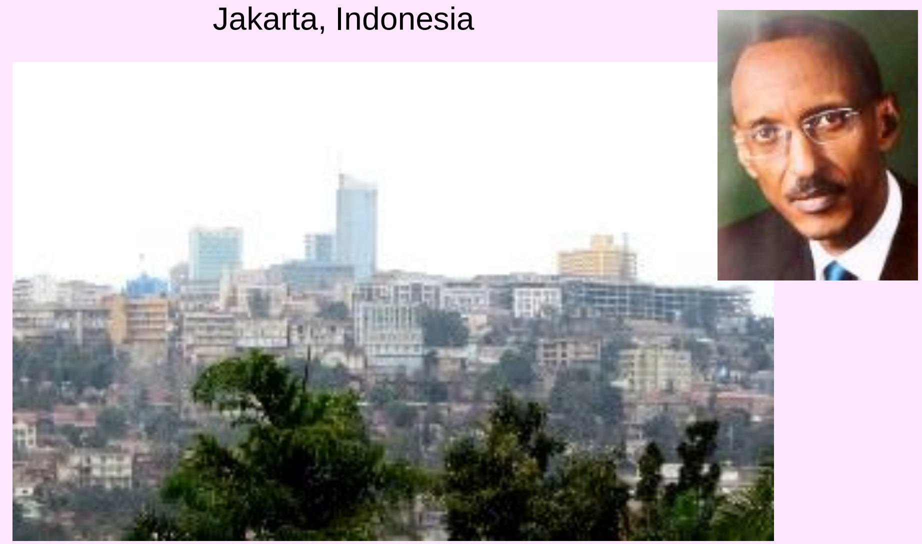
Quality of Vietnam's Industrial Policy from an International Perspective

September 2014, Kenichi Ohno (GRIPS/VDF)

