

Vietnam-Japan Monozukuri Partnership for Supporting Industries

For Leveling Up Vietnam's Competitiveness in the Age of
Deepening Integration

A VDF Proposal – June 2008





Topics

- Vietnam must produce internal value (VDF symposium, March 2008)
- Effective use of Japanese cooperation
- **Proposal for bilateral partnership**



VDF's Policy-oriented Industrial Research since 2004

- VDF-MOIT joint missions – Thailand, Malaysia, Japan, Korea, China
- Coordinator for drafting the Motorcycle Master Plan (approved Aug.2007)
- Sector-specific research – steel, automobiles, motorcycles, supporting industries, etc.
- Publications – industrial strategy, supporting industries, policy formulation method, Japanese economy, etc.
- Annual symposiums in Hanoi and Tokyo, and other workshops

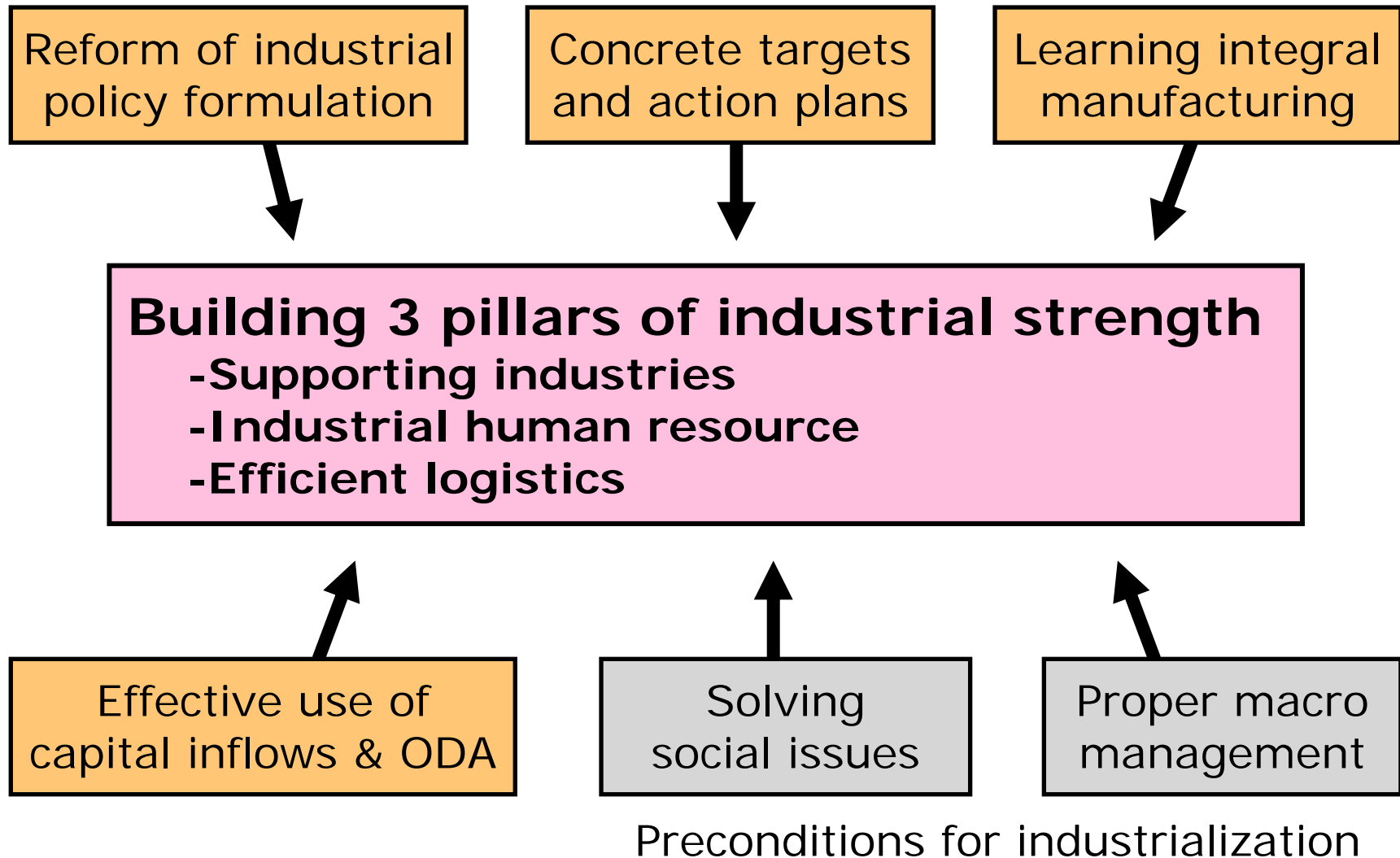


Vietnam's New Era

VDF Symposium, Hanoi, March 2008

- From now on, Vietnam needs to create internal value to grow.
 - Industrial human resources, supporting industries, and logistics are key.
 - Learn *integral manufacturing* by using FDI and ODA effectively.
- ➔ This proposal is for concretization of our recommendation in the area of IHR & SI.

