

# **Vietnam's Industrial Policy: Designing Policies for Sustainable Development**

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**Industrialization Strategy of Vietnam  
Toward 2020**

**Hanoi 19th March 2008**

# Presentation Outline

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- Brief history of how Vietnam's industrial policy
  - Analysis of the current structure, policies and performance of Vietnam's industry
  - Conclusion and recommendations
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# Industrial policy under the centrally planned system (before 1989)

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- ❑ Consistent but not that efficient industrial policy
  - ❑ Dependent on aid from Soviet Union
  - ❑ Appropriate for wartime conditions and for a country fully integrated into the Comecon system
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# Industrial policy between 1989-2000

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- Less consistent but more efficient policy
  - No longer dependent on foreign aids
  - Policy changes toward a more diversified industrial structure and integrated economy
    - Two sectors that had little in common
      - State sector that was high cost and not competitive internationally
      - FDI sector that was low cost and more competitive internationally
    - Normalization with the US and joining ASEAN
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# Industrial policy since 2000

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- Necessary steps to become a member of WTO
    - Bilateral and multi-lateral trade agreements
  - Enterprise Laws of 2000 and 2005
    - Reduce costs of starting businesses
  - Investment Law 2005
    - Decentralization of FDI management
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# **Vietnam's Current Industrial Performance and Structure**

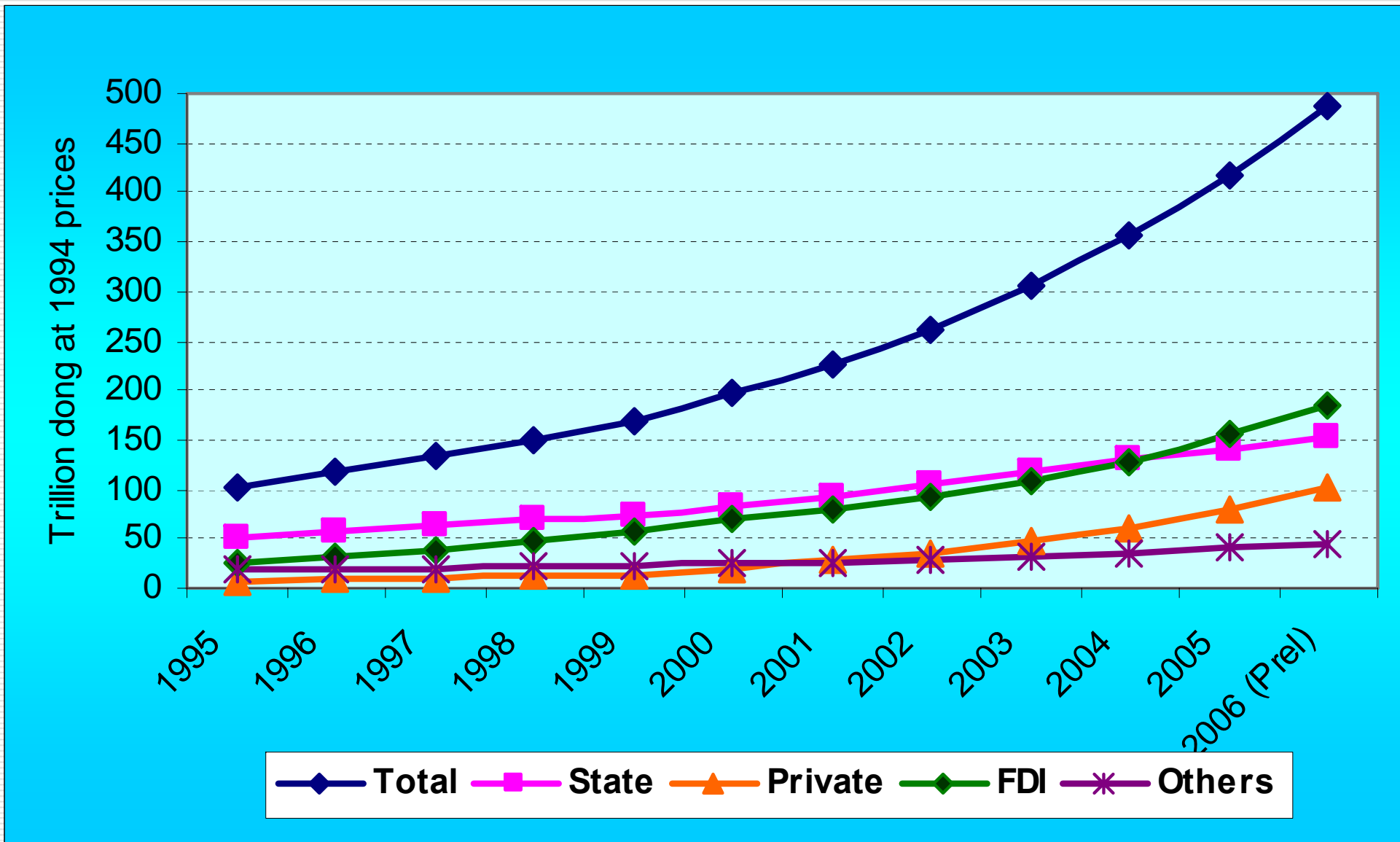
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**Industrial structure**