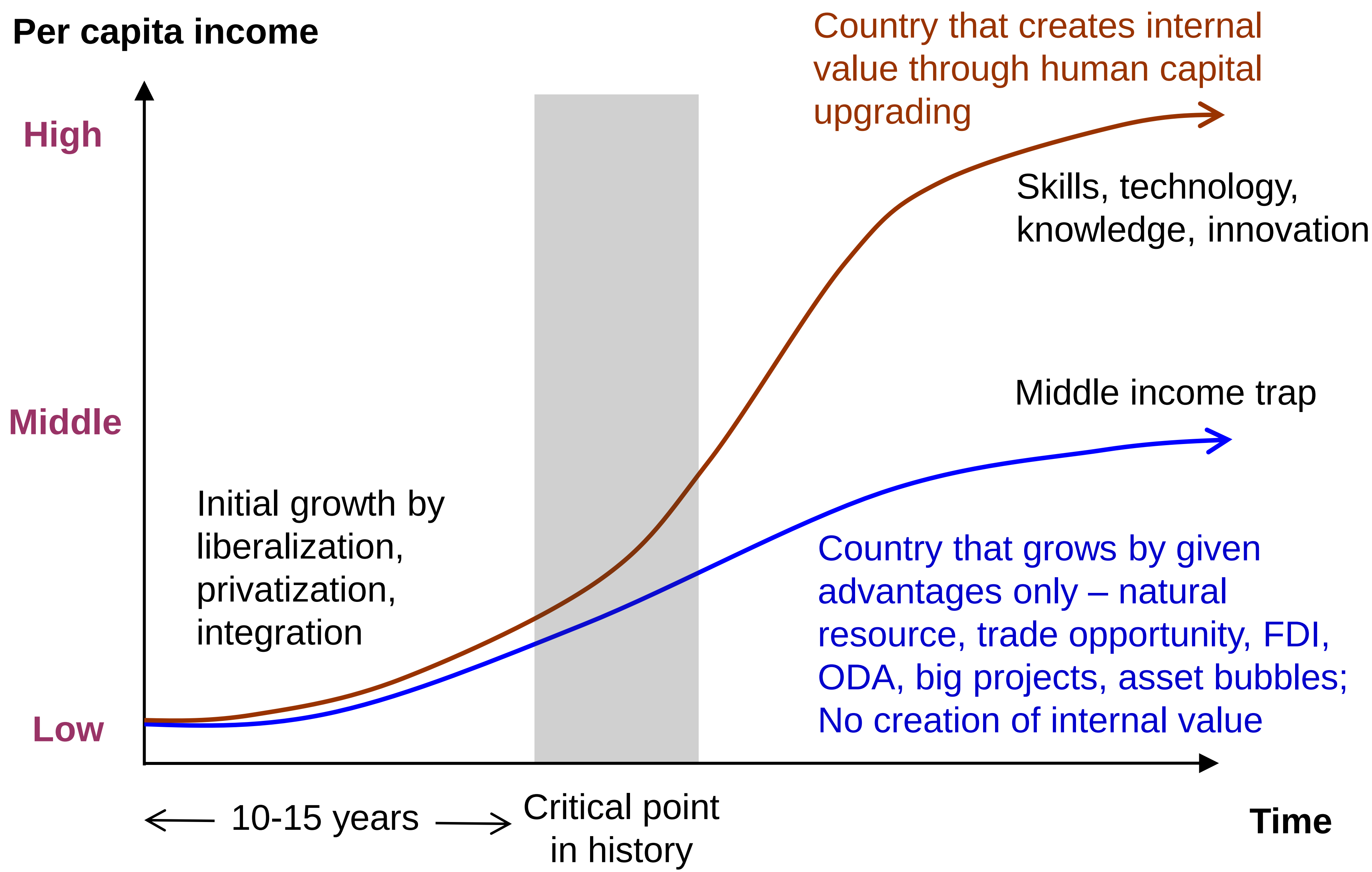

Hanoi, Vietnam


Jakarta, Indonesia

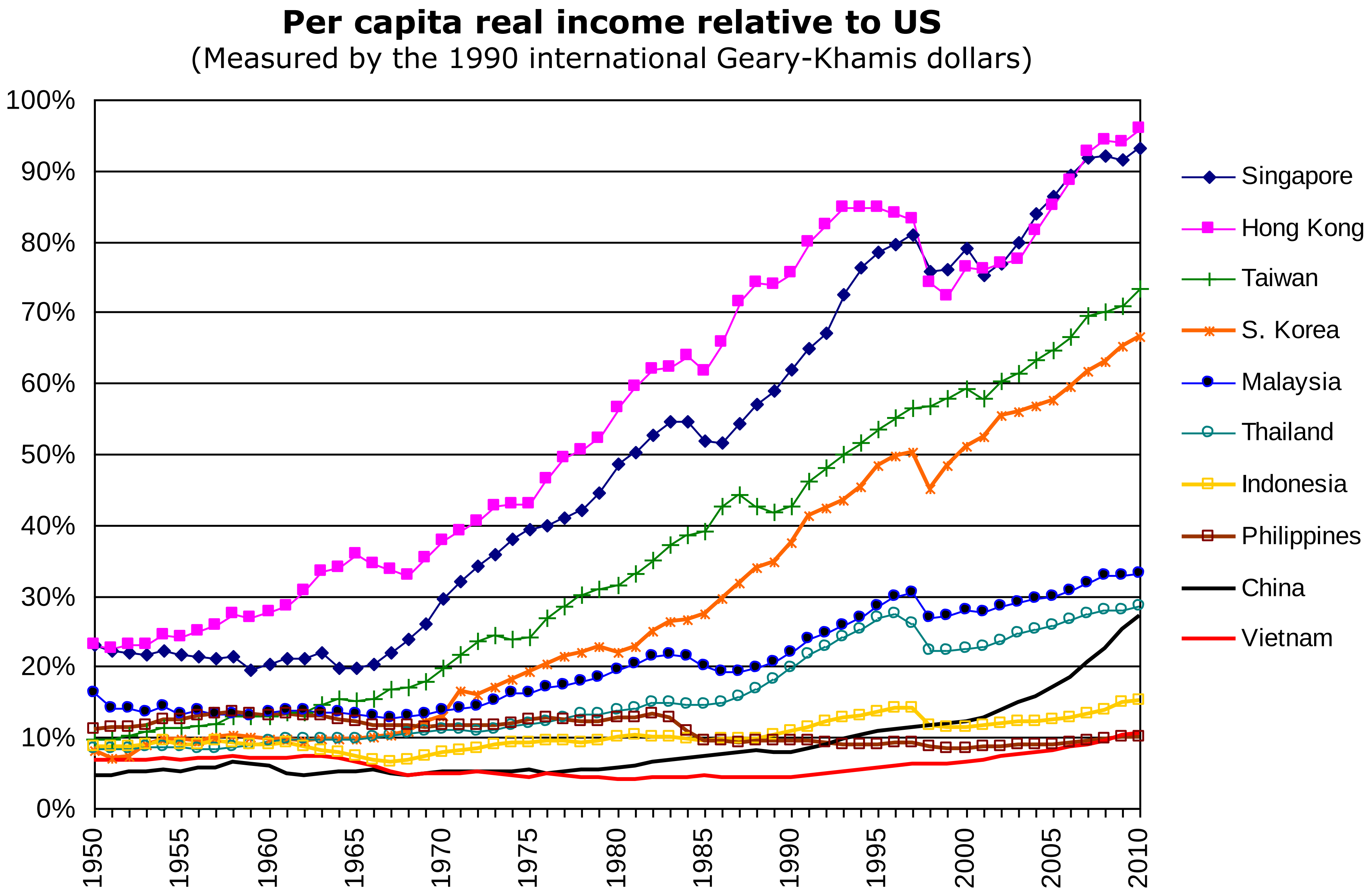

Addis Ababa, Ethiopia


Kigali, Rwanda

Why Do Countries Diverge?



Speed of Catching Up: East Asia



Sources: Angus Maddison, The *World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database, April 2010* (for updating).

Key Determinants of Long-term Industrial Development

- **Private sector dynamism** (individuals & enterprises)
- **National leader** (wisdom, decisiveness, action-orientation)
- **Policy method** (content, procedure, organization, documentation)

- These three factors are critical, in this order, in determining the long-term economic fate of the nation.
- The first two are difficult to change in the short run. But the third can be taught, learned and upgraded relatively quickly; wise policy can even influence the first two factors.

➔ **Learning/teaching of policy method as an entry point for improving development performance**

Japan's economic growth was driven mainly by private dynamism while policy was also helpful

Cumulative history, Edo achievements, national unity and nationalism

Private-sector dynamism and entrepreneurship

(primary force)

Rapid industrialization especially in late 19th century & 1950s-60s

Policy support

(supplementary)

Policy was generally successful despite criticisms:

--Power monopoly & close linkage with big businesses

--Privatization scandals

--Excessively pro-West

--Unfair by today's standards

Hypothesis of Policy Quality

- For today's latecomer countries (including Vietnam), the most critical determinant of whether the country rises to high income or become trapped in middle income is **POLICY QUALITY**.
- The most important policy component is **HUMAN** and **ENTERPRISE** capacity building. Infrastructure, business climate, legal framework, FDI and ODA are also important but not critical.
- Among latecomer countries, attained income is positively correlated with the quality of industrial policy. Latecomers that had strong private dynamism and good policy have already joined the high income group (Japan, Singapore, Taiwan, Korea).
- **POLICY LEARNING** is critical for today's latecomers. Study international policy cases, and acquire general capability to create a policy mix most suitable for the local context.