Proposed Strategy for 2020

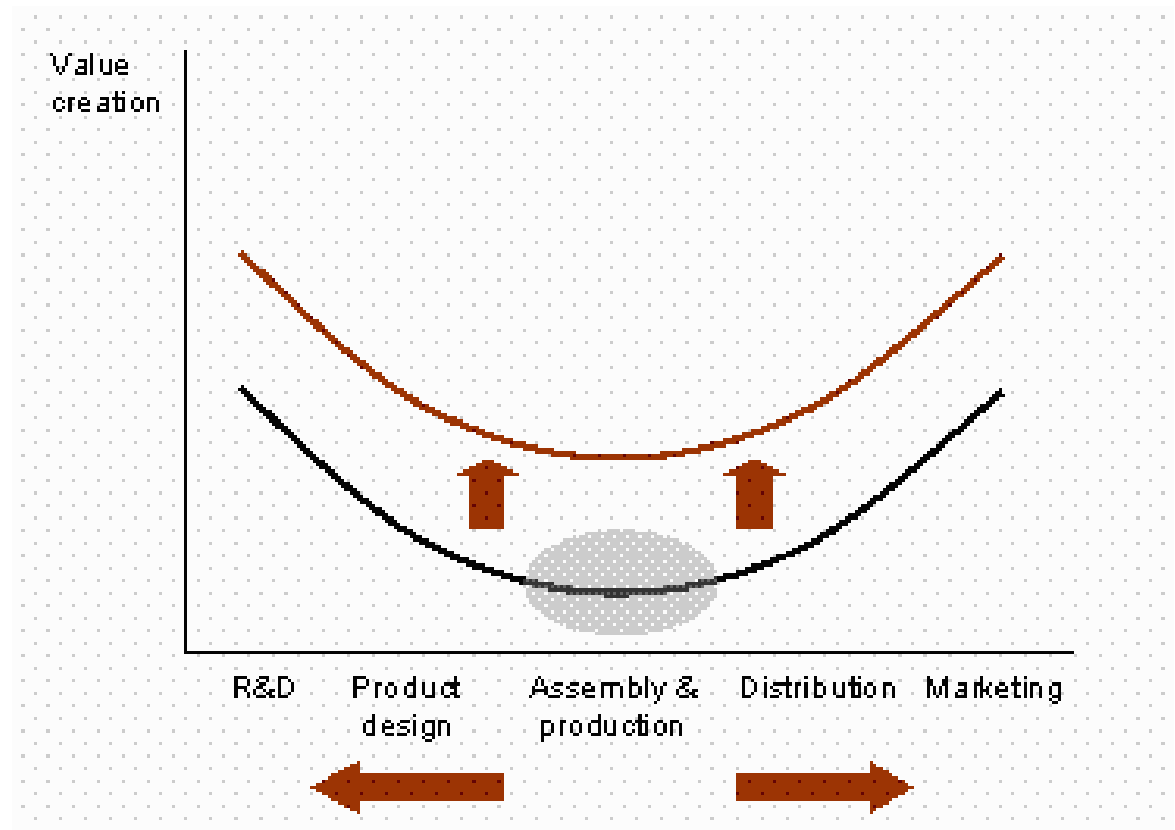


Malaysia's Manufacturing + +

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

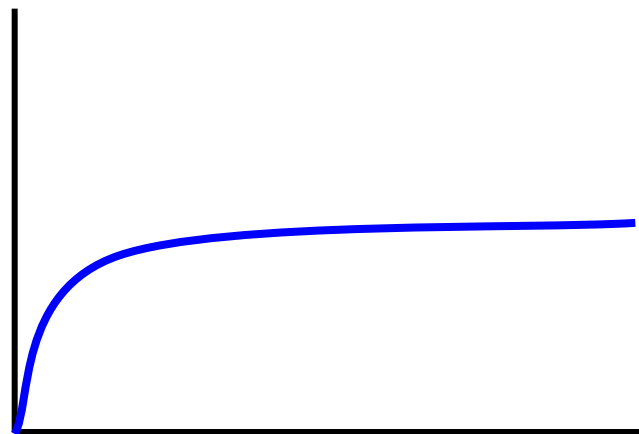
Leveling up of each industrial cluster

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

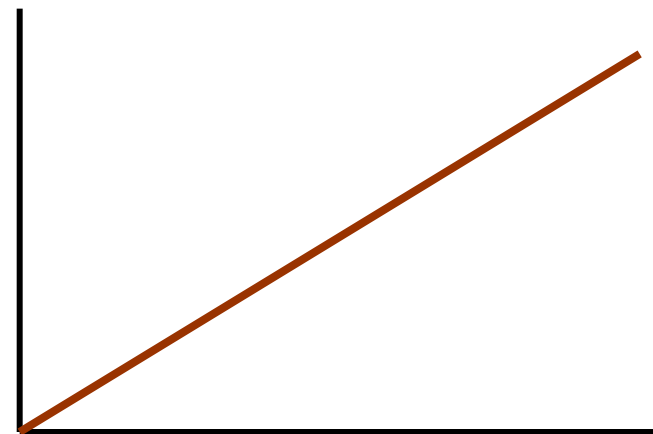


	Modular manufacturing	Integral manufacturing
Parts interface	Parts are common and can be used for any model	Each product has unique parts, specifically designed
Merits	Quick results and flexibility	Endless pursuit of quality
Demerits	No differentiation, excess entry, low profit, lack of R&D	It takes 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

