

# Transforming Hainan Special Economic Zone into Free Trade Zone: A Comparative Study of China's Approach and Implication for Vietnam

Nguyễn Đức Trung\*

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**Abstract:** Hainan Island became a special economic zone in 1988. In 2018, China planned to develop Hainan into a pilot free trade zone, gradually exploring and steadily advancing the construction of a free trade port, and establishing a policy and institutional system for free trade ports in stages (Trang Tran, 2018). It is evident that the upgrading of the Hainan Special Economic Zone reflects China's significant decision to expand outward and actively promote economic globalization. China's experience in transforming special economic zones into free trade zones holds great significance for Vietnam in the new stage of economic development. Special economic zones are expected to have modern and well-integrated infrastructure, strong connections with domestic and international markets, foster a favorable and transparent business environment, and ensure accountability of local governments. In locations such as Vân Đồn, Vân Phong, and Phú Quốc, which possess potential for socioeconomic growth, Vietnam should study these development experiences and skillfully, innovatively, and effectively apply them.

**Keywords:** Special economic zone, free trade zone, economy, Hainan, Vietnam.

**Subject classification:** Economics.

## 1. Introduction

Hainan is in southern China, overlooking Guangdong across the Qiongzhou Strait to the north and Vietnam across the Gulf of Tonkin to the west. It shares borders with the Philippines, Brunei, Indonesia, and Malaysia, extending to the east and south of the East Sea. The coastline of Hainan spans 1,528km. Being China's nearest province to Southeast

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\* Institute of Indian and Southwest Asian Studies, Vietnam Academy of Social Sciences.

Email: ndtrung2206@gmail.com

Asia, it enjoys a significant advantage in collaborating with neighboring countries such as the Philippines, Indonesia, Brunei, Malaysia, Singapore, Thailand, and Vietnam, which are separated from Hainan by the sea.

The Qiongzhou Strait, located 33km north of the Leizhou Peninsula in Guangdong province, serves as a vital “sea corridor” connecting Hainan Island to the mainland. It is also an important shipping lane linking the Tonkin Gulf and the East Sea. Haikou, the main city of Hainan, is a mere 407km away from Hải Phòng city in Vietnam, while Sanya Port is approximately 1,200km away from Manila, Philippines. As the largest coastal province in China, Hainan possesses abundant marine resources and a strong potential for the development of its marine economy. This holds special significance for China’s broader strategy of opening up to the world.

In 1980, the Chinese government established four special economic zones (SEZs) in Shantou, Shenzhen, Xiamen, and Zhuhai. In subsequent years, Hainan, Shanghai Dongjie New Area, and Tianjin Beihai New Area were also designated as SEZs<sup>1</sup>. These SEZs encompass economic and technological development zones, free trade zones (FTZs), export processing zones, and high-tech industrial zones. The Chinese government has placed significant emphasis on the role of SEZs as testing grounds for new market-oriented institutions and policies, starting from the early stages of policy design. Furthermore, specific incentive policies have been formulated with the aim of developing these SEZs.

As a result of the construction and development of SEZs, the Chinese government embarked on upgrading them into FTZs (World Bank, 2008). The first two FTZs were established in Shanghai in 2013, attracting foreign direct investment in the financial and service industries through simplified customs procedures, efficient cross-border financial and immigration controls, and the establishment of innovative administrative institutions. From 2014 to 2015, the Chinese government selected an additional 10 regions to pilot its FTZ development plan. The development of SEZs has emerged as a powerful driving force behind China’s reform process and rapid economic growth, generating export income, disseminating skills and technology, as well as creating employment opportunities and economic connections. During this period, the success of China’s SEZs inspired policymakers in developing nations to replicate this model. Key factors contributing to the prosperous development of China’s SEZs encompass a conducive business environment, robust infrastructure, effective institutional reforms, local empowerment, and preferential policies for enterprises and investors.

