



# Industrial Strategy for Vietnam's New Era

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**March 2008**



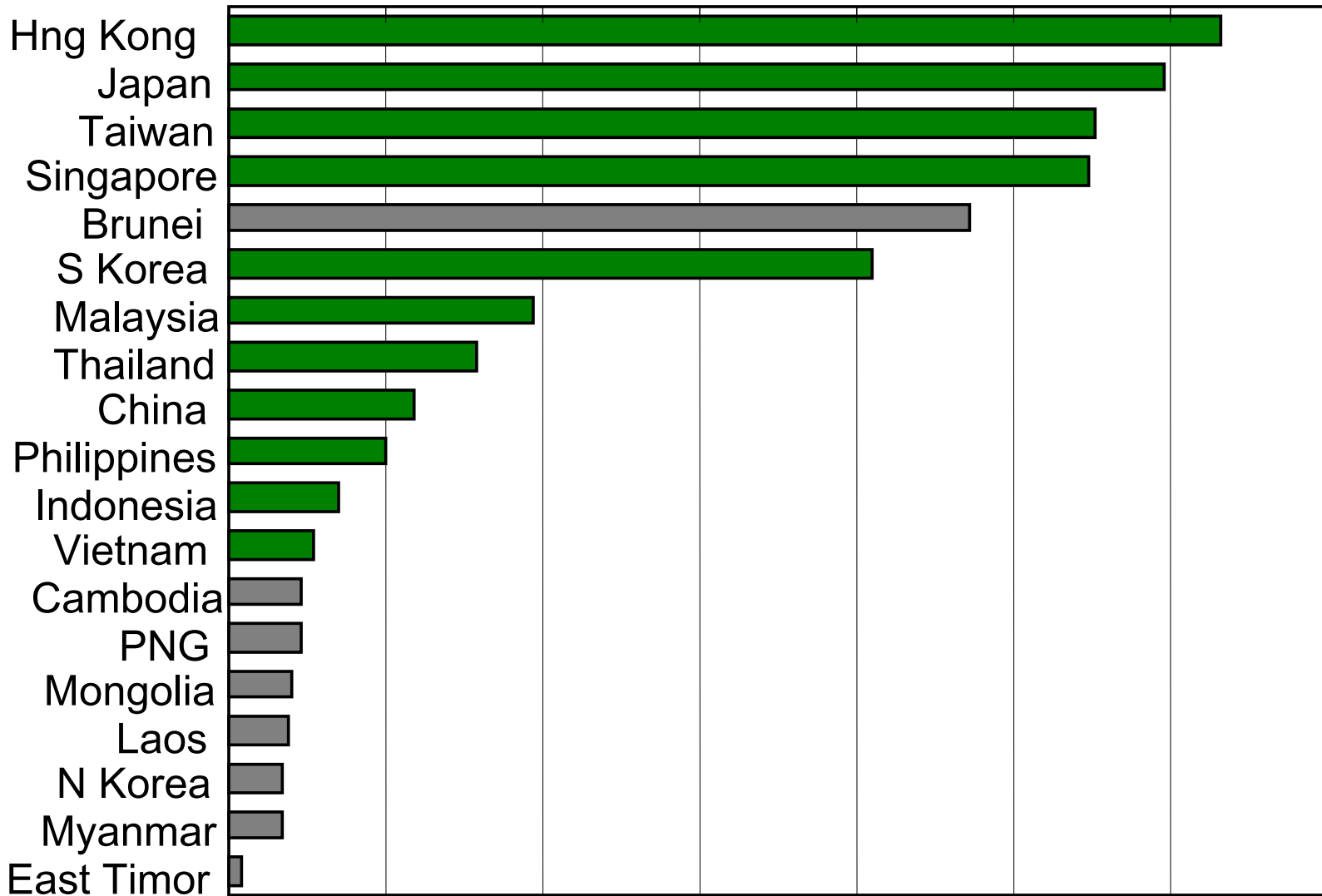
# Vietnam's New Challenge

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- Vietnam is entering a new era where productivity breakthrough and value creation are needed.
- Opening up and receiving FDI can attain middle income (\$1,000+), but higher income (\$10,000+) requires **good policy** and **private dynamism**.
- Vietnam's future depends on:
  - Creation of internal source of growth
  - Coping with new social problems
  - New macroeconomic management

# Per Capita GDP in 2004 (\$ PPP) World Bank data

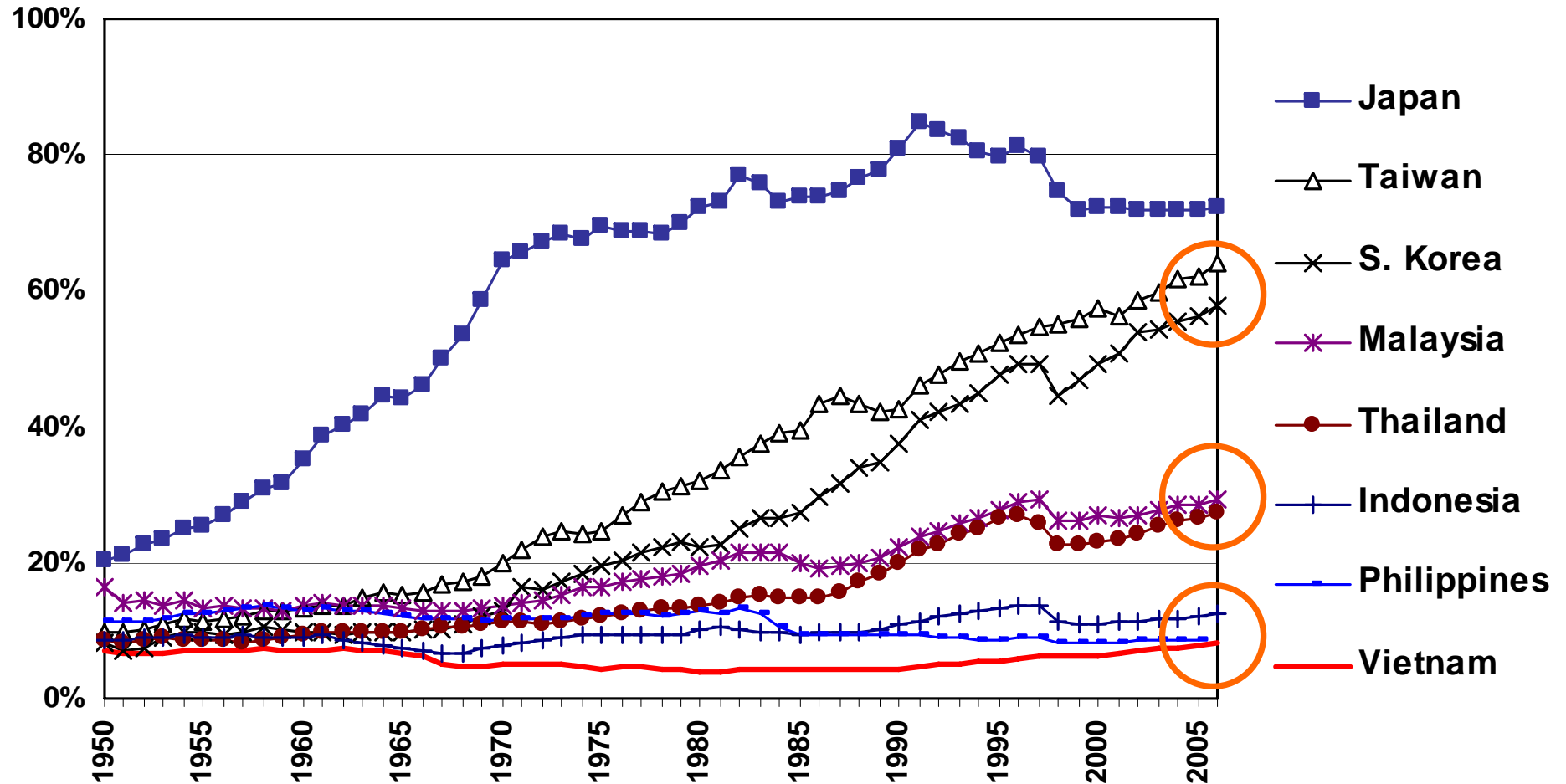
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# Different Speed of Catching Up

