

## **Industrialization in the context of Integration**

### **FDI attracting and human resources reliance**

*On March 29, 2002, NEU and JICA co-organized a seminar on Vietnam Industrialization in the context of international integration. This activity is part of Knowledge ODA Program extended to Vietnam by Japanese Government. Vietnam Economic Times had an interview with Professor Kenichi Ohno of GRIPS and Project Co-Leader.*

Professor Kenichi Ohno puts out a number of ideas about developing Vietnam industries but he focuses on two major recommendations for industrial development policy makers: First, it is essential to understand the dynamics and motives of foreign investors. Second, industrial development should not be too dependent on natural resources but on human resources.

### **FDI is key**

According to Professor Ohno, attracting more FDI both in terms of quantity and quality is the most important strategy for Vietnam to attain full industrialization targets by 2020.

According to Mr. Ohno, foreign investment is currently under two impulsive forces, which are agglomeration and fragmentation. Agglomeration is the trend that the whole country or area develops toward a production center of one specific product or an industry such as Silicon Valley. Fragmentation means that the separate stages of production by foreign investors are carried out in different countries. It cannot be said for sure that one specific industry, for example, should follow this trend or the other the opposite trend. The proper advise, instead, should be made on the basis of understanding the interaction between the two forces and the information on products and their production process. For that reason, frequent exchange with foreign investors is requested for the host country to catch up with the investors' trends. "Foreign investment policy should be relied on the profound and comprehensive understanding of this regime rather than mapping out 5 or 10 year plans for foreign investment attracting" said Ohno. On the other hand, he also points out that Vietnam should insist on removing the barriers and obstacles to foreign investment. From his view, Vietnam laws on foreign investment are sufficient and encouraging enough to foreign investors and therefore it is not necessary to add or amend further. Taxation is neither a critical problem, the instability of the overall policies framework, however, is considered the crucial point.

Mr. Ohno said that the current incentive policies have not been implemented simultaneously in Vietnam, even the trade policy and competition policy have contradicted to each other. For example, in some import-substitution industries, the Government has, on the one hand, given protection, but on the other hand allowed enterprises to participate almost freely. This has created chances for some "opportunistic" investors with management incapability and low technology to fish in the muddy waters. "These investors will disappear when Vietnam starts implementing its international commitments" said Mr. Ohno.

According to Mr. Ohno, under the integration into AFTA and WTO today, Vietnam needs to amend its trade and investment mechanisms, therefore there should be an agency to supervise the consistency of policies everywhere and everytime. Trade policy and industrial policy are the same, therefore the two Ministries should be merged. He also suggested that Vietnam should lower the service fees such as telephone, internet, transportation, office leasing, etc. in order to encourage investors.

In terms of development direction, Mr. Ohno was of the view that Vietnam should focus firstly on attracting FDI in export-manufacturing sector, then establishing network of local enterprises to support foreign investors. It is highly expected that capital, technology and market will be brought along with the flow-in of foreign investment into industrial sector . Mr. Ohno, however, advised that Vietnam should be patient with regard to technology. The process of technology transfer will take time. Application of local content requirements will not only infringes WTO rules but also erodes foreign investors' confidence.

### **Skipping the stage means suicide**

As quoted by Mr. Ohno, Vietnam should not much rely on the natural resources for industrial development. The internal resources should be based on human factor. Mr. Ohno first came to Vietnam in 1995, then back and forth for dozen times within the framework of JICA research program. Through these activities, he found out that Vietnam wanted to develop its industry vertically, i.e. investing on producing input for other industries instead of importing inputs.

Nevertheless, he also pointed out that Vietnam could import these inputs from other countries at much lower costs with higher quality, and only so doing can it make its products competitive. "Vietnam should not rely on its natural mineral such as ore, gas....unless they can be supplied at the cheapest cost with highest quality in the world", said Ohno.

He thinks that in the era of globalization today, in order to be able to compete, one cannot do from A to Z, but focuses on some stages and each country can only choose some industries with advantages to focus on. However, it seems that Vietnamese policymakers do not understand this. "They want to do everything, from lower stream to upper stream, from light to heavy industry." Mr. Ohno remarked.

According to him, at present though the labor price is cheap, productivity in Vietnam's textile industry is very low. Therefore, measures to improve productivity should be taken. Moreover, through contacts and working with foreign partners who have processing contracts with Vietnam, Vietnam can learn a lot, say, designing. "This requires not much money, but human resources." Mr. Ohno also recommended that the textile industry should make investment on improving information, instead of on machines and equipments.

As for the steel industry, Mr. Ohno holds a view that Vietnam should not build a steel complex since it cannot mobilize a huge capital source (around USD 6 billion). According to him, Vietnam should focus on more critical matters such as running a cold laminating steel factory and completely dealing with the capacity to produce long steel rolls. After that the next step will be to build a hot steel-producing factory. In the field of electronics, Mr. Ohno thinks Vietnam should continue to assemble, and should not hurry in producing inputs. This requires high tech and cannot be immediately done. According to him, if Vietnam still wishes to invest right now, it will lead to losses or closing the factories. However, he has no intention to say that Vietnam cannot do this, but implying that this must be done gradually. Through assembling joint ventures, Vietnam can learn how to manage the electronics factories. That is exactly the best way to maximize the harnessing of the human resources for accumulation and for preparing for the next and higher development.