The economic growth of Hainan is closely intertwined with the development of the SEZs. In 1988, Hainan transitioned from being a county under the jurisdiction of Guangdong Province to a province, simultaneously becoming China’s largest SEZ. During

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<sup>1</sup> In 1988, Hainan province was designated as China’s fifth SEZ, following Shanghai Dongjie New Area in 1992 and Tianjin Beihai New Area in 2000.

this period, China was facing neglect in the global production chain, and SEZs were considered attractive areas for foreign direct investment. Consequently, funds began flowing into Hainan, and numerous experts relocated to the region. However, due to inadequate infrastructure and a limited market size, Hainan still lagged Shenzhen in attracting manufacturing investments. A considerable portion of the invested funds flowed into the real estate market, leading to the formation of a speculative bubble. Consequently, the central government implemented monetary policy tightening measures in 1993. Hainan subsequently experienced a challenging recovery period.

In 1996, the “one province and two bases” strategy was announced, aiming to transform Hainan into a newly developed coastal industrial province by 2020. The strategy positioned Hainan as a production base for high-value agricultural and tourism products, capitalizing on its unique geographical location and comparative economic advantages. High-value agriculture and tourism were identified as the two pillar industries of Hainan. Since then, the economy of Hainan has undergone significant changes. By 2007, the per capita GDP reached USD 1,909, compared to USD 249 in 1987. In 2017, the per capita GDP of Hainan reached USD 7,179. However, in comparison to other coastal SEZs, Hainan’s economic achievements have been moderate, given China’s long-standing high-speed economic growth. Hainan remains an underdeveloped coastal province.

In April 2018, during the 30<sup>th</sup> Anniversary Conference of Hainan Province, the Chinese government announced Hainan as the 12<sup>th</sup> FTZ and the first pilot free trade port (FTP) in China, set to be established in 2020 (State Council of the People's Republic of China, 2018).

## **2. Goal of upgrading SEZ into FTZ**

The goal of upgrading an SEZ into an FTZ is a major task set by the Chinese central government for Hainan in the post-2020 stage. Fundamentally, the construction of the pilot FTZ pays more attention to institutional innovation in the fields of government function transformation, foreign investment regulation, service industry opening, trade facilitation, and financial industry opening. The strategy of the Hainan pilot FTZ demonstrates China’s more open attitude towards the outside world (State Council of the P.R. China, 2018).

The basic objectives for developing the pilot FTZ in China include: (i) The pilot FTZ must comply with the government’s grand strategic plan. (ii) Planning and actions towards the FTZ must be proactively and consistently planned by the Hainan government. (iii) The period of 2020-2022 is regarded as a good start, laying a solid foundation for building the policy and institutional system of an FTZ and FTP with Chinese characteristics. (iv) Finally, opening up must be realized first, and system reform must be regarded as the core of national innovation and development at a higher level.

In June 2020, the Chinese government announced the Master Plan for the construction of the Hainan FTP, which is a large-scale plan to upgrade Hainan from an SEZ to an FTZ

and an FTP. The Master Plan provides a timetable for realizing different stages of development (China Briefing, 2020).

Goals by 2025:

- Basically form the FTP system.
- Establish a leading business environment in China.
- Significantly improve industrial competitiveness and implement strong and effective risk prevention measures.
- Step by step improve laws and regulations in line with the international FTP standards development.

Goals by 2035:

- Develop Hainan FTP.
- Enable free and convenient exchange of labor, transportation, and data.
- Establish a world-class business environment.
- Take the lead in the cause of socialist modernization.

Goals by 2050:

- Become a top FTP with strong international influence.

### **3. China's plan to upgrade from SEZs to FTZs**

According to China Briefing (2020), the Chinese Government's 2020 Master Plan for upgrading Hainan from an SEZ to an FTZ also outlined specific policies for the area, including: (i) Liberalization of trade in goods and services, (ii) Promotion of investment and opening up cutting-edge industries, (iii) Free exchange of personnel, funds, and data.

