



**Industrial Policy Formulation
of Vietnam**

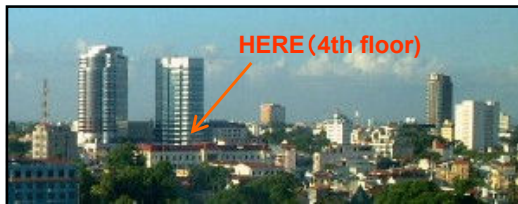
To become a reliable partner in integral manufacturing

Kenichi Ohno (GRIPS/VDF)

Vietnam Development Forum (VDF)



- Established in Feb.2004 with Japan's COE budget (MEXT)
- Joint research project with National Economics University (NEU)
- Objectives: (1) Research innovation
(2) Policy impact & networking
(3) Mobilizing young talented Vietnamese
- Conducting and supporting research in broad areas related to Vietnam's development
Industry, trade, investment, environment, social changes, macroeconomy, ODA, etc.



Vietnam Development Forum (Hanoi)



Workshop



Work area

VDF's Support for Industrial Strategy Formulation

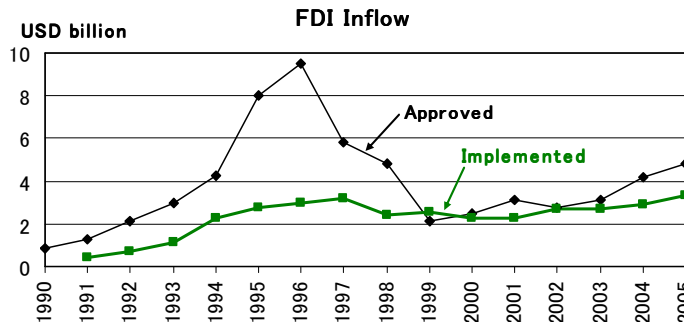
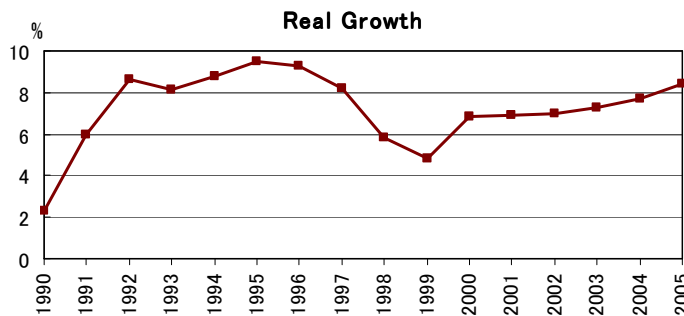


- Research on electronics, motorbike, automobile, supporting industries, steel, power, etc
- **Joint missions** with Ministry of Industry (MOI) to Thailand, Malaysia, Japan—studying policy method, comparing master plans, business involvement
- **Supporting Industry Master Plan**—assisting MOI to visit Japanese companies
- **Motorbike Master Plan**—official coordinator among MOI, Japanese producers, experts (implementing a new drafting method)
- Cooperating with Japanese embassy, METI, JICA experts, VN-JP Joint Initiative, Japanese researchers



Current Situation in Vietnam

- Firmly committed to integration, in principle
WTO this year? AFTA finished, other FTAs, legal preparation
- Building competitiveness of Vietnamese enterprises??--lagging
Virtually no preparation or concrete action in last ten years
- High growth, accelerating FDI
Foreigners always love VN; breeding complacency?
- Policy is improving, but still very primitive and inconsistent by East Asian standard





Broad Policy Direction?