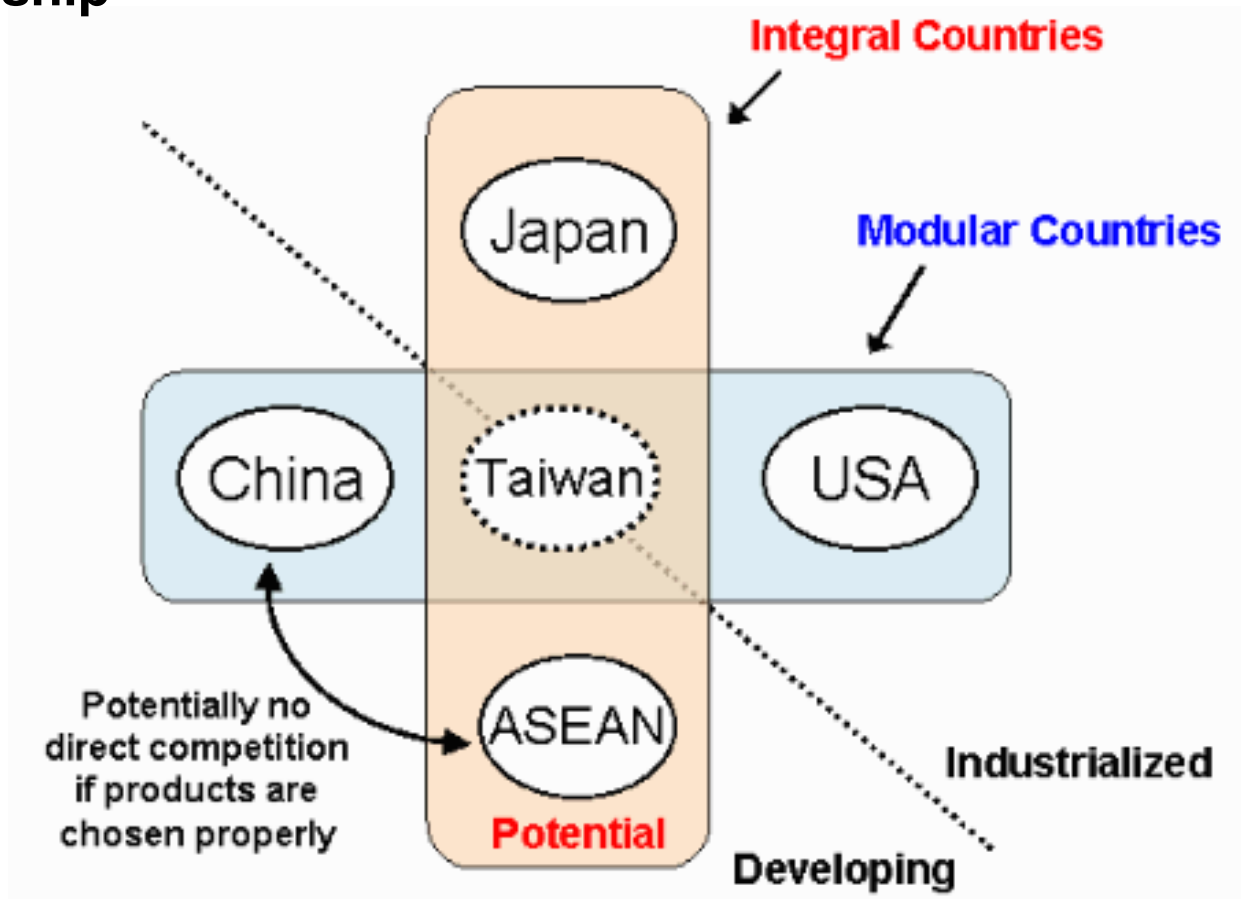
Partnership Possibilities

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.





Effective Mobilization of Japanese Cooperation

- Japan has contributed to VN's industrialization through trade, FDI, ODA and policy dialogue
- Broad contribution of Japanese ODA
 - Infrastructure (esp. transport & power)
 - Human resources
 - Institutional reforms
 - Improving business environment
 - Urban & regional planning
 - Removing negative impacts of growth
 - Poverty reduction
- Action-oriented bilateral policy dialogue
 - Ishikawa Project (1995-2001)
 - New Miyazawa Plan (1999)
 - Vietnam-Japan Joint Initiative Phase 1, 2, 3 (2003-)



New Direction of Vietnam-Japan Cooperation

- Vietnam is no longer a low-income transition country. Bilateral cooperation should be more equal and strategic.
- Cooperation should gradually shift from removing negatives and providing basic conditions to proactive creation of the new source of competitiveness.
- Below, VDF proposes Vietnam-Japan strategic partnership for internal value creation.

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A VDF Proposal

- **Purpose** – Greatly improve VN's industrial capability to effectively cope with integration
- **Reciprocity** – Vietnam and Japan should share the burden and benefits of increased industrial capability of Vietnam
- **Time scope** – Intensive effort should be made in the next 3 to 5 years to produce initial tangible results.



The Concept of Monozukuri

Japanese Style Skill-based Manufacturing

- *Monozukuri* literally means “making things” in native Japanese.
- Pursuit of high quality and customer satisfaction as the primary goal with pride and dedication; profits or balance sheets a secondary consideration.
- Features long-term relationship and skill & knowledge building within companies and among companies (assemblers-suppliers).
- Strong demand for 5S, QCD (quality-cost-delivery), *kaizen*, quality control, and other efforts for constant improvement.



The Vision and the Purpose

- VN must greatly improve the capability of local enterprises to generate domestic value.
- Establish bilateral partnership for monozukuri
 - Jointly produce high skill products through division of labor:
 - { **Japan** – capital- & knowledge-intensive monozukuri processes
 - { **Vietnam** – labor-intensive monozukuri processes
 - Gradually transfer more knowledge from Japan to Vietnam
- Japan should regard VN as an emerging industrial country and transfer technology for monozukuri.
- Vietnam should regard JP as a source of new skill & knowledge and learn monozukuri vigorously.



Vietnam's Challenge

- AFTA completion of 2018 - danger of large inflow of ASEAN products (esp. Japanese brands) that may destroy VN's industrial base incl. FDI producers.
- The risk of becoming a low-value, simple product producer, or losing FDI to cheap labor countries.
- Near future - VN's wage too high for labor-intensive industries, but technology too low for knowledge-intensive industries?
- Vietnam needs a strategic alliance to greatly increase internal value in manufacturing.



Japan's Challenge

- Japan has high technology, but faces high wages and ageing population
- **The 2007 Problem** - Postwar baby boomers (born 1947-49) with high skills began to retire in 2007. Young workers to absorb their skills are in shortage.
- Japan needs a young developing country as a reliable partner in integral manufacturing
 - The inheritors of monozukuri tradition must be found both domestically and abroad.
 - The foreign partner should work closely with Japan, rather than just copying Japanese products or selling them illegally.



