

Part I

Role of Local Governments in the Framework of National Industrialisation Policy

Futaba Ishizuka

Introduction

Recently an increasing number of studies on Vietnam's development have been focusing on differences in local (provincial) policies and governance which are thought to be affecting the economic performance of the locality. The government's emphasis on increasing decentralisation, as well as concerns over regional disparities in the speed and mode of development, may be part of the reasons for this trend. Part II of this report is one such attempt, focusing on the impact of local government policies and governance on the development of local enterprises in certain industrial sub-sectors.

While local authorities in Vietnam do seem to have rather broad *de jure* and *de facto* powers to influence local industrial development, it is the national government that draws up a grand design for industrialisation for the whole country, and define what roles the local governments should play under this grand design. Therefore, in order to understand the potential and limitations of local initiatives, it is necessary to examine the role of local governments in promoting industrialisation in the light of overall national policy framework. In the following sections, I will first try to outline long-term changes in policy orientations on industrialisation in relation to policies on regional development. Secondly, I would like to examine major functions of local governments in promoting industrialisation in the *doi moi* period.

1. Industrialisation and regional development

1.1. Central planning period

When Vietnam achieved independence from the French, its economy was largely agrarian and regional disparities in development were not yet a major issue. Due to the long war period and intended or unintended consequences of socialist development strategies, this situation did not change very much during the central planning period. Nevertheless, we can identify some policy orientations related to regional industrial development.

1.1.1. Spatial decentralisation of industrial activities

It is well-known that socialist states typically put an emphasis on rapid industrialisation

of their economy with priority to heavy industry. Another, perhaps less pronounced aspect of industrialisation policy in socialist countries relates to the location of industries, namely, geographical decentralisation of industrial production. Thrift and Forbes observes the relations between industrial and urbanisation policies in socialist countries as follows:

The Soviet strategy, one followed in various ways by most of the Eastern European countries, has been to “economize” on the costs of urbanization and block rural-urban migration..... “Direct” policies have included the direction of industry, especially to new industrial centres away from the major urban centres, the control of land use, the promotion of small towns and the control of rural-urban migration, for example through the use of the Soviet *propiska* or internal passport system, first introduced in 1932. (Thrift and Forbes [1986, 29-33])

Here, geographical decentralisation of industrial production is seen as a measure to restrict the growth of the largest cities and thus slow the pace of urbanisation. This policy was seemingly followed in many socialist countries including developing ones such as China and Cuba, although in reality it was not always uniformly implemented¹.

It can be said that the same type of policy was adopted in Vietnam before the market economy reforms. More specifically, the period from the establishment of the Democratic Republic of Vietnam in 1954 to the official adoption of *doi moi* policy in 1986 can be divided into different phases.

The first phase is between 1954 and 1965, a period when the North Vietnam made its initial attempts to build a socialist economy. At the end of the French occupation, there were only two major industrial centres in the North, namely, Hanoi and Haiphong. The DRV aimed to develop a series of urban industrial centres, and designated thirteen such centres along with a number of small towns that would have one or two factories and a sprawl of small village-based industries, thus attempting to create “a more even urban hierarchy... which at the same time would support industrial growth” (Thrift and Forbes [1986, 91])².

The following period between 1965 and 1975 was marked by intensive war on Vietnam’s land. In this phase, industrial basis and people were relocated and dispersed from urban

¹ Thrift and Forbes note that, due to the lack of a clear division of authority, city planners in these countries find it difficult to prevent government ministries from setting up industry in the cities (Thrift and Forbes [1986, 33]).

² In reality, however, due mainly to resource scarcities, smaller cities and towns did not seem to develop as fast as large cities (Thrift and Forbes [1986, 94-95]).

centres to rural communes not as a result of proactive industrial policy but in order to avoid destruction by the war. After the reunification in 1976, while the rebuilding and expanding industrial production in cities was one of the priorities in industrial policy, the intension to create a more balanced urban system seemed to continue in the north and also apply in the south. For instance, there was a plan to develop a cluster of significant satellite cities around Ho Chi Minh City, in an attempt to limit the growth of the City to a certain level (Forbes and Thrift [1987, 125]).

In the central planning period, therefore, it can be said that avoiding over-concentration of industry and consequently over-concentration of population in a few mega-cities was a consistent policy orientation. In practice, the urbanisation rate in this period was kept low, which can also be attributed to such factors as the impact of the war and the generally low level of economic and industrial development.

