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

Building 3 pillars of industrial strength
- Supporting industries
- Industrial human resource
- Efficient logistics

Reform of industrial policy formulation
Concrete targets and action plans
Learning integral manufacturing

Effective use of capital inflows & ODA
Solving social issues
Proper macro management

Preconditions for industrialization
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 vs. Integral Manufacturing

<table>
<thead>
<tr>
<th>Parts interface</th>
<th>Merits</th>
<th>Demerits</th>
<th>Institutional requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parts are common and can be used for any model</td>
<td>Quick results and flexibility</td>
<td>No differentiation, excess entry, low profit, lack of R&amp;D</td>
<td>Openness, quick decision making, flexible outsourcing</td>
</tr>
<tr>
<td>Each product has unique parts, specifically designed</td>
<td>Endless pursuit of quality</td>
<td>It takes much energy and time to achieve results</td>
<td>Long-term relations, building internal skills &amp; knowledge</td>
</tr>
</tbody>
</table>

**Performance vs. Time**
- Modular Manufacturing: S-shaped curve
- Integral Manufacturing: Linear increase
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.
Vietnam-Japan Monozukuri Partnership for Supporting Industries

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

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


- 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-J P 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.

<table>
<thead>
<tr>
<th>Supporting industry producers</th>
<th>Promotion measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>Japanese</td>
</tr>
<tr>
<td>Taiwanese &amp; others</td>
<td></td>
</tr>
<tr>
<td>Vietnamese</td>
<td>SOEs</td>
</tr>
<tr>
<td>Private SMEs</td>
<td></td>
</tr>
</tbody>
</table>

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

Assemblers with overlapping part requirements

Supporting industries

Basic production processes

Pressing  Casting  Forging  Welding

Plating  Machining  Die & mold  Heat treatment

Parts and components: metal, plastic, rubber, electrical, etc.
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)

<table>
<thead>
<tr>
<th>Policy area</th>
<th>Measures</th>
</tr>
</thead>
</table>
| 1. Capacity building (for specific firms) | - 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) | - 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 | - Credit guarantee  
- SME finance institutions  
- Two-step loans |
| 4. Incentives | - Exemption or reduction of taxes and custom duties  
- Grants or loans for specified actions |
## Policy Menu (cont.)

| 5. Linkage | - 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 | - 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 | - 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