Main Argument

1. Vietnam’s challenge: Creating internal value and avoiding the middle income trap
2. Vietnam must renovate:
   - Policy content and structure
   - Policy making organization
3. Where to begin?
   - Draft a policy renovation plan
   - Establish a technocrat group
   - Mobilize foreign partners strategically
Vietnam’s New Era

- Vietnam is entering a new era where productivity breakthrough and value creation are needed.
- Opening up and receiving FDI can attain middle income ($1,000+), but higher income ($10,000+) requires *good policy* and *private dynamism*.
- The question is how to level up skill and technology embodied in human capital. Money and machines are not the problem.

**Different Speeds of Catching Up**

*Per capita real income relative to US*

( Measured by the 1990 international Geary-Khamis dollars)

Stages of Catching-up Industrialization

**Pre-industrialization**
- STAGE ZERO
  - Monoculture, subsistence agriculture, aid dependency
  - Poor countries in Africa

**Initial FDI absorption**
- Arrival of manufacturing FDI
  - Agglomeration (acceleration of FDI)

**Internalizing parts and components**
- STAGE ONE
  - Simple manufacturing under foreign guidance
  - Vietnam

**Internalizing skills and technology**
- STAGE TWO
  - Have supporting industries, but still under foreign guidance
  - Thailand, Malaysia

**Internalizing innovation**
- STAGE THREE
  - Management & technology mastered, can produce high quality goods
  - Korea, Taiwan

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

**Glass ceiling for ASEAN countries (Middle Income Trap)**

Lessons from Thailand and Malaysia

**Success**
Impressive industrialization and growth led by FDI and reasonable policy

**Failure**
Domestic private-sector capability is still weak after many decades
- Foreign dependency—inaability to send foreign managers home
- Value and capability are not internalized—middle income trap
- Risk of wage pressure and FDI shifting to China/India/Vietnam
Vietnam’s Challenge

- AFTA, WTO, FTAs - large inflows of ASEAN products (esp. Japanese brands) may destroy VN’s industrial base.
- The risk of losing manufacturing base 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!
Successful industrial policy making in East Asia has been characterized by:

- Goal orientation:
  - Vision ➔ Strategies ➔ Action plans
  - Mechanism to ensure implementation

- Vietnam has a vision (*Industrialization and Modernization 2020*) but it is not backed by concrete strategies or action plans.
- Only small part of approved policies and master plans are implemented in Vietnam.

<table>
<thead>
<tr>
<th>Vision</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Slogan</td>
<td>- Vision 2020 (Malaysia)</td>
</tr>
<tr>
<td></td>
<td>- Short and Vague</td>
<td>- Detroit of Asia (Thailand)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Industrialization &amp; Modernization (Vietnam)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Document specifying goals, roadmaps, policy measures</td>
<td>- Industrial Master Plan (Malay.)</td>
</tr>
<tr>
<td></td>
<td>- Scope &amp; detail depend on each case</td>
<td>- Automotive Master Plan Main Text (Thailand)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- e-Japan Strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Industrial Cluster Plan (Japan)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Action plan</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Document, action matrix, formal or informal mechanism, or ongoing process</td>
<td>- Automotive Master Plan Action Tables