



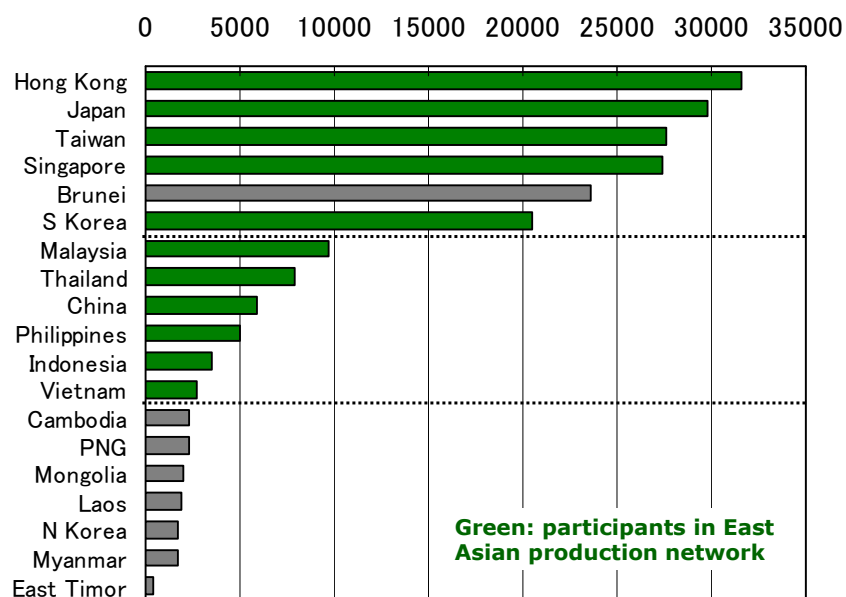
Topics

- Vietnam's challenge – creating internal value in manufacturing
- A proposal for the Vietnam-Japan strategic partnership for joint *monozukuri*
- A need for serious reform in policy formulation

Vietnam's New Challenge

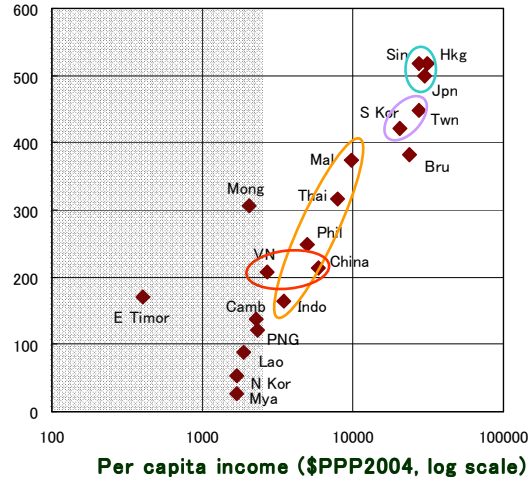
- Vietnam is entering a new era where productivity breakthrough and value creation are needed.
- Opening up and receiving FDI can attain middle income (\$1,000+), but higher income (\$10,000+) requires **good policy** and **private dynamism**.
- Vietnam's future depends on:
 - Creation of internal source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

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



Diversity in Governance and Economic Development

Governance, WGI2005



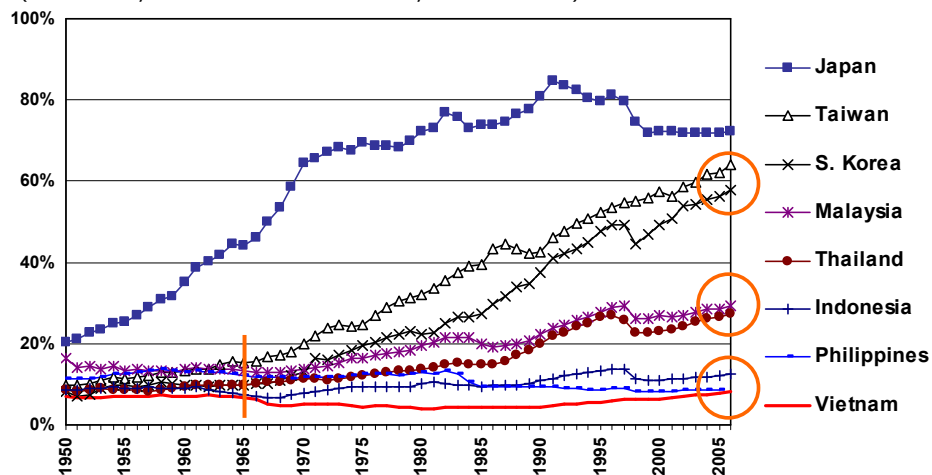
High correlation (0.90) but causality cannot be argued from this diagram