- Laissez-faire is out of question
- Planning is no longer possible
- Infant industry protection is not OK (cf. Japan/Korea in old days)
- FDI-led growth of Thailand/Malaysia cannot be copied
They used tariff protection, import bans, localization requirement in parallel with FDI absorption for long; this is no longer permissible
- What should be the industrial strategy for a latecomer country in the 21st century?
 - Very bold opening and liberalization
 - Building domestic capability (by linking with FDI & foreign buyers)
 - Mastering integral manufacturing

Motorbike Industry in Three Countries

Duration of import bans, localization requirement, high tariffs differs

	Vietnam	Thailand	Indonesia
1960	1964 Vietnam War ⋮	1964 Yamaha 1965 Honda 1967 Suzuki	
1970	⋮ 1975	1971 Local content restriction (over 50%); ban on construction of new assembly plants 1977 Local content restriction (more than 70%); lifting of ban on new assembly plants of 1971 1978 Ban on importing CBU Increasing tariff for parts	1971 Honda 1974 Yamaha Suzuki 1977 Local content restriction with penalty
1980	1986 Doi Moi		
1990	1996 Suzuki 1997 Honda, ban on importing CBU 1999 Yamaha	1996 Import Liberalization of 1997 Abolition of local content restriction	1993 Local content restriction with incentive 1999 Import liberalization of CBU
2000	2003 Import Liberalization of CBU		

Source:
Kohei Mishima in
VDF industry
book (2005)

Two Fundamental Problems of VN's Policy Formulation



- **Lack of business involvement**

- Officials draft with limited information
- Producers are allowed to comment later or only when problem arises
- Unrealistic analysis & targets not supported by firms

- **Lack of inter-ministerial coordination**

- Listing policies without details
- No policy decision in areas where MOI has no authority

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

Examples of Inconsistent Policies



Businesses ignored, lack of inter-ministerial coordination, purpose unclear, sudden implementation

- Decision to raise domestic car taxes in steps (2000), soon after JAMA & MOI jointly studied ways to promote car industry
- Sudden imposition of import quotas on motorbike parts (2002)
- Reverse tariff structure emerged in electronics (finished product tariffs < parts tariffs) inviting assemblers' protest (2004 to present)
- Liberalization of second-hand car imports, with unclear purpose or detail. So far few imported due to high taxes and uncertainty (2006)

Motorbike Master Plan: MOI sample & VDF's proposal



MOI's common framework

- Review world & E Asia
- Review domestic situation
- Master plan
 - Vision, orientation, targets
 - Demand forecasts & other factors
 - Discuss products, parts, R&D, standards, etc.
- Solutions & responsibilities of various ministries

Decide budget and assign writers first. Collect data and draft M/P by the government deadline.

VDF's tentative issue list

- Social roles of motorbikes
- Industrial structure & competitiveness
- Demand forecasts & output
- Supporting industries & industrial human resources
- Traffic/environmental issues
- Intellectual property rights
- Policy measures

Brainstorm on these issues for a few months. Agree on direction, then decide chapters, data and writers.

VDF's Support Strategy



- Work with policy makers rather than criticize them from outside.
- After identifying problems, try to find concrete solutions.
- Propose bright future and forward-looking policies, not just fixing problems.
- Patience. Have long-term vision. Don't give up after one or two failures.

