

Action Plan for Transforming Vietnam into Japan's Genuine Monozukuri Partner (Preliminary)

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1. Situation analysis--background for this proposal

(1) Growth slowdown at middle income

Vietnam launched Doi Moi Reform in 1986 and started comprehensive international integration in the early 1990s. Ever since, the Vietnamese economy has followed the typical ASEAN-style *FDI-led industrialization model* driven by expansion of trade opportunities and large inflows of investment, aid and other capital. Income rose, production and trade structures shifted, lower middle income was attained, and urban and rural landscapes as well as living style changed remarkably. However, this transformation was brought mainly by market forces and foreign firms rather than by the creation of globally demanded value through the entrepreneurship and productivity of the Vietnamese people and firms. In fact, internal value creation remains weak, the competitiveness of Vietnamese firms is still low, and growth driven by given advantages and market opportunities alone is coming to an end. Deepening of international integration—especially vis-à-vis the rest of ASEAN—poses more threats than opportunities to unprepared Vietnamese manufacturers. The growth rate is on a declining trend since 2006, and property bubbles and speculation craze have ended. With no additional policy action, Vietnam is certain to fall into a middle income trap in the future, or it is already beginning to fall into it. If Vietnam slows down now, it will have to face the burden of aging society and social security without sufficient income in the future. In a globalized world, high industrial development requires more than economic liberalization and opening with related legal reforms. What Vietnam needs now is the study and practice of more proactive industrial policy to effectively support private dynamism.

(2) Japan's contribution and participation

Since the resumption of Japanese ODA in 1992, the Japanese government has offered to Vietnam a standard industrial support package consisting of infrastructure and human resource development, as well as institution building for pursuing these objectives. Japan is the largest aid donor in Vietnam, and Vietnam has been the largest—or close to the largest—recipient of Japanese aid. Furthermore, Japan has cooperated with Vietnam in the

area of policy making including the Ishikawa Project (1995-2001), the Vietnam-Japan Joint Initiative (2003-), Supporting Industry Development Action Plan Formulation (2008-2010), and Industrialization Strategy (2011-2013). Japanese private firms, especially manufacturing ones, have invested increasingly large amounts in Vietnam since the mid-1990s. In the first half of 2014, the counted number of Japanese firms operating in Vietnam was 1,542, which was less than Thailand (3,924) but comparable to Indonesia (1,763) (Teikoku Databank survey)¹. Japan is the top investor in the manufacturing sector of Vietnam, forming the country's industrial base together with investments from Korea, Taiwan, Singapore, and others. Among manufacturing SMEs in Japan, Vietnam and Thailand are the two most popular investment destinations. In this way, Japan-Vietnam economic relationship is strong, and Japanese contribution, both public and private, to the Vietnamese economy is considerable.

However, after more than two decades of receiving investment and aid from Japan, other countries and international organizations, the competitiveness of Vietnamese human resource and enterprises falls short of expectation. Foreign firms are still the main driver of industrial production and export. Investment climate has improved gradually compared with the past, but policy ownership and capability of the Vietnamese government toward building enterprise competitiveness and industrial skills remains weak—and has not improved much in the last two decades. Large inflows of public and private money from abroad may have generated complacency and dependency. It is feared that the sense of urgency and action-orientation, which is necessary for policy reform, has been lost. In sum, Japan as well as other countries and international organizations have not succeeded in imparting proper attitude and methods for industrial promotion to Vietnam.

(3) The push factor from Japan

On the other hand, Japanese monozukuri (manufacturing) is at a crossroads. Domestic production is becoming increasingly difficult by shrinking domestic demand, population decline and aging, shortage of successors to enterprises and skills, dynamic overseas markets, competition with emerging economies, and overseas relocation and global procurement of large manufacturers. The numbers of manufacturing SMEs and their workers continue to decline since the bubble period peak in the 1980s². Abenomics has

¹ Meanwhile, the number of member firms of the Japanese Chamber of Commerce and Industry as of April-July 2014 was as follows: 1,254 in Vietnam (North and South), 1,552 in Bangkok, and 558 in Jakarta. Thailand and Vietnam attract a broad range of Japanese FDI for both export and domestic sales, while Indonesia's main attraction is large automotive production and growing markets for consumer products and services, both of which are domestic sales oriented.