#### *3.1. Liberalization of trade in goods and services*

One of the most significant features of the plan is the establishment of "first-class" and "second-class" customs control measures for China. Goods entering Hainan from abroad will be subjected to a comprehensive control system. The Hainan FTZ will be responsible for creating a list of prohibited or restricted import and export goods. Additionally, upon entering the FTZ, import taxes will be imposed on specific goods as outlined in a pre-prepared or designated list. Goods not included in this list will be exempt from tariffs and can be freely imported and exported. Although the specific lists have not yet been determined, the plan indicates that the following types of imported goods will be exempt from import taxes, import value-added taxes, and consumption taxes:

- Production equipment for the enterprise's internal use
- Operational vehicles and yachts

Raw materials imported for production

Imported products purchased by islanders

For goods transported from Hainan to mainland China, relevant import regulations, customs duties, and taxes will apply. Industrial enterprises that are encouraged to produce goods originating from Hainan, with or without the use of raw materials (with an added value of imported intermediate products exceeding 30% after domestic processing), will be exempt from import duties when these goods enter other regions of China.

Regarding goods transported from mainland China, there is no requirement for customs procedures when transiting through Hainan and returning to the mainland. However, they must be loaded and unloaded at a customs-supervised operation site within the FTZ, while being stored separately from other customs-supervised goods. Furthermore, the plan emphasizes that Hainan will establish additional special customs supervision zones to facilitate more flexible import and export management. Hainan will also establish a convenient and efficient “one-stop” mechanism to address the issues related to foreign imports and exports.

### *3.2. Facilitating investment, opening key industries*

The plan introduces a set of policies aimed at promoting investment and opening up key industries by implementing a “minimum approval” investment system for liberalizing trade in services. This system will include a special market access list for Hainan and a list of restrictions on foreign investment. The objective is to provide foreign companies with access to a broader market in Hainan. Consequently, Hainan needs to implement a new “market access and commitment system”, which includes the following initial provisions:

Establishment of a comprehensive records system.

Relaxation of licensing and approval requirements for select investment sectors.

Implementation of special preferential measures applicable to each country prior to entry, while managing a preferential list of foreign investment to reduce restrictions and obstacles.

Encouragement to develop an investment management system, focusing on simplifying process monitoring through innovative methods like electronic licenses.

The Master Plan offers increasing opportunities for investors in traditional industries and opens up avenues for early development in new industries. Various forms of preferential policies have been introduced in this regard. For instance, the plan specifies that starting from 2025, new foreign direct investment income generated by tourism, modern services, and high-tech industrial enterprises will be exempt from corporate income tax (CIT).

Furthermore, the Master Plan outlines measures to create a more favorable business environment overall. These measures include strengthening intellectual property protection

and establishing an open, fair, and investor-friendly environment for all market participants. The plan also proposes an internationally competitive tax system based on the principles of zero tariffs, low tax rates, and simplified tax procedures. To attract more business activities to Hainan, the Master Plan provides a preferential income tax rate of 15% for eligible individuals, while the corporate income tax (CIT) rate for incentivized enterprises will also be capped at 15%. During this period, qualified investment expenses of the enterprise can be fully deducted or rapidly consumed before tax payment.

### *3.3. Free exchange of labor, capital, and data*

The Master Plan aims to expand the financial sectors of FTZs and FTPs, facilitating cross-border capital flows and supporting the establishment of trading venues for financial products related to energy, transportation, property rights, securities, and clearing centers. Logistics flow is also a significant focus in Hainan's planning.

Relaxed travel regulations will encourage high-end industry talents and employees to stay, reside, or work in the Hainan FTP. The Master Plan also seeks to enhance the effectiveness and scope of the existing visa-free entry policy, allowing for the relaxation and extension of visa-free periods. In terms of data traffic and security, China plans to expand the opening of the data field, reform institutional design, and develop the digital economy in the FTP. Hainan has already launched a pilot project for international Internet data exchange to expand its media resources and strengthen its economy.

It is evident that alongside favorable conditions, the Hainan Economic Zone faces several challenges in transitioning and upgrading to an FTZ and FTP. Being a "latecomer" in the new FTZ pilot phase, Hainan encounters its set of challenges. The main challenge lies in clarifying the positioning of Hainan's FTP in relation to other similar programs. While recognizing the strong support from the central government for Hainan, the operational-level position of Hainan's FTZ(s) or FTP(s) remains uncertain. It is crucial for the Hainan provincial government and central ministries to clarify whether the proposed Hainan FTP is solely intended for the economic development of Hainan Province or if it is a national priority plan to test a series of new economic reform measures and policies (Asian Development Bank, 2019). The performance of FTP pilot projects in various provinces will assist the central government in balancing resources and policies. Therefore, if Hainan successfully upgrades from an SEZ to an FTZ, the central government will pay increased attention to it and allocate more resources and budget. Conversely, if Hainan fails to gain support and proves ineffective for the national government, as a latecomer, the Hainan FTZ will have fewer opportunities and benefits in designing preferential policies and institutional innovation.