Only circled economies participate in regional dynamism

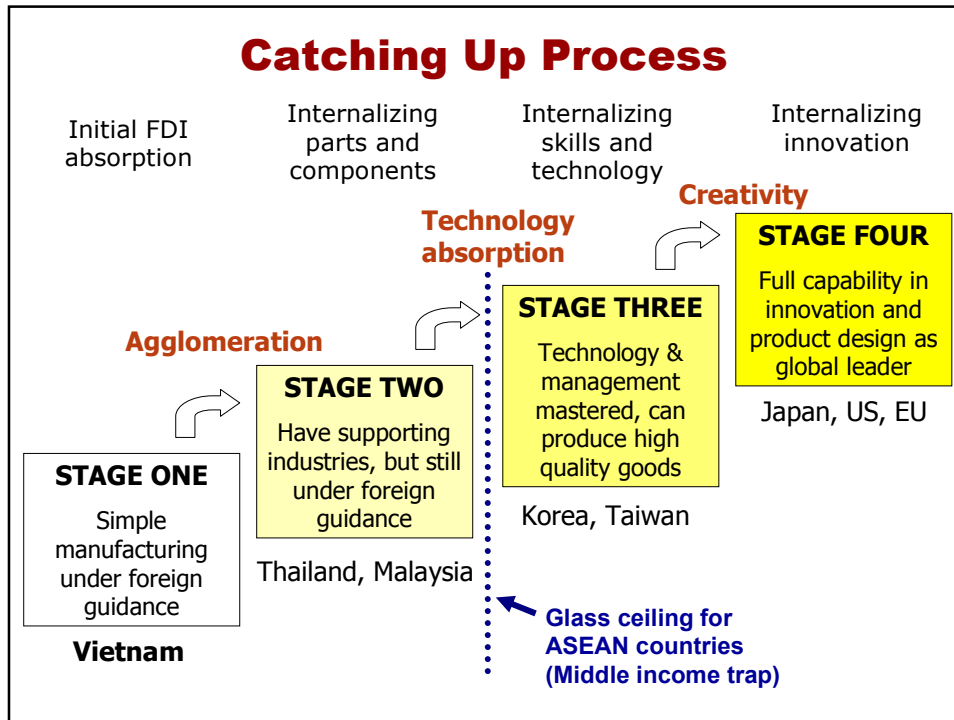
Sources: Compiled from World Bank, Worldwide Governance Indicators, Sep. 2006; and World Bank, *World Development Indicators*, 2006.

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).



Lessons from Thailand and Malaysia

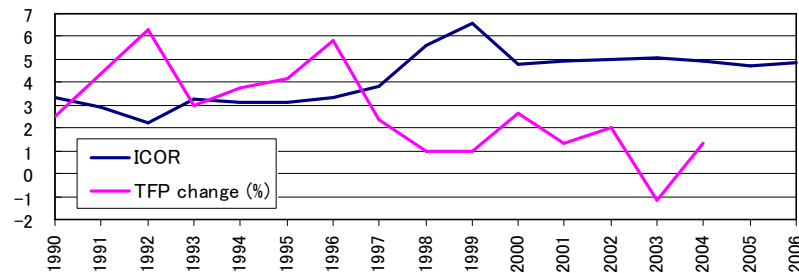
(Success) Impressive industrialization and growth led by FDI and reasonable policy