1.1.2. Regional specialisation and exchange

In socialist countries as well as capitalist ones, a major concern of economic policy makers has been achieving efficient resource allocation between different sectors to expand output, which may involve development of specialisation and commodity exchange between different geographical regions. Development of such division of labour can be examined at various different geographical levels: for instance, between a city and its surrounding areas, between cities in the same region, between different regions of a country, or between different countries. In Vietnam, in this respect, it has been argued that there are “economic complementarities” between the north and the south: that the heavy industrial and mining capacity in the north would be complemented by southern agricultural and light industrial capacity.

Such characteristics of the two regions seem to have originated from their respective natural and historical endowments, which were realised under the French colonial rule, and further reinforced during the period when the country was divided into the socialist North and capitalist South. In the colonial period, the economy of the South (then Cochinchina), which was directly under the French rule, experienced greater prosperity relative to the Northern and Central Vietnam, mainly due to the development of rice and rubber plantations by private French capital and the existence of a large Chinese commercial class in Saigon-Cholon (Beresford [1989, 22]). On the other hand, while the North (then Tonkin) was seen as the most industrialised of the three regions, the level of industrialisation was quite low: in 1955, there were only seven modern factories in operation (Beresford [1989, 163]).

After 1954, in the North, the DRV government embarked on an ambitious industrialisation drive with an emphasis on heavy industry, which initially achieved a remarkable success due partly to a low starting point. However, the rapid expansion of industry was short-lived as the war with America intensified, and output of not a few industrial products actually declined between 1965 and 1975 (Beresford [1989, 167-169]). On the other hand, in the South under the US-backed regime, local manufacturing was generally underdeveloped as the economy was largely dependent on external materials³. Within the small industrial sector, 90% of the total output value was accounted for by foodstuff, brewage, and cigarette industries (Tran Hoang Kim [1992, 22]). After the reunification and especially after the introduction of New Economic Policy, Ho Chi Minh City was transformed rather quickly into a major industrial centre with a continued emphasis on light industry.

As can be seen from the above, the actual “division of labour” has been developed rather as a historical consequence than as a result of conscious policy design, but it can be said that complementarities or harmonious relations between regions has been an important concept in Vietnamese policy debates⁴.

1.2. *Doi Moi* period

Under the renovation policy, especially since the early 1990s, Vietnamese economy and industry have maintained rather high growth rates. At the same time, growing regional disparities in terms of the pace and mode of development have increasingly become conspicuous and drawn attention of policy makers.

However, interpretation of such a situation and proposed measures to deal with it may vary. Simply put, there can be two conflicting views to look at regional disparities in development. The first sees the emergence of some growth centres in a poor country as a positive development, and proposes to provide the best possible conditions to these centres so they can fully realise their potential. The second, in contrast, puts more emphasis on regionally balanced development, and, while acknowledging the role of “leading” regions in producing surpluses for the whole country, proposes to give relatively equal opportunities for different regions to grow. In practice, the difference

³ In Ho Chi Minh City, 65% of the households reportedly depended on income earned through trade and services (Forbes and Thrift [1987, 124]).

⁴ This argument of “complementarities between the north and south” is also based on an assumption that Vietnam should have an all-round, self-reliant economic structure of its own.

between the two positions is rather a matter of degree, but in terms of rhetoric, at least, the latter sounds more in line with the traditional policy lines demonstrated above.

1.2.1. Establishment of northern and southern development triangles

In the early 1990s, it seems that the relative emphasis was on nurturing growth centres. The political report of the seventh national congress of the Vietnam Communist Party in 1991 states that one of the tasks in the economic development in the coming five years is “to concentrate investment both in width and in depth, to create clear changes in the economic structure, firstly for key branches and regions offering quick returns”. It also mentions specifically the task “to define policies for urban development and for developing the two biggest centres of the country, Hanoi and Ho Chi Minh City”. The 10-year development strategy (1991-2000) adopted at this Congress goes on to say as follows:

Certain areas important both to their respective overall regions and to the entire country (the Hanoi-Hai Phong area and Quang Ninh in the north, the Ho Chi Minh City, Bien Hoa-Vung Tau-Con Dao area in the south, Da Nang and some other port cities in the central region) are to attract domestic and foreign investment with a view to bringing into full play the role of economic, cultural, scientific and technological centres, and focal points for the development of foreign economic relations, integrated with other localities and stimulating their development. To set up in these areas a number of zones with special administrative-economic status conducive to investment in production of goods for export and business with the outside world.

