

# Vietnam: Dawn of the SEZs

A look back at the past failures, and challenging present, of Vietnam's huge economic gamble.

By Nguyen Minh Quang - July 24, 2018



People watch as Secretary of State Mike Pompeo walks through the streets of Hanoi, Vietnam (July 8, 2018).  
Image Credit: AP Photo/Andrew Harnik, Pool

Having shared its destiny with bullying neighbor China through every twist and turn of its history, Vietnam understands that the stronger China gets, the more serious of a potential threat Vietnam faces. Because of this, when China began to intensify both its military presence on its occupied features in the Paracel and Spratley Islands and its water-grabbing in the Mekong – strategic moves which appeared to seriously threaten to Vietnam's security – Hanoi proactively mobilized to reach out to extra-regional powers to broaden its options.

Vietnamese leaders acknowledge that boosting economic development via “self-strengthening” strategies is a vital push to modernize the country's economy and defense alike — and thus help Vietnam exit China's orbit of influence.

However, for a nation heavily dependent on export-processing and labor-intensive industries – sectors that consume huge amount of energy and natural resources, but are not environmentally friendly – for national growth, increased environmental pollution and natural resource degradation appear to threaten Vietnam's decades-long economic progress, and thus undermine its newfound strength.

The failure of recent risky and ill-conceived economic policies to progress the country's economy has shifted attention to the emergence of economic enclave initiatives. The success stories from special economic zones (SEZs) in China in particular have inspired the Vietnamese government to bet on the success of SEZ initiatives, which display the potential to implement social innovation, economic modernization, and institutional progress from the “bottom up.” Since the first three new SEZs are proposed to be officially established in January 2019, there are a few months left for the Vietnamese government and people to prepare for this event, which might go down as one of the momentous turning-points in Vietnam's post-war economic development.

This article, the first of a three-part series, looks back at the past and recent developments and incidents to understand the country's dilemma and the long road to put the SEZ concept into practice.

## **Vietnam's Dilemma: More Economic Zones, More Incentives, But Less Progressive Impacts**

Developing prominent economic enclaves is not a new idea in Vietnam. The country had established its first SEZ in Con Dao Islands (part of today Ba Ria-Vung Tau Province) in 1979 to promote and facilitate the petroleum industry. But the SEZ soon proved unable to have a tangible effect on economic and social mindsets across the country. It also failed to support the petroleum industry, whose fast-paced growth completely relied upon available great potential in oil and gas reserves and foreign aid. Thus, the SEZ was terminated in 1991 in view of its failure.

During the 1990s, Phu Quoc Island and Hai Phong City were planned to become the next SEZs with outstanding incentives, more free market-oriented economic policies, and flexible governmental measures, but all of these plans fell through due to budget and political constraints.

Since its full normalization of relations with China in 1991, Vietnam has kick-started intensive industrialization characterized by the proliferation of four national-level key economic regions and 18 coastal economic zones, where about 325 industrial parks have been built. These zones are allowed to enjoy a range of specific economic management and privileges to attract foreign investment and technology. In the end, however, these industrialized zones brought about “factory-driven” economic growth, but not economic development.

### **Resurgence of SEZs in the Face of Emerging Grassroots Democracy**

Vietnam’s impressive economic performance — a period of sustained high growth since the early 1990s — hasn’t allowed it to close the development gap vis-à-vis China. As a result, Hanoi seems to have few options for dealing with the economic vulnerabilities it faces from China. Meanwhile, Cambodia and Myanmar are emerging as possible replacements for low-cost manufacturing and assembly, and thus challenging Vietnam’s position in attracting foreign investment flows to sustain national growth. This situation led the country’s leaders and elites back to an ambitious plan for SEZs, which they hope will spearhead the country’s fast-paced growth, facilitating the economy’s shift to a knowledge economy (Industry 4.0) in a few decades to come. To that end, the government plans to develop three SEZs in the coastal districts of Van Don in the Gulf of Tonkin, Bac Van Phong in the central province of Khanh Hoa, and Phu Quoc Island in the Gulf of Thailand. Though the logic behind these choices remains controversial, Hanoi has demonstrated its willpower to move forward.

To legitimize their SEZ plan, Prime Minister Nguyen Xuan Phuc’s administration compiled a draft law on SEZs, which aims to create a breakthrough in development for these regions and build outstanding institutions in order for the country to be internationally competitive. It was scheduled to be adopted by Vietnam’s National Assembly, on June 15, 2018. However, a few days prior to the Parliament’s approval, the government was confronted by a rising tide of public anger from those who see the bill as selling out Vietnamese land to China.

In the face of mounting opposition, the Government Office in Hanoi released a hasty announcement at 3:00 a.m. on Saturday, June 9, saying that the state had agreed to delay the approval of the draft law in order for lawmakers and leaders to have more time to scrutinize people’s enthusiastic contributions. Now the draft law will be submitted for the National Assembly’s final decision in October 2018. This move was viewed by many as a rarity for a government that seldom solicits or heeds public opinion. It was a timely “temporization,” or concession, meant to avoid a repeat of the bloody and devastating riots in 2014 and 2016 that left dozens of people dead and did far-reaching damage to the economy.

