Domestic Investment
1997	*Decree No. 36/CP on the regulation on industrial parks, export-processing zones, and hi-tech zones
2000	Amended Law on Foreign Investment
2003	Decree No. 99/2003/ND-CP promulgating the regulation on high-tech parks
2005	Law on Investment, Law on Enterprises, Commercial Law
2006	*Decision No.1107/QD-TTg approving the planning on development of industrial parks in Vietnam up to 2015 and orientations to 2020,
2007	WTO membership
2008	*Decree No. 29/2008/ND-CP on amendments of regulations on industrial zones, export- processing zones and economic zones
2013	*Decree No. 164 on the amendments and supplements of selected articles of the Government's Decree No. 29/2008/ND-CP for industrial parks, export processing zones and economic zones.
2014	Amended Investment Law



# Policy making process on Industrial Zone...

- The 1<sup>st</sup> export-processing zones in Vietnam was established in 1991 right after promulgation of Decree No. 322/HDBT - Export processing Zones.
- The key regulations as well as policy reform on promoting industrial park development were first promulgated in 1997 by Decree No. 36/ND-CP on the regulation on IPs, export-processing zones, and hi-tech zones
- The decree was approved with a comprehensive view to expanding and raising the effectiveness of the activities of forming, building, developing and managing industrial zones, export processing zones and hi-tech zones -> A number of industrial parks were born under this policy reform.
- 2005 Law on investment: industrial parks, hi-tech zones, export processing zones and economic zones are classified as areas benefited from investment incentives -> strong support from the government.



# Policy making process on Industrial Zone...

- The significant reform on IZ policy is expressed in the Decree No. 29/2008/ND-CP dated March 14, 2008 by the Government on amendments of regulations on industrial zones, export- processing zones and economic zones→ for the 1st time mentioned almost all main issues related to IP, including:
  - i) order and procedures for establishment of IZs, EPZs and economic zones;
  - ii) applicable policies;
  - iii) state administration;
  - iv) functions, duties, powers and organizational structure of management committees/board of IPs, EPZs and economic zones.

# Policy making process on Industrial Zone...

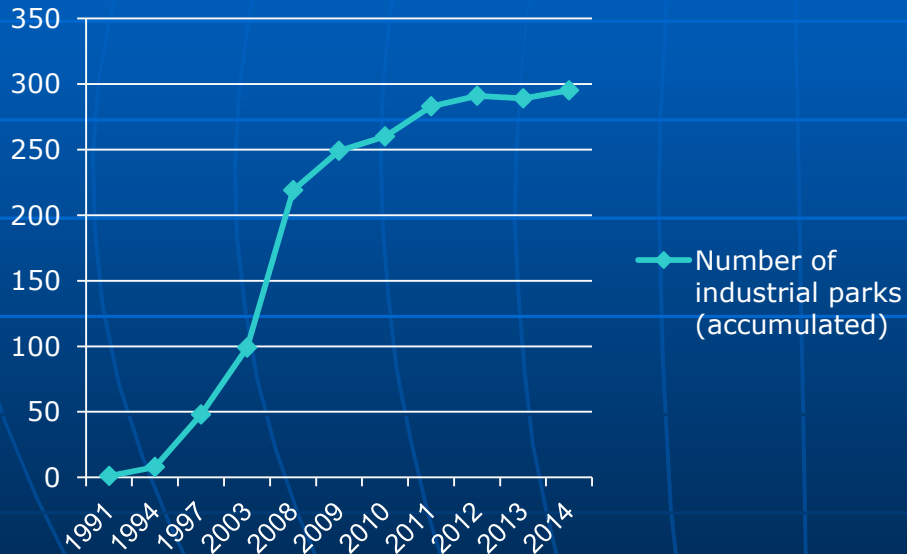
- **Further reform policies in 2009-2014:**
- - Issuance of mechanisms to support from central budget for investment in infrastructure construction of IPs in the provinces with difficult socio-economic conditions (2009)
- - Plans on the provision of the central budget's assistance for construction of infrastructure especially in industrial clusters in localities with difficult socio-economic conditions (2010)
- - 2013 (Decree No. 164): i) investment license is not issued for new industrial parks with the low occupied rate (lower than 60%) of available ones; ii) the rights and obligations of enterprises operating IPs and investors in construction of infrastructure in these zones; iii) regulation on housing development for laborers in IPs; iv) clear regulation on the tasks as well as power of the management board in IPs;
- - Approving a list of high technologies prioritized for dev. investment and the list of hi-tech products eligible for development promotion (2014)