Accordingly, a proposal was made to establish two key development triangles in the north and south in 1990 (Le Ba Thao [1997, 343]). These triangles originally consisted of Hanoi-Hai Phong-Quang Ninh in the north and Ho Chi Minh City-Bien Hoa-Vung Tau in the south. These were the only concentrated industrial bases at that time, and also the only regions that started to attract foreign investment soon after the enactment of the Foreign Investment Law in 1988.

1.2.2. Establishment of key economic zone in the central Vietnam

In the policy discussions in the mid-1990s, the balance between the above two positions may have shifted somewhat towards the preference to more regionally balanced development. The political report of the eighth National Congress of the Communist Party in 1996 contained the following paragraphs under the headline “To develop rationally the various territorial regions”.

To change the territorial economic structure on the basis of making full use of all advantages and potentials of each and combine them for mutual assistance so as to stimulate the development of all regions.

To make necessary investment in key economic regions to accelerate development of the whole

economy. To devote appropriate resources for the solution of urgent needs, especially those related to social and economic infrastructure, so as to help bring about faster progress in less-developed regions, particularly mountain areas, borders, islands, regions with ethnic minorities, remote areas and former revolutionary bases, and gradually reduce excessive disparity in socio-economic development standard among regions, considering this a focal point in the leadership of all branches and levels...

Behind such statements was a notion that “polarisation of wealth has rapidly increased between the various regions, between urban and rural areas, and between different segments of population” (Political Report) during the ten years since the official adoption of *doi moi* policy.

It seems that one of the concrete actions taken in relation to the above statements was the establishment of a key economic development zone in central Vietnam, which was proposed with an intension to prevent the central Vietnam from further lagging behind compared with the north and south (Le Ba Thao [1997, 413-414]). The proposed zone covers Thua Thien-Hue, Quang Nam-Da Nang, and Quang Ngai provinces. These three regions in the north, centre and the south have come to be referred to as three key economic zones (*Vung kinh te trong diem*) in Viet Nam.

1.2.3. Policies to develop key economic zones in the 1990s

As can be seen from the above, although the three key economic zones (KEZs) are seemingly under the same scheme, their respective positions in the national economy vary substantially. Indeed, it is not only between the central KEZ and the preceding two KEZs, but also between the southern and northern KEZ that a substantial development gap exists. Table 1 indicates the share of industrial production of three KEZs between 1991 and 1995.

It follows that policies applied to the respective KEZs are also likely to vary. However, this is not very clear from available policy documents. The first major policy documents on KEZs issued by the government were three Prime Ministerial decisions in 1997-1998, titled “decision to ratify the socio-economic development master plan (*quy hoach tong the phat trien kinh te - xa hoi*) for the northern/central/southern KEZ for the period from now to 2010”⁵.

⁵ Quyet dinh cua Thu tuong Chinh phu so 747/TTg ngay 11 thang 9 nam 1997; so 1018/1997/QD-TTg ngay 29 thang 11 nam 1997; so 44/1998/QD-TTg ngay 23 thang 02 nam 1998.

Table 1. Share of Key Economic Zones in the national industrial production (Unit: %)

	1991	1992	1993	1994	1995
Hanoi	6.1	5.9	6.3	7.4	7.1
Hai Phong	1.6	1.7	2.0	2.2	2.6
Hai Hung	1.8	1.7	1.7	1.7	1.7
Quang Ninh	1.6	1.5	1.4	1.5	1.6
Northern KEZ	11.1	11.0	11.5	12.8	13.0
Thua Thien-Hue	0.6	0.7	0.8	0.8	0.5
Quang Nam-Da Nang	1.9	1.7	1.6	1.7	1.8
Quang Ngai	0.7	0.8	0.7	0.7	0.7
Central KEZ	3.2	3.2	3.1	3.2	3.1
HCMC	27.8	27.3	28.0	28.2	28.4
Dong Nai	2.4	3.1	3.0	3.1	3.1
Ba Ria-Vung Tau	13.8	16.3	16.4	15.8	15.1
Southern KEZ	43.9	46.7	47.4	47.1	46.6
KEZs total	58.3	60.9	62.0	63.1	62.7

Source: Statistical Yearbook (various years)

These master plans basically have a common structure consisting of major development objectives (targets), major tasks and major solutions. The indicators used as targets vary, but overall the foremost objective of these master plans seems to be to realise faster economic growth (than the national average) in these KEZs. On the measures to achieve this objective, however, the master plans just require each province/city in the KEZs to make concrete plans to realise the targets and related ministries to support these localities in implementing these plans. In practice, under the master plans, so far no KEZ-wide plans have been made on issues like infrastructure development or industrial zones development, which makes it rather difficult to assess the level and effectiveness of the central government support to each KEZ.