The Asian Development Bank (ADB) conducted an objective evaluation of the Hainan FTZ and FTP after the planned upgrade from the Hainan SEZ using the SWOT model, as follows:

Table 1: Evaluation of Hainan FTZ and FTP by SWOT

<p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>- Vigorously promoted by the central government.</li> <li>- Get experience from China in SEZ management, previous industry strategy design</li> <li>- Get to experience the financial sector thanks to Hainan’s ideal location</li> </ul>	<p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>- Unclear positioning between SEZs</li> <li>- Low management ability</li> <li>- Reduced impact of preferential policies</li> <li>- Lack of highly qualified experts</li> </ul>
<p><b>Opportunities</b></p> <p>Upgradable to national FTZ and FTP</p> <p>Benefits obtained from the experience of other previously approved FTZs in new institutional and policy reforms.</p> <p>Ideal location for China-ASEAN regional cooperation and integration</p>	<p><b>Challenges</b></p> <p>FTZs are different, but their goals are similar</p> <p>Competition from other FTPs in Singapore or Hong Kong</p> <p>Additional approval of the FTZ initiative</p>

Source: ADB (2019).

#### 4. Some implications for Vietnam

Alongside global economic integration, the development of various forms of “economic zones” has been an important economic tool employed by many countries to foster regional and economic growth (Foreign Investment Department, 2015). Vietnam has also utilized this approach in recent times, making the establishment of several SEZs a consistent policy of the Vietnamese Party and State, aiming to create growth poles and conduct institutional experiments (Drafting Committee of Law on Special Administrative-Economic Units, 2017a).

The fourth meeting of the Eighth Central Committee of the Communist Party of Vietnam in December 1997 introduced the concept of establishing SEZs. The resolution emphasized the need to “explore the establishment of multiple SEZs and free economic zones in eligible coastal areas”. Since the establishment of the Chu Lai Open Economic Zone (Quảng Nam province) in 2002, a total of 15 open economic zones, covering approximately 54,000ha, have been established nationwide. In 2010, the Prime Minister approved the addition of three more coastal economic zones to the Master Plan, bringing the total number of open economic zones in the master plan to 18 zones with a combined land and water surface area of 730,533ha by 2020.

The issue at hand is that it is not only crucial to establish SEZs but also administrative SEZs. While economic zones solely attract investments through preferential economic policies, special administrative-economic zones have undertaken substantial administrative system reforms, particularly in the organizational model of the special zone government institutions. Although Vietnam's special administrative-economic zone functions as a unique region under the leadership, management, and exercise of sovereignty by the Party, the Vietnamese State implements specific economic management policies and systems. In these zones, novel ideas and policies on state management and economic management will be tested, and proposals will be made to grant special preferential treatment to administrative SEZs, enabling them to compete with other countries' SEZs in the region for attracting foreign investment.

1. To further enhance the investment environment for enterprises, foster deep integration with the global economy, promote international development cooperation, and remove existing limitations on industrial parks, export processing zones, economic zones, and high-tech zones, the Vietnamese government has undertaken the study and construction of special administrative-economic units, known as SEZs, in three locations: Vân Đồn (Quảng Ninh province), Bắc Vân Phong (Khánh Hòa province), and Phú Quốc (Kiên Giang province). The development of these three SEZs demonstrates the consistent commitment and keen interest of the Communist Party of Vietnam, National Assembly, and Government in establishing innovative and competitive policy institutions to attract domestic and foreign investments.