A Proposed Policy Structure for Industrialization (K. Ohno)

Vision: Vietnam is a fully industrialized country by 2020

Targets for 2020 and beyond

- Manufacturing value-added per head
- Net manufacturing export
- Champion products with high domestic value-added
- Sufficient number of engineers (both quality & quantity)

Policy areas (for FDI-linked technology transfer):

1. Strategic attraction of FDI

- General improvement of business climate
- Strategic marketing (bring targeted FDI by negotiation)
- One-stop service
- Hard & soft infrastructure
- Industrial parks
- Reform investment laws, MPI/FIA...

3. Linkage policy

- Incentives & policy support for linkage
- Matching of business & JV partners
- Effective follow-up & monitoring

2. Local enterprise capacity building

- Kaizen & shindan
- Benchmarking
- Export promotion
- Handholding
- Management training
- Sector-specific QCD & TT
- Strengthening agencies & institutes incl. IPSI

Policy areas (cross-cutting):

4. Efficient logistics

- Transport infra. & systems
- Fast & reliable customs, etc.

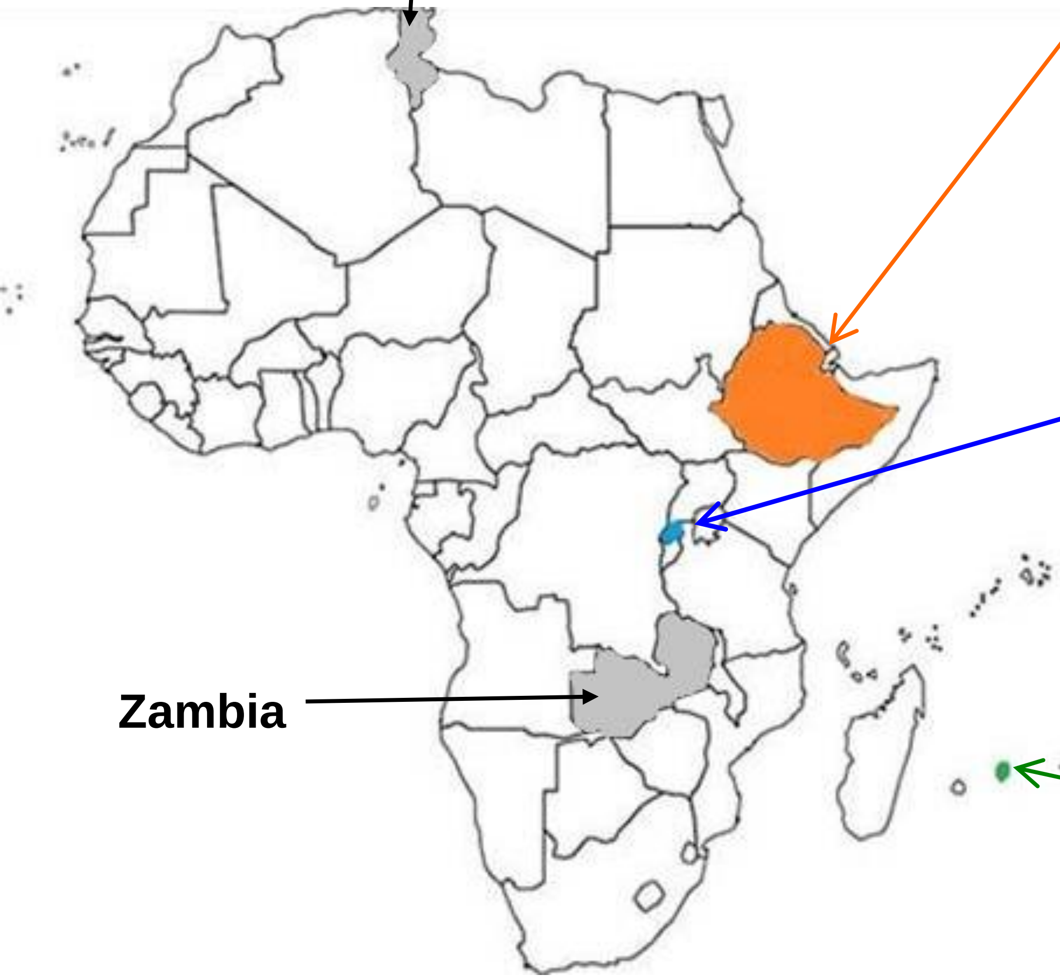
5. Industrial HR

- TVET
- Universities
- Industry-univ. cooperation

International Policy Comparison

Introducing GDF & VDF Research

- GRIPS Development Forum & Vietnam Development Forum are conducting policy research in Asia and Africa to study and compare industrial policy methods.
- **Asia**—Japan, Vietnam, Singapore, Taiwan, Korea, Malaysia, Thailand, Indonesia, India, (Bangladesh)
- **Africa**—Ethiopia, Rwanda, Mauritius, Mozambique, Zambia, Tanzania, Ghana, Uganda
- We evaluate the **quality of industrial policy** by looking at how policy is made, implemented, and improves the real economy. Good performance due to private effort, foreign cooperation or sheer luck is not counted as "good policy."
- Asia is not always superior to Africa. Some African countries have far better industrial policy than Vietnam (Mauritius, Rwanda, Ethiopia… maybe Tunisia & Zambia also).



Ethiopia

Population – 94 million
Per capita income – $470
Unskilled wage – $50/month