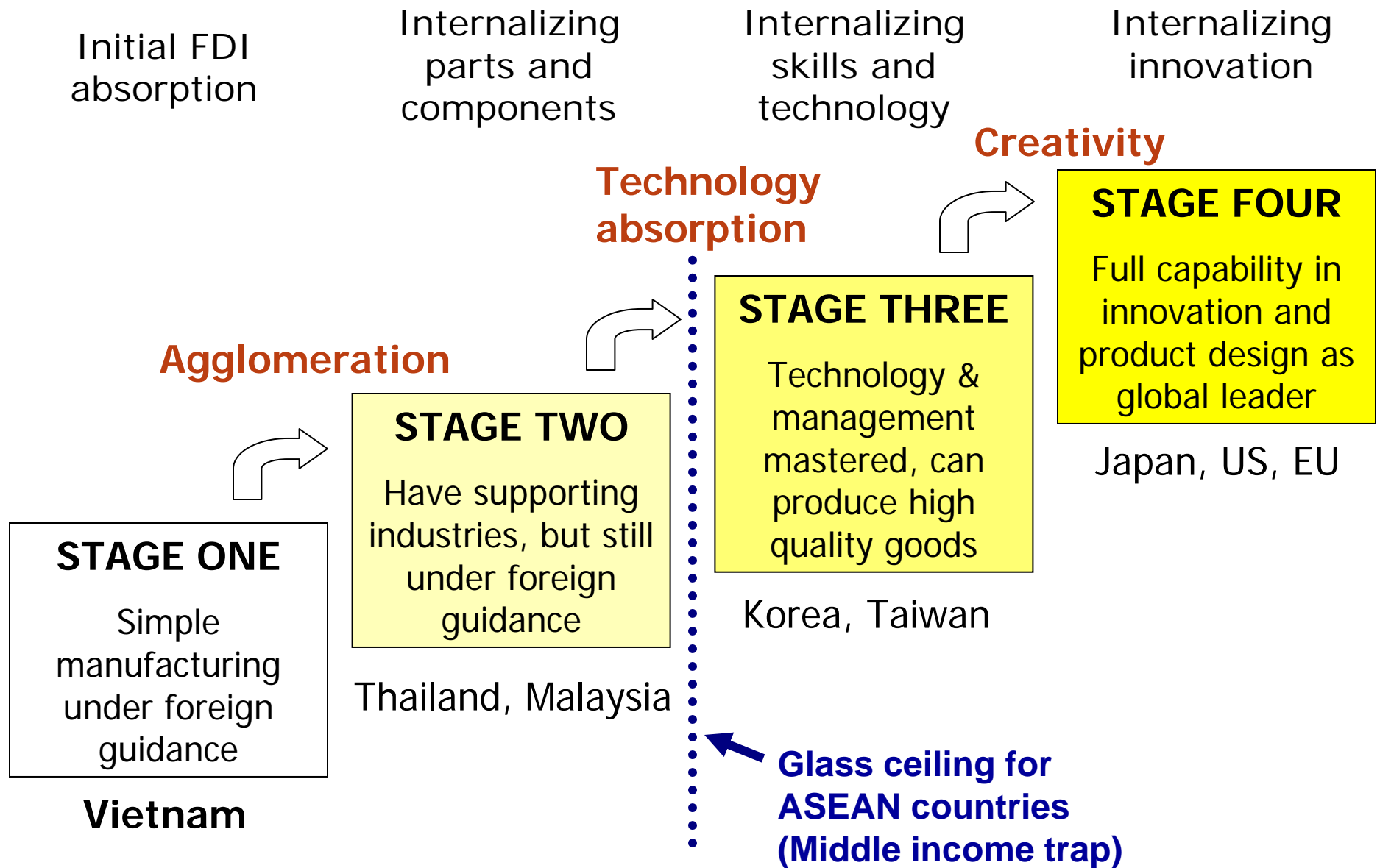
## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)



Sources: Angus Maddison, *The World Economy: A Millennium Perspective*, OECD Development Centre, 2001; the Central Bank of the Republic of China; and IMF *International Financial Statistics* (for updating 1998-2006).

# Catching Up Process





# Lessons from Thailand and Malaysia

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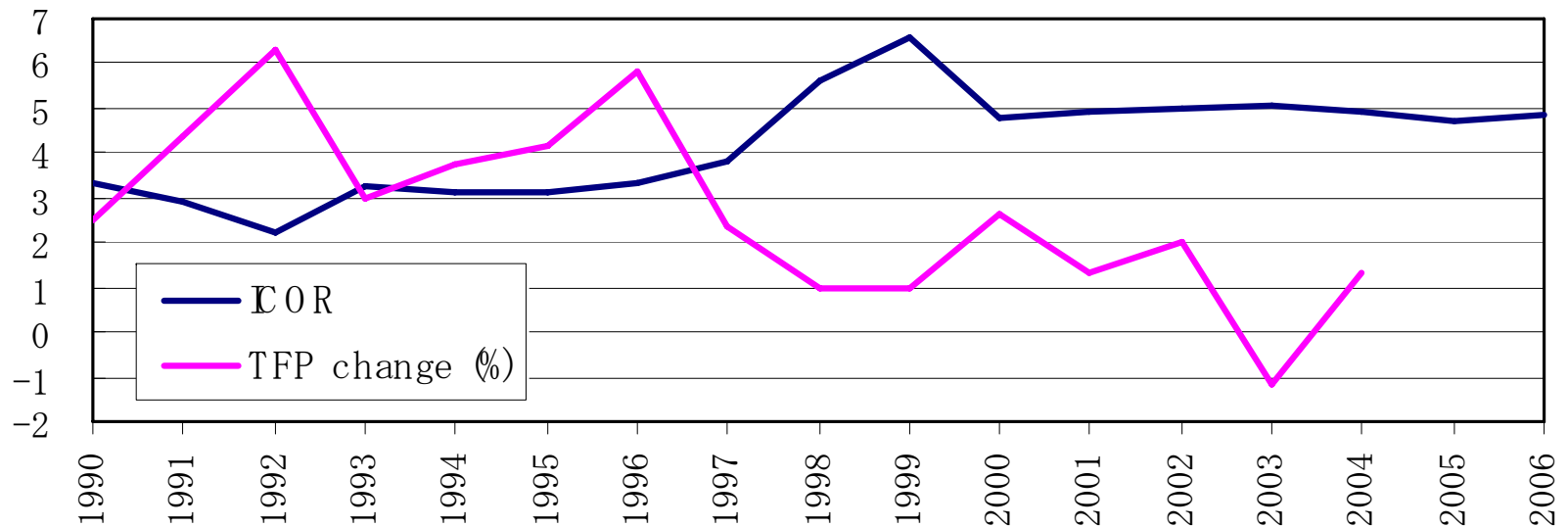
**(Success)** Impressive industrialization and growth led by FDI and reasonable policy