Despite the government’s attempts to allay public concerns, a series of demonstrations still took place for three days (from June 9-11) in many major cities and economic hubs throughout the country. Some of these protests quickly turned violent, targeting the Communist Party of Vietnam (CPV) and local authorities.

Although late in the game and facing many challenges due to increased global competition, scarcity of resources, and political and social complexities, the Vietnamese government remains determined to develop SEZs. However, with only limited introduction of new investment incentives, the draft SEZ legislation reads like a duplication of the most favorable conditions in the framework of the existing law already being implemented in the country’s key economic zones. What is significantly new in the bill is that it would allow foreign investors to obtain 99-year leases in some cases approved by the prime minister in the three SEZs. The bill does not explicitly mention any particular potential foreign investors that could lease land for up to 99 years in the zones, but it is widely presumed that China, Vietnam’s largest trading partner and perennial political influencer, would be probably the main beneficiary dominating investments in the SEZs.

With the SEZ law viewed in this light, along with the memories of the 1979 border war and China’s current encroachment in the South China Sea, the Vietnamese people fear that these strategically important zones would soon become China’s neocolonial territories, posing an extreme threat to the country’s national security and sovereignty.

It’s also worth observing that the recent public protests, though certainly marked by nationalist and anti-China rhetoric, were not just jingoism or patriotism. As well as the numerous anti-China signs at the protests, there were also a number of placards that demanded greater democracy, criticized the VCP, and questioned the ruling Communist Party’s legitimacy – which, as noted by state media, some anti-Communist Vietnamese organizations may have played a role in.

The past few years have witnessed an increasing number of mass protests across Vietnam, in which the majority of protestors are workers and ordinary people. Chauvinistic posturing against Beijing is certainly there. But there

are other accounts of what has triggered these protests that would also better explain why they tend to become so large and so violent. (The anti-governmental rioting in Binh Thuan on June 10, 2018, is a good example).

First, long-lasting complaints about bad workplace conditions at, Chinese overseers' bullying management in, and serious environmental pollution from Chinese- and Taiwanese-owned factories remain unsettled by the government agencies. Second, Vietnam's economy is booming – but so is inequality and corruption, although the government has made strides in both. These intractable issues appear to weaken public faith in the government and the ruling Party. Third, the land ownership prescribed by current law and constitution is another source causing widespread discontent toward the government, particularly when the government's compensation or resettlement schemes do not meet landowners' basic needs. Last but not least, it will be easy for protesters to paint the government as weak on the South China Sea (by failing to protect Vietnamese fishermen from frequent attacks launched by Chinese forces) and remiss at home (for failing to prevent Chinese migrants from illegally occupying coastal land plots across Vietnam).

Civil resistance to enforce policy changes is uncommon in Vietnam. The public tends to be quiescent, given the traditional notion that the state leads and all should follow. But the recent flurry of public interest shows that ordinary people are becoming more vocal and underscores the popular fury over the dangers threatening the country's interests and sovereignty. Not only does this demonstrate that the ruling CPV and its government are not all powerful and no longer remain a monopoly on power, but such civil disobedience is likely to turn into worse actions if the state authorities fail to thoroughly address public concerns as well as connect citizen interests to a broader view of the country's development process.

Even though the recent public demonstrations remain an inchoate, poorly organized sense of anger, they display an emerging pro-rights and democracy awareness among the Vietnamese people. On the other hand, the vandalism and rioting – partly against China but more urgently against the SEZ law proposed by Hanoi government – send an ominous signal of a looming resurgence of so-called “color revolution” in the country. For this reason, a wrong move or miscalculation from the government could stir up a perfect storm of anti-regime protest.

## **Final Thoughts**

The Vietnamese government has shown a strong desire to develop SEZs, where it hopes a range of favorable incentives and unique economic regulations will in turn spearhead fast-paced growth at the local, subnational, and national levels respectively. However, while rapid changes in the global trends of finance, technology, and economic policy all appear to threaten the policy's success, domestic challenges soon after the SEZ draft law was released add another danger.

The Communist Party of Vietnam and its government are now facing a dilemma on how to pass the law without losing sight of the need to generously incentivize investors while quieting the public anger and reviving their trust in the communist regime. Civil resistance may occur again and lead to political unrest if the new version of the draft law does not address the concerns of voters. As an organization that claims to be the living embodiment of the people's will, the ruling Party seems to have no choice but to rule out the controversial articles and clarify their commitment to national interests and security in the draft, as Prime Minister Nguyen Xuan Phuc vowed when asked by state media. Such a choice won't be easy for Vietnamese leaders, since reducing such terms could limit the ability of SEZs to attract foreign investment, especially potential bigger investors from China, Hong Kong, and Taiwan who are expected to dominate and thus ensure success of the zones.

Openness and liberalization, among other measures, are determinants of the new-generation of SEZs. These will definitely accelerate the evolution of democracy in and outside the economic enclaves. Thus, the recent public opposition can be seen as a litmus test for Hanoi's readiness to meet the people's increasing expectations – both economic and political – fueled by rising standards of living and greater access to educational opportunities associated with global neoliberalization.

*Nguyen Minh Quang is a lecturer at Can Tho University and co-founder of the Mekong Environment Forum. His research interests include Vietnam politics, Mekong Delta environmental security and political economy. He is currently a Ph.D. researcher at the International Institute of Social Studies, Erasmus University Rotterdam, The Netherlands.*