Main exports – coffee, sesame, roses, garment, shoes
Beginning to attract Turkish, Indian & Chinese manuf. FDI; policy learning from Japan

Rwanda

Population – 12 million
Per capita income – $620
Unskilled wage - $75/mo.
Main exports – coffee, tea
ICT drive, no corruption, clean streets, targeting Singapore

Mauritius

Population – 1.3 million
Per capita income – $9,210
Unskilled wage - $300-400/mo.
Main exports – garment, sugar
A small island nation with very competent government

Note: World Bank data for population and income (2013).

Overview of Selected Asian Economies

	Per capita income (WB, 2013)	World Bank income classification	History of industrialization (approximately)	Industrial policy quality (GDF evaluation)
Singapore	$54,040	High	Five decades	Excellent
Taiwan	$20,930	High	Six decades	Very high
Malaysia	$10,400	Upper middle	Six decades	High
Thailand	$5,370	Upper middle	5.5 decades	Moderate & spotty
Indonesia	$3,580	Lower middle	Five decades	Poor
Vietnam	$1,730	Lower middle	Two decades	Poor
India	$1,570	Lower middle	Two decades	Poor

Note: Taiwan’s income is from IMF. India's industrialization history counts post-planning years only.

	Very good
	Good
	Fair
	Fail

Income Performance vs. Quality of Industrial Policy

	Per capita income (WB, 2013, USD)	Ease of Doing Business ranking (WB, 2013, among 189 countries)	Industrial policy assessment by GDF (industrial human resource & enterprise support)							
			Overall	Human resource	Supporting industries	Manufacturing SMEs	Export promotion	FDI policy	Industrial parks	Productivity & innovation
Singapore	$54,040	1	A+	Very good	Good	Good	Good	Very good	Very good	Very good
Taiwan	$20,930	16	A	Very good	NA	Very good	Good	NA	Very good	Very good
Malaysia	$10,400	6	B	Good	Fair	Good	Good	Good	Good	Fair
Thailand	$5,370	18	B-	Good	Good	Fail	Fair	Good	Fair	Fair
Indonesia	$3,580	120	D	Fail	Fail	Fair	Fail	Fail	Fail	Fail
Vietnam	$1,730	99	D	Fail	Fair	Fail	Fair	Fail	Fair	Fail
India	$1,570	134	D	Fail	Fail	Fail	Fair	Fail	Fail	Fail

Note: Policy assessment excludes results of external factors, private effort or foreign support.