There are rough indications that the central government has actually (and not surprisingly) concentrated infrastructure investment into these KEZs during the 1990s. The Public Investment Program (PIP) 1996-2000 put priority to “upgrading the trunk roads and other transport infrastructure and their linkages of the growth triangles in the north, centre and south” (GOV & Donor Working Group [2001b, 177]). Major projects included the rehabilitation of highways No.5, 10 and 18 in the north, of highway No.1 linking Hanoi and HCMC, and the modernisation of ports in HCMC, Da Nang, and Hai Phong. It would require detailed examination to determine whether and how the central support varied among the three KEZs. Anecdotal evidences suggest, for instance, there were cases in which foreign investors who intended to invest in the south were advised by

the authorities to invest in the north or centre.

1.2.4. Recent developments

The above master plans were revised in 2004, as “Prime Minister’s decision on major socio-economic development orientations for the northern/central/southern KEZ until 2010 and perspective until 2020”⁶. These new documents adopt several common indicators as development targets. For instance, the GDP growth rate targets for the three KEZs are set as shown in Table 2. This implies the central government intension to develop the northern and central KEZs more rapidly than the south towards 2020⁷.

Table 2. GDP growth rate targets as compared with the national average

	2006-2010	2011-2020
Northern KEZ	1.3 times	1.25 times
Central KEZ	1.2 times	1.25 times
Southern KEZ	1.2 times	1.1 times

Source: Prime Minister’s Decision 145/2004/QĐ-TTg; 146/2004/QĐ-TTg; 148/2004/QĐ-TTg

The revised PIP (2001-2005) also announces a reduction of the share of state budget capital to the Red River Delta (including the northern KEZ) and South Eastern region (including the southern KEZ) compared to the last 5-year plan, in order to invest into other regions with more difficulties⁸. The PIP notes that, while these two regions would continue to require a large amount of capital, a substantial part of it should come from private funding sources.

There are more nuanced changes in the new documents on KEZs, too. Firstly, each KEZ has been expanded geographically to cover more provinces. Consequently, the total number of provinces/cities in the KEZs has increased from 13 to 20. Now even the southern KEZ include some provinces with low levels of industrialisation such as Binh

⁶ Quyết định của Thủ tướng Chính phủ số 145/2004/QĐ-TTg ngày 13/8/2004; số 146/2004/QĐ-TTg ngày 13/8/2004; số 148/2004/QĐ-TTg ngày 13/8/2004

⁷ My interviews with provincial Departments of Planning and Investment in some provinces in the three KEZs in September 2004 also gave an impression that actually the localities in the northern and central KEZs are more dependent on direct support from the central government than the ones in the southern KEZ.

⁸ This seems to be in line with the recent emphasis among major international donors on poverty alleviation.

Phuoc and Tay Ninh⁹. Secondly, the role of a Coordination Committee to review KEZ-wide development plans is stipulated. These changes may be interpreted as an attempt to ensure the balance and coordination not only between the three KEZs but also within each KEZ. Put differently, it suggests that the lack of coordination between localities in such areas as infrastructure development has come to be recognised as a crucial problem in economic and industrial development.

2. Functions of local governments in promoting industrialisation

The previous section has reviewed the long-term changes in policy orientation related to local industrialisation. From some major political statements and policy documents related to the subject, it seems that, while the development of growth centres was stressed in the early period of *doi moi*, the pendulum has been swinging back to the preference for more regionally balanced development since the mid-1990s. Under the multi-sector market economy, however, the measures available to the government to influence local industrial development would be different from those used under the central planning system. I briefly touched upon infrastructure development and investment licensing by the central government in the previous section. Below I would like to mainly focus on the role of local governments which is thought to be increasingly important in recent years.

2.1. State-owned enterprises (SOEs) establishment and management

Under the central planning system, the question of industrial location was primarily a matter of how to locate industrial SOEs. Nearly two decades after the official launch of *doi moi*, the SOE sector still assumes a substantial (though declining) share of national industrial production. In 2002, the state sector share of industrial production is 40.3%, of which 26.7% is attributed to central SOEs and 13.6% local SOEs.

