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Lessons from East Asia: Comparing Ethiopia and Vietnam's Early-Stage Special Economic Zone Development

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POLICY POINTS

Ethiopia and Vietnam should

grant more autonomy to

local SEZ authorities in making their own legal and administrative framework to attract investors.

Policy learning must involve

adapting foreign lessons into the local context.

Ethiopia should allow more

private sector participation in SEZ development. Particular attention should be given to private public partnership (PPP) opportunities.

Lessons from East Asia: Comparing Ethiopia and Vietnam's Early-Stage Special Economic Zone Development

Keyi Tang

THE SUCCESSFUL STRUCTURAL TRANSFORMATION OF MANY East Asian countries in the twentieth century has made their developmental path attractive to many policymakers in sub-Saharan Africa (SSA) and Southeast Asia. Many developing countries in these regions are learning to apply some East Asian industrialization experiences to improve their own investment environment. For example, special economic zones (SEZs) have successfully served as an industrial “big push” strategy in Taiwan, China, Singapore, and India, so much so that nations beginning industrialization like Cambodia, Vietnam, Ethiopia, Ghana, Kenya, Mauritius, and Nigeria have also adopted SEZs as a popular policy.¹ Taking initiatives to improve the investment climate are not only reserved for countries in the early stages of industrialization, China and other Eastern Asian countries are also actively setting up overseas industrial clusters, seeking new markets and lower labor costs.

Although there is a wide range of literature examining micro-level technology spillover in overseas SEZs in the Global South, little research has been conducted on host countries’ policy level learning from these zones established by investors. In this policy brief, I investigate whether policymakers in SSA and Southeast Asia have derived lessons in SEZ policy planning from overseas SEZs established by East Asian investors. Moreover, what incentivized East Asian investors to establish overseas SEZs in these regions? How did policymakers in SSA and Southeast Asia interact with foreign investors to improve administrative and legislative support for SEZ development?

I attempt to answer these questions by focusing on Ethiopia and Vietnam’s early-stage industrialization. I trace back how each country respectively derived lessons from China, in the case of Ethiopia, and Taiwan, in the case of Vietnam, in developing SEZs to facilitate export-led manufacturing. I chose Ethiopia and Vietnam as case studies because they were both former centrally planned economies experiencing a political and economic reform. Ethiopia had been predicted to be the fastest growing economy in SSA in 2018 while the Vietnam’s average GDP growth rate between 1991 and 2014 ranks the second highest in the world, clearly they are both rising stars of their respective regions growth turnaround.² Both countries have a similar population, roughly about 100 million inhabitants, and have similar political systems - a *de facto* one-party

state. The Ethiopian People's Revolutionary Democratic Front leads Ethiopia's government, while the Communist Party of Vietnam maintains absolute control of Vietnam. Ethiopia's SEZ development model is predominantly led by the central government, as many of the developmental states in East Asia have followed.

The findings of this policy brief are based on 35 days of field research in Ethiopia and Vietnam, a comparative case study of four SEZs, and interviews with 53 stakeholders. In Ethiopia, I focused on the Eastern Industrial Zone (EIZ) and the Hawassa Industrial Park (HIP). In Vietnam, my case studies were the Tan Thuan Export Processing Zone (EPZ) and the Chu Lai Open Economic Zone (OEZ). Through process tracing and four comparative case studies of SEZs from two emerging markets in Africa and Southeast Asia, this research will shed light on how Ethiopia and Vietnam learned to compete based on their different geographic locations and preconditions for development. As Vietnam started SEZ development roughly 20 years prior to Ethiopia, and has hence accumulated more experience, I make policy recommendations for Ethiopia based on Vietnam's lessons in SEZ development.