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

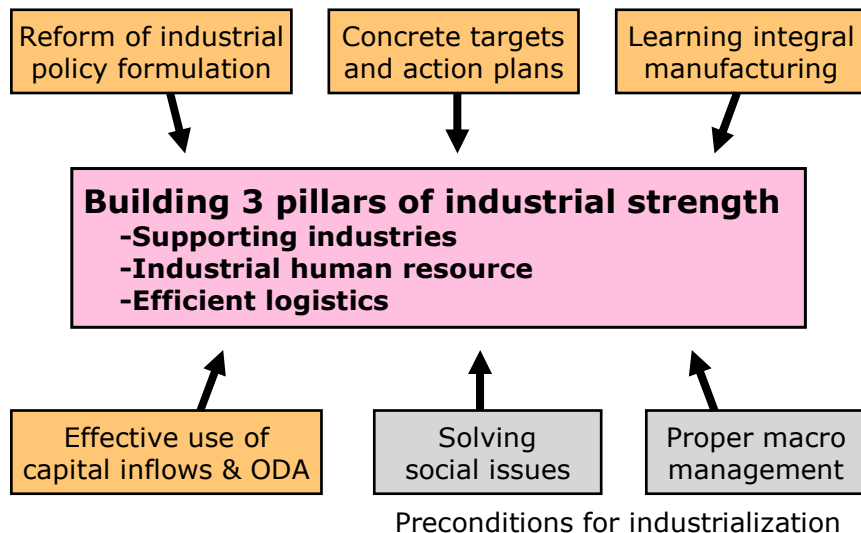
- Foreign dependency—inability to send foreign managers home
- Value and capability are not internalized—middle income trap
- Risk of wage pressure and FDI shift to China/India/Vietnam

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

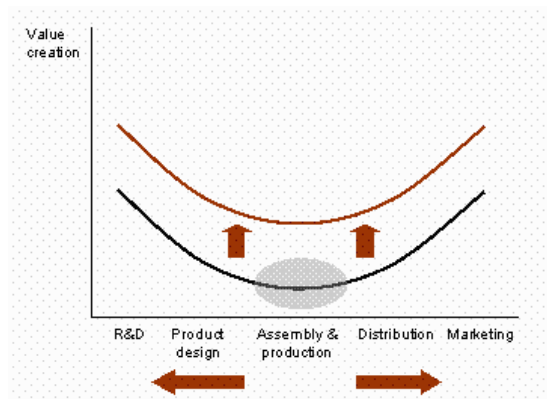
- **Supporting industries**
SME promotion (HRD, technology, management, finance), inviting FDI parts makers, industrial standards, quality standards and testing, factory doctors, FDI-local matching service, promoting SME networking, trade fairs & reverse trade fairs, database
- **Industrial human resource**
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

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.

Vietnam-Japan Monozukuri Partnership for Supporting Industries

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

A VDF Proposal

- This proposal is based on VDF's past studies on specific industrial sectors, supporting industries, and policy formulation methodology.
- It was drafted in June 2008 at the request of Japanese Ambassador Mitsuo Sakaba (still confidential).
- It is one of the ideas guiding the new bilateral program, which is in the formation stage.

Vietnam-Japan Cooperation in the Past

- **Japan has contributed to VN's industrialization through trade, FDI, ODA and policy dialogue**
- **Contribution of Japanese ODA**
 - Infrastructure (esp. transport & power)
 - Skills and 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)
 - VN-Japan Joint Initiative Phase 1, 2, 3 (2003-09)

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.
- VDF proposes Vietnam-Japan strategic partnership for internal value creation.

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.
- Many of Japan’s excellent companies were founded by engineers full of monozukuri spirit.



Sakichi Toyota
1867-1930



Konosuke Matsushita
1894-1989



Soichiro Honda
1906-1991



Akio Morita
(Sony’s co-founder)
1921-1999

Monozukuri – cont.

- Long-term relationship and skill & knowledge building within companies and among companies (assemblers-suppliers).
- Strong demand for 5S, QCD (quality-cost-delivery), *kaizen*, just-in-time, quality control, and other efforts for constant improvement.

The Purpose

- Establish bilateral partnership to jointly produce high skill products through division of labor:
 - { **Japan** – capital- & knowledge-intensive monozukuri processes
 - { **Vietnam** – labor-intensive monozukuri processes
- Over time, as Vietnam's skill improves, transfer more knowledge from Japan to Vietnam
- The foreign partner (Vietnam) should work closely with Japan, rather than just copying Japanese products or infringing on IPR.

Vietnam's Challenge

- Large inflow of ASEAN products (esp. Japanese brands) may destroy VN's industrial base including FDI producers (Daihatsu, Sony).
- The risk of becoming a low-value, simple product producer, or losing FDI to cheap labor countries.
- In the 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 level up internal capability.

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 are in shortage. Situation will only get worse as time goes by.
- 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.

