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Analyzing Current Development Situation in North Key Economic Area

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Due to the lack of capital, Vietnam couldn't invest in a wide range so concentration on highly comparative advantage areas should be made. Thus, three dynamic economic zones (called "key economic areas") under direct authority of the central government have been decided in 1997-98 including:

- **Northern key economic area** including 5 provinces and cities:
Ha Noi Capital, Hai Phong, Quang Ninh, Hai Duong and Hung Yen.
- **Middle key economic area** including 4 provinces and cities:
Da Nang, Thua Thien-Hue, Quang Nam and Quang Ngai.
- **Southern key economic area** including 4 provinces and cities:
Dong Nai, Binh Duong, Ba Ria-Vung Tau and Ho Chi Minh City

Northern key economic area (NKEA) plays a very important role in not only North development but also national politics.

With the diversity of resources, minerals and hydroelectric potential, NKEA holds a favorable condition to develop a leading industry. Together with resources and minerals, high education of local people is another NKEA's predominance.

Table.1 Economically Active Population
Aged 15 Years and Over by Level of Education 1999

	Total (person)	Finished high school		Average class obtained for one person
		Person	Share in total (%)	
Country	37,783,831	6,457,594	17	7.4
NKEA	4,187,779	1,243,889	30	9.0
Middle key economic area	2,065,684	332,783	16	7.2
Southern key economic area	3,906,670	918,925	24	8.1

Source: *Status of labor-employment in Vietnam 1999*, Statistical Publishing House 2000

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The Master plan for NKEA approved by the Prime Minister in September 11th 1997 includes following main targets:

Indicators	Targets in master plan
Contribute to GDP (<i>gross area products compare to gross domestic products</i>)	2000: 16% 2010: 18-19%
Average rate of economic growth annually	1996-2000: 11,7% 2001-2010: 14%
– <i>Compare to growth rate of country</i>	1,2-1,3 times
Average rate of growth in industrial sector annually	1996-2000: 15,3% 2001-2010: 16,7%
Share of industry in gross product of NKEA	2000: 26% 2010: 32,2%
Share of export value in export value of whole country	30%
Average rate of growth in export annually	1996-2000: 29% 2001-2010: 20-25%

1. The economic growth of NKEA

Since 1990, the contribution of NKEA to GDP has not improved evidently. The ratios of 1990, 1995, 1999 are 14,66%, 14,09%, and 14,11%. Thus, in 1999 the contribution of NKEA reached to just 88,2% target in master plan, caused by NKEA's slow growth. From 1996 to 1999 the average growth rate is 7,5% annually not much higher than that of 7% for whole country.

The relatively sharp decrease in NKEA's agriculture is noticeable. From 1990 to 1999 the proportion of the area's agriculture in national agriculture has declined by 4,2%. If there hadn't been any decrease in the agriculture since 1990, the contribution of NKEA to GDP would have reached 15,2%. Besides the agriculture, service has also declined relatively from 18,3% in 1990 to 17,0% in 1999. To add up, the decrease in agriculture and service has made the proportion of NKEA in GDP reduce 1,7%, approximately the difference between the fact and the target.

In three sectors of NKEA, only industry has increased the proportion in national industry but by not much (only just 1,4%) to compensate for the reduction in agriculture and service. In other words, the resources have been shifted inefficiently from agriculture and service to industry.

Table.2 The Contribution to the National Economy

	1990		1995		1999	
	Country	NKEA	Country	NKEA	Country	NKEA
Gross products	100	14.66	100	14.09	100	14.11
– Industry and Construction	100	15.00	100	16.05	100	16.36
– Agriculture, Forestry and Fishery	100	10.83	100	6.95	100	6.58
– Services	100	18.31	100	17.22	100	16.95

Source: *Ministry of Planning and Investment*

Table.3 Average Annual Growth Rate (%) of NKEA 1990 - 1995 - 1999

	1990-1995		1995-1999		1990-1999	
	Country	NKEA	Country	NKEA	Country	NKEA
Gross products	8.06	7.38	6.98	7.53	7.48	7.48
- Industry and Construction	12.62	10.02	10.74	11.02	11.73	10.49
- Agriculture, Forestry and Fishery	4.45	4.01	4.38	4.48	4.43	4.16
- Services	8.02	7.06	5.80	5.91	7.01	6.62

Source: Ministry of Planning and Investment

Table.4 Economic Structure of NKEA

	1990	1995	1999
<i>1. Basing on output</i>			
Total	100	100	100
- Industry and Construction	23.0	29.2	35.2
- Agriculture, Forestry and Fishery	27.8	22.0	18.5
- Services	49.2	48.8	46.3
<i>2. Basing on labor</i>			
Total	100	100	100
- Industry and Construction	11.5	13.5	16.2
- Agriculture, Forestry and Fishery	72.0	61.6	55.4
- Services	16.5	24.9	28.4

Source: Ministry of Planning and Investment

2. Investment in NKEA

NKEA attracts relatively large capital, which has been invested inefficiently. During the period from 1990 to 1998, NKEA has attracted 17,2% the capital of country but contributed only 15% GDP.