Business Environment

	WB Ease of Doing Business Ranking 2013	Remark
Singapore	1	World's top business location since 2007.
Taiwan	16	Reliable environment with low corporate income tax (17%); No investment incentives except for R&D.
Malaysia	6	MIDA provides good services & support.
Thailand	18	Board of Investment supports investors well; policies are reasonably stable & predictable.
Rwanda	32	Good national image creation based on ICT. Excellent one-stop service copied from Singapore.
Indonesia	120	Laws & regulations are unpredictable, unclear & without stakeholder consultation
Vietnam	99	Improving slowly since mid 1990s, but irregularities still abound.
India	134	FDI deregulation & industrial zones underway. Generally very difficult business climate.
Ethiopia	125	Government's commitment & policy effort are laudable, but many business barriers remain.

Note: World Bank's Ease of Doing Business ranking among 189 countries and areas benchmarked to June 2013.

Wage and Productivity

	Unskilled monthly wage, JETRO Dec. 2013	Labor productivity increase per year, APO index 1970-2011	Labor market condition & issues
Singapore	$1,433	3.3%	Highly competitive & professional; aged & foreign workers are less efficient.
Taiwan	$1,054	4.9%	ICT & industrial engineers abound.
Malaysia	$429	3.1%	Ethnic gap exists; high-tech shift aimed; labor-using processes sent abroad
Thailand	$366	3.5%	Acute labor shortage; L-using processes sent abroad (Thailand-plus-One)
Indonesia	$234	3.0%	Labor surplus; aggressive wage demand & labor dispute
Vietnam	$162	4.5%	Labor shortage in urban areas; rural wages are still competitive
India	$217	5.0%	Auto and IT sectors have well trained workers and engineers
Ethiopia	$50	N.A.	Rapid growth of FDI workers in AA; future labor D&S and migration unknown

Note: Ethiopia's wage is not JETRO. Vietnam's labor productivity increase is for 1986-2011.

FDI, SME & Industrial Zone Policies

Partial summary of assessment by GRIPS Development Forum based on site visits and interviews with officials, private sector, researchers, zone operators and tenant firms

	FDI policy	Manufacturing SME promotion & linkage	Industrial zones
Singapore	Highly strategic based on individual deals	Productivity support for targeted segments	State-owned & strategic; overseas expansion
Taiwan	(No longer important; outward bound)	Highly developed and effective	World model state-owned science parks & EPZs
Malaysia	High-tech orientation	Well-coordinated but results to be seen	Reasonably good
Thailand	Shifting to high-tech orientation	Generally weak except auto part suppliers	Many private IZs (AMATA...); modest state-management
Indonesia	Restrictive & unfriendly; nationalistic	Many scattered policies but ineffective; clusters	Left to private sector
Vietnam	Irregular though slowly improving	Almost none despite JICA/JETRO support	Many state, provincial, private IZs but many are plan only
India	Restrictive; only slowly opening	Almost none at policy level	State-managed; very hard land procurement
Ethiopia	Improving…	Generally weak except textile, leather, kaizen…	Initial zones under construction

Taiwan (pc income $20,930)