SIMILARITIES BETWEEN ETHIOPIA AND VIETNAM'S SEZ POLICY LEARNING

THE EIZ AND THE TAN THUAN EPZ SHARE many similarities. First, although both Ethiopia and Vietnam had initiated opening-up reform measures for several years before their first SEZ was established, they both found it hard to attract foreign investors. More specifically, the Tan Thuan EPZ was established five years after Vietnam's *Doi Moi* started in 1986 and the EIZ was also set up five years after Ethiopia enacted its first five-year plan in 2002. Second, the Tan Thuan EPZ and the EIZ, respectively operated by Taiwanese and Chinese investors, initially chose to invest overseas under the initiative of their governments. The Tan Thuan EPZ was established with an investment from a Kuomintang-led company under Taiwan's "Go-South" policy, providing a safe production base for other Taiwanese investors in Vietnam. Similarly, Ethiopia's EIZ was developed by China's Qiyuan Group after it won a bid from China's Ministry of Commerce' Overseas Economic and Trade Cooperation Zone Program. The EIZ also provided a safe base for the first wave of Chinese investors in Ethiopia. Third, the Tan Thuan EPZ and the EIZ both served as an important foundation for Vietnam and Ethiopia to acquire Taiwanese and Chinese early-stage SEZ development experience. Tan Thuan was modeled after Taiwan's Kaohsiung EPZ, while

the prototype used for planning the EIZ was China's Suzhou Industrial Park (SIP), among others. Finally, Tan Thuan and EIZ greatly influenced the institutionalization and legalization of SEZ management in Vietnam and Ethiopia, like turning the one-stop shop services (OSS) concept into a reality.

Learning from China's experiences, one of the biggest obstacles facing both Ethiopia and Vietnam is their lack of local autonomy. Ethiopia's HIP failed to learn industrial park (IP) operation experiences from Kunshan, Suzhou, partially because their local IP authority did not have power to put the lessons learned into practice, even if they had suggestions on how to do so based on the Chinese operation team's onsite experience transfer. Similarly, Vietnam's Chu Lai OEZ was established with the understanding that it would be granted more autonomy in legislation and administration, which is how Shenzhen has been able to succeed. Chu Lai's original development goal failed, too, due to a lack of local autonomy. In contrast, Shenzhen was given much autonomy in making its own laws and investment incentive policies. The high degree of autonomy has helped Shenzhen find the best policies and regulations suitable for its development. Ethiopia may also benefit from granting more autonomy to local IP administrators with regard to Shenzhen's successful experiences.

Ethiopia and Vietnam both experienced three distinct periods during their early-stage industrialization. First, both countries learned about SEZ concepts from foreign SEZ developers. At the beginning of their respective reform periods, neither Ethiopia nor Vietnam had SEZs and no concept of what administrative services they required. After Chinese and Taiwanese investors set up the first SEZs in Ethiopia and Vietnam, they not only brought the novel SEZ concept, but also helped push central and local governments to provide essential support for proper SEZ management. Likewise, looking at China's early stage SEZ industrialization, they also derived tremendous lessons from the SIP, which was jointly developed by Singapore and China. The second stage involved learning how to establish the institutional and legal framework for SEZs. Through domestic reform, visits to successful SEZs in other countries, and constant communication with foreign SEZ developers, Ethiopia and Vietnam established the legal and institutional framework for SEZ development. Finally, both countries had to learn to adapt SEZ policies according to their local context. During SEZ management optimization, Ethiopian and Vietnamese officials and scholars visited successful SEZs in advanced economies around the world to learn about SEZ management methods. Foreign experts

were also invited to Ethiopia and Vietnam to provide on-site consultation and guidance. However, both governments came to the conclusion that foreign experiences were not necessarily applicable to their local context, and instead each country had to take adaptive measures and propose constant policy adjustments.

DIFFERENCES

HOWEVER, THERE ARE ALSO MANY DIFFERENCES in the two countries' learning process. Although both countries researched many successful SEZ cases around the world, at the very beginning of their learning experiences Ethiopia seemed to be influenced more by Chinese models, while Vietnam was more focused on Taiwanese SEZ development models. Ethiopia has learned a lot from China in SEZ development, not only because a Chinese private investor built the first IP in Ethiopia, but also because Chinese state-owned construction companies won most of the contracts for Ethiopia's state-owned IPs. In building many of Ethiopia's state-owned IPs, technology transfer in zone construction, design, and after-care operation can be observed. In contrast, a Taiwanese company financed by the Kuomintang government jointly established Vietnam's first SEZ. The first step allowed the Tan Thuan EPZ better geographic location access and more attractive tax return policies than latecomers. Although a Chinese investor jointly set up the second SEZ in Vietnam, the Linh Trung EPZ, with Ho Chi Minh City's government, Linh Trung did not achieve the same level of success as the Tan Thuan EPZ.