2.1 Situation of excessive investment

According to geography structure, investment in "economic triangle" (*Ha Noi, Hai Phong and Quang Ninh*) has been less efficient than two others (*Hai Duong and Hung Yen*). In 1998 "economic triangle" has attracted above 15% capital of country but contributed only 10% to GDP. Meanwhile, two other provinces have contributed 2.5% to GDP but spent about 1.4% national capital. This can be explained that two other provinces developed after "economic triangle" so they have a higher marginal investment return. It doesn't mean that NKEA has plenty of capital, which just has been investing excessively in some sectors.

Looking at the list of major products of NKEA, we find that the area's predominance concentrates on capital-intensive industries such as cement, automobile assembly, and motorbike assembly. Meanwhile labor-intensive activities like textile have appeared to be in bad position (especially in comparison with Southern key economic area). Capital-

intensive industries can develop *economies to scale* in condition of a large consumption market otherwise the return rate of investment will be low. In the case of limited domestic market, the only way to widen market is through export. But later analysis will imply that industries in NKEA have appeared toward import substituting rather than *export-orient*.

Table.5 Major Products in NKEA (Country=100)

	Three dynamic zones		
	NKEA	Middle	Northern
Cement	27,6	10,1	8,8
Steel	26,7	4,0	42,5
Automobile	50,7	-	34,3
Motorbike	41,7	1,9	38,1
Electricity	10,5	3,3	37,4
Porcelain, glass	32,3	2,5	16,2
Tunnel brick	23,9	10,9	36,9
Ceramic brick	12,8	5,5	67,0
Bicycle	53,6	-	46,6
Textile	4,2	1,4	65,6
Beer	27,0	5,9	37,2

Source: *Ministry of Planning and Investment*

Automobile, motorbike assembly has been developed impetuously

So far, there are 3 automobile assembly joint ventures and 4 motorbike assembly joint ventures in operation. They are facing difficulty in selling their products, especially automobiles. Vehicle manufacturing plants have just operated by 10-15% their capacity. In two or three years, these plants cannot be used by full capacity because of limited domestic market. The small size of the domestic market relative to optimal plant size suggest that vehicle assembly in NKEA cannot yield high return to the economy and represents an extremely inefficient use of scare FDI resources. However the high level of protection - currently at above 200% - makes it a sound and lucrative investment choice for potential investors.

2.2 Advocacy of developing industrial zones, export-product zones, and high-tech zones in NKEA (all is abbreviated to 'industrial zones').

A large share in capital invested in NKEA, is absorbed by industrial zones, especially foreign capital. So far, 9 industrial zones have been built in the area of 1300 ha. In the master plan, industrial zones are expected to contribute 8% gross products of NKEA and attract 31.000 labors. However, zones have achieved only 30% target for output and 2% target for attracting labor in 1999. The efficiency of using capital and land in zones is low in comparison with average level of country. With a unit of capital invested in infrastructure, industrial zones attract 2 units of capital against 10 units of the whole country's industrial zones. 7% industrial land in NKEA has been used, in comparison with 32% of whole country.

There are some reasons of the tardiness of industrial zones in NKEA

- The investment environment is less attractive not because of technical infrastructure but social infrastructure (such as accommodation, circulation, entertainment, business skill...) and red tape.
- Local administration's disobedience toward central regulation makes investors difficult to operate.
- High rent because of cost for investing in infrastructure (cost for compensation, release, leveling...)
- Strong dependence on foreign investors, especially Japanese and Korean, has brought difficulty to industrial zones after region crisis. So far, there hasn't been any domestic investor investing in industrial zones in NKEA (except in two small and medium zones in Ha Noi).

3. Export orientation in NKEA

NKEA's favorable terrain is very convenient for communication and transportation, especially seaway. It is a very favorable condition to expand export. However, the ratio of gross export value of NKEA to gross export value of the country has declined since 1995. Furthermore, NKEA's growth rate of export value seems to be smaller than country's. In 1999, export value of NKEA increased only 9% compared to 23% of country's.