2. The Vietnamese Government has enacted policies, perspectives, strategies, and plans for socioeconomic development regarding the establishment and growth of SEZs through the 8<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup>, and 12<sup>th</sup> National Congresses. Specifically, Resolution No.11-NQ/TW, issued on June 3, 2017, by the 12<sup>th</sup> Central Committee, emphasizes the need to establish several special administrative-economic units with exceptional institutions to serve as growth poles for experimentation, innovation, and the refinement of the political system's organizational structure, in line with the socialist-oriented market economic institution.

3. Two main objectives guide these special zones. *Firstly*, the formation of three regions with high economic growth will have a profound impact on the local and national economies, attracting high-tech industries and sectors that are competitive and align with global development trends. These regions aim to become desirable places to live and work, fostering economic prosperity while simultaneously ensuring sustainable environmental development, social justice, and improvements in people's living standards. *Secondly*, these zones proactively create a "new playing field" equipped with exceptionally favorable, outstanding, and internationally competitive institutions and policies to facilitate entrepreneurial development, innovation, research and development (R&D), advancements in science and technology, the implementation of Fourth Industrial Revolution technologies, high-quality education and healthcare, high-end tourism services, cultural industries, logistics services at seaports and airports, and international trade and finance activities associated with seaports.



4. Completing the legal framework is of utmost importance to facilitate the construction and attraction of investments in the SEZs. The Law on Special Economic and Administrative Units in Vân Đồn, Bắc Vân Phong, and Phú Quốc (Law on Special Economic Zones) has been drafted in accordance with the following principles: adherence to the Constitution, non-interference with security, national defense, national sovereignty, environment, and public health, while ensuring the preservation of traditional cultural values (Vietnam National Assembly, 2018). The law operates within the legal framework, granting the freedom to operate industries and incorporating robust competition policies, rather than solely relying on tax incentives and land provisions. This demonstrates the government's commitment to maintaining long-term policy stability.

The SEZs are expected to have modern and well-integrated infrastructure, strong connections with domestic and international markets, foster a favorable and transparent business environment, and ensure accountability of local governments. The establishment of an SEZ in Vietnam is currently undergoing the following developments:

#### *4.1. Vân Đồn Special Administrative-Economic Zone*

The administration of Quảng Ninh province is actively working on finalizing the plan for the establishment of the Vân Đồn Special Administrative-Economic Zone.

Resolution No.09-NQ/TW of the 10<sup>th</sup> Party Central Committee outlines Vietnam's maritime strategy for 2020, emphasizing the development of the Hải Phòng-Quảng Ninh area as a robust economic center with a focus on ports, industries, and marine tourism. This serves as a driving force for regional development.

Furthermore, Resolution No.54-NQ/TW of the Politburo highlights the socioeconomic development and national defense security in the Red River Delta. It specifically calls for the development of major economic centers such as Hanoi, Hải Phòng, and Quảng Ninh, with the Vân Đồn General Economic Zone in Quảng Ninh province serving as the core of the southern provinces support area.

Conclusion No.47-KL/TW of the Politburo acknowledges the progress made in implementing the resolutions of the 10<sup>th</sup> National Party Congress and the 12<sup>th</sup> Quảng Ninh provincial Party Congress. It recognizes the efforts to transform Quảng Ninh into a driving force and an important growth pole in the Northern Key Economic Region, the Economic Belt in the Gulf of Tonkin, and the Gulf of Tonkin Economic Zone. The conclusion also emphasizes the aim to develop the Vân Đồn Economic Zone into a high-quality economic zone, an ecological center on the island, and a hub for international trade.

In accordance with Conclusion No.13-KL/TW, dated November 28<sup>th</sup>, 2011, which pertains to the continuation of the implementation of Resolution No.54-NQ/TW in Quảng Ninh province, the leadership role of the Northern Key Economic Region is to be harnessed, and the economic development momentum in Hanoi, Hải Phòng, and Quảng Ninh is to be disseminated to expedite regional economic growth.

The establishment of the Vân Đồn Special Administrative-Economic Zone aims to promote comprehensive, rapid, and sustainable development in Quảng Ninh province in the new era. Preparations for this initiative include the implementation of various projects related to international airports, seaports, and tourism infrastructure. These endeavors seek to develop high-end marine tourism services, establish a large-scale casino, provide cutting-edge information and communication technology with unrestricted access, and offer advanced banking and financial services.