In terms of geographical distribution of industrial SOEs, as of 2000, 72.4% of central SOEs and 38.2% of local SOEs are concentrated in the three KEZs. Three cities of Hanoi, HCMC and Hai Phong alone accommodate 54.1% of central SOEs and 23.7% of local SOEs (Table 3).

⁹ Industry/construction sector's share in local GDP in 2000 (preliminary figure) is 44% in HCMC, 39% in Da Nang, 36% in Hanoi, 21% in Tay Ninh and Long An, and 10% in Binh Phuoc (GSO [2001]).

Table 3. Geographical distribution of industrial SOEs (Unit: number of enterprises)

	Central SOE		Local SOE	
	1995	2000	1995	2000
Hanoi	172	160	116	81
Hai Phong	27	33	68	47
Hai Duong	10	10	20	14
Hung Yen	6	6	6	10
Quang Ninh	15	32	29	22
Northern KEZ	230	241	239	174
Thua Thien-Hue	2	4	28	20
Da Nang	11	10	30	21
Quang Nam	2	3	18	18
Quang Ngai	3	10	17	6
Central KEZ	18	27	93	65
HCMC	125	117	189	123
Binh Duong	7	8	17	11
Dong Nai	26	19	30	23
Ba Ria-Vung Tau	2	3	10	9
Southern KEZ	160	147	246	166
KEZs total (a)	406	413	580	409
National total (b)	549	573	1,409	1,060
(a)/(b) (%)	74.3	72.4	41.0	38.2
Hanoi+Hai Phong+HCMC (c)	324	310	373	251
(c)/(b) (%)	59.0	54.1	26.5	23.7

Source: Statistical Yearbook 2000, 2002

While the establishment of new SOEs is generally restricted, it is still considered justifiable to establish SOEs to improve the livelihood of people living in poor regions¹⁰, and in terms of legal authority, the Provincial People's Committee Chairman has the power to decide the establishment of SOEs based on the report of appraisal committee¹¹. However, between 1995 and 2000, the number of local industrial SOEs did increase in 16

¹⁰ Decree 50/CP (28/08/1996) provided "those branches and fields which different economic sectors have not yet or do not invest in, especially in regions with slow development" as one of the eligible areas for considering SOE establishment. Decree 180/2004/ND-CP (28/10/2004) which replaced Decree 50/CP also stipulates that new SOEs could be established to secure necessary demand for production development and improving material and spiritual lives of ethnic minority people in mountainous or remote areas.

¹¹ Under Decree 180/2004/ND-CP, Provincial People's Committee Chairmen (as well as Ministers) are authorised to establish SOEs except particularly important General Corporations and independent SOEs, but the proposal to establish new SOEs must be ratified by Prime Minister (Art. 6).

provinces but in most cases only by one, while the total number of local industrial SOEs decreased by 349. The shares of three major cities and KEZs in the total number of local SOEs have been decreasing, but this is mainly due to the reduction of the number of SOEs in these areas as a result of the progress in SOE reforms. Establishing SOEs does not seem to be a major solution to the question of local industrialisation in today's context.

What matters to the prospect of local industrial development would be rather the quality of SOE operations. Not just the performance of industrial SOEs but also those providing business-related services could affect the course of local industrial development by influencing the business environment of the locality. If localities continue to support inefficient SOEs, that would have negative influences on local financial conditions and competitive environment.

2.2. Investment licensing and business registration

The two sectors that have become increasingly important under the multi-sector market economy are foreign invested sector and domestic private sector. There have been changes in the ways local governments are involved in the establishment of foreign and domestic private businesses.

Before 1997, the authority to issue investment licenses for foreign investors was vested only to the Prime Minister and MPI at the centre. As part of efforts to simplify licensing procedures and improve investment environment, license issuing authority has been progressively delegated to provincial administrations (as well as Export Processing Zone/Industrial Zone Management Boards) since June 1997, firstly to several major provinces (cities) and then to all provinces. Currently Hanoi and HCMC People's Committee are authorised to approve group B FDI projects outside EPZ or IZ with total investment of up to US\$10 million, and other provinces up to US\$5 million.

According to the regulations, the licensing authority is obliged to decide on the application of the investor within 30 days in the case of Group B projects (45 days in the case of Group A projects) that require appraisal, and 15 days in the case of projects that only require registration. Many local authorities strive to shorten the time for project appraisal in an effort to attract foreign investors. For instance, Binh Duong province announces that the time for receiving the licenses ranges from two days to a week, while Thai Binh province is committed to issue licenses within three days of receiving

application¹².