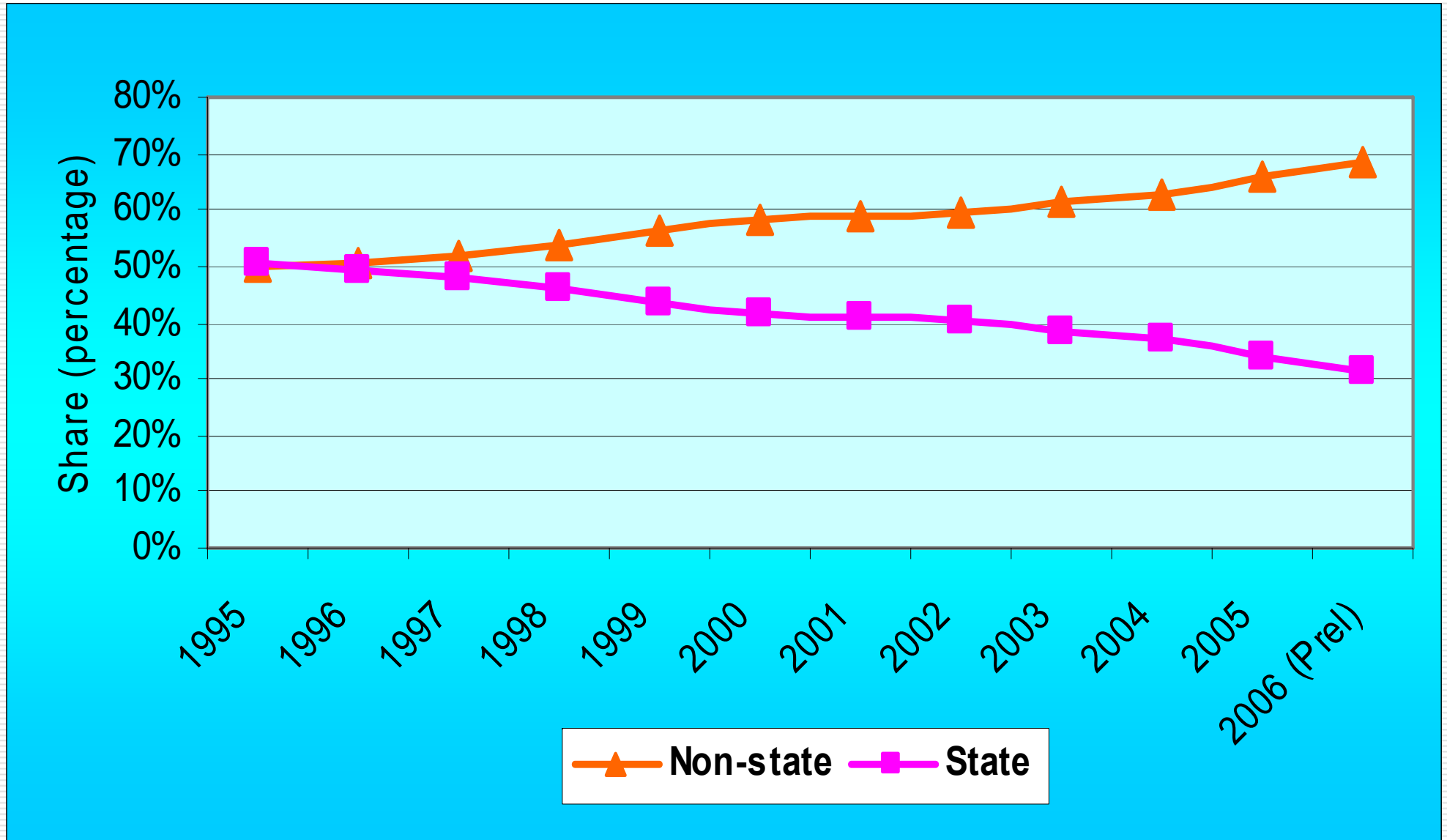
**Industrial Performance**

**Institutions supporting industrial development**

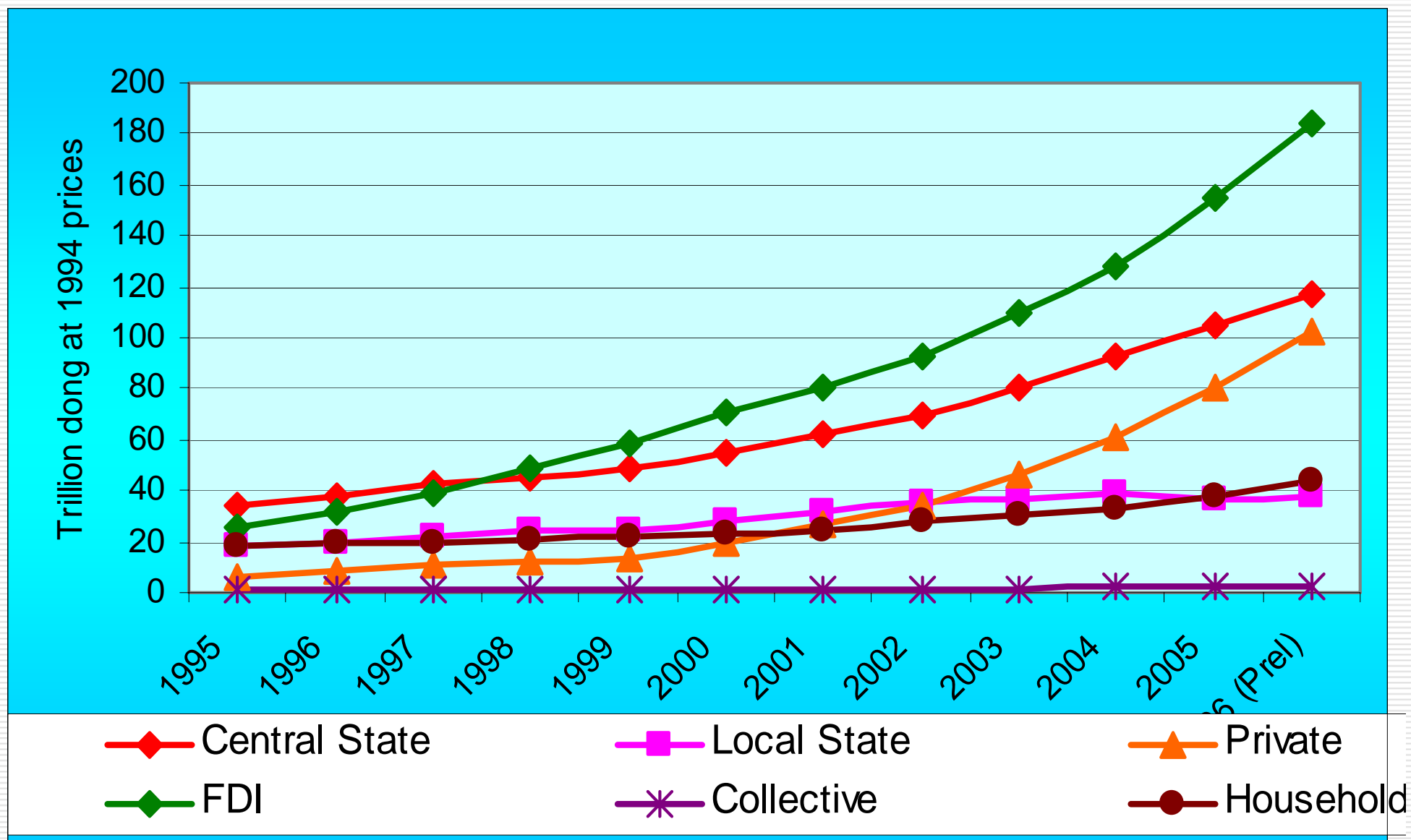
# Gross Industrial Output by Ownership



# Share of State and Non-State Owned Industry

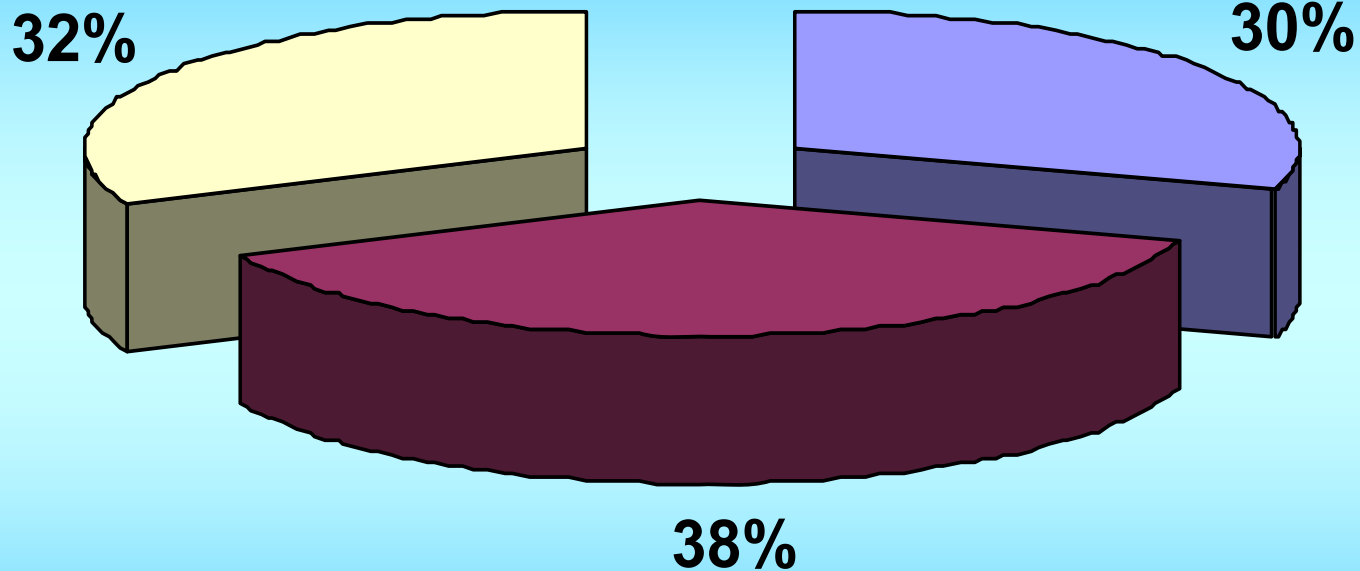


# Vietnam Industrial Output Value by Ownership



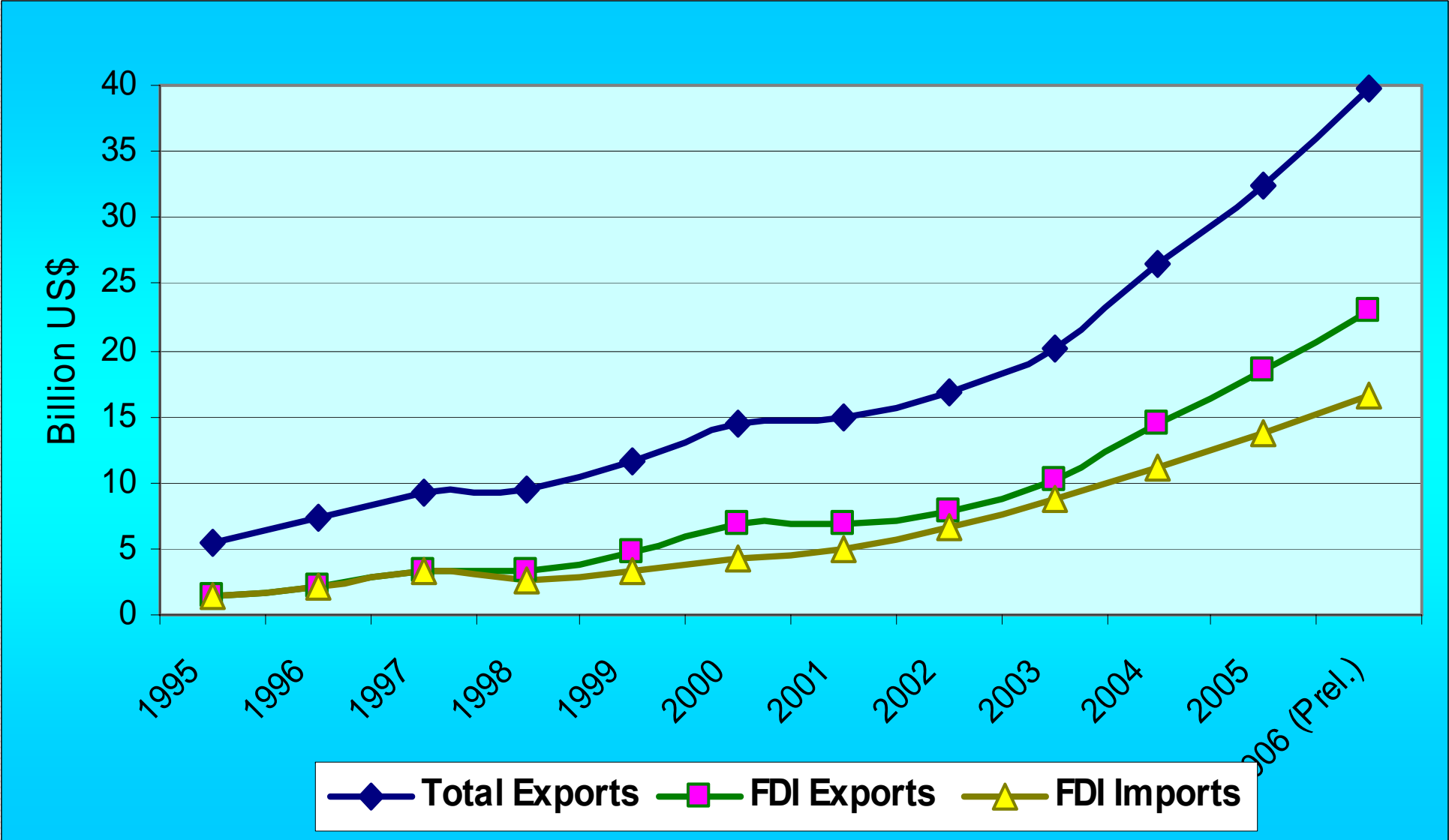
# Industrial Production Value by Sectors

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■ Dân doanh (23.9%) ■ Nước ngoài (18.8%) ■ Nhà nước (9.1%)

# FDI Share in Exports



# Manufacturing Value Added (MVA)

Indicators	Year/Period	Viet Nam	China	Thailand	Malaysia	Taiwan	Developing countries
MVA, average annual real growth rate (in %)	1995-2000	11.0	9.2	1.8	6.0	5.6	4.8
	2000-2005	12.0	10.4	7.4	5.6	4.8	5.2
Non-manufacturing GDP, average annual real growth rate (in %)	1995-2000	6.0	8.0	-1.8	2.8	5.8	3.8
	2000-2005	6.2	9.0	4.2	4.4	3.0	4.6
MVA per capita, in constant 1995 US\$	1995	43	203	868	1151	3247	268
	2000	68	305	942	1517	4120	326
	2005	113	479	1250	1755	4888	455
MVA as percentage of GDP at constant 1995 prices	1995	15.0	33.4	29.8	26.4	25.4	21.0