The Way Forward for Vietnam

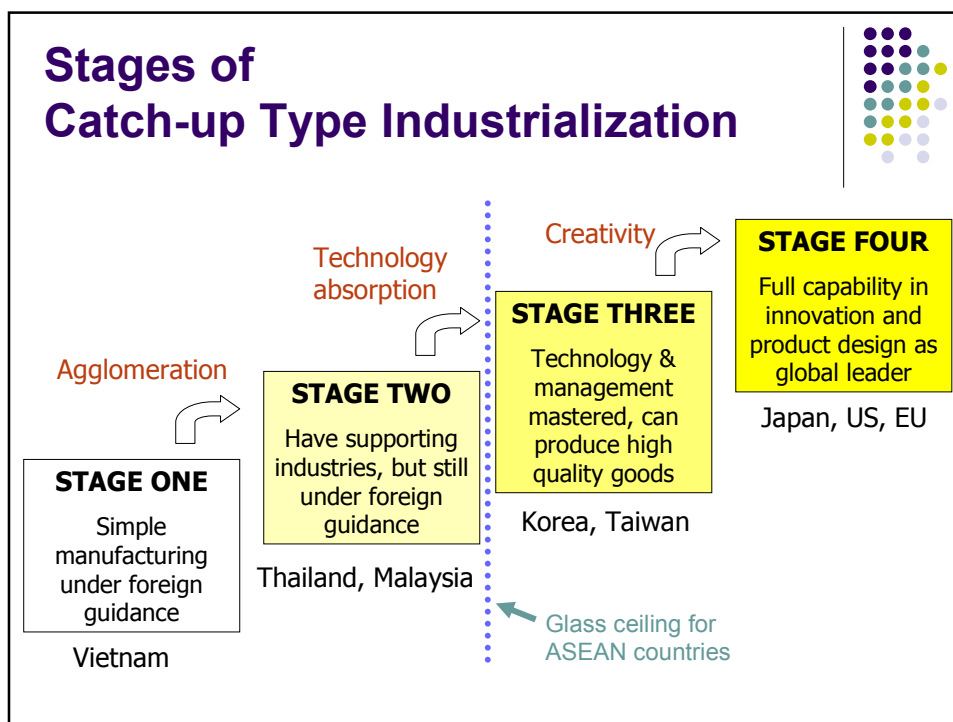


- **Open up trade and FDI boldly**
Step-by-step liberalization no longer works; create freest business environment in E Asia, and use it to market Vietnam
- **Promote local-FDI linkage vigorously**
Analyze why other ASEAN countries are slow to link up with FDI and foreign buyers
- **Learn integral manufacturing and become Japan's reliable partner**
This strategy is needed to avoid direct clash with China and to overcome the "glass ceiling"

Lessons from Thailand & Malaysia

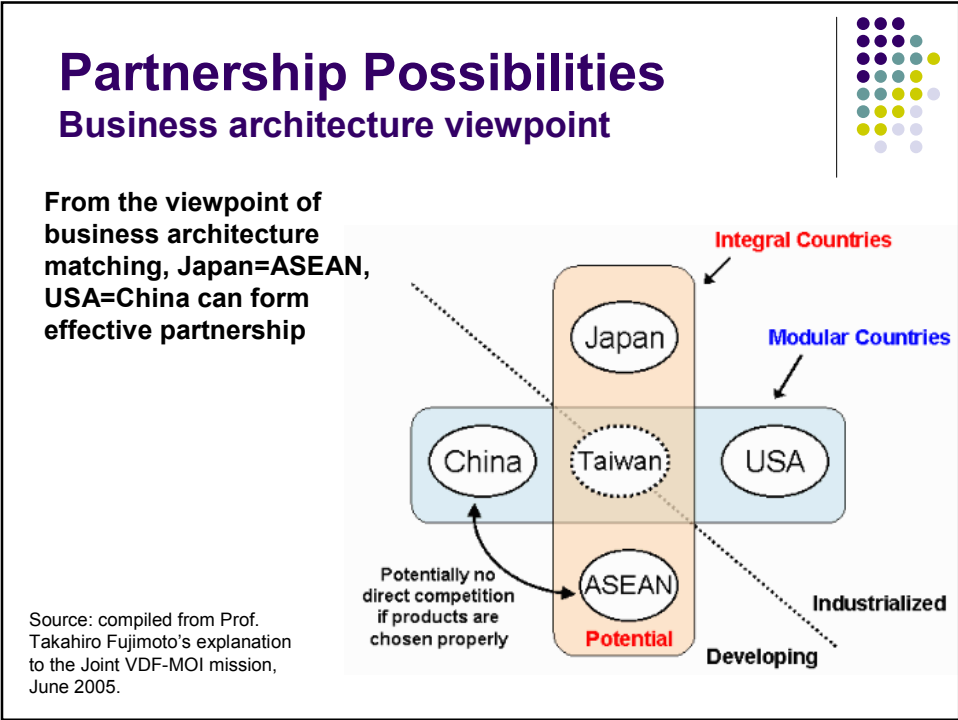
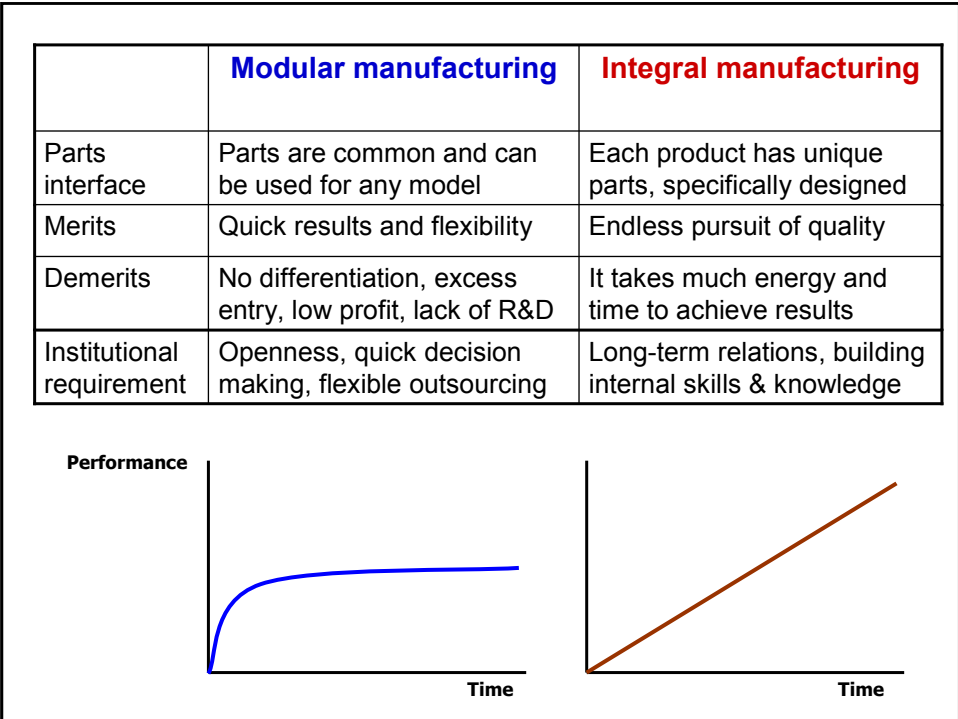