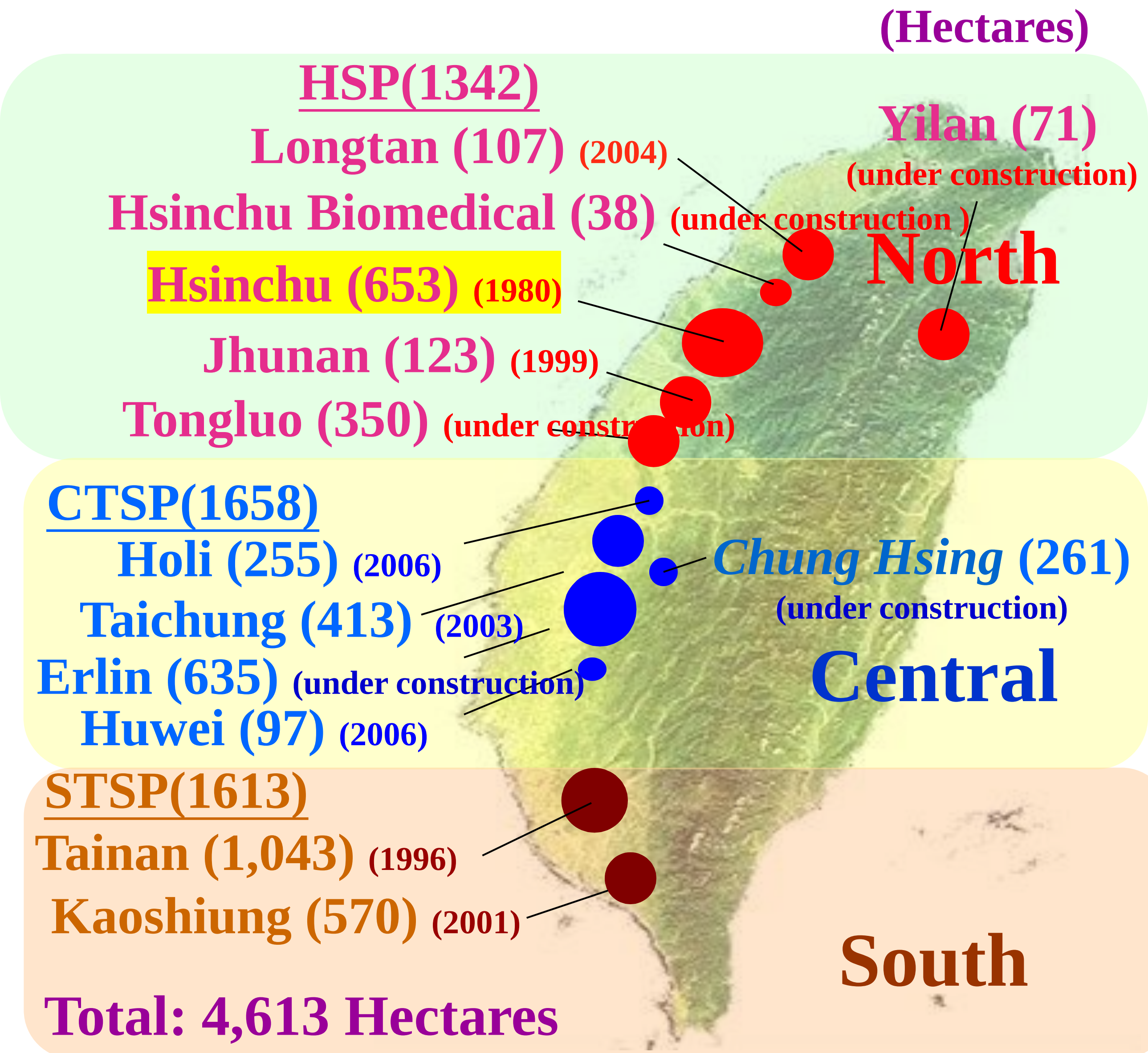
- **Silicon Island**—the world's top producer of ICT devices and components, now targeting soft power too.
- The powerful **Ministry of Economic Affairs** (MoEA) drafts and implements industrial policy. The key tool is **Industrial Projects** (support & subsidy for commercialization of R&D).
- Other policy tools include high-quality industrial estates (science parks, EPZs) and **effective SME promotion**. State-owned **Hsinchu Science Park** produces 10% of Taiwan's GDP.
- **Think tanks & technology institutes** strongly assist policy formulation and implementation.
- Taiwan does not draft five-year plans. It offers no business incentives (except for R&D).
- Taiwan does not distinguish domestic and foreign firms. Taiwan's reliance on FDI is low.