² The number of establishments of manufacturing SMEs in Japan declined 43.8% from 870,368 in 1986 to

partly reversed deflation and the high yen, but an upturn of business cycles hardly changes the long-term structural issues mentioned above. Overseas investment by Japanese MNCs and their subsidiaries is nothing new, but now even SMEs without any international experience or keiretsu relations and support must consider overseas relocation as a means for survival because domestic demand and orders are falling. This phenomenon has been clearly visible all over Japan since the Lehman Shock of late 2008. In this sense, overseas business expansion of Japanese firms has entered a new era. Japanese-style monozukuri cannot be maintained in sufficient quality and quantity by domestic production alone. In response, around 2010, the Japanese government put aside the traditional fear of industrial hollowing-out and began to strongly assist overseas investment of manufacturing SMEs.

Of course, not all manufacturing SMEs facing difficulty at home will succeed abroad. There are also firms that can remain competitive by staying in Japan. Success in outward FDI requires careful selection and a good strategy. Policy support for overseas investment of SMEs should not be a short-term fad under one particular government that promises a large but temporary budget allocation. It is necessary to carefully determine what type of firms should go abroad, and how central and local governments, official agencies and economic organizations should assist them. These principles must guide policies far into the future. Another important thing is establishment of a long-term vision on how Japanese monozukuri should be transformed and developed in the new globalized world rather than just regarding overseas investment as a quick fix for the difficulty at hand. It is no longer appropriate to confine Japanese monozukuri to Japanese firms alone whether they operate at home or abroad. Japanese monozukuri should also be carried out and developed by non-Japanese. Japanese monozukuri will become a true global standard and model only when its core knowledge is transplanted to foreigners. In the future, Japan must not just use cheap labor and industrial land in developing countries or only teach basic knowledge for equipment operation and maintenance; it should share the fundamental part of monozukuri knowledge with the people of selected developing countries. Given the shortage of domestic successor to monozukuri, the above is essential for the survival of Japanese manufacturing.

(4) Vietnam's potential

Vietnamese people are generally known to be skillful, diligent and enduring, more so than the peoples of most other ASEAN countries. This attribute is certainly an advantage for manufacturing, and has been effectively utilized for labor-intensive processes such as

489,158 in 2012, and the number of their workers fell 32.7% from 9,922,490 to 6,678,847 during the same 26-year period (Statistics Bureau, the Ministry of Internal Affairs and Communications).

simple assembly, cutting and sewing, and processing of marine products. On the other hand, Vietnam's potential for more value-creating activities such as skilled engineering, proficient use of machinery and equipment, realization of QCD (quality, cost and delivery—basic requirements for Japanese production), and product design with creativity are not exploited very much. Unlike Japanese, Korean or Taiwanese workers, Vietnamese workers do not automatically show high work dedication or discipline if no motivation or guidance is given. If left alone, Vietnamese firms and workers usually lack the qualities required by Japanese manufacturing, such as long-term orientation, commitment to quality, and teamwork. In the last two decades, a large number of business models such as state-dependency, short-sightedness, Western, Japanese, Taiwanese and Korean, have coexisted in Vietnam leaving corporate and labor culture in a state of flux and mixture. Under this circumstance, the unique talents of Vietnamese people remain underdeveloped. Establishment of Japanese style manufacturing as one of the dominant (if not the only) business models in Vietnam, replacing short-sightedness and inattention to quality and customer satisfaction, should go a long way to develop them fully.