- **(Success) Effective government-business relations and inter-ministerial coordination in policy making**
 - Vietnam must design its own mechanism, by selectively importing systems abroad with amendments
- **(Failure) Supporting industries & industrial human resources still weak after many decades**
 - Inability to send foreigners home (cf. Taiwan, Korea)
 - Is this due to policy or people's characteristics?
 - By contrast, VN has bad policy and diligent people—if policy becomes better, performance may improve greatly



Coping with China

- It is unwise to directly compete with China
- Many countries want to move up to “high-tech” industries—is it feasible? desirable?
- Decide VN’s strategic positioning from the perspective of business architecture, not product selection (cf. Thailand’s leading industries)
- To cope with China, go integral rather than modular (for assembly-type manufacturing only)



What Must Be Done Is Clear



- **Promote industrial human resources**

Training centers, Meister system, Curriculum reform at industrial univs. & colleges, overseas educ. & training, incentive for brain return, using AOTS & JODC schemes, etc.

- **Promote supporting industries**

SME promotion (HRD, technology, finance), inviting FDI parts makers, industrial standards, quality standards and testing, factory doctors, local-FDI matching service, promoting SME networking, trade fairs & reverse trade fairs, database, using JETRO services

HOW, not WHAT—policy list can be the same as in other countries. Key is good implementation.

