Vietnamese Supporting Industries

From Master Plan to Action Plan through Vietnam-Japan Monozukuri Partnership

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Topics

- Vietnam must produce internal value (VDF symposium, March 2008)
- A proposal for Vietnam-Japan strategic partnership for promoting supporting industries
- Action plan contents – preliminary ideas by Japanese experts
Vietnam’s New Era

- Opening up and receiving FDI can attain middle income ($1,000+), but higher income ($10,000+) requires **good policy** and **private dynamism**.
- Without these capabilities, a country may be stuck at middle income without reaching high income (“middle income trap”).
- Vietnam needs to create internal value instead of just offering cheap labor and factory land.

**Different Speed of Catching Up**

*Per capita real income relative to US*  
(Measured by the 1990 International Geary-Khamis dollars)

![Graph showing different speeds of catching up](image)


**Catching Up Process**

- **STAGE ONE**
  - Simple manufacturing under foreign guidance
  - Vietnam

- **STAGE TWO**
  - Have supporting industries, but still under foreign guidance
  - Thailand, Malaysia

- **STAGE THREE**
  - Technology & management mastered, can produce high quality goods
  - Korea, Taiwan

- **STAGE FOUR**
  - Full capability in innovation and product design as global leader
  - Japan, US, EU

**Agglomeration**

**Technology absorption**

**Creativity**

**Glass ceiling for ASEAN countries**
(Middle income trap)

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**Lessons from Thailand and Malaysia**

**Success**
Impressive FDI-led growth and industrialization under 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
- Risk of wage pressure and FDI shift to China, India or Vietnam
Vietnam’s Challenge

- AFTA, WTO, FTAs - danger of large imports of ASEAN products (esp. Japanese brands) that may destroy VN’s industrial base.
- The risk of losing manufacturing and keeping only sales agents (“hollowing-out”).
- Vietnam’s wage becoming too high for labor-intensive industries, but technology too low for knowledge-intensive industries.
- Vietnam needs a strategic partner to greatly increase internal value in manufacturing.

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!
Malaysia’s Manufacturing++

Malaysia’s 2nd Industrial Master Plan (IMP2, 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

Proposed Strategy for 2020
*(presented at VDF Conference, March 2008)*

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

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

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

Preconditions for industrialization
Japanese Cooperation with Vietnam (1990s-Now)

- Japan has contributed to VN’s industrialization through trade, FDI, ODA and policy dialogue.
- Japanese ODA covered many areas:
  - Infrastructure (esp. transport & power)
  - Human resources
  - Institutional reforms
  - 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 (2003-09)

Future Direction of Japanese Cooperation with Vietnam

- Vietnam is no longer a low-income transition country. Bilateral cooperation should be equal and strategic, not one-way.
- Cooperation should gradually shift from removing negatives and providing basic conditions to proactive creation of the new source of competitiveness.

⇒ We propose VN-JP monozukuri partnership as the first step in this direction.
Vietnam-Japan Monozukuri Partnership: A Proposal

- **Purpose** – Implement Supporting Industry Master Plan (approved July 2007) through concrete action plan.
- **Method** – Japan to transfer skills and technology for monozukuri; Vietnam to absorb them with determination.
- **Reciprocity** – Two countries to share the burden and benefits as equal partners (not one-way aid).
- **Time scope** – Short-term (2009), medium-term (2013) and long-term (2020); intensive efforts should be made to produce initial tangible results.

The Concept of Monozukuri

- *Monozukuri* literally means “making things.”
- 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.
Monozukuri – cont.

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

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**Two Types of Business Architecture**

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

- Modular manufacturing: 
  - Performance reaches a plateau after a certain time.
- Integral manufacturing: 
  - Performance increases over time.

Partnership Possibilities
From the Viewpoint of Business Architecture

Effective partnership:
USA=China (modular)
Japan=ASEAN (integral)

Importance of Supporting Industries

- Supporting industry promotion is the first important step to realize the vision of monozukuri partnership.
- In assembly-type manufacturing, part cost is large (80-90%) while labor cost is small (5-10%).
- Without quick access to suppliers with QCD, assemblers cannot become competitive (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 of Supporting Industries

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.
Additional Features of VN-JP Monozukuri Partnership

- **Resetting the mindset** – Vietnamese managers and workers must be more aggressive in learning and marketing
- **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

Initial Ideas for Supporting Industry Action Plan

**Action menu:**
- Capacity building (for specific firms)
- Human resource (general or institutional)
- Finance
- Incentives
- FDI-local linkage
- FDI marketing
- Policy framework
About This Action Menu

- This contains initial ideas of Japanese experts. It is only a starting point for discussion.
- Following information was referenced:
  - Japan’s New Aid Plan for ASEAN (late 1980s-early 90s)
  - Recent ASEAN4 experiences (incl. Mizutani Report for Thailand 1999 and Urata Report for Indonesia 2000);
  - Supporting Industry M/P 2007
  - Motorbike M/P 2007
- Since all measures cannot be adopted at once, selectivity and proper sequencing should be considered.

Local suppliers

- Enterprise evaluator system
  - Management
  - Technology
  - Finance
  - SME policy

FDI suppliers

- Industrial cluster strategy
  - Incentives
  - Logistics
  - FDI marketing
  - Infrastructure

Policy framework
- Linkage
  - Matching, trade fairs, database

Note: Measures are classified by main impacts even if they benefit both local and FDI suppliers.
Action Area 1 – Capacity Building
(For Specific Firms)

(Benefiting mainly Vietnamese firms)
- Survey of concrete capabilities required of local suppliers in next 3-5 years (ongoing).
- Training of *Shindanshi* (Enterprise Evaluators) and establishment of *Shindanshi* System.
- Large-scale mobilization of Japanese engineers (current and retired).
- Over time, accelerate technology transfer from Japan to Vietnam.

Action Area 2 – Human Resource
(General or Institutional)

(Benefiting both Vietnamese and FDI firms)
- Review and improve programs at engineering universities as well as training centers.
- Select a small number of training institutions for intensive supporting industry promotion.
- Establish collaborative schemes between FDI firms and universities/training centers.
- Link up with FDI-local linkage programs.
Action Area 3 – Finance

(Benefiting mainly Vietnamese firms)
- SI firm support should be added to existing SME finance programs.
- Strengthen banks’ capacity to evaluate and provide loans to SI firms.
- Develop credit guarantee fund, subsidized policy loans, non-property collaterals, etc.

Action Area 4 – Incentives

(Benefiting both Vietnamese and FDI firms)
- Define eligible “supporting industries.”
- Tax holiday, import duty exemption for equipment, subsidies for training, work permit waiver for foreign engineers, etc.
- Incentives should be sufficiently competitive vis-à-vis neighboring countries (not too much or too little).
- Active PR of incentives to attract FDI suppliers.
Action Area 5 – FDI-local Linkage

(For matching Vietnamese and FDI firms)

- Create a list of potential local suppliers, to be upgraded to a full database.
- Establish a linkage program after studying international experiences (Thai BUILD & NSDP, Malaysia’s VDP & ILP, etc).
- Award-giving and PR of excellent Vietnamese suppliers.
- Expand matching activities (exhibitions, reverse trade fairs, business missions, etc).

Action Area 6 – FDI Marketing

(For attracting FDI suppliers)

- Proper roles of Vietnamese and FDI suppliers should be identified for each sector.
- Draft industrial cluster strategy.
- Create supporting industry industrial parks with small lots, rental factories, and administrative support.
- Improvement in infrastructure and logistics should enhance industrial clusters.
Action Area 7 – Policy Framework

(Benefiting both Vietnamese and FDI firms)

- National campaign to raise awareness and prestige in skilled manufacturing.
- Improve inter-ministerial cooperation, private-public partnership, and industry-university partnership.
- Draft the Basic Law of SMEs and the Law on the Promotion of SMEs.
- Establish a new official body that specializes in SME and SI promotion in the future.