Proposed Features of 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)

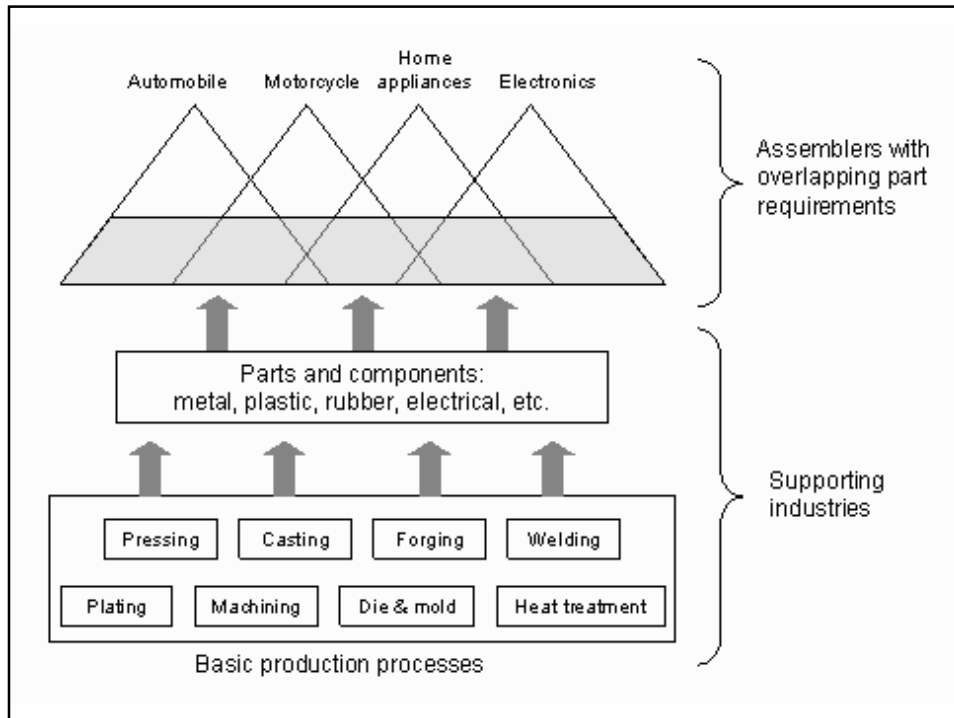
Mr. Kyoshiro Ichikawa’s Memo

(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; tech. 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 following policy menu is constructed from:
 - ASEAN4 experiences (MITI's New Aid Plan 1980s, Mizutani Report for Thailand 1999, Urata Report for Indonesia 2000)
 - Vietnam's Supporting Industry M/P 2007, Motorbike M/P 2007
 - Opinions of Japanese and Vietnamese experts
- This list is intended to be a reference for further discussion only.

Policy Menu for Supporting Industry Promotion (A tentative list for 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

Next Steps Proposed by the Japanese Side

Japan (EoJ, JICA, JETRO, experts) and Vietnam (DPM Hai, MOIT, VCCI) will set and implement concrete action plans. VDF will support both sides.

- Sep.2008 – Kick-off Meeting for Supporting Industry Action Plans (Hanoi, hosted by VCCI) - **agreed**
- Jan.2009 – Finalization of Action Plans and initiation of implementation - **agreed**
- Action Plan time scope:
 - End 2009 – Short-term actions
 - 2013 – Medium-term actions
 - 2020 – Long-term actions
- Action Plan also linked with:
 - Vietnam-Japan Joint Initiative Phase 3 (2008-09)
 - Bilateral cooperation after the conclusion of Vietnam-Japan EPA (soon?)