Regarding private enterprises, the regulatory environment for private enterprises before the enactment of the Enterprise Law in 2000 was highly complex. According to an account:

Both laws (the Company Law and the Law on Private Enterprises – the author) requested that companies must be authorised by a high-ranking official, the Chairman of the People's Committee of the Province or the Municipalities before registration... Before signing the authorisation by the Chairman of the People's Committee of the Province, the Chairmen of the ward and the district committee must have signed in order to provide safety; the directors of related departments of the Province must also have signed, that they have checked, proved the documents and materials. The surveys discovered that, 35 signatures from officials several administrative levels and agencies must be collected with 32 seals of various agencies in order to get the authorisation.

As the law doesn't identify specifically what for documents and materials must be presented to the dossier for authorisation, the civil servants requested an unlimited number of officially notarised copies of document or materials must be presented. Because the Law did not stipulate concretely the compulsory content of a status (sic) of a company, the demanding persons learned that the best way to get the draft approved was to hire directly the registrar to draft the status and paid them. (Le Dang Doanh [2004, 9])

Under the Enterprise Law, in contrast, the right of organisations and individuals to establish and manage enterprises is stipulated, and the responsibility of business registration body (under the provincial People's Committee) is limited to ensuring the legality of the business registration dossiers. In other words, the People's Committee Chairman's decision is no longer required to establish a private enterprise¹³. The Law stipulates that the maximum time for approving files of business registration is 15 days, but many provinces do complete the procedures within fewer days.

Both FDI Law and Domestic Investment Promotion Law have provisions on investment incentives, mainly in the form of tax reduction or exemption, for investment in disadvantaged regions. In practice, it is expected that private enterprises can contribute more effectively to the goal of regionally balanced development than FDI. It has been observed that geographical distribution of newly established enterprises has changed since the enactment of the Enterprise Law. About 72% of enterprises established during the period 1991-98 were located in the south, mostly in and around HCMC: in the first

¹² Viet Nam News 22/06/2004, 09/03/2004.

¹³ Two major functions of local state bodies in the state management of private enterprises are registration of enterprises and monitoring (inspection) of their operations after registration. Regarding inspection, too, the provisions of the Law are intended to limit discretion of the authorities and increase transparency.

five months of 2001, the share of newly registered enterprises in the southern provinces fell to 56% (Van Arkadie & Mallon [2003, 168-169])¹⁴. It is therefore deemed especially important for local authorities to try to promote domestic private investment through various measures as discussed below.

2.3. Investment promotion

2.3.1. Preferential treatment

Investment promotion policy by provincial governments typically takes the form of preferential treatment in such areas as taxes and land rent, as well as credit or subsidy provisions, within the framework set by the central government.

Recently, while the initiative of local governments in promoting investment and industrialisation is much advocated, some of the “incentives” provided by provincial authorities have come to be questioned in terms of their legality or effectiveness. For instance, the power to determine preferential treatment related to the corporate income tax rests with the central government, but some localities apply tax holidays or preferential tax rates beyond the provision of central regulations¹⁵. Also, while the Provincial People’s Committee does have a rather broad power to decide on conditions related to land use by investment projects, such as the level of land use right prices or land rents as well as the preferential treatment on them under the central guidelines, some provinces are criticised for setting the land rents too low to make economic sense¹⁶.

A recent survey demonstrated that preferential policies such as corporate income tax reduction/exemption are not a highly decisive factor in investment decisions compared with other factors (Nguyen Thi Canh et al. [2004]). The survey was conducted with a sample of 140 domestic private enterprises. While 40% of the sample enterprises stated

¹⁴ As to FDI, as of 2001, nearly 90% of FDI enterprises in the industrial sector are located in the three KEZs (13 provinces), of which northern KEZ assumes 13%, central KEZ 2%, and southern KEZ 72%.

¹⁵ For instance, Da Nang extends tax holidays and preferential tax rates to investors in more locations than those stipulated in government regulations. Bac Ninh provides a full refund of taxes in the first year that taxes are actually paid, and then provides a 50% refund for the next two years (Nguyen Thi Canh et al. [2004, 22-23]). In the case of “refund” (i.e. not “reduction” or “exemption”), it may not be technically illegal as it can be seen as a kind of subsidy from local budgets.