#### *4.2. Bắc Vân Phong SEZ*

The Vân Phong Economic Zone is in Vạn Ninh district, Khánh Hoà province. It was established by Prime Minister's Decision No.92/2006/QĐ-TTg on April 25, 2006, and covers an area of 150,000ha, with approximately 70,000ha of land and 80,000ha of water surface. The zone is designed to be a comprehensive economic zone, with a prominent role given to international transshipment ports, including both tariff and non-tariff zones. The non-tariff zone comprises an international transit port, a logistics zone, and a financial and trade center. On the other hand, the tariff zone consists of oil transfer ports, specialized ports, comprehensive ports, tourist areas, industrial zones, urban residential areas, and administrative zones.

Considering various advantages such as its geographical location, resources, human resources, socio-cultural conditions, and national security, as well as the strong commitment from Khánh Hoà province and the development needs of the South Central Coast region and the entire country, the Politburo issued Conclusion No.53-KL/TW on December 24, 2012. This conclusion addressed the construction and development of Khánh Hòa province until 2020, with a vision for 2030, and endorsed the establishment of a Special Administrative-Economic Zone in Bắc Vân Phong. Subsequently, on January 5, 2013, the Prime Minister issued Official Letter No.135/VPCP-V.III instructing the People's Committee of Khánh Hòa province to implement the Politburo's Conclusion. The provincial leaders emphasized that the special administrative-economic zone should strive to achieve specific objectives, including reaching a modern urban and international level, fostering a highly developed and sustainable economy with clear focus on business sectors and industries, serving as a gateway for international trade, establishing modern administrative-economic institutions with significant autonomy to attract international investors, ensuring a high-quality socioeconomic life, security, and political stability, providing a favorable living and business environment that meets international standards, and nurturing a culture that blends Vietnamese identity with international integration.

With the approval of the Politburo and the Prime Minister, the leaders of Khánh Hòa province developed and submitted a proposal for the development of the Bắc Vân Phong SEZ. This proposal includes two plans: one to develop the zone primarily as an international financial center, and the other as an industrial and commercial center with comprehensive service facilities.

The inclusion of special administrative-economic units as a specific type of territorial administrative unit in the 2013 Constitution provides a legal framework for further restructuring. It aims to unleash the potential of diverse territories and reflect Vietnam's integration into the global economy. The successful completion of this task heavily relies on the Party's policies and guidelines. Alongside the country's management and policy capabilities, the government will collaborate with local leaders to transform Phú Quốc, Vân Đồn, and Bắc Vân Phong into key areas for future economic and administrative development.

#### *4.3. Phú Quốc Special Administrative-Economic Zone*

According to Prime Minister's Decision No.178/2004/QĐ-TTg, dated October 5, 2004, the Government formulated the overall development direction for Phú Quốc Island until 2010 and envisioned its growth to 2020. In 2010, the Prime Minister approved the adjustment of the Master Plan for Phú Quốc Island's construction until 2030, as stated in Decision No.633/QĐ-TTg, issued on May 11, 2010. The objective of this decision is to promote sustainable development on the island, foster coordination between economic progress and the preservation of its historical, cultural, and environmental aspects, ensure national and regional defense security, gradually establish a sea and island city, a tourism and high-class service center, and position Phú Quốc as a science and technology hub for Vietnam and Southeast Asia (Phú Quốc District People's Committee, 2018).

The establishment of the Phú Quốc Economic Zone was declared by Prime Minister's Decision No.31/2013/QĐ-TTg on May 22, 2013. This decision served as a crucial foundation for Phú Quốc to achieve remarkable socioeconomic progress in recent years. In light of this context, it is necessary and urgent to develop the Master Plan for the Phú Quốc Economic Zone's development until 2040, with a vision for 2050. This plan aims to promptly address deficiencies, propose strategies and measures to ensure and enhance the efficiency, quality, and sustainability of the economic zone's overall development. The organization, activities, mechanisms, and policies of the Phú Quốc Economic Zone must comply with the provisions of the Investment Law, Government Decree No.29/2008/ND-CP, dated March 14, 2008, which governs economic zones, industrial zones, export processing zones, and other relevant legal documents.