	2000	18.2	34.8	33.4	31.0	25.2	22.4
	2005	22.8	36.0	36.6	31.8	26.4	23.8

# Comparison of Manufacturing Value Added

	<b>Vietnam 1998</b>	<b>Vietnam 2000</b>	<b>China 1995</b>	<b>China 2003</b>	<b>Thailand 1996</b>	<b>Malaysia 1996</b>
<b>ISIC Description</b>	<b>MVA per employee</b>	<b>MVA per employee</b>	<b>MVA per employee</b>	<b>MVA per employee</b>	<b>MVA per employee</b>	<b>MVA per employee</b>
<b>Total manufacturing</b>	<b>2,841</b>	<b>2,841</b>	<b>2,542</b>	<b>8,433</b>	<b>16,320</b>	<b>20,119</b>
Food	3,867	3,146	2,632	9,118	12,839	20,247
Textiles	2,366	1,605	1,599	4,615	7,934	11,424
Leather and apparel	1,126	1,701	2,398	4,008	6,034	7,539
Footwear	1,083	1,142	-	-	5,601	9,050
Wood products	1,271	978	1,560	5,032	10,092	10,410
Furniture	1,219	1,093	1,931	5,093	6,570	9,805
Petroleum refineries and products	18,716	16,287	9,335	26,054	176,074	225,120
Rubber and plastic products	2,973	2,943	2,340	6,741	12,948	15,571
Metal products	2,847	2,713	2,382	6,852	10,741	17,028
Electrical machinery	3,074	3,824	4,764	12,351	18,634	17,089
Shipbuilding and repairing	1,471	3,969	-	-	18,503	32,877