¹⁶ It is reported that rental rates industrial zones in Long An are between \$0.7-1.8 per sq metre a year, \$0.8 in Tien Giang, \$0.6-0.8 in Vinh Long, and \$0.7-0.9 in Can Tho, but these provinces have to invest \$14 in each square metre of infrastructure in industrial zones (Viet Nam News, 18/11/20004).

that tax incentives were either important or very important, the average rating by degree of importance was 3.49 out of 5, ranking it 7th out of 14 factors listed. Some 85% of enterprises receiving incentives on corporate income tax stated they definitely or probably would have made the same investment decision even without the provision of these incentives. Other incentives such as land or credit incentives ranked even lower according to the rating.

2.3.2. Public goods/public services provision¹⁷

In the above-mentioned survey, the highest ranking factor in investment decisions was the “provision of good infrastructure”. Large scale infrastructure development is mainly the responsibility of the central government, but local governments also make substantial public investment, and the local share of public investment has been increasing since 2000 (Table 4). In the annual state budget for 1997 and 1998, expenditures on transport were also divided into roughly 60:40 between the central and local levels (GOV & Donor WG [2001a, 29-30]).

However, geographical distribution of local capital expenditure is highly uneven. The level of local capital expenditure depends largely on the level of tax revenue of the locality. Although there is some fiscal mechanism for redistribution and equalisation among localities (surplus provinces have to transfer part of their revenue to the central government while poor provinces receive revenue transfer from the central government), per capita local expenditure is still considerably higher in rich provinces than in poor ones (Table 5), which also gives more discretion to rich provinces in deciding the structure of expenditure.

Table 4. State investment at current prices by management level (Unit: billion VND; %)

	1995	1998	1999	2000	2001	2002
Central (a)	16,532.8	36,750.0	43,815.0	47,653.3	53,784.0	49,124.7
Local (b)	13,914.2	28,284.0	33,143.1	35,914.2	41,236.0	57,106.9
Total (c)	30,447.0	65,034.0	76,958.1	83,567.5	95,020.0	106,231.6
(a)/(c)	54.3	56.5	56.9	57.0	56.6	46.2
(b)/(c)	45.7	43.5	43.1	43.0	43.4	53.8

Source: Statistical Yearbook 2003

¹⁷ This section focuses on infrastructure, but other services such as vocational training or credit provision (as well as more basic services such as electricity and water) could also be relevant in promoting local industrialisation.

Table 5. Per capita local expenditures on different services, 1998 (capital and recurrent)

(Unit: thousand VND)

	Education	Health	Agriculture	Transport	Total
Hanoi, HCMC, Ba Ria-Vung Tau	177	98	20	86	934
Other high income provinces	120	43	32	46	464
Middle income provinces	105	35	26	35	383
Low income provinces	118	32	24	29	382
National average	122	43	26	41	460

Source: GOV & Donor WG [2001, 32]

In a country where the level of infrastructure development is generally low, setting up industrial zones (IZs) is one way to utilise limited resources efficiently by concentrating infrastructure investment in these zones. According to the regulations on IZs, provincial authorities have a wide range of authority related to the planning, construction and operation of IZs¹⁸. Provincial People's Committees are responsible for submitting requests on the establishment of industrial zones within their locality to MPI who will consult with other relevant authorities and make proposals to the Prime Minister for consideration and decision. Provincial People's Committees are also responsible for preparation of plans and organisation of site clearance and resettlement of inhabitants in affected areas. Provincial industrial zone management committees, which directly manage IZs, organise the preparation and management of implementation of detailed plans for IZs including the infrastructure development plans, and supervise and inspect the construction of infrastructure works inside and outside IZs.

Recently IZ construction has become a kind of fever in many localities in Vietnam. According to Viet Nam News, the number of IZs has soared from 46 in 1998 to 108 in 2004 (Viet Nam News, 18/11/2004). The pace of IZ construction appears to exceed investors' demand, leading to very low occupancy rates in many IZs¹⁹. Local authorities are criticised for focusing too much on building infrastructure and not paying enough attention to attracting investment. The quality of infrastructure in IZs is sometimes also problematic.

¹⁸ Decree 36/CP (24/08/1997)

¹⁹ As of October 2003, the average IZ occupancy rate nationwide was reportedly 45%. While IZs in some southern provinces enjoy occupancy rates of 80% or more, many other localities have IZs with 15-20% occupancy (FEER, 21/10/2003).

2.3.3. Public administration reform

As mentioned earlier, many provinces have managed to shorten the time for investment licensing or business registration, which has been welcomed by the business community. Streamlining administrative procedures is one of the major components of public administration reform, which entails tasks such as consolidating legal documents, restructuring administrative organisation, standardising work practices, training administrative personnel, increasing transparency, etc. While cumbersome administrative procedures cannot be solely attributed to bad management at local levels, local authorities do have ample room for implementing “good practices” within their authority.