### III. Policy Implementation on industrial zones: The case of Yen Phong Zone

- Organisations responsible for policy implementation on IPs: Government, ministries, PPCs and Management Board of Industrial Zones (MBIZ); Key organisations of this policy implementation are MBIZs which are established by the PM but attached to PPCs.
- **The main functions of MBIZs:**
  - i) To perform the function of direct state management of IZs and EZs in provinces; manage and organize the provision of public administrative services and other support services related to investment, production and business activities of investors in IZs and EZs ;
  - ii) Subject to the provincial-level Peoples Committees direction and management of organization, state payrolls, working programs and plans and operating funds, closely coordinate with provincial line departments in managing IZs and EZs;
  - iii) Being allocated state budget funds for state administration and non-business activities, and development investment capital under annual plans.

# Policy Implementation....

## Number of IZs (accumulated)



## FACTS as of 31/12/2014:

- + 295 IZs established with total natural land area of 82,418 ha.
- + of which the leasable industrial land area was 56,000 ha accounting for 67% total IZ natural land.
- + 212 IZs have come into operation with total land area of around 60,000 ha
- + 83 IZs are in the stage of site clearance and infrastructure construction with a total natural land area of around 24,000 ha.

# Leading provinces in appealing foreign investment into IZs in Vietnam in 2014

Province	FDI in industrial zones						
	Newly licensed		Incremental capital		Withdrawn		Total increased capital (mil. USD)
	No. of projects	Registered capital (mil. USD)	No. of projects	Registered capital (mil. USD)	No. of projects	Registered capital (mil. USD)	
Thai Nguyen	19	3,155	9	104	1	2	3,257
<b>Bac Ninh</b>	<b>98</b>	<b>1,313</b>	<b>66</b>	<b>274</b>	<b>7</b>	<b>8</b>	<b>1,580</b>
Dong Nai	72	601	84	991	11	10	1,487
Binh Duong	108	697	102	773	11	86	1,383
Tay Ninh	21	361	16	462	2	2	821
<b>Total</b>	<b>318</b>	<b>6,127</b>	<b>277</b>	<b>2,604</b>	<b>32</b>	<b>108</b>	<b>8,528</b>

## Policy implementation...

- Having established in 2005, Yen Phong IZ is the largest in terms of invested capital in Bac Ninh province: The implemented FDI by 2014 was US\$ 3715 million → accounting for 63.7% of the total implemented FDI capital of all industrial zones in the province; high filling rate of 93.37%
- The 1st phase has been successfully completed with the construction of modern and synchronous infrastructure and service.
- 
- The IZ has one with the highest number of world-known leading corporations, such as Samsung Electronics Co., Ltd., ORION Group, P&Tel and 15 Korean enterprises.



## Policy implementation...: Samsung case

- Samsung: i) started operations with a new handset factory in Yen Phong IP in April 2009; ii) The factory is modern and has high capacity; iii) the mobile factory is one of Samsung's seven most modern factories in the world.
- Samsung→successful operation due to i) reformed policies on industrial park; ii) favourable business environment in Bac Ninh province; iii) effective supporting from the Yen Phong MBIZ.
- 2010: Samsung Electronics and other companies of the Republic of Korea (RoK) jointly invested in 32 industrial projects at a total registered capital of US\$916.3 million ranking 1st in investment capital and in the number of FDI projects in Bac Ninh province.
- 9/2014: Samsung Electronics Vietnam (SEV) celebrated the achievement of an export turnover of US\$1 billion at Yen Phong IZ.