Table.6 Gross Export Value (Mill. US\$) of NKEA

	1996	1997	1998	1999	2000 ^e
Export value of NKEA	1,233.0	1,469.5	1,533.5	1,742.4	1,954.8
<i>growth rate (%)</i>	-	19.2	4.4	13.6	12.2
<i>% national export value</i>	16.9	15.8	16.4	15.1	15.0
Growth rate of national export value (%)	-	26.6	1.9	23.1	4.8

Source: *Ministry of Trade*

The export ratio (revenue from export over total revenue) in manufacturing firms in the area is very low, in comparison with not only other key economic areas but also the country. It reflects relatively an industry substitute-import rather than export-orient.

Table.7 Export Ratio (%) in Manufacturing Firms

Country	<i>first 6 months</i>	
	Year 1997	Year 1998
	37.1	35.0
NKEA	23.0	18.7
Middle key economic area	36.9	33.0
Southern key economic area	48.4	46.5

Source: *Results of Survey on Industry 1998*, Statistical publishing house 1999

In other words, ability of NKEA's firms in occupying foreign market is quite weak. The ratio of firms which is unable to export in NKEA is above 63%, higher than the country and half more than Southern key economic area.

Table.8 Ability of Manufacturing Firms in Occupying Foreign Markets (30-6-1999)

Percents of total

Country	Exporting	expected to export	unable to export
	23.84	13.66	62.51
NKEA	23.79	12.78	63.43
Middle key economic area	26.31	13.98	59.65
Southern key economic area	44.75	14.74	40.05

Source: *Results of Survey on Industry 1998*, Statistical publishing house 1999

This situation was mainly caused by investment structure, especially foreign investment. The experience of the newly industrializing countries in South East Asia implies that industrialization should stress on increasing use of the abundant resource and cheap labor. However, NKEA has shifted towards import-substituting, capital-intensive production. Major products of NKEA (see Table.5) are not main export products.

Table.9 Some Main Export Products

Shelled ground nut	ton	11.648
Rattan & bamboo products	thous. US\$	3.455
Frozen shrimps	ton	1.654
Marine products	ton	12.689
Frozen cutlet-fish	ton	205
Shoes & sandals	thous. pairs	21.591
Woolen carpet	thous. m2	53
Clothes	thous. pieces	1.816
Pock	ton	2.100
Rice	ton	4.100

Source: *Socio-economic statistical data of 61 provinces and cities in Vietnam*, Statistical publishing house 1999

In summary, although NKEA has attracted large capital, especially foreign capital, the regional economic growth hasn't been actually high. The reason is inefficient investment due to structure of investment. To explore the NKEA's predominance, the most important thing is to readjust the economic and investment structure to raise the ability of competitiveness and integration. The stagtergy for NKEA should concentrate on manufactured exports basing on comparative advantages. In the next decade, the regional predominance would be still resources, mineral and labor. Thus, in the medium-term, the area has to attach importance to manufacturing sectors basing on mineral, resources and labor. Meantime, NKEA should approach capital-intensive and high-tech areas founded on

capital, technology and management skill from abroad.

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NKEAにおける開発の現状分析

ヴェトナムは資本不足の状況で広範囲にわたる開発は望めず、比較的有利な条件をもつ地域に集中する必要があった。それ故政府は1997年に3つの動勢区域を画定した。しかしながら2000年5月に発表された計画・投資省の報告によるとこれらの動勢区域は総合基本計画で設定された主要な発展達成目標に到達していないどころか悪化の一途をたどっていることが明らかになった。この動勢区域の一つがNKEA (North Key Economic Area) で、この地域には国全体の10.5%にあたる人口が集中しており、首都ハノイをはじめ中央政府の直接の管轄下におかれた5つの省・都市が含まれている。この地域の有利な点は豊富な資源や鉱物と市民の教育水準の高さにあり、それ故産業とサービス部門が中心的領域として計画されている。この論文では、なぜNKEAが開発目標を達成できなかったのかその理由を、特にこの地域の投資と輸出に焦点をあわせて明らかにしたい。NKEAへの投資状況を見てみると、1990年から1998年にかけてこの地域は国の資本の17.2%を得ているのに対して、GDPには15%しか貢献していないことから、非常に効率が悪いことがわかる。問題は投資構造にあり、いくつかの部門では過剰な投資がおこなわれてきたりしている。その結果、輸出より輸入優先の産業交替がみられる。