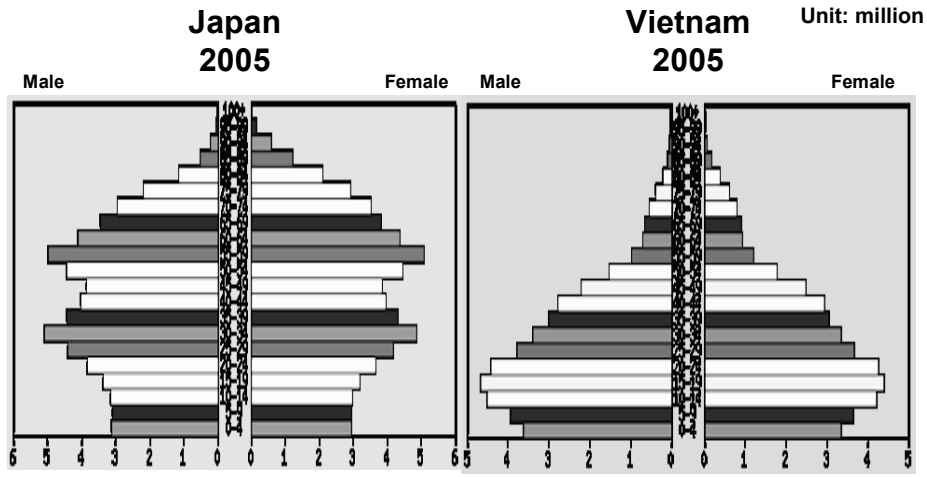
No different from Japan's traditional tech.assistance
but setting clear goal is important (to become integral partner)

Japan: Ageing Problem



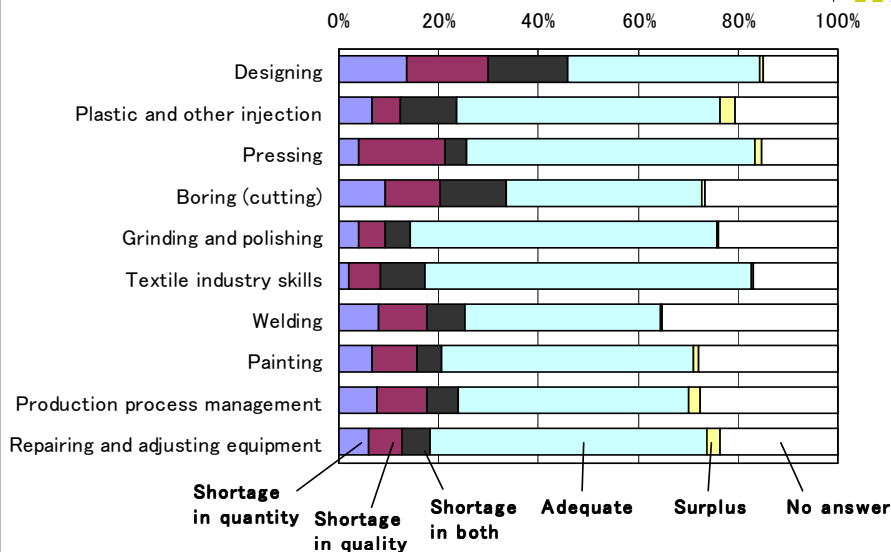
- Japan has high technology, high wages, and ageing population
- “The 2007 Problem”—Postwar baby boomers (born 1947-49) with high skills will retire soon
- Merit of integral manufacturing cannot be fully exploited by using simple labor in LDCs
- Japan needs a young & low-wage developing country as a reliable partner in integral manufacturing

Population Pyramids



Source: US Census Bureau, International Database.

Monozukuri Workers in Japan



Source: White Paper on Monozukuri, 2005.

Hollowing Out of Japan ?



- Japan's next generation is too small to sustain vigorous integral manufacturing—technology must be transferred both inside and outside Japan
- Overseas expansion of integral model should be strongly welcomed, not feared
- China, Korea vs. ASEAN (incl. Vietnam)
 - Specific technology flows to non-integral countries
→Copied and used to compete with Japan
 - Fostering integral architecture in foreign countries
→Becoming indispensable partners of Japan

Conclusion



- ASEAN countries, such as Vietnam and Thailand, should learn integral manufacturing as a matter of national priority. This will raise their industrial capability and prevent direct clash with China.
- Japan should strongly support their effort through private and official channels (promote industrial HR and SI more effectively and intensively than before)
- This can be Japan's new industrial strategy combining Japanese *monozukuri*, global positioning, and ageing.