# Privatization, Equitization, and Enterprise Efficiency

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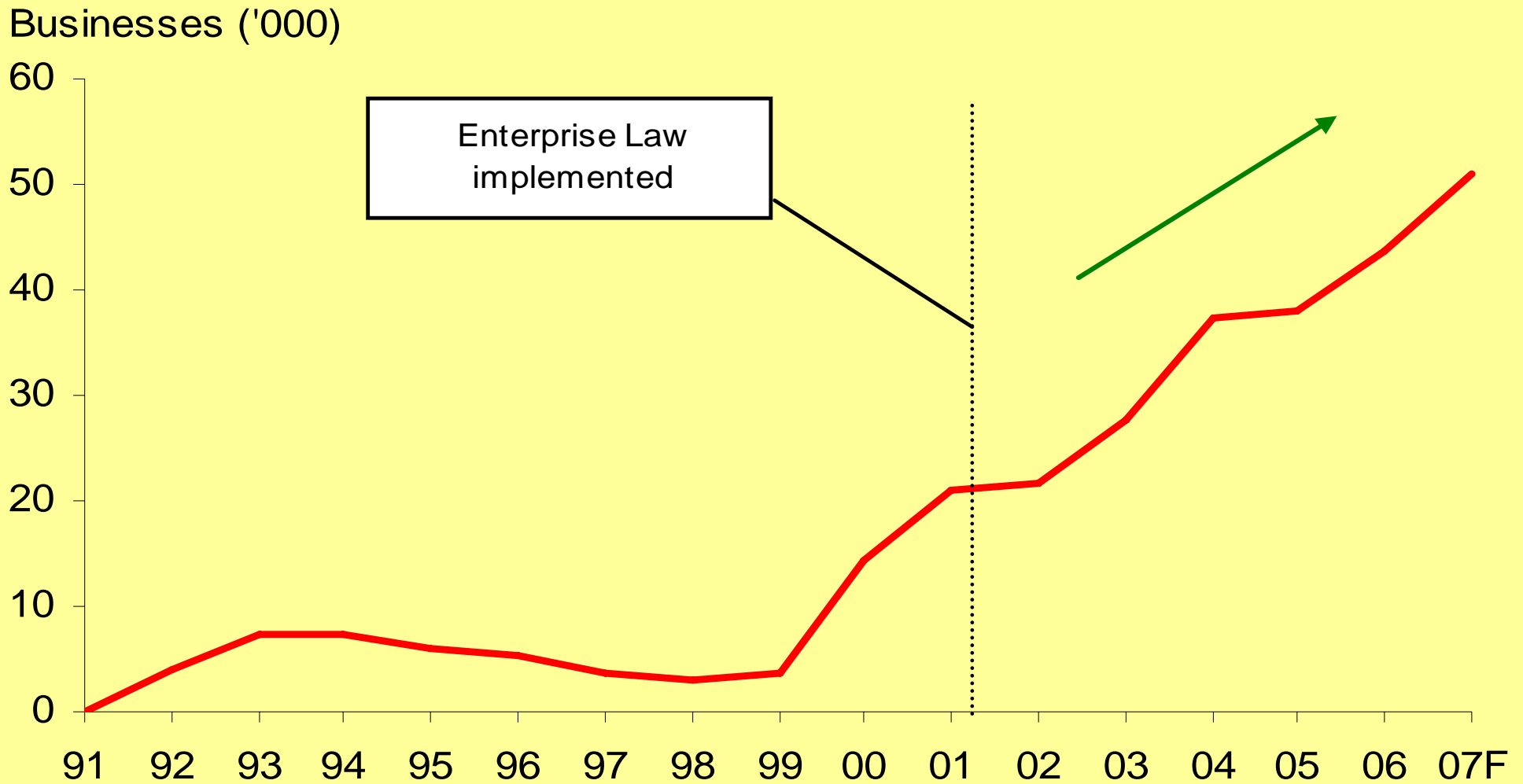
	More like SOEs	Like both SOEs & POEs	More like POEs	Total of firms
<b>Ownership and asset rights</b>	<b>38%</b>	<b>42%</b>	<b>20%</b>	<b>434</b>
<b>Credit, investment, market accession</b>	<b>30%</b>	<b>41%</b>	<b>29%</b>	<b>436</b>
<b>Labor management</b>	<b>47%</b>	<b>38%</b>	<b>14%</b>	<b>438</b>
<b>Compliance with regulations</b>	<b>45%</b>	<b>39%</b>	<b>16%</b>	<b>428</b>
<b>State-project bidding participation</b>	<b>36%</b>	<b>38%</b>	<b>26%</b>	<b>275</b>
<b>Local police</b>	<b>46%</b>	<b>40%</b>	<b>14%</b>	<b>402</b>
<b>Local government</b>	<b>47%</b>	<b>38%</b>	<b>15%</b>	<b>434</b>
<b>Central government</b>	<b>45%</b>	<b>40%</b>	<b>15%</b>	<b>392</b>
<b>State commercial banks</b>	<b>36%</b>	<b>38%</b>	<b>26%</b>	<b>422</b>

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# Privatization and Improvement of Firms' Performance

	N	Mean and median <u>before</u> <u>Equitization</u>	Mean and median <u>after</u> <u>Equitization</u>	Mean and median change	Z - statistic of Wilcoxon signed Ranks Test	% of firm that changed as predict	Asymp. Sig. (2-tailed)
ROA	130	0.0239	0.0484	0.0245	5.027 (a)	70%	.000(a)
		0.0166	0.0368	0.0202			
ROS	130	0.0112	0.0413	0.0301	6.020 (a)	76%	.000(a)
		0.0124	0.029	0.0166			
ROE	129	0.0864	0.0977	0.0113	4.392 (a)	73%	.000(a)
		0.0567	0.1238	0.0671			
Sales (mil. VND)	139	286.9693	399.0587	112.0894	5.073 (a)	73%	.000(a)
		96.2445	133.1445	36.9			
Inc. before tax (mil. VND)	131	4.2617	9.2892	5.0275	6.678 (a)	78%	.000(a)
		1.3389	4.1022	2.7633			

# Enterprise Laws and Domestic Private Registration in Vietnam (1991-2006)



# Ease of Doing Business

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	<b>2006 Rank</b>	<b>2007 Rank</b>
<b>Singapore</b>	<b>2</b>	<b>1</b>
<b>Thailand</b>	<b>19</b>	<b>18</b>
<b>South Korea</b>	<b>23</b>	<b>23</b>
<b>Malaysia</b>	<b>25</b>	<b>25</b>
<b>Taiwan</b>	<b>43</b>	<b>47</b>
<b>China</b>	<b>108</b>	<b>93</b>
<b>Vietnam</b>	<b>98</b>	<b>104</b>
<b>Philippines</b>	<b>121</b>	<b>126</b>
<b>India</b>	<b>138</b>	<b>134</b>
<b>Indonesia</b>	<b>131</b>	<b>135</b>
<b>Cambodia</b>	<b>142</b>	<b>143</b>
<b>Laos</b>	<b>164</b>	<b>159</b>

# Corruption Index

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	1998		2007	
	Rank	Score	Rank	Score
<b>Singapore</b>	<b>7</b>	<b>9.1</b>	<b>4</b>	<b>9.3</b>
<b>Taiwan</b>	<b>29</b>	<b>5.3</b>	<b>34</b>	<b>5.7</b>
<b>Malaysia</b>	<b>29</b>	<b>5.3</b>	<b>43</b>	<b>5.1</b>
<b>South Korea</b>	<b>43</b>	<b>4.2</b>	<b>43</b>	<b>5.1</b>
<b>China</b>	<b>52</b>	<b>3.5</b>	<b>72</b>	<b>3.5</b>
<b>India</b>	<b>66</b>	<b>2.9</b>	<b>72</b>	<b>3.5</b>
<b>Thailand</b>	<b>61</b>	<b>3</b>	<b>84</b>	<b>3.3</b>
<b>Vietnam</b>	<b>74</b>	<b>2.5</b>	<b>123</b>	<b>2.6</b>
<b>Philippines</b>	<b>55</b>	<b>3.3</b>	<b>131</b>	<b>2.5</b>
<b>Indonesia</b>	<b>80</b>	<b>2</b>	<b>143</b>	<b>2.3</b>
<b>Cambodia</b>	<b>Na</b>	<b>Na</b>	<b>162</b>	<b>2</b>
<b>Laos</b>	<b>Na</b>	<b>Na</b>	<b>168</b>	<b>1.9</b>

# Policies toward bank lending

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- ❑ Increased credit share to the non-state sector
  - ❑ Interest rate liberalization
  - ❑ Opening of the banking sector to foreign competition
  - ❑ Equitization program of SOCBs
  - ❑ Establishment of banks by conglomerates
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# Credits to SOEs and Other Sectors (94-06)

	1994	1996	1998	2000	2002	2004	2006
<b>Total credit <sup>(1)</sup></b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0
To SOEs	63.0	52.8	52.4	44.9	38.7	34.0	31.5
To other sectors	37.0	47.2	47.6	55.1	61.3	66.0	68.5
<b>Credit extended by SOCBs<sup>(2)</sup></b>	82.8	75.5	81.4	73.3	75.9	75.0	63.5
To SOEs	55.8	43.4	47.1	39.4	35.3	30.1	25.3
To other sectors	27.0	32.1	34.3	34.0	40.6	40.3	38.2
<b>Credit extended by other banks <sup>(3)</sup></b>	17.2	24.5	18.6	26.7	24.1	25.0	36.5
To SOEs	7.2	9.4	5.3	5.6	3.4	3.9	6.2
To other sectors	10.0	15.1	13.3	21.1	20.6	21.1	30.3

# Policies toward the industrial use of land

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- ❑ Conversion of agricultural and rural land to industrial and urban land
  - ❑ Development of IZs, EPZs, OEZs
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# Regional Concentration of Industry