Pursuit of cheap labor and/or vibrant domestic demand is a common feature of manufacturing FDI inflows in many Asian economies. Vietnam has also attracted FDI mainly for these two reasons. Foreign firms come to Vietnam not so much for high competency of Vietnamese managers, availability of highly skilled workers, excellent business climate, or proactive policies. Despite the lack of all these, they are attracted to Vietnam because of cheap unskilled labor and growing domestic demand. This type of FDI is bound to end when wages rise significantly or when growth slows down, without being able to move to a higher level of production cooperation. This superficial and temporary nature of FDI is also present in the current economic relation with Japan, where a huge bilateral wage gap justifies assignment of labor-intensive operation to Vietnam. There is no particular reason why the host country must be Vietnam and there is no guarantee that such relationship will continue forever. To elevate Japan-Vietnam cooperation from superficial and temporary partnership to true and lasting monozukuri partnership, Vietnam must mobilize its unique but latent capabilities fully to continuously create value. This will require strong determination and resilient effort on the part of Vietnamese entrepreneurs as well as proper guiding and support policies by government. We are glad to see a Japanese language boom in Vietnam, and hope that this will ignite interests not only in Japanese culture and food but also in serious learning of Japanese monozukuri. As the Vietnamese government currently lacks the will and capability, it must first learn proper mindset and methodology. It will be very meaningful for Japan to assist this national effort from the sideline.

2. **Vision**—orientation toward 2025

“Vietnam inherits the spirit and technology of Japanese style manufacturing (monozukuri), and establishes a permanent and mutually dependent cooperative relationship in manufacturing with Japan.”

3. **Targets**—what needs to be realized by 2025 in concrete numbers

- (1) *Enterprise shindanshi*--produce at least 500 Vietnamese shindanshi having certificate comparable to Japan's and being able to advice on both enterprise management and production management, and mobilize them actively for enterprise advice.
- (2) *Enterprise leaders*--apart from shindanshi, foster and officially acknowledge at least 3,000 Vietnamese managers and/or engineers, whether experienced and young, with the know-how of Japanese monozukuri, and let them actually work in firms operating in Vietnam (regardless of sector, size or ownership).
- (3) *Supporting industry firms*--create at least 1,000 Vietnamese firms that can continuously supply parts and components to globally competitive FDI in Vietnam (first-, second- and third-tier suppliers).
- (4) *Champion products*--produce at least two manufactured products or manufactured key components with domestic value-added exceeding 50% and boasting no.1 export share in the global market.
- (5) *Macro indicators*--the share of manufacturing should reach at least 30% of GDP and 80% of total export, with the net export of Vietnamese firms attaining \$5 billion or more per annum.

(Note: Vietnamese firms here mean firms in which 51% or more of ownership belongs to Vietnamese.)

4. **Policy areas**—a small number of issue areas where policy effort must be concentrated to achieve the above-mentioned targets

- (1) Improving industrial policy methodology
- (2) Strategic attraction of manufacturing-related FDI
- (3) Industrial human resource development
- (4) Enhancement of Vietnamese supporting industry firms

(5) Efficient logistics

5. Action plan—a table listing who will do what by when

(An action plan is a table with such columns as Area, Action, Deadline, and Responsible organizations (addition and revision to these columns are possible). Five sub-tables corresponding to the five policy areas above should be constructed. An action plan should be completed and agreed after about one year of work. It should consist of actions taken by the Vietnamese side. Possibilities of cooperation and investment by Japan are considered but not explicitly written in the action plan. The following memo contains a set of ideas in preparation for drafting an action plan.)

A sample format of an action plan (for strategic attraction of manufacturing-related FDI)

Area	Action	Deadline	Responsible organization(s)
1. FDI policy regime	1-1. Review of current policy & organization, revision proposal (report writing, stakeholder meetings, approval of content, etc.)	Dec. 2015	Newly created V-J bilateral taskforce
	1-2. Start revising FDI law (parliamentary approval within 2 years)	Jan. 2016	MPI
	1-3. Start strengthening Foreign Investment Agency (draft 3-year enhancement plan & implement...)	Sep. 2016	MPI
	1-4. Revise and announce the FDI negative list (to become effective 6 months after announcement)	Jul. 2017	FIA/MPI
2. Incentives			
3. Investor support & follow up			
4. Industrial parks & rental factories			
5. Strategic attraction	5-1. Attract anchor firms		
	5-2. Attract supporting industry firms & SMEs		
	5-3. Attract related services and networks		

Note: this table only illustrates format and columns. In reality, an action plan should have more details on “Actions” with more concrete descriptions.