**(Failure)** Domestic private-sector capability is still weak after many decades

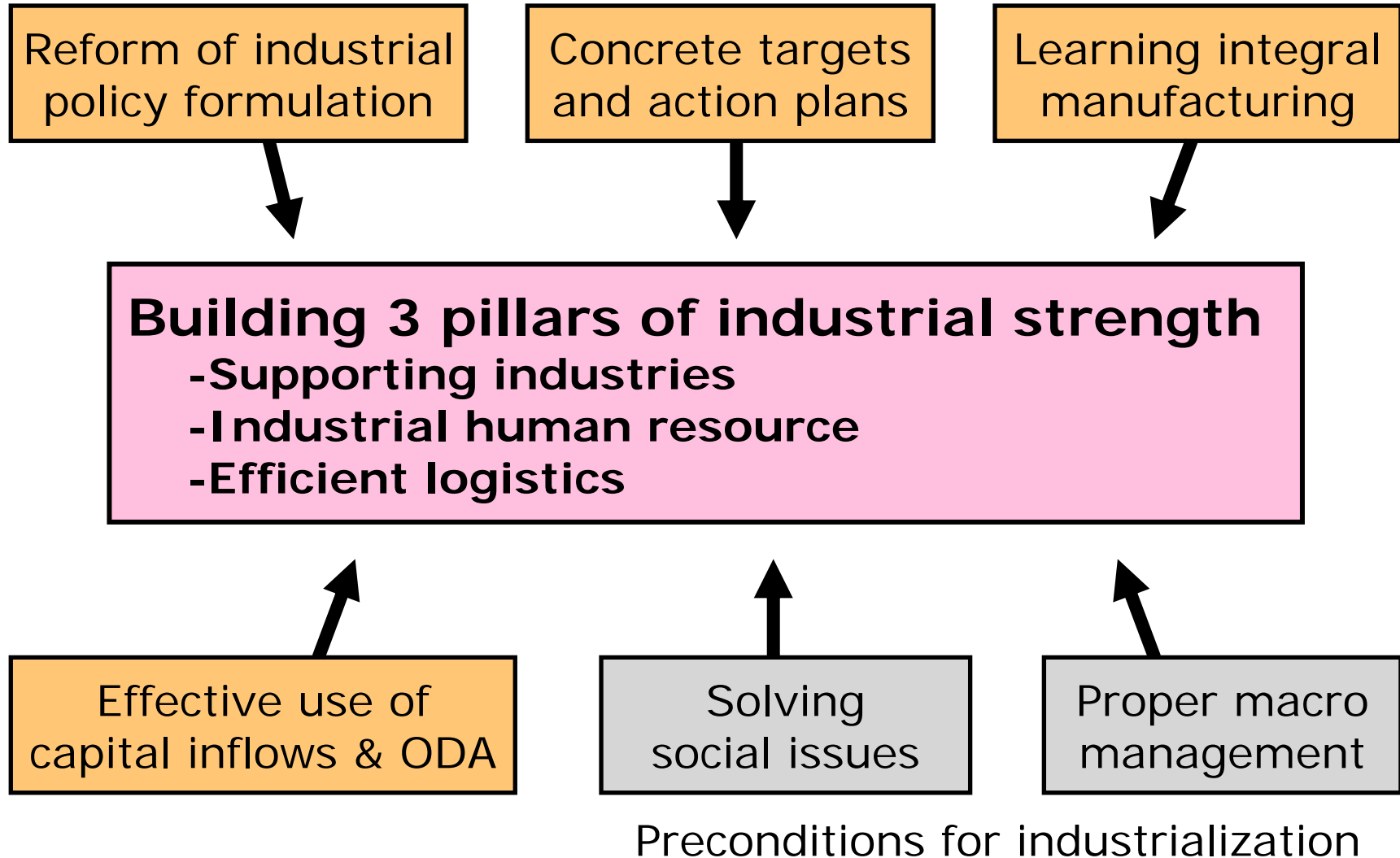
- Foreign dependency—inability to send foreign managers home
- Value and capability are not internalized—middle income trap
- Risk of wage pressure and FDI shift to China/India/Vietnam

# Vietnam's Changing Sources of Growth

- Doimoi to mid 1990s—liberalization effect
- Mid 1990s to now—externally driven growth with large inflows of investment, capital and aid
- From now—creation of internal value!



# Proposed Strategy for 2020



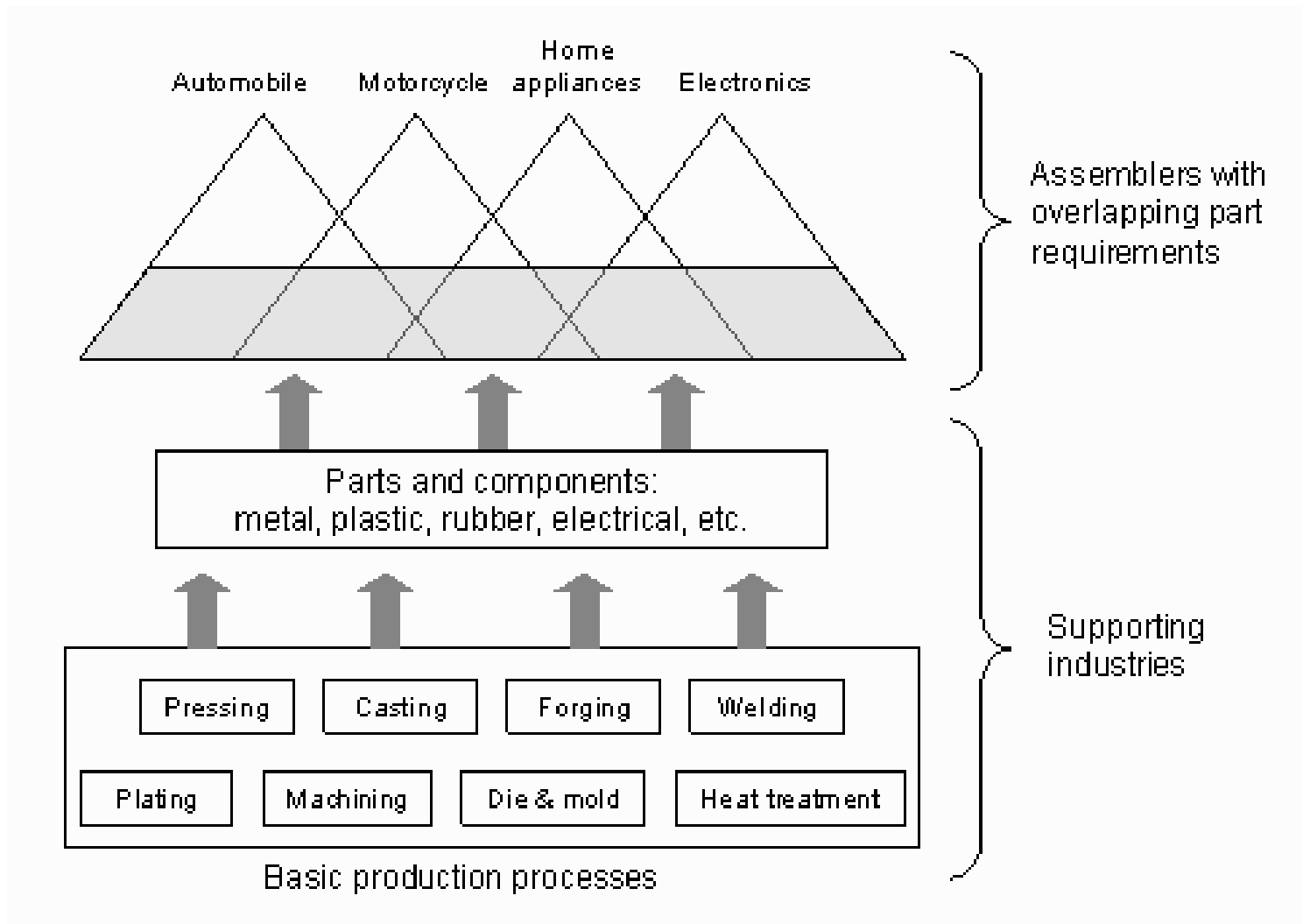


# Internal Sources of Manufacturing Strength

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- **Supporting industries**  
SME promotion (HRD, technology, management, finance), inviting FDI parts makers, industrial standards, quality standards and testing, factory doctors, FDI-local matching service, promoting SME networking, trade fairs & reverse trade fairs, database
- **Industrial human resource**  
Vocational schools & training centers, Meister system, curriculum reform, overseas education & training, incentive for brain return
- **Efficient logistics**  
Transport & telecom infrastructure, efficient ports & airports, trucking service, cargo handling centers, trading companies, modern distribution network, warehouse, customs and tariff systems

# The Concept of Supporting Industries



# Successful Technical and Vocational Training Centers

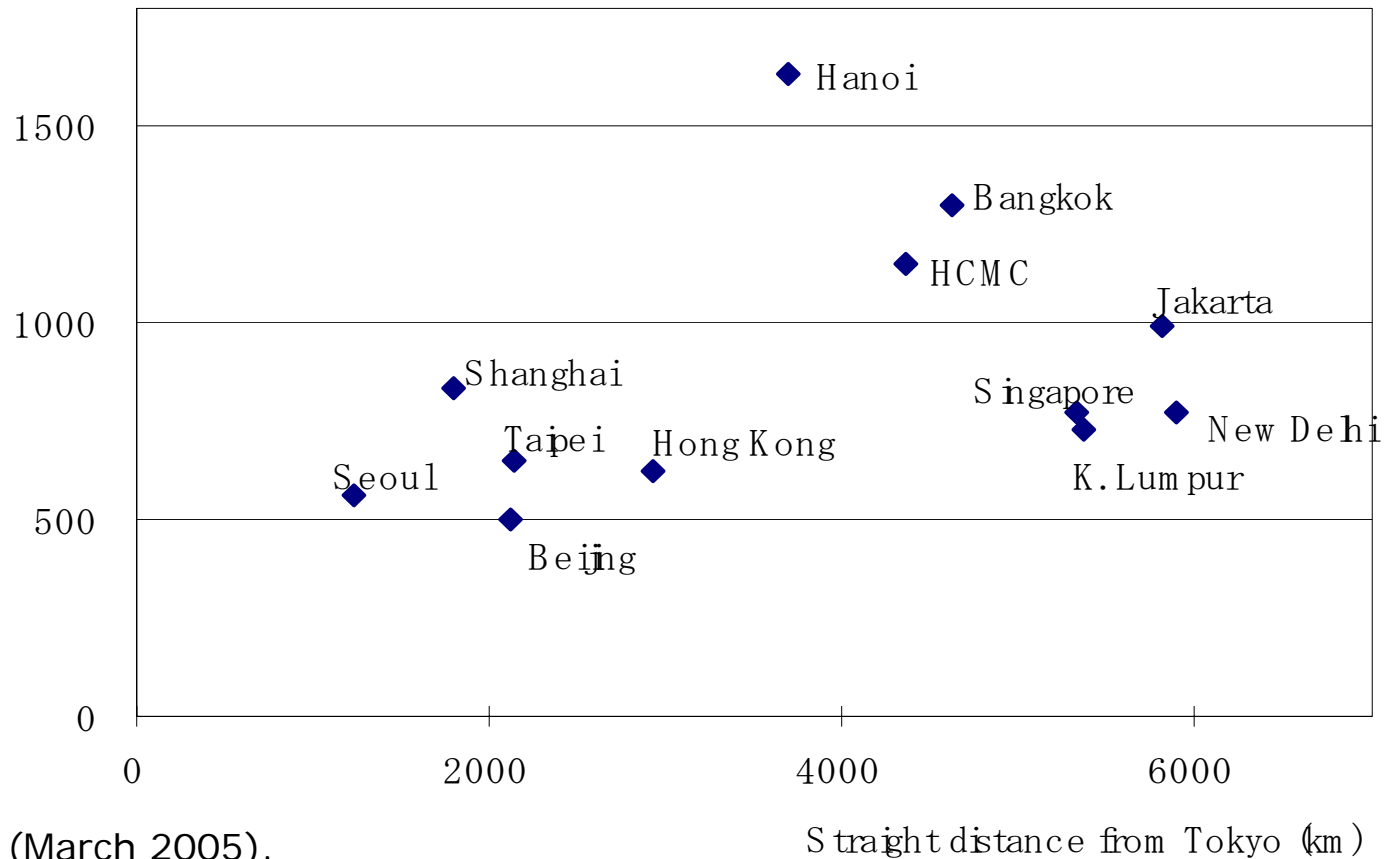
	<b>Period</b>	<b>Location</b>	<b>Foreign partner</b>	<b>Budget size</b>	<b>No. of students</b>	<b>Courses</b>
<b>Cao Thang Technical College</b>	<b>1905-</b>	<b>HCMC</b>	<b>No</b>	<b>Self finance</b>	<b>7,500 in 2006 (plus 7,000 in short prog.)</b>	<b>30 industrial majors with clear career orientation and practical workshops</b>
<b>Vietnam-Germany Center at HCMC University of Tech. Education</b>	<b>1993-2000</b>	<b>HCMC</b>	<b>Germany</b>	<b>7 mil USD</b>	<b>400 per year</b>	<b>Standardized programs to train teachers in electrical-electronics and mechanics, with modern equipment</b>
<b>Vietnam-Singapore Tech. Training Center</b>	<b>1997-2005</b>	<b>Binh Duong</b>	<b>Singapore</b>	<b>5 mil USD</b>	<b>500 (in 2002)</b>	<b>Electrical-electronics, mechanics, mechatronics, customized courses; in cooperation with VSIP</b>
<b>Vietnam-Japan Technical Center at Hanoi Industry University</b>	<b>2000-2005</b>	<b>Hanoi</b>	<b>Japan</b>	<b>6 mil USD</b>	<b>720 per year (plus 1,300 in short courses in 5 years)</b>	<b>Machining, metal processing, electrical control; using modern equipment and teaching good attitude</b>
<b>Vietnam Japan Cooperation Center</b>	<b>2000-2010</b>	<b>Hanoi, HCMC</b>	<b>Japan</b>	<b>n.a.</b>	<b>2,000 in 6 years</b>	<b>Business administration and strategy, production management, etc. for top and middle managers</b>

Source: Pham Truong Hoang and Ngo Duc Anh (2008)

# Logistics Problem (Especially Hanoi)

## Sea Transport Cost to Japan, 2004

Freight cost in USD (40-foot container)



Source: JETRO (March 2005).



## Suggested Goals for 2020

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- Vietnam should become a *skilled-labor* intensive manufacturing country
- Produce engineering graduates with the same quality and volume as Malaysia and Thailand (or better)
- CEOs of FDI firms should predominantly be Vietnamese
- Produce 100 *Industrial Meisters* per year
- All basic production processes (die & mold, heat treatment, etc) should be supplied domestically, including high skill ones



## Goals for 2020 (cont.)

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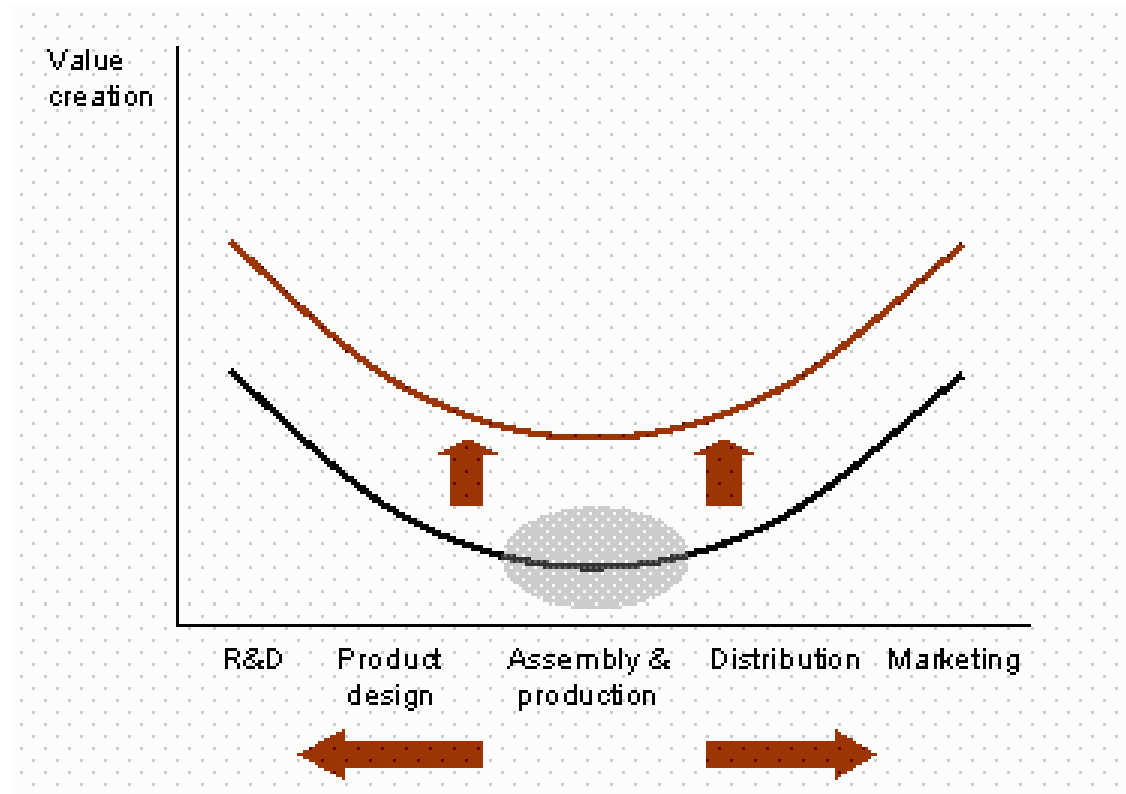
- Become a global center (major exporter) of die & mold production and maintenance
- Create several electronics industrial clusters (printers/copiers, digital cameras, mobile phones etc, and their components)
- Export high-end garment and footwear with large internal values (fashion design, quality control, marketing, etc)
- Export high-quality agro and marine products with 100% safety guarantee

# Malaysia's Manufacturing++

Malaysia's IMP3 (1996-2005) aimed at raising and broadening the value chain

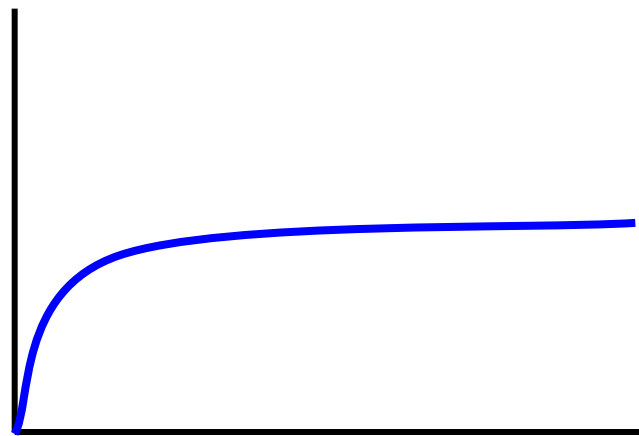
## Leveling up of each industrial cluster

- Core production
- Supporting industries
- Supporting services
- Human resources
- Logistics
- R&D

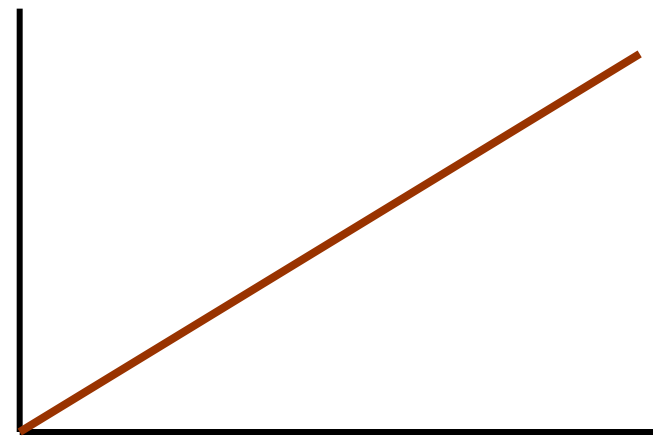


	<b>Modular manufacturing</b>	<b>Integral manufacturing</b>
Parts interface	Parts are common and can be used for any model	Each product has unique parts, specifically designed
Merits	Quick results and flexibility	Endless pursuit of quality
Demerits	No differentiation, excess entry, low profit, lack of R&D	It takes much energy and time to achieve results
Institutional requirements	Openness, quick decision making, flexible outsourcing	Long-term relations, building internal skills & knowledge

Performance



Time

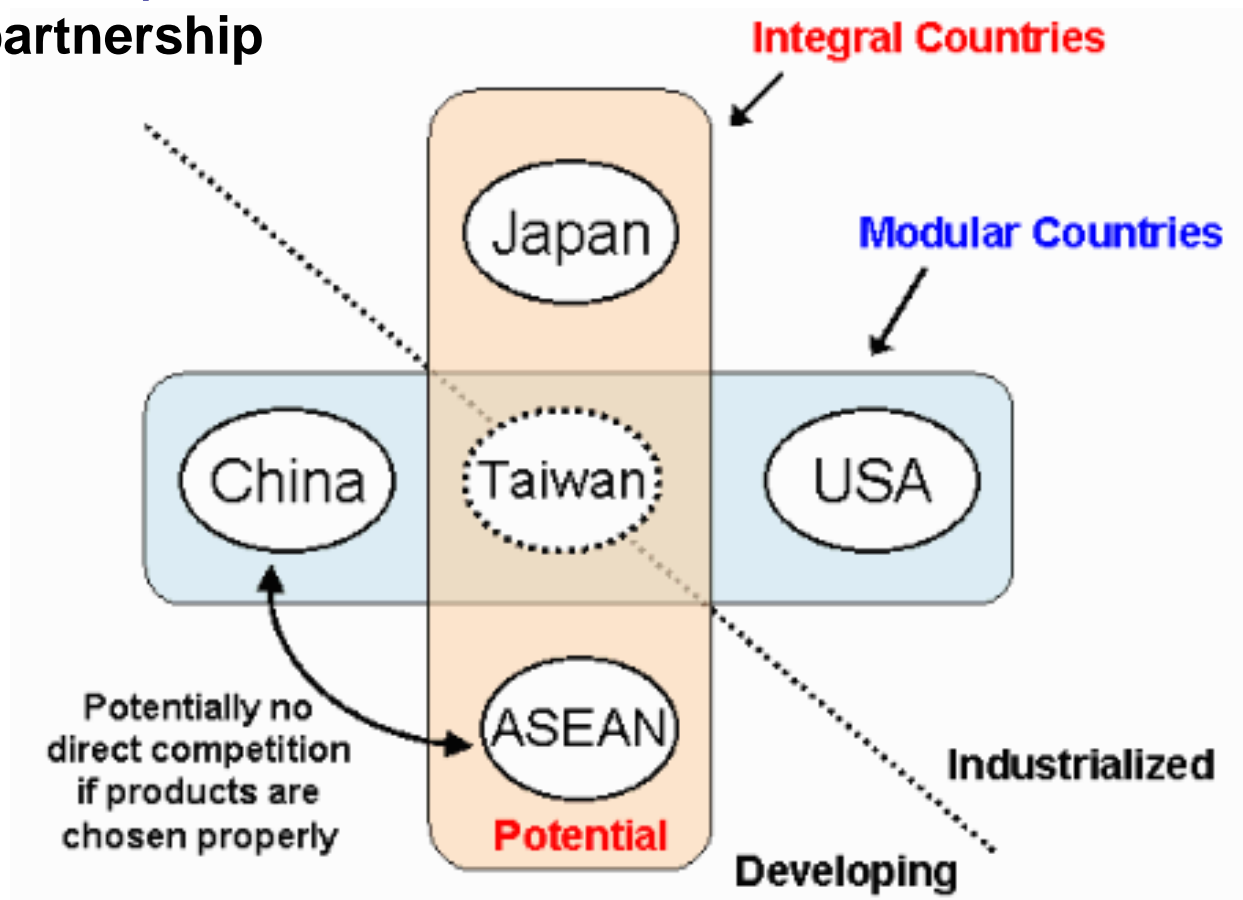


Time

# Partnership Possibilities

## From the Viewpoint of Business Architecture

**Japan=ASEAN (integral)** and  
**USA=China (modular)** can  
form effective partnership



Source: compiled from Prof. Takahiro Fujimoto's explanation to the Joint VDF-MOI mission, June 2005.



# Japan Needs a Developing Country Partner

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- Japan has high technology, but also high wages and ageing population
- **The 2007 Problem**—Postwar baby boomers (born 1947-49) with high skills began to retire from 2007
- Japan needs a young developing country as a reliable partner in integral manufacturing
  - Interested in *monozukuri* (manufacturing with skill and pride)
  - Work closely with Japan while protecting industrial property rights (no illegal copies)



# Effective Mobilization of Japanese Cooperation

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- Japan has contributed to Vietnam through FDI, ODA and improving investment climate (removing negatives)
- From now on, Japan should help Vietnam as an emerging industrial partner
  - Assist drafting overall industrial master plan
  - Dramatically and quickly improving SI, IHR and logistics
  - Mobilizing retired Japanese engineers
  - Strategic training in Japan and at Japanese firms



# Reforming the Industrial Policy Formulation Method

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## <Two Problems in Vietnam>

### ○ Lack of business involvement

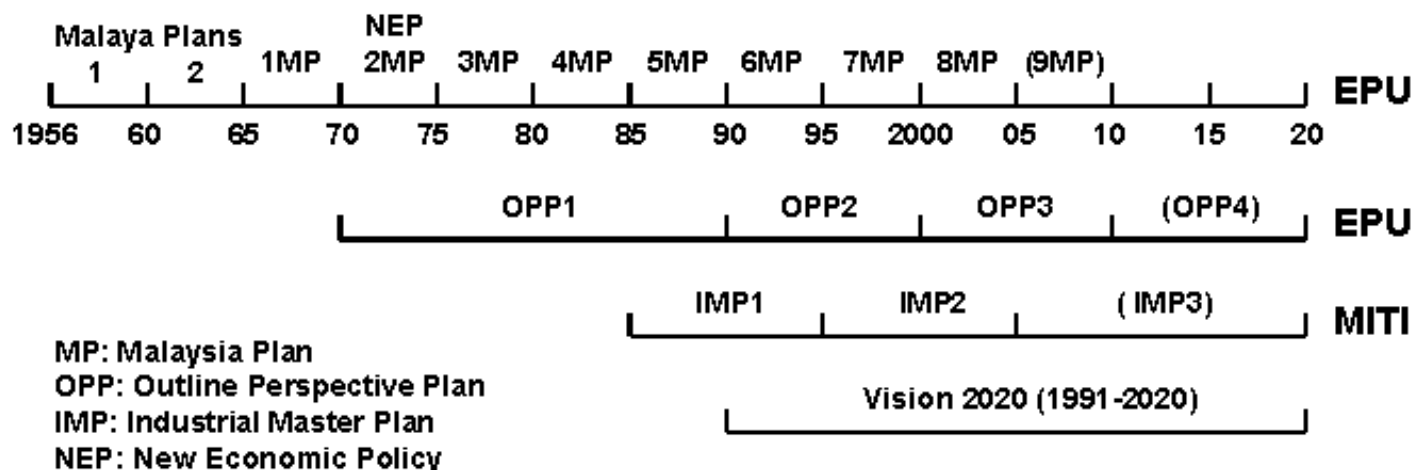
- Businesses are allowed to comment later or only when problems arise
- Unrealistic analysis & targets not supported by business firms

### ○ Lack of inter-ministerial coordination

- Listing policies without concrete action plans

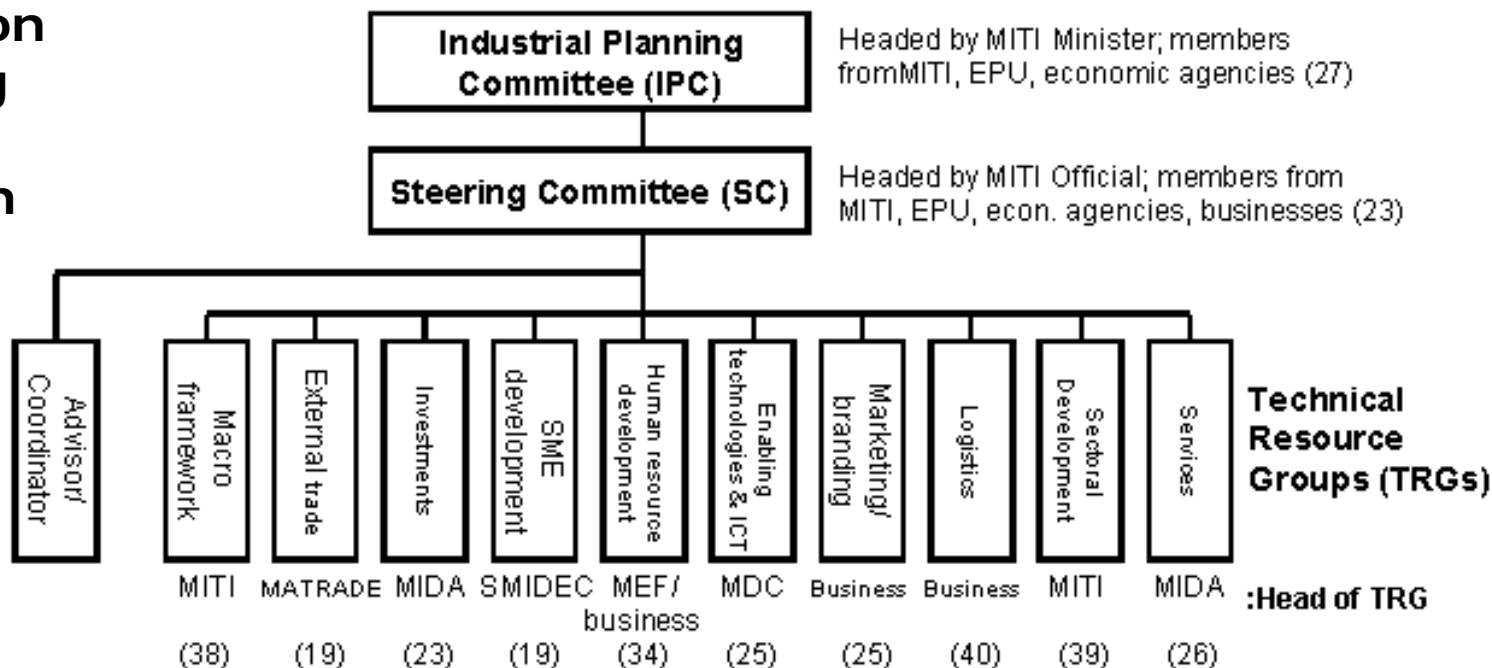
**These problems are unique to Vietnam; they do not exist in Japan, Thailand or Malaysia**

# Multi-layered Model



## Malaysia

### Organization for drafting Industrial Master Plan



Source: MITI website.

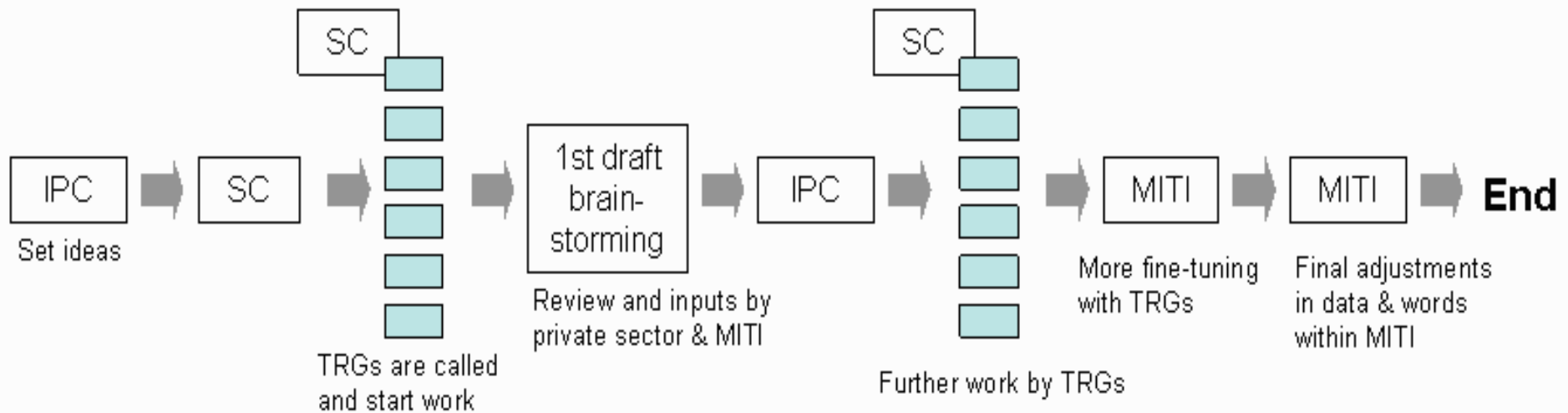
Note: Numbers in parentheses indicate the number of members in each committee or group.

# Malaysia: Drafting of Industrial Master Plan 2006-2020 (IMP3)

IPC: Industrial Planning Committee (headed by MITI Minister)

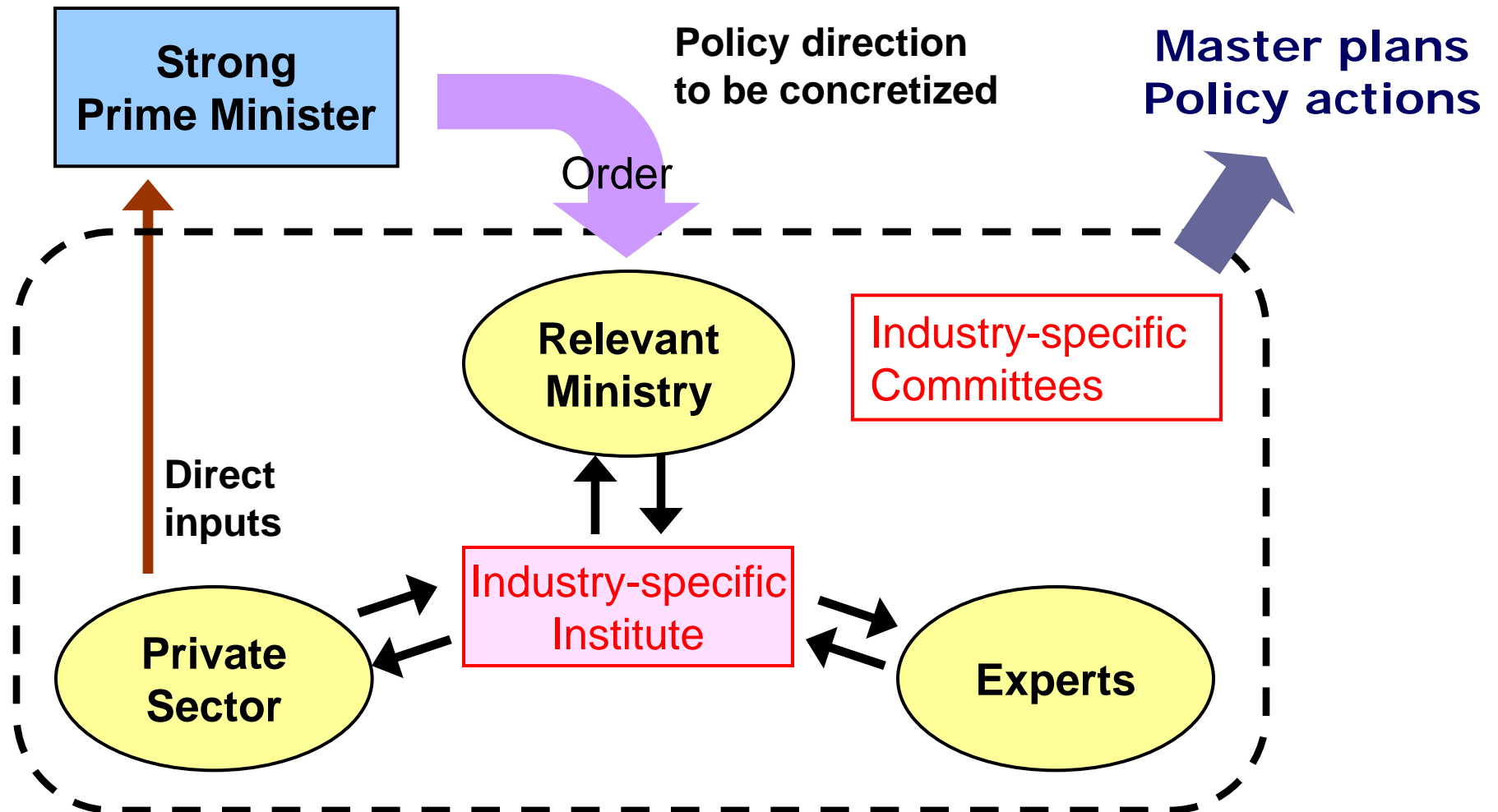
SC: Steering Committee (headed by MITI high official)

TRGs: Technical Resource Groups (headed by various experts)

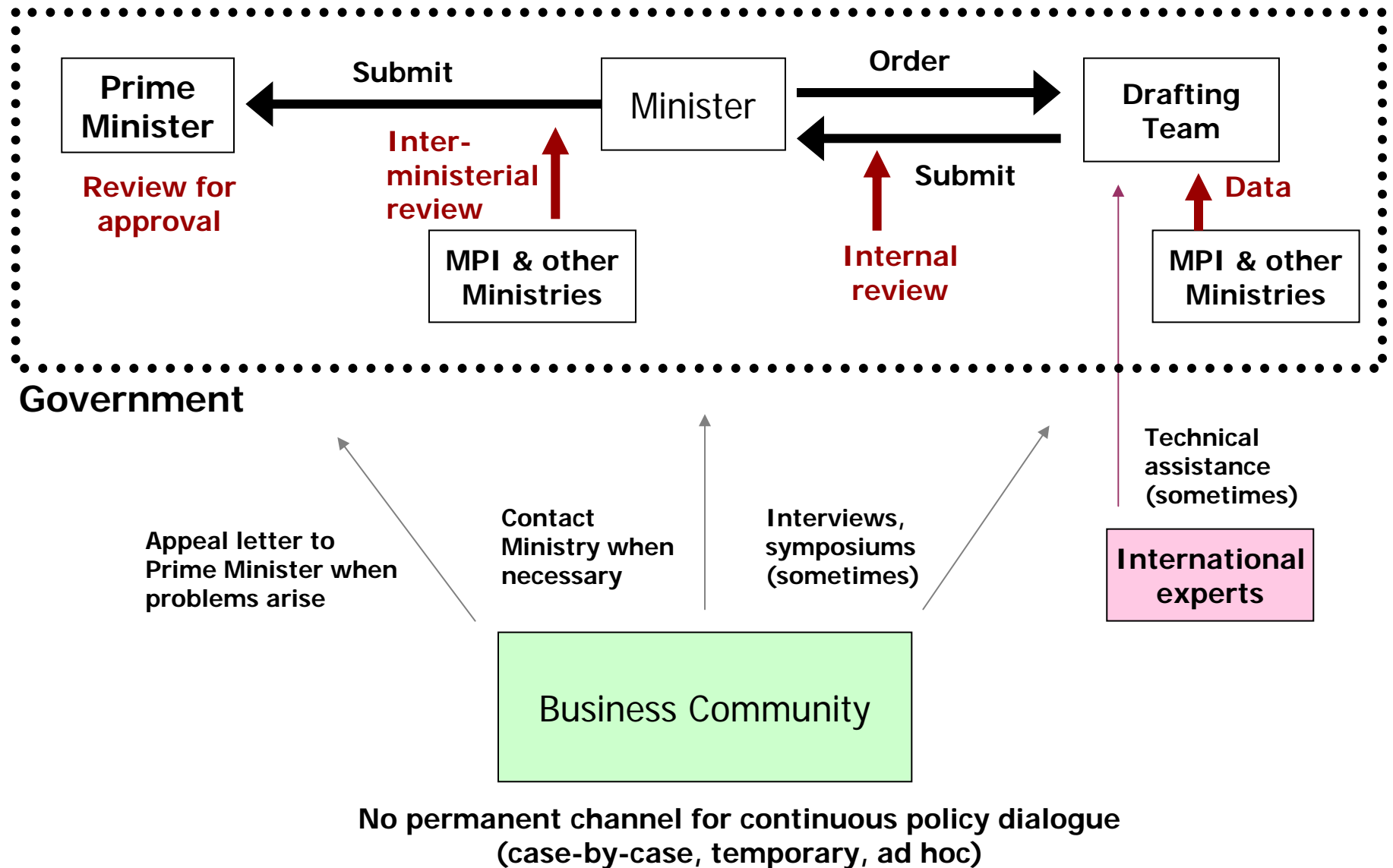


↑ ↑ ↑  
Business opinions reflected through TRGs and brainstorming

# Central Coordination Model: Thailand under Thaksin 2001-06



# Vietnam: Traditional M/P Drafting Process

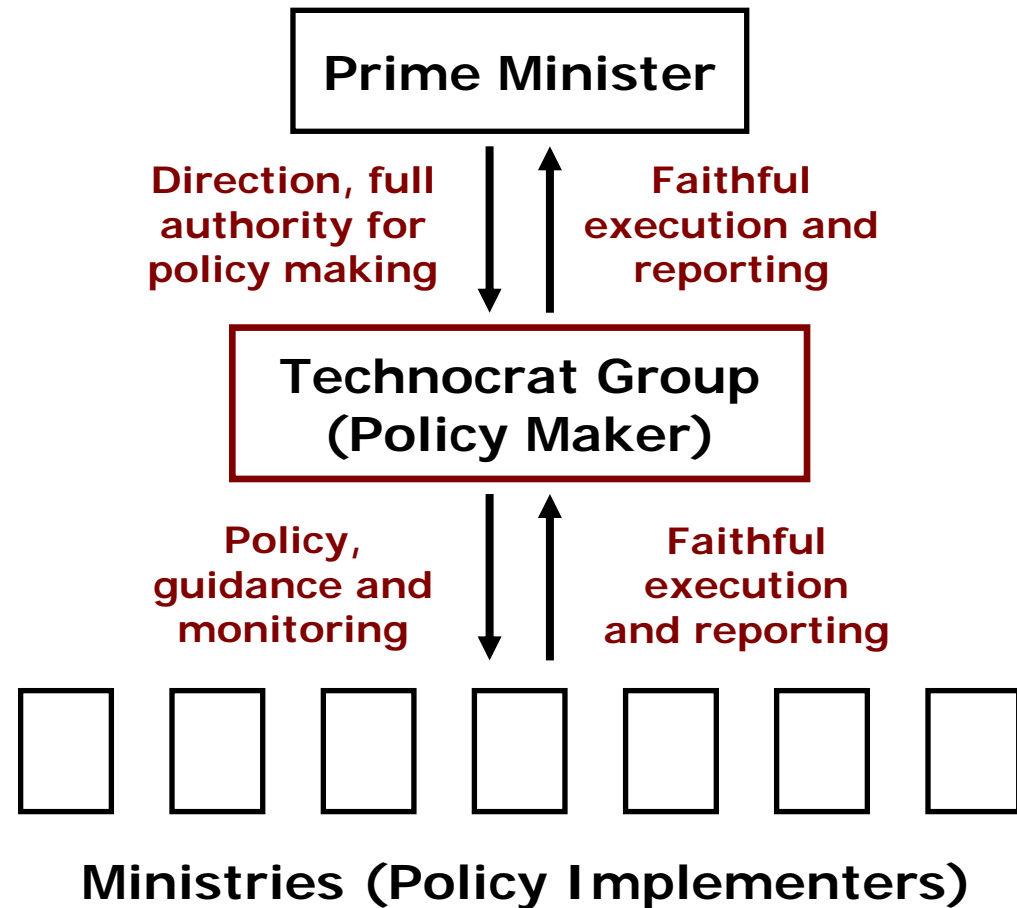


# Policy Formulation for Vietnam: A Proposal

-Elite technocrat group under strong leadership of Prime Minister

-Choose young, well educated officials and experts

-Simplify policy authority and procedure

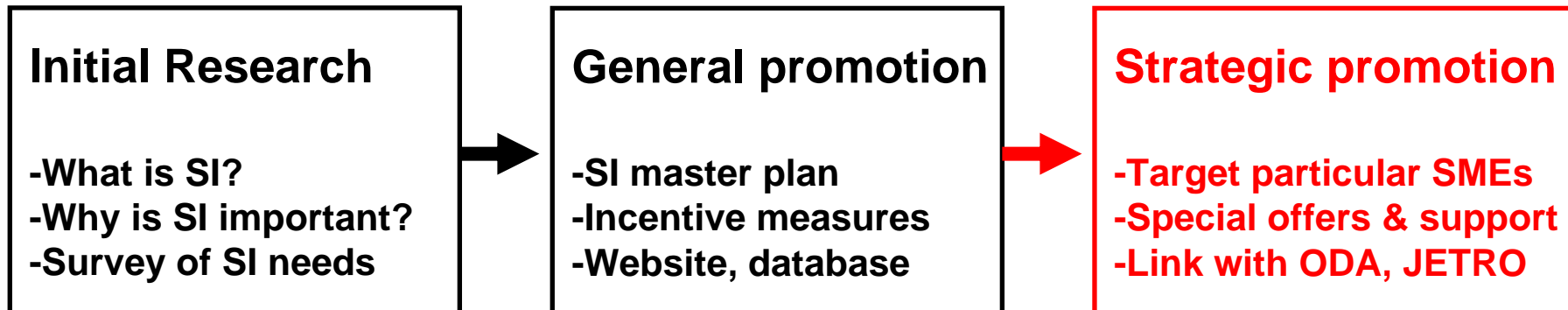


# From General Policies to Strategic Policy Making

## <FDI Marketing>



## <Supporting Industry Promotion>



## <Thailand>

--**Ota Techno Park** created in Bangkok suburbs (June 2006): rental factory space with good support for SMEs from Ota Ward, Tokyo

--**Automobile Support Project:** JETRO (coordinator), Denso (teach kaizen), Toyota (teach kanban system), Honda (teach die & mold skills), Nissan (build certificate system)



**Ota Techno Park in Amata Nakorn Industrial Estate, Thailand (less than 1 hour from Bangkok)**

## <Malaysia>

--Under Japan-Malaysia FTA, Toyota & Honda jointly send engineers to local SMEs and teach die & mold skills. JBIC provides loans (2006).

## <Indonesia>

--Japan-Indonesia High-level Government-Business Investment Forum sets up the Die & Mold Industrial Association (2005). Bilateral effort to improve skills and certificate system. Many other measures proposed.



# Summary of Policy Advice

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- Reform policy formulation greatly, by creating a technocrat group under Prime Minister
- Establish effective channels to work with businesses—learn from international experiences
- Draft an overall industrial master plan with concrete goals and action plans up to 2020
- In the next 3 to 5 years, dramatically improve SI, IHR and logistics—set concrete goals and concentrate efforts



## Policy Advice (cont.)

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- Actively create several industrial clusters (esp. electronics) by 2020
- Export high-quality garment, footwear and food products
- Learn integral manufacturing
- Conduct strategic FDI marketing
- Mobilize international aid strategically (incl. retired Japanese engineers and targeted training)



**THE END**