Proposed Features of VN-JP Monozukuri Partnership

- **Resetting the mindset** – Vietnamese managers and workers must be more aggressive in learning and marketing
- **Technology transfer and capacity building**
- **Commitment to international standards** – quality, safety, environment, intellectual property
- **Positioning in the global value chain** – jointly specializing high skilled processes and outsourcing other inputs
- **Reforming policy methodology**
- **Non-exclusivity** (win-win-win) – other countries can also enjoy the benefits of this partnership



Importance of Supporting Industries

- Supporting industry promotion is the first important step to realize the vision of monozukuri partnership.
- Assembly-type manufactured products – large part cost (80-90%) vs. small assembly labor cost (5-10%).
- Without quick access to domestic suppliers with QCD, assemblers cannot compete (added transport cost + long lead time).
- ASEAN4 have been promoting supporting industries for a long time, but with limited success in creating non-FDI suppliers.



The Concept and Scope of Supporting Industries

MITI 1985 – First official use of the term “supporting industries” (*susono sangyo*)

Ichikawa 2005 – Survey and scope of SI (included in VDF’s Industry Book)

VDF survey on VN’s supporting industries (2006)

Thuy 2007 – Concepts, scope, international experiences (included in VDF’s SI Book vol.1)

- Sectoral vs. horizontal definition (by industry or by process)?
- **VDF’s working definition** – “a group of industrial activities which supply intermediate inputs (i.e., parts, components, and tools to produce these parts and components) for assembly-type or processing industries” (Thuy 2007, p.38E)