(1) Improving industrial policy methodology

(Below is the proposed rough content for each action plan sub-table, which must be given more details and finalized in the table format shown above; similarly for (2) to (5))

- Establish the *Vietnam-Japan High-level Monozukuri Council* (a permanent forum, the name is tentative) and its secretariat, the *Vietnam-Japan Monozukuri Working Group* (same as above); start regular meetings.
- Review current policy methods, and propose long-term, medium-term and short-term improvements (draft report, discuss and approve content, and implement).
- Discuss and agree on long-term vision, medium-term targets, and policy areas for Vietnam's industrialization.
- Produce an action plan (this program) and start implementation.
- In parallel to the action plan, a small number of priority sectors should be selected for which promotion plans should be created and implemented (this policy should be linked with the action plan and its individual components as described below).
- Draft and approve an overall industrial master plan, which incorporates the action plan and the plan for selective industrial promotion.

(For executing the above, the Vietnamese government should break old customs and traditional patterns to initiate a bold policy innovation for designing and implementing policies pragmatically and effectively.)

(2) Strategic attraction of manufacturing-related FDI

- Build and enhance the FDI attraction policy regime
- Rationalize and improve implementation of incentives
- Enhance investor support and follow up (review, plan, and implement in steps)
- Strengthen industrial parks and rental factories as receivers of FDI (hard and soft)
- Strategic FDI marketing--attract anchor firms, supporting industry firms and SMEs, and related services and networks

(3) Industrial human resource development

- Education reform for better understanding of proper industrial culture (greetings, work discipline, seiri & seiton, upward mobility, long-term career plans, etc.)
- Strengthen TVET (curriculums, instructor training, equipment, scholarship, etc.)
- Support linkage between businesses and TVET institutions (incentives, dispatching instructors from FDI, internship, recruitment of graduating students, etc.)
- Establish and expand skills certification, tests, and award systems necessary for this action plan

- A plan for connecting Japanese language study to the learning of Japanese monozukuri, followed by implementation
- Study and implement ways to mobilize Vietnamese who have experience in Japanese monozukuri (returning students, technical trainees, people who have worked in Japanese firms, enterprise shindanshi, industrial experts, etc.)

(4) Enhancement of Vietnamese supporting industry firms

- Create shindanshi certification standards, produce Vietnamese shindanshi with Japanese cooperation ([Lean Management: Minh](#))
- Create standards, certification and manuals for kaizen, implement a pilot project
- Scale up kaizen movement geographically and across sectors; mobilize Vietnamese shindanshi for this purpose; ultimately transfer the movement to the private sector
- Strengthen targeted technical skills with concentrated assistance (for example, die and mold, welding, etc.)
- Build linkage between FDI and local firms ([Minh](#)) (incentives for private sector teaching and learning, create information platform and meeting occasions, following up, loans and guarantees, venture support, etc.)
- Hand-holding programs for selected enterprises to achieve QCD, product development, marketing, export, etc. (first by Japanese experts, later by Vietnamese experts)

(5) Efficient logistics

- Logistic benchmarking in hard and soft aspects (specify target country or city)
- Set numerical targets on time and cost for marine, land and air transport
- Draft and implement an action plan to attain targets

6. Monitoring

The bilateral policy dialogue mechanism proposed in 5-(1) above, namely the Vietnam-Japan High-level Monozukuri Council and the Vietnam-Japan Monozukuri Working Group, will guide, create, and monitor this action plan.

The Working Group shall meet every month or every other month to regularly monitor action plan implementation. The Council will meet annually in the same month, plus whenever additionally is needed, to hear from and give instructions to the Working Group regarding the progress of the action plan and proposed adjustments.