Serious Reform in Policy Formulation Needed

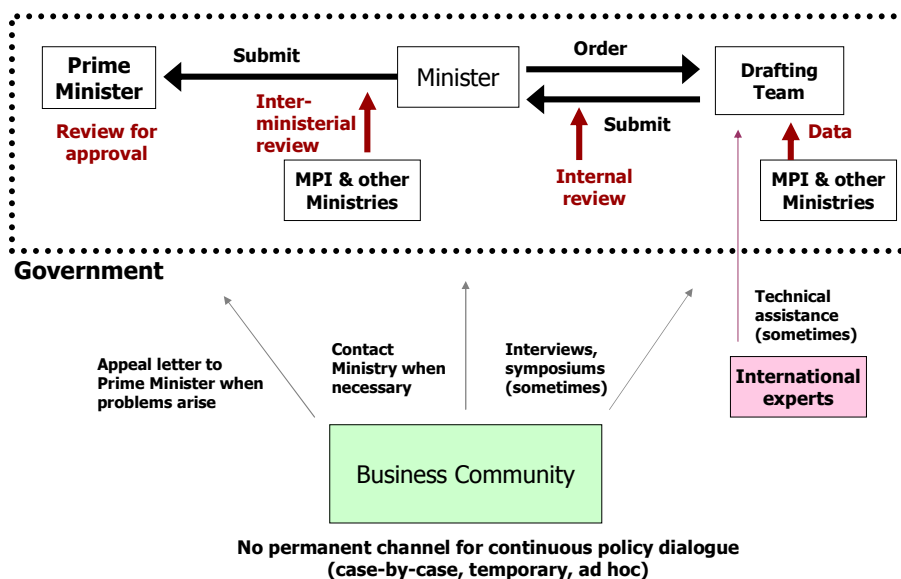
- For continued industrialization for higher income, Vietnam needs a **fundamental reform in policy formulation**. Minor changes of the current system are not enough.
- **Government trap** – low efficiency, low morale, low salary → brain drain from the public sector → low-quality policies
- Strong political will and risk-taking at the top level (**Prime Minister**) is needed to initiate such reform.

VN's Policy Process Is One and Only

K Ohno, VietnamNet Interview (May 13&15, 2008)

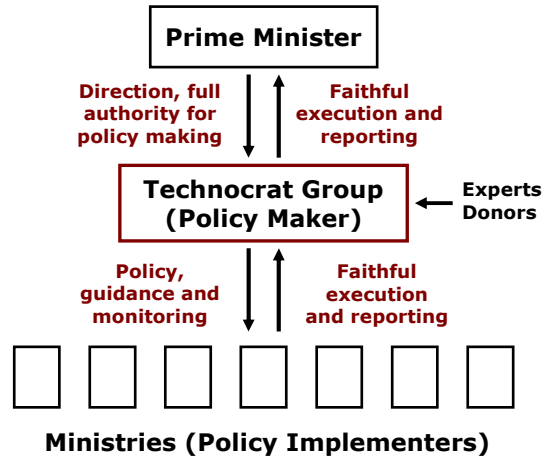
- VN's high growth owing to good location and good workers; not because of good policy.
- Industrial strategies are (i) not based on private sector voices; and (ii) not implemented because details are not given. These are unique weaknesses in VN not seen in other countries.
- The same people from planning years are still in charge. I propose a technocrat group directly under PM, as seen in many E Asian countries.
- There are too many public-sector research institutes which fail to produce useful policy analyses. There should be competition among policy-oriented research institutes to convince policy makers and general public.

Vietnam: Traditional M/P Drafting Process

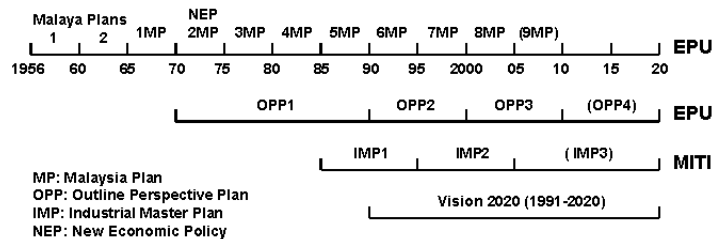


Policy Formulation for Vietnam: A Proposal

- Elite technocrat group under strong leadership of Prime Minister
- Choose young, well educated officials and experts
- Simplify policy authority and procedure