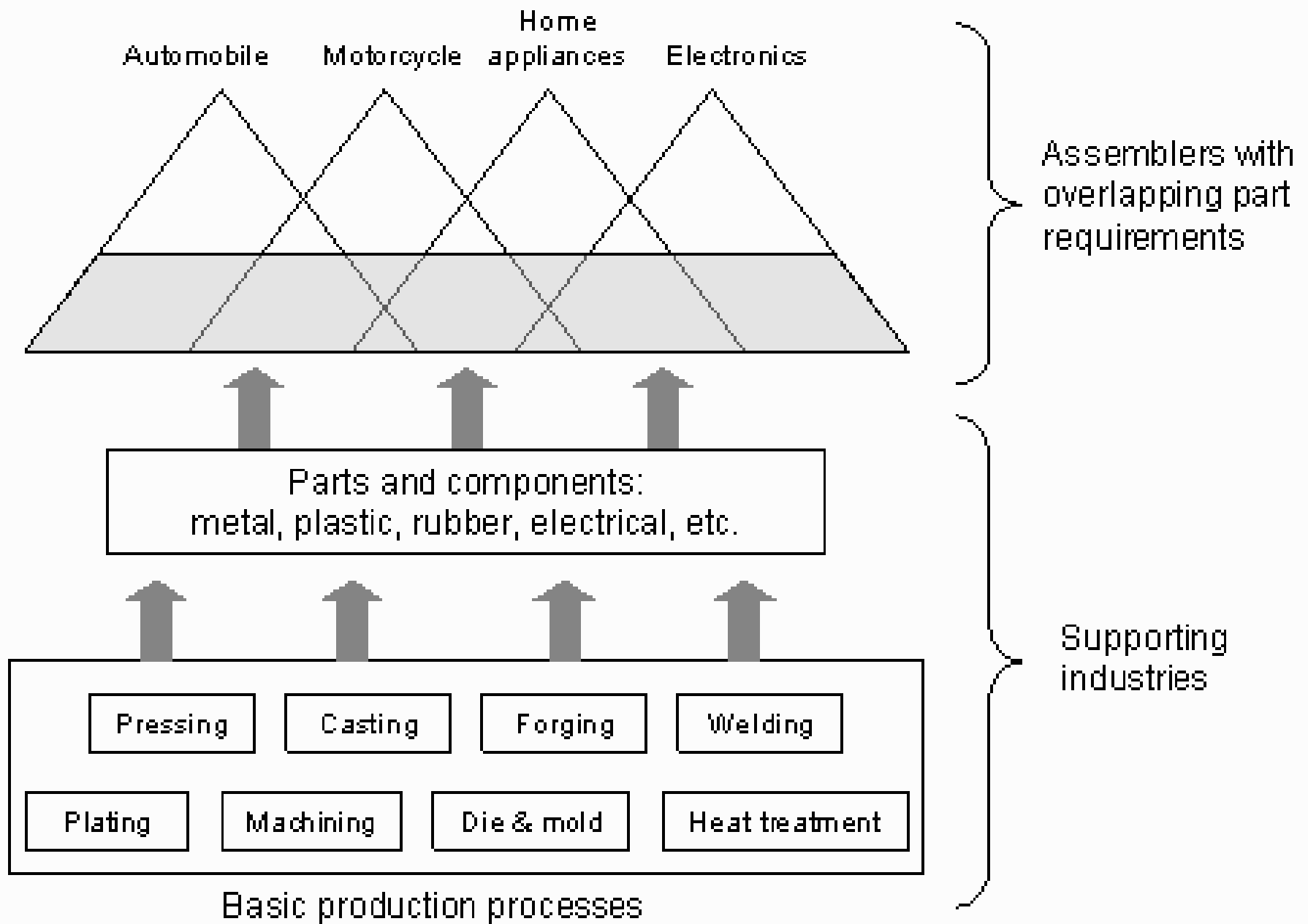


Mr. Kyoshiro Ichikawa's Memorandum (JICA Expert at MPI)

- **Definition** - “Supporting industries include (i) production of parts for final products; (ii) processing and treatment of such parts; and (iii) processing and treatment of materials for producing such parts.

Supporting industry producers		Promotion measures
FDI	Japanese	FDI promotion, tax incentives, industrial parks (for SI)
	Taiwanese & others	
Vietnamese	SOEs	Educ. & training of managers; technology transfer (subsidies); SME finance
	Private SMEs	

- **Human resource** – common issue for FDI and local firms: (i) top management; (ii) middle managers; (iii) workers





Suggested Policy Menu

- The policy menu below is constructed from ASEAN4 experiences (incl. Mizutani Report for Thailand 1999 and Urata Report for Indonesia 2000); Supporting Industry M/P 2007, Motorbike M/P 2007; and opinions of Japanese and Vietnamese experts.
- This list is intended to be a reference for further discussion only. It is not a proposal for final action plans.
- Since all measures cannot be adopted at once, proper selection and sequence should be considered.

Policy Menu for Supporting Industry Promotion

(a tentative list for further discussion)

Policy area	Measures
1. Capacity building (for specific firms)	<ul style="list-style-type: none"> - Shindanshi (enterprise evaluation) system - TA for management and technology - Large-scale mobilization of retired Japanese engineers - Intensive support for limited sectors (e.g., die & mold) - Awards, PR and intense support for excellent suppliers
2. Human resource (general or institutional)	<ul style="list-style-type: none"> - Management/technical centers and programs - Large-scale mobilization of retired Japanese engineers - Alliance between FDI firms and local universities/centers - Monozukuri school (to be upgraded to university) - Meister certification system