Science Parks & Technology Institutes in Taiwan

Hsinchu Science Park

Indus. Tech. Res. Institute (ITRI)

Metal Industries R&D Center



Indonesia (pc income $3,580)

- A large population (250 million) and strong domestic demand attract FDI that produce cars & consumer goods. However, Indonesia is **not an export base** for manufactured products.
- From 2000 to 2010, manufacturing share fell from 27.7% of GDP to 24.8%, and from 57.1% of export to 37.5% (WB data).
- **Economic nationalism** is on the rise. FDI policy is becoming more restrictive instead of opening up.
- Planning (BAPPENAS) and investor service (BKPM) are good, but the **Ministry of Industry** is weak and sub-divided. SME & TVET policies are fragmented. No support exists for industrial zones, supporting industries, productivity or innovation.
- **Decentralization** makes it difficult for central government to execute industrial policy nationwide.
- Jakarta suffers from **severe traffic jam** and port & airport congestion (Japan is offering to build infrastructure).

Jakarta's traffic

Ministry of Industry

BKPM (investor service)

BAPPENAS (planning)

Strong consumer demand

Rwanda (pc income $620)

- The 1994 genocide killed 1/10 of population and devastated the nation. The economy began to recover from around 2002.
- Strong and serious **President Paul Kagame** (since 2000) runs a developmental state promoting high-value services (ICT, telecom, finance, tourism, etc.), **benchmarking Singapore**.
- There is **no corruption**, and all ministers and technocrats are competent and hard working. Everyone must make an annual pledge and results are monitored (performance contract).
- Streets are **clean & safe**. Plastic bags are prohibited. Everyone must clean streets on last Saturday of each month.
- One-stop investor service is efficient. Rwanda successfully projects an image of ICT-based **African Miracle**. However, policy implementation and impact are still weak.

Kigali (capital) is a hill town.

Government strictly regulates motorbike taxis

ICT incubation center

New convention Center for conference industry

Everyone must pick up rubbish

Ethiopia (pc income $470)

- Industrial effort began around 2002. Ethiopia wants to learn industrialization from **East Asia**, not the West. It studied from Taiwan, Korea, Germany, Italy & UNIDO. Since 2008, it has regular policy dialogues with Japan (GRIPS-JICA).
- Ethiopia's vision: to attain middle income and become **Africa's leading nation in light manufacturing** by 2025. It also wants to become the Kaizen Center of Africa.
- The will to industrialize is very strong. Policy drafting and execution are very fast. **National Kaizen Fever** is going on.
- **Textile, Leather & Kaizen Institutes** were established to help industries. Japan and India are assisting. China is building roads, railroads, telecom, etc.
- India, Turkey & China are relocating their garment & footwear factories to Ethiopia. Many factories are being built, each hiring hundreds & thousands of workers.

Ayka—a Turkish knitted garment maker, vertically integrated, employing 7,000 workers & expanding

Eastern Industrial Zone developed by China

State-run & World Bank-supported industrial zone

FDI activities

Local Firms
(JICA-supported kaizen introduced)

Tire factory

PVC pipe factory

Local Firms

Nutrition food & edible oil factory

Tannery

Leather shoe factory

Leather bag maker

Vietnam (pc income $1,730)

- After Doi Moi & integration, Vietnam grew fast and reached lower middle income around 2008. But there are signs of an approaching middle income trap—growth slowdown, weak productivity, superficial structural transformation, stagnant global ranking, growth-caused problems.
- Compared with Rwanda or Ethiopia, Vietnam lacks strong will or capacity to promote industrialization and value creation.
- TVET, SME and supporting industry policies are still weak. Export, FDI and industrial parks are not effectively supported. Policies for productivity, kaizen and innovation are virtually nonexistent.
- If nothing changes, it is certain that Vietnam will be caught in a middle income trap. It is already starting.

➔ **Is Vietnam following Indonesia with a few decades lag???**

A Critical Moment for Vietnam