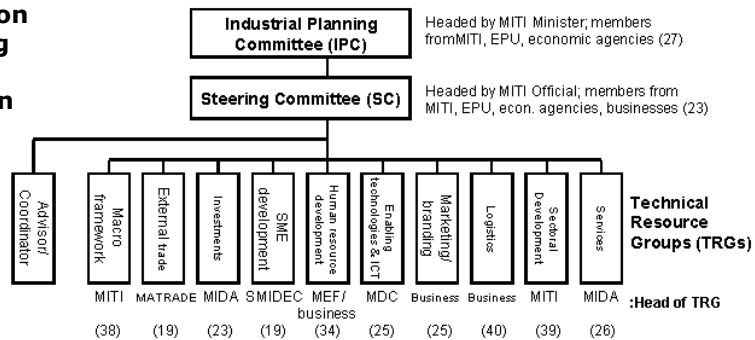


Multi-layered Model



Malaysia

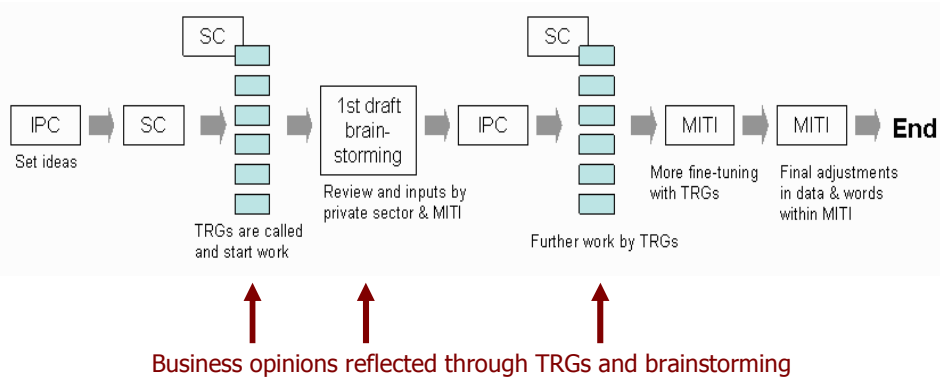
Organization for drafting Industrial Master Plan



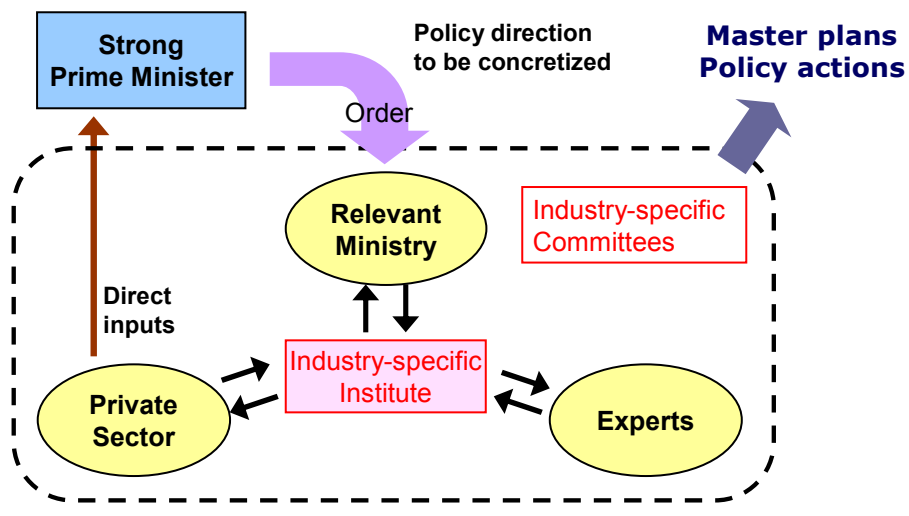
Source: MITI website.
Note: Numbers in parentheses indicate the number of members in each committee or group.


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)



Central Coordination Model: Thailand under Thaksin 2001-06





Powerful & Intelligent Top Leader

Ethiopia under PM Meles Zenawi (1991-now)

<Policy Structure>

Vision - ADLI 1991 (Agri. Dev. Led Industrialization)

Agricultural Strategy 2002
 Industrial Strategy 2003
 Other sectoral strategies

Medium-term strategies
 3-year budget frameworks
 Leather M/P (UNIDO, Italy)
 Garment M/P (UNIDO)
 Flower M/P (Dutch support)

Annual budgets & reviews

Strong Prime Minister

-Advice by Stiglitz
-Doing PhD in UK
-Writing books

Top-down Decisions

MoTI MARD MoFED

Ministries as implementing bodies

UNIDO Italy Nether.

Using Individual donors to execute specific projects

?

Advising PM: EDRI, Economic Ministers?

Under New Policy Structure Vietnam Should Achieve:

- Strong top-down visions from PM;
sufficient authority for technocrats to execute orders
- Action-oriented policy making with speed and flexibility
- Removal of bureaucratic formalism & inaction, nepotism, corruption, secrecy
- Public sector - competitive recruitment, sufficient salary, internal promotion mechanism, pride to serve the country



Summary of Policy Advice

- Reform policy formulation greatly, by creating a technocrat group under Prime Minister.
- Draft an overall industrial master plan with concrete goals and action plans up to 2020.
- Vietnam-Japan Monozukuri Partnership should be an important part of this 2020 vision.