3. Finance	<ul style="list-style-type: none"> - Credit guarantee - SME finance institutions - Two-step loans
4. Incentives	<ul style="list-style-type: none"> - Exemption or reduction of taxes and custom duties - Grants or loans for specified actions

Policy Menu (cont.)

5. Linkage	<ul style="list-style-type: none">- Database and matching service- FDI-vendor linkage program- Parts Industry Association and Business Study Meetings- Trade fairs and reverse trade fairs- Linkage with Taiwanese suppliers (motorcycles, electronics)- Improving logistics between Hanoi and HCMC
6. FDI marketing	<ul style="list-style-type: none">- Creation of strategic industrial clusters- Industrial parks and rental factories- Efficient logistics and infrastructure- FDI marketing targeted to specific sectors or companies
7. Policy framework	<ul style="list-style-type: none">- Supporting industry master plan- SME law- SME ministry- Business associations and industry-specific institutes- Quality standards and testing centers



Suggested Procedure

VDF proposal for the next steps:

- SI promotion should be conducted under the SI Master Plan (approved July 2007) and Working Team 6 (industry) of VN-JP Joint Initiative Phase 3 (2008-2009).
- Top level of both countries should be involved – PM, DPM.
- All stakeholders should be invited to participate and comment – ministries, business associations, industrial estates, enterprises (FDI, SOEs, SMEs), researchers, Japanese organizations.



Suggested Time Frame

From now until end 2008 or early 2009

- Appointing responsible organizations on both sides
- Formation of action plan drafting team
- Surveys and hearings of stakeholders
- Preparation of action plans
- Presentation of action plans in Hanoi & HCMC
- Finalization of action plans

From 2009 to 2013

- Implementation and monitoring
- Possible extension beyond 2013