Additionally, Prime Minister's Decision No.31/2013/QĐ-TTg, issued on December 27, 2013, outlined the establishment of the Phú Quốc Economic Zone in Kiên Giang province and implemented several preferential policies and support measures for investors in Phú Quốc projects. These policies cover aspects such as immigration, residency, and travel regulations, the selection of planning consultants, investment and utilization of capital in key projects on Phú Quốc Island, and more (Vietnam National Assembly, 2020).

Phú Quốc People's Committee's Decision No.2996/QĐ-UBND, dated December 6, 2021, approved the Social and Economic Development Plan for Phú Quốc city, Kiên Giang province, for the period 2021-2025. The plan aims to achieve an annual growth rate of 8.84% in output value (regions I and II), accounting for 10.76% of total social investment,

11.7% of budget revenue, and 2.36% of budget expenditure, with an average annual growth rate of 9.24% in development investment. The plan also strives to generate employment opportunities for at least 4,200 workers each year. By 2025, the goal is to have 70% of the labor force trained, with an average annual growth rate of 6.96%.

The proposal suggests the establishment of an FTZ with specific mechanisms and policies that align with national regulations and laws. Drawing from Vietnam's current situation and China's experience in upgrading SEZs to FTZs, the author presents the following recommendations:

An FTZ is a demarcated area established by the National Assembly, adhering to clear geographical boundaries. Furthermore, the FTZ should adopt a distinctive management model that aligns with the characteristics, requirements, and development goals set by Vietnam's existing laws on FTZs. Currently, there is no specific government resolution regarding the transformation of SEZs into FTZs. Drawing from China's experience with Hainan, the FTZ can be organized into functional zones that align with the characteristics, requirements, and development goals of a typical FTZ.

By the end of 2021, the Government had drafted a resolution to facilitate research and implementation of FTZ construction in selected cities and SEZs. This is based on evaluating and analyzing management models, mechanisms, and policies successfully implemented in FTZs worldwide, including China. The proposed resolution meets the requirements for future socioeconomic development. The Government should establish specific provisions on mechanisms, special policies, breakthroughs, and appropriate management models for the FTZ. These provisions should be reported to the Standing Committee before implementation and to the National Assembly during its most recent session.

Currently, Vietnam has not established an FTZ, and the existing legal documents do not mention this concept. However, research on successful FTZs worldwide highlights the necessity of establishing such zones (Drafting Committee of Law on Special Administrative-Economic Units, 2017b). Notably, FTZs in the United Arab Emirates, Singapore, and China have thrived. Therefore, the draft resolution introduces the concept of an FTZ, principles for establishment, and the issuance of mechanisms and policies. It also proposes the establishment of applicable policy mechanisms by competent authorities as a basis for conducting research in cities, SEZs, and related institutions. Specific suggestions should be reported to the competent authorities for review and decision-making following the issuance of the resolution.

## **5. Conclusion**

Although there are still many difficulties and challenges, Hainan, China, still has significant opportunities to establish high-quality and high-standard FTZ and FTP pilot projects with distinct Chinese characteristics. The Chinese Government aims to gain numerous advantages in its endeavor to open up to the global market and become the preferred destination for investment and development by worldwide investors.

SEZs help attract foreign investment and compensate for domestic resource shortages. However, not all SEZs have yielded positive effects. The preferential treatment offered to attract investors also implies that the government must accept tax losses, at least in the short term. Moreover, SEZs are increasingly vulnerable to exploitation for money laundering purposes. Additionally, financial incentives prove ineffective in sustaining long-term attractiveness. On the contrary, human resources play a vital role in knowledge-based and sustainable development. Alongside a labor force capable of adapting to the domestic knowledge economy, there exists a considerable number of intellectuals residing, working, and studying within Vietnam. Developing special zones that possess robust infrastructure, a favorable environment, and a focus on sustainable development and a knowledge-based economy will facilitate the attraction of high-quality domestic and foreign labor, as well as encourage Vietnamese immigrants to return to their home country.

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