Regions	1995		2006 prel.	
	Value (VND bil.)	Percentage	Value (VND bil.)	Percentage
Red River Delta	18,294.1	17.7%	113,521.4	23.3%
North East Region	6,179.2	6.0%	25,340.2	5.2%
North West Region	320.5	0.3%	1,429.1	0.3%
North Central Region	3,705.2	3.6%	17,602.3	3.6%
Coastal South Central Region	4,972.0	4.8%	25,625.7	5.6%
Highland Region	1,223.8	1.2%	4,091.3	0.8%
South East Region	51,092.0	49.4%	232,670.4	47.7%
Mekong Delta	12,236.9	11.8%	44,463.1	9.1%
Unclassified	5,351.0	5.2%	22,748.7	4.7%
<b>TOTAL</b>	<b>103,374.7</b>	<b>100.0%</b>	<b>487,492.1</b>	<b>100%</b>

# Industrial Structure by Ownership in 2005

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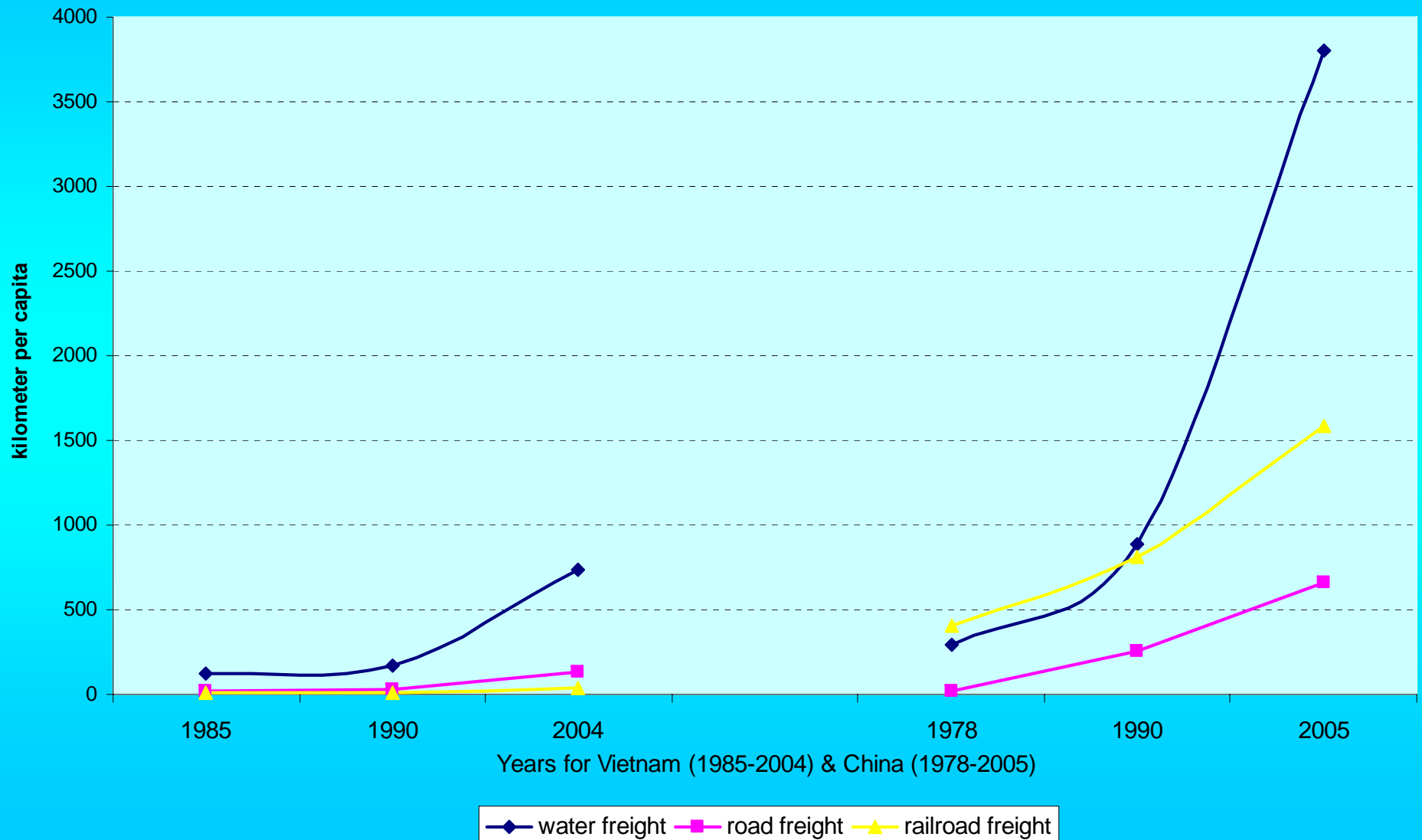
	<b>State</b>	<b>Non-State</b>	<b>Foreign</b>	<b>Total</b>
<b>Hanoi/Haiphong region</b>	29.3%	28.2%	42.5%	100%
<b>HCMC region</b>	24.5%	22.8%	52.7%	100%
<b>Central Vietnam</b>	44.3%	36.4%	19.3%	100%
<b>Other regions</b>	54.1%	37.1%	8.9%	100%

# Determinants of FDI Allocation in VN

<i>Dependent Variable</i> : registered FDI per capita (2000-2005) in <i>Regression 1</i> and implemented FDI per capita (2000-2004) in <i>Regression 2</i>		
<i>Independent Variables</i>	<i>Regression 1</i>	<i>Regression 2</i>
BREAK	-18.51 (-1.58)	-2.18 (-0.60)
GDP	0.41 (8.57)***	0.016 (0.58)
<b>INFRASTRUCTURE</b>	<b>19.76 (3.01)***</b>	<b>7.45 (2.68)***</b>
<b>PROXIMITY TO MKT</b>	<b>7.57 (3.67)**</b>	<b>10.03 (6.09)***</b>
URBANIZATION	-3.04 (-7.75)***	-0.32 (-1.27)
PUPILS	317.91 (1.68)*	174.91 (2.22)**
WAGE	-0.58 (-1.29)	0.43 (2.19)**
<b>PCI</b>	<b>16.17 (2.15)**</b>	<b>13.82 (4.48)***</b>
CONSTANT	-228.66 (-3.41)***	-156.14 (-5.63)***
N	360	300
Adjusted R <sup>2</sup>	0.44	0.42
F – statistic	35.87***	27.95***
* Significant at the 0.1 level, ** Significant at the 0.05 level, *** Significant at the 0.01 level		