The definition and scale of SEZs in Ethiopia and Vietnam are also quite different. In Ethiopia, SEZs are often referred to as IPs and can include technology parks, export processing zones, agro-processing zones, and free trade zones while in Vietnam they are called IZs, which are more narrowly defined as a separate zone specializing in industrial production. Vietnam has developed more than 300 IZs, while Ethiopia only has 15 IPs, although they plan to build another 15 by 2025. Even with a total of 30, however, Ethiopia will still only have 10 percent as many IPs as Vietnam has IZs. Contributing to the discrepancy in total number of SEZs per country is that Ethiopia has a centralized SEZ development system, while Vietnam's is relatively decentralized. In Ethiopia, almost all flagship state-owned IPs are built, owned, and operated by the Industrial Park Development Corporation, a division of Ethiopia's central government. In contrast, private investors and Vietnamese local governments jointly developed many of Vietnam's SEZs. Under this public-private partnership, private investors are responsible for building infrastructure and

attracting investors, while local governments help acquire land and provide OSS.

Vietnam's decentralized SEZ management system, where each province competes fiercely with one another to attract FDI and build SEZs, stands in stark contrast compared to Ethiopia's centralized system. Vietnam's level of local competition is somewhat more similar to China's market reform system, where local Chinese government officials compete on the speed of GDP growth, which is one of the most important determinants for their promotion. The competition between Vietnam's local governments may be even fiercer than in China, as Vietnam has 58 provinces and five national cities compared to China's 32.³ Although local autonomy in IZs and parks development may have facilitated Vietnam's market reform process, the same local autonomy may have brought the risk of wasted resources by leading to the construction of too many IZs and parks with overlapping functions.⁴ Furthermore, such a high level of competition can create incentives for a race to the bottom, as local governments lower their environmental standards to attract more FDI.

When it comes to learning from China, Ethiopia seemed to be particularly interested in learning lessons from the SIP, while the Shenzhen SEZ was likely more influential for Vietnam. China's Jiangsu Qiyuan Group, which funded and built the EIZ, is headquartered in Zhangjiagang, Suzhou. Due to the Jiangsu Qiyuan Group's geographical proximity to Suzhou, the EIZ's park design was likely influenced by Suzhou's design. Moreover, the HIP had a three-year contract with a team of Chinese SEZ management experts from Kunshan, Suzhou to transfer Kunshan's after-care operation experiences. In contrast, most Vietnamese economists interviewed, including three members of the Prime Minister's Economic Advisory Board, mentioned that, for them, Shenzhen's model was the most successful Chinese model. For instance, Vietnam's first economic zone, the Chu Lai OZ in Quang Nam province, was set up based on Shenzhen's model. Ethiopia and Vietnam's preferences for different development models in China might have something to do with their different geographic preconditions for development—Ethiopia is a landlocked country, and it might learn more from Suzhou, an inland city; Vietnam has a long coastline, so it might also choose to learn from Shenzhen, which is also a coastal city with a good port.

POLICY RECOMMENDATIONS

1. Both Ethiopia and Vietnam should grant more autonomy to local SEZ authorities in making their own legal and administrative framework to attract investors. Ethiopia's HIP failed to gain SEZ after-care operation experiences from Kunshan, while Vietnam's Chu Lai failed to learn from Shenzhen. This shows that without much autonomy, it might be hard to turn experiences learned from foreign countries into policies used in practice.
2. Ethiopia and Vietnam's learning experiences show that policy learning must involve adapting foreign lessons into the local context.
3. Ethiopia should allow more private sector participation in SEZ development. In Vietnam's early-stage industrial zones, eight out of the thirteen largest IZs registered were developed through public private partnerships (PPP), mostly through cooperation between the Vietnamese government and investors from Taiwan, Japan, Singapore, South Korea, and China. PPP's alleviated Vietnam's lack of financing and experience in infrastructure construction, which is necessary for a country's early-stage industrialization. Ethiopia is facing criticism on its debt solvency, which is partially a result of paying for large-scale infrastructure through public funding. An introduction of more PPP-funded projects may help Ethiopia improve its debt issues. ★

ENDNOTES

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4. *Ibid.*

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