# ***Causes for successes of Yen Phong IZ***

- *Policy reform on industrial parks:* Yen Phong IZ established in 2005 – the years of booming IZs under the way opened by 2005 Law on Investment and 2005 Enterprise Law; Decree No. 99/2003/ND-CP promulgating the regulation on high-tech parks etc...
- *Dynamic management board:* dynamic and active operating mechanism and open-door policies and political stability of Bac Ninh province.
- + The management board has made numerous domestic and oversea trips, meetings to appeal investors;
- + The efficiency in administration and management, such as “one-stop shop” system. Bac Ninh province: considered as the most opened and clearest investment environment among the Northern provinces in Vietnam.
- + Bac Ninh province and Yen Phong IZ have numerous concessions for large investors like Samsung.

## ***Causes for successes of Yen Phong IZ...***

- *Synchronous infrastructure:* The Yen Phong IZ's completed synchronous infrastructure contributes to identifying it as a destination for investors. Making use of the effective government (both central and local) supports to construct its modern and comprehensive infrastructure system and standard investment environment.
- The IZ is a part of the modern complex of green industrial zone – urban areas of grade V with urban scale of 45,000 residents, with all facilities.
- *Location advantage:* The IZ also brings into play the location advantage in the special triangle area of growth (Hanoi - Hai Phong – Quang Ninh) and in the proximity to the national comprehensive transportation system.-→ Therefore, Yen Phong IZ is increasingly becoming the ideal destination for many investors, particularly Korean ones.

# Policy Evaluation

- Positive impacts: can be seen in the increased number of IZs and their corresponding investment capital. The number of industrial zones increased by 4.16 times (or 316%) from 2001 to 2011 to almost 300 IZs in 2014.
- They include at least:
  - The positive impact on FDI attraction to the country or the provinces;
  - To promote technology transfers via spillover effects; and
  - To create jobs and improve human resource quality of the country via job recruitments and useful job trainings.
- All these positive effects can be seen in well operating industrial zones such as Yen Phong and those in Bac Ninh provinces.

# Policy Evaluation

- Adverse effects of booming IZs: i) low filling rates of IZs in the country as a whole with only 46% in 2010 and 48% in 2014. Among the zones in operation, the rate was also only 65% in 2014 which already showed improvements compared to previous years; ii) asynchronous infrastructure appears in many of them. These IZs lack basic infrastructure works such as sewage system, waste treatment system or even intra-zone roads.
- Number of IZs is large→ it is very popular that provinces receive low budget supports from central level→ makes it difficult for IZs to build up basic infrastructure for normal operation.
- The policies controlling environmental impacts of businesses were basically only stipulated in 2005 with the issuance of 2005 Law on Environmental Protection, the 2005 Investment Law and 2005 Enterprise Law. This resulted in serious environmental pollution caused by investment in industrial zones at least before that.

# Policy Evaluation

- From 2005: businesses are required to make the environmental impact assessment reports or environment protection commitments depending on the types and scale of the investment projects. These points are re-confirmed in 2014 Law on Environmental Protection with even clearer rights and responsibilities of organisations, businesses, households and individuals in complying with environment protection regulations.
- Yen Phong industrial zone was subject to comply with all of these policies right from the beginning and this would be one of the most important reasons for the zone to implement a better environment pollution treatment system.



# Policy Evaluation

- Main lessons learnt IZ policy making and policy implementation:
- i) To develop IZ number and scale which match well with local pace of development;
- ii) To review IZ planning ensuring efficient land use, avoiding land vacancy and strictly complying with stipulations of filling rates for licensed IZs;
- iii) Businesses should only be attracted into an IZ when its synchronous infrastructure is completed according to approved planning;
- iv) To develop IZs must be attached to environmental protection measures in and outside the zones; social infrastructure such as housing conditions and other basic living conditions should be improved and provided in all IZs;

# Policy Evaluation

- v) Affected stakeholders such as those whose land is acquired for IZ development, should be adequately and timely compensated as well as consulted for post-acquisition period;
- vi) “One-stop shop” principle should be stricter applied to make businesses more convenient in completing administrative procedures of getting investment licenses;
- vii) High-skilled human resources in both management and technical skills should be well provided for IZ development.



**Thank you very much !**