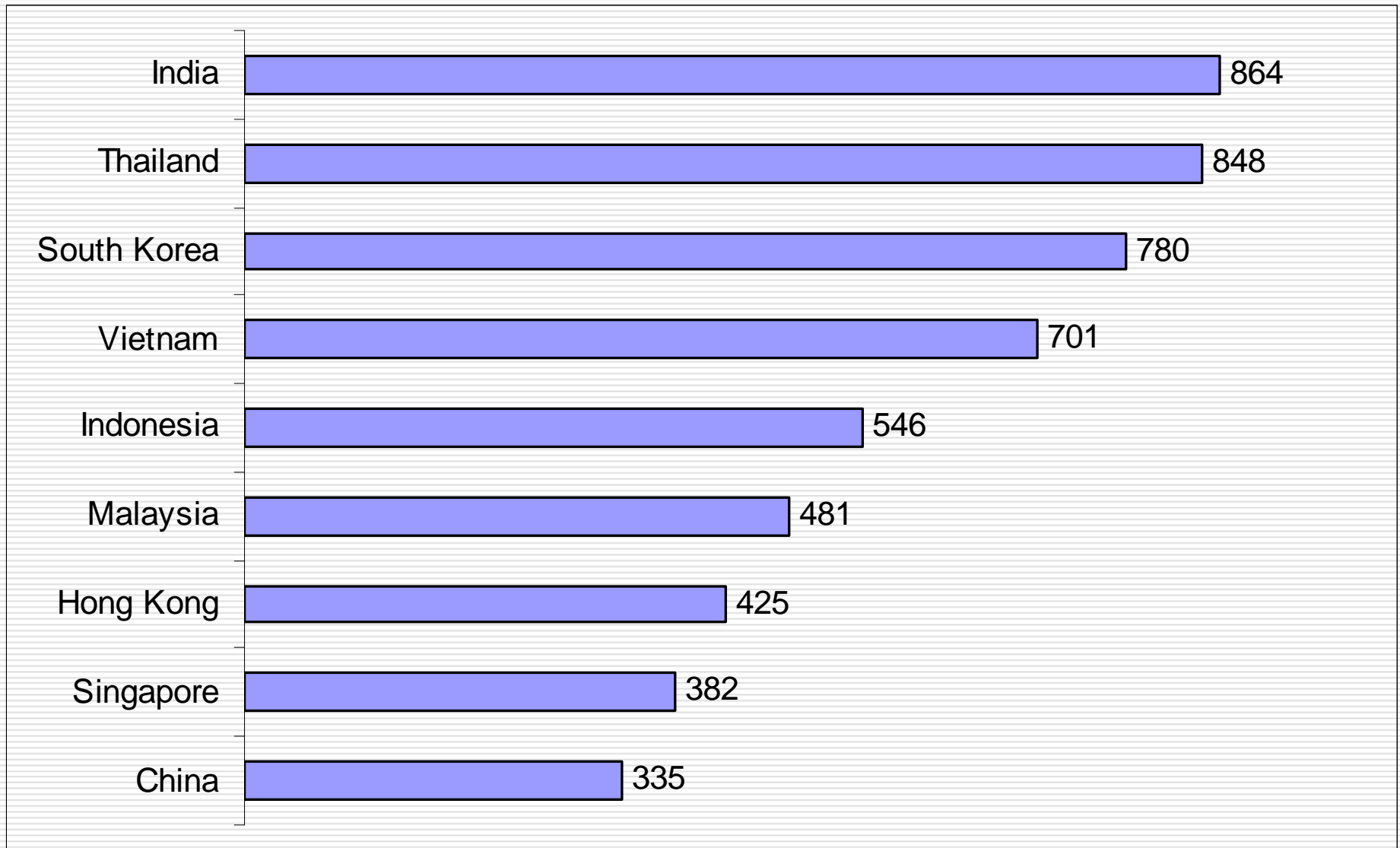
# Weak Transport Infrastructure

Chart 8. Freight Transport in Vietnam and China

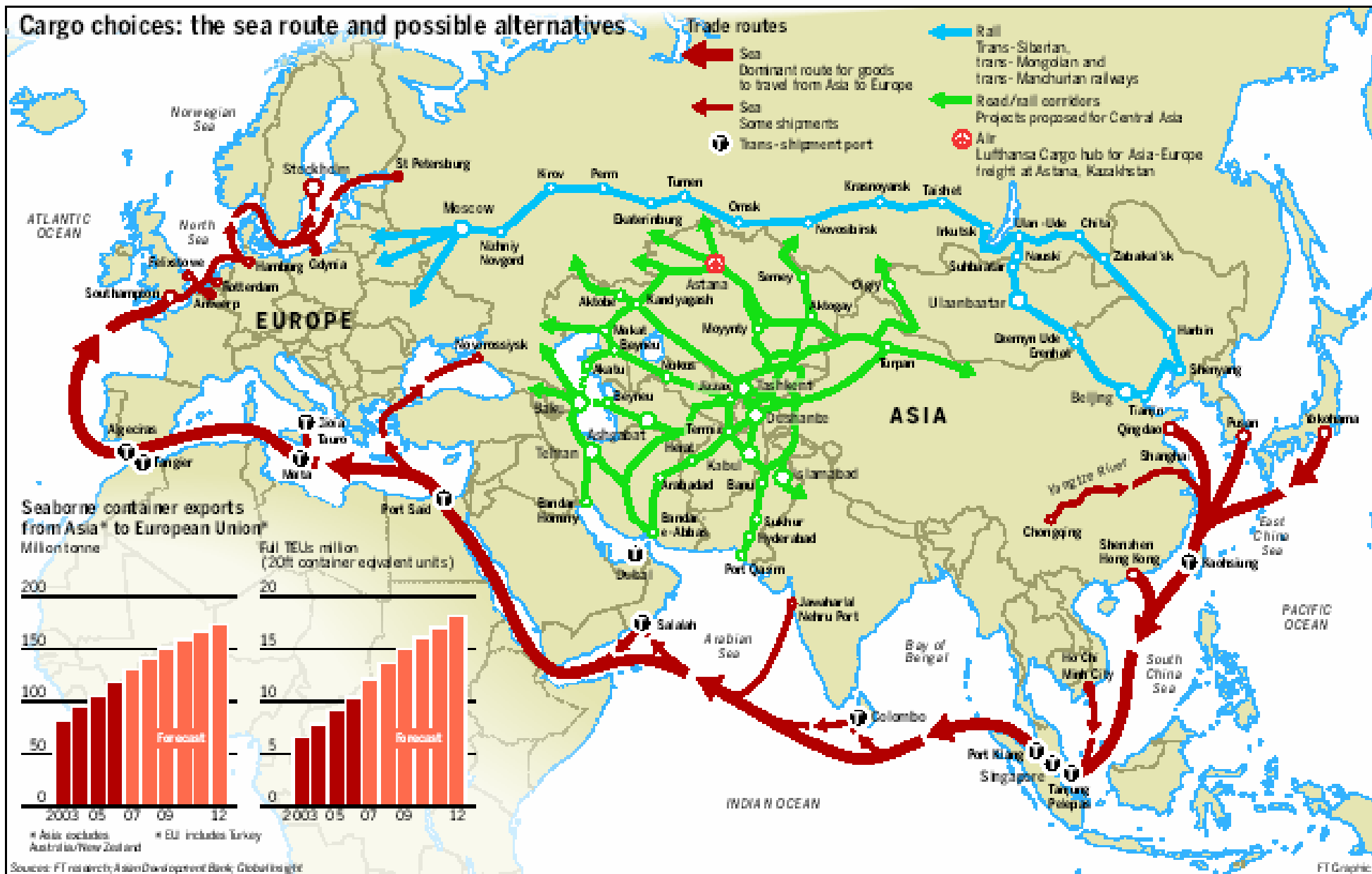


# Cost to Export (container 20ft)

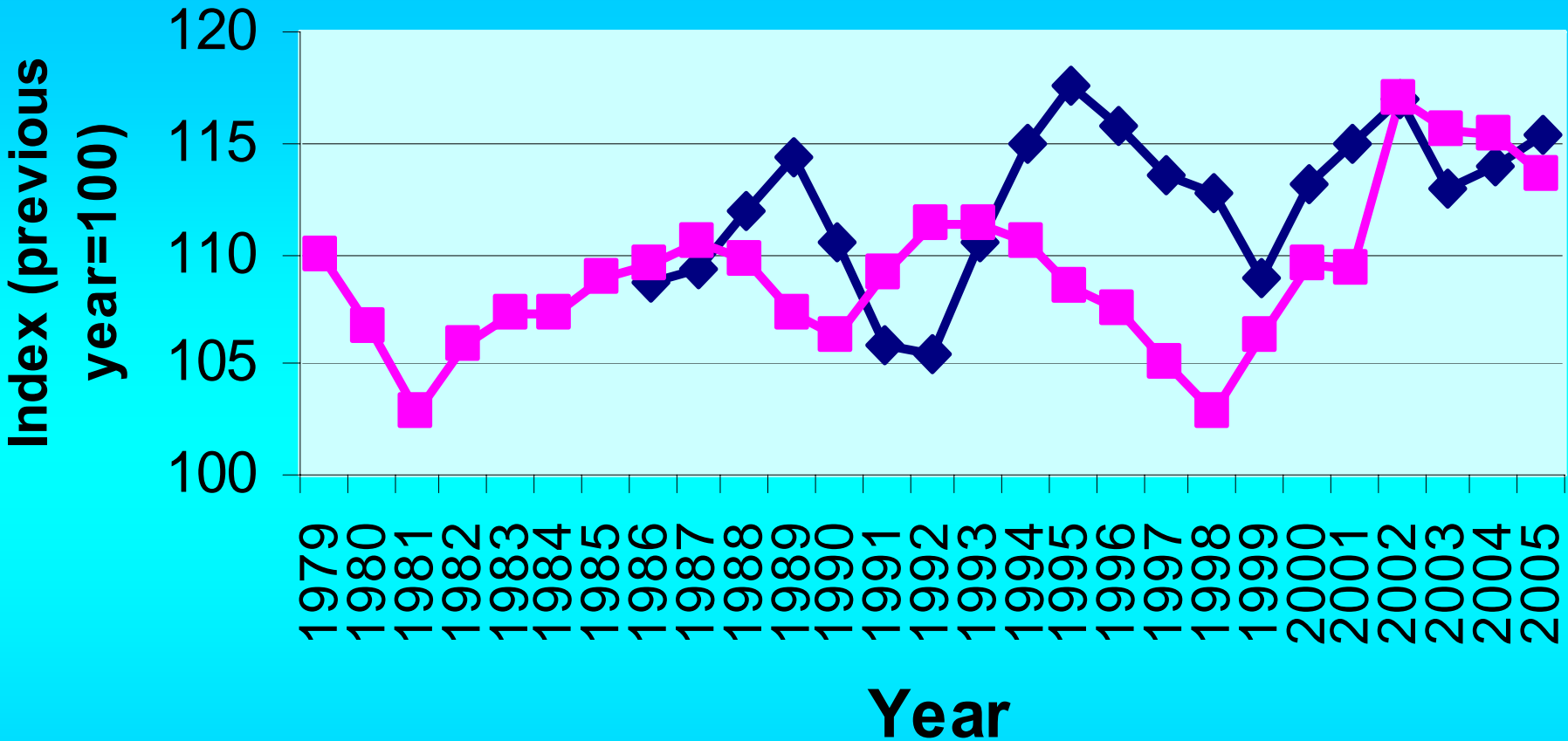
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# Strategic Trade Routes: Asia to Europe

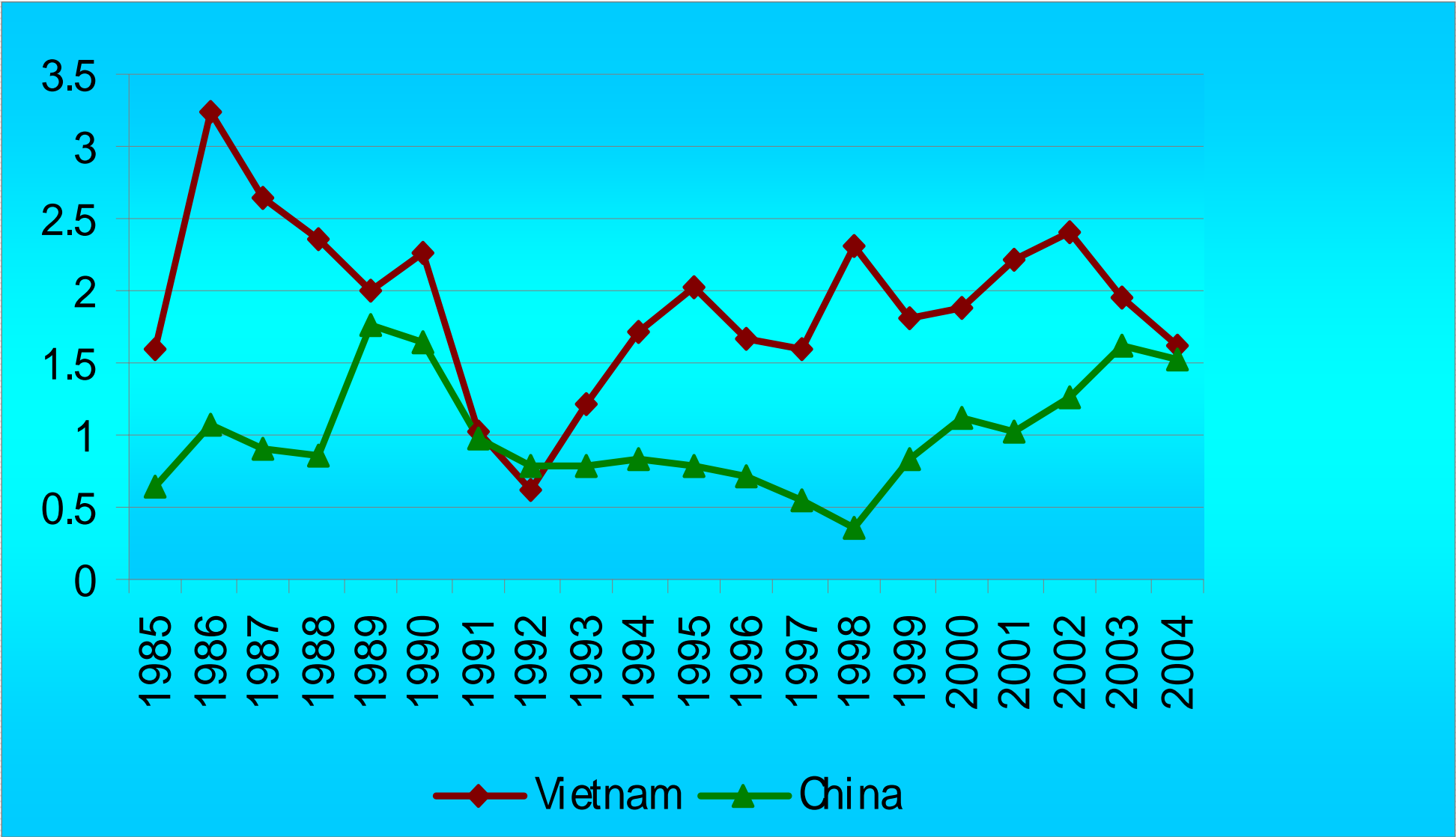


# Electric Power Annual Increase Index



◆ Vietnam Annual Increase    ■ China Annual Increase

# Ratio between Electricity and GDP Growth Rates



# The Formation of Conglomerates, 2006-

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- The idea was that conglomerates could develop their own recognizable brand names, enjoy greater economies of scale, and other advantages
    - Primarily state owned and directly controlled
    - Built on an import substitution model that received protection and other subsidies on a continuing basis
    - Over-extended diversification
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# Conclusion and Recommendations

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- Vietnam's industrial policy needs to convert to a more outward oriented policy
  - Vietnam's greatest resource is its human capital and limitations on existing human capital are the largest binding constraint on moving up the industrial supply chain and technology ladder.
  - There is a serious misallocation of resources that takes the form of overemphasis on state owned conglomerates and low priority infrastructure.
    - Invest more resources immediately in high use road, rail infrastructure and non-hydroelectric power
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# Conclusion and Recommendations

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- ❑ Removing unnecessary regulatory interventions and making those that remain much more transparent
  - ❑ The current more favorable environment for foreign direct investment should gradually be replaced with less unequal environment for both sectors
  - ❑ The strategy of establishing state conglomerates needs to be rethought carefully
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# Conclusion and Recommendations