For instance, provincial People’s Committees are responsible for issuing land-use right certificates to organisations, and district People’s Committees to household, individuals and communities. It is pointed out that while there are provinces where land-use rights certificates have been issued for more than 80% of land, in other provinces up to 90% of people do not have certificates (CIEM [2003, 21-22]). Such a difference may be at least partly attributed to the way such tasks are handled locally and the effectiveness of local leadership to change it. Another example of varied local practices is the implementation of the “one-door” or “one-stop shop” model of administrative service delivery. It was first introduced in HCMC in 1996 in line with national guidelines on public administration reform, and came to be practiced in 35 provinces before the government finally issued a decision in 2003 to implement it in all 61 provinces nation-wide²⁰.

It is rather difficult to assess the impact of public administration reform on the success in local industrialisation. However, it is an area which is increasingly attracting attention in explaining the differences in economic performances among localities with similar socio-economic conditions²¹.

3. Concluding remarks

Local governments are on the one hand urged by national leaders to accelerate economic restructuring and industrialisation in their respective areas, and on the other hand

²⁰ Interview with a Ministry of Home Affairs official in October 2003.

²¹ According to the above-mentioned survey by Nguyen Thi Canh et al., factors such as “local regulations and laws” and “treatment by local government officials” are ranked higher than tax and other kind of incentives in terms of influences on investment decisions (Nguyen Thi Canh et al. [2004, 35-36]).

delegated a wide range of responsibilities in implementing economic policies. However, compared to the apparent variety of measures available to disadvantaged areas, in reality poor localities do not seem to have much choices. Many localities do resort to similar strategies, such as preferential treatment for investors or IZ development, which has come to be criticised as “irrational” or “unhealthy competition”.

Responding to such a situation, the central government has come to stress the need for better planning at regional or national level, especially where capital investment is concerned. The renewed scheme for KEZs may be seen as an attempt in that direction. It needs to be seen, however, to what extent such intensions will be realised. The experiences of the KEZs also show the difficulty in achieving coordination between localities through central initiatives.

What would be even more difficult is to actually influence the regional pattern of industrial development by such attempts under a multi-sector market economy system. It would require further research to better understand in what way any level of government could effectively influence the pattern of regional industrialisation in today’s context.

References

- Beresford, M. 1989. *National Unification and Economic Development in Vietnam*. Macmillan: London.
- Central Institute for Economic Management (CIEM). 2003. "Comparative Provincial Performance in Private Business Development: Some Preliminary Observations from Nine Provincial Case Studies".
- Forbes, D. & N. Thrift. 1987. "Territorial Organization, Regional Development and the City in Vietnam". D. Forbes and N. Thrift (eds.) *The Socialist Third World*. Basil Blackwell: New York, NY.
- General Statistical Office. 2001. *Socio-economic Statistical Data of 61 Provinces and Cities in Vietnam*. Statistical Publishing House: Hanoi.
- Government of Vietnam and Donor Working Group on Public Expenditure Review (GOV & Donor WG). 2001a. *Vietnam: Managing Public Resources Better (Public Expenditure Review 2000), Volume 1: Main Report*.
- Government of Vietnam and Donor Working Group on Public Expenditure Review (GOV & Donor WG). 2001b. *Vietnam: Managing Public Resources Better (Public Expenditure Review 2000), Volume 2: Annexes*.
- Le Ba Thao. 1997. *Vietnam: The Country and Its Geographical Regions*. The Gioi: Hanoi
- Le Dang Doanh. 2004. "The Enterprise Law and the Development of the Domestic Private Business Sector in Vietnam" (report prepared for the International Policy Conference on Transition Economies, 31/05-01/06/2004, Hanoi).
- Nguyen Thi Canh, Hoang Tho Phu, Cung Tran Viet, N. J. Freedman & D. Ray. 2004. "An Empirical Study of Corporate Income Tax Investment Incentives for Domestic Companies in Vietnam".
- Thrift, N. & D. Forbes. 1986. *The Price of War: Urbanization in Vietnam – 1954-1985*. Allen & Unwin: London.
- Tran Hoang Kim. 1992. *Economy of Vietnam: Reviews and Statistics*. Statistical Publishing House: Hanoi.
- Van Arkadie, B. & R. Mallon. 2003. *Vietnam: A Transition Tiger?*. Asia Pacific Press: Canberra.