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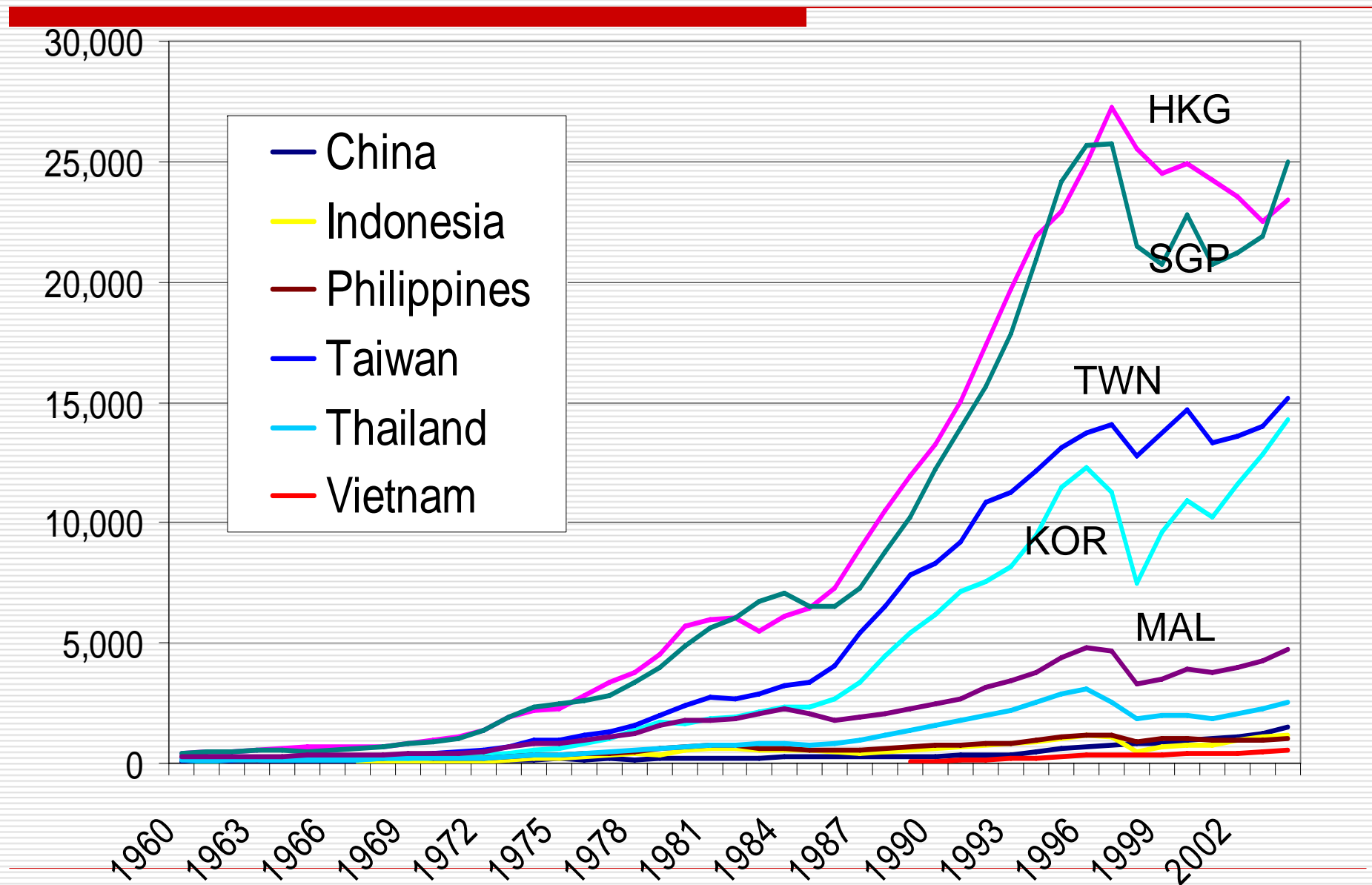
- ❑ Equitization needs to be more transparent and lead to enterprise control that is in the hands of non-state shareholders
  - ❑ The placement of banks within some conglomerates is a step backward and needs to be stopped
  - ❑ Correct the regional imbalance in industrial location by strengthening overall physical and regulatory infrastructure
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# Conclusion and Recommendations

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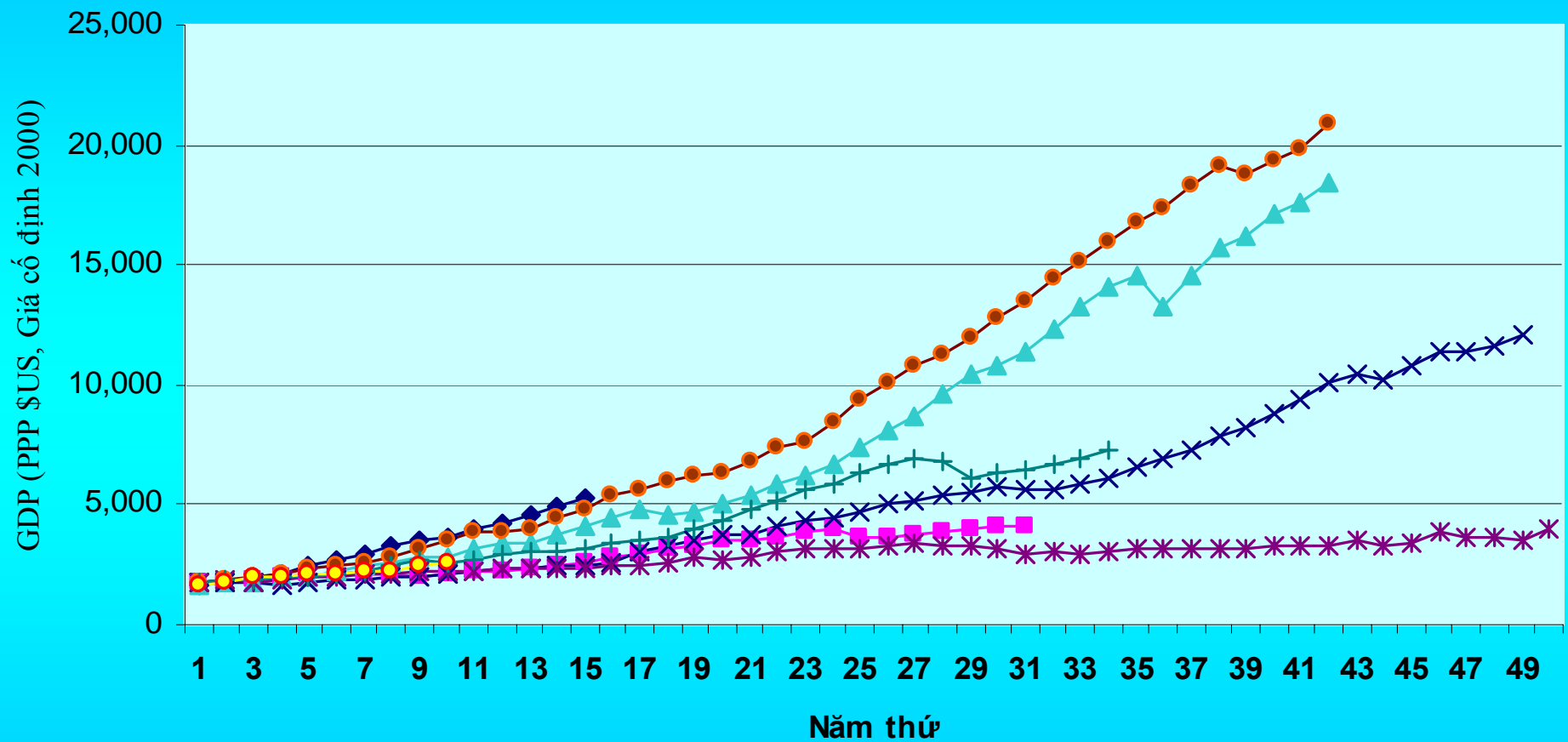
- ❑ Legal rules with respect to land issues need to be simpler and more transparent
  - ❑ Greatly strengthen critical market supporting institutions (e.g., financial system, strong independent legal system)
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# GDP Per Capita (US\$) 1960-2004



# Vietnam had joined the ASEAN – Big picture

Quỹ đạo tăng trưởng của Việt Nam và một số nước trong khu vực



- ◆ CHINA (1990)
- INDONESIA (1974)
- ▲ KOREA (1963)
- × MALAYSIA (1955)
- \* PHILIPPINES (1955)
- TAIWAN (1963)
- + THAILAND (1970)
- VIETNAM (1994)

# Vietnam had joined the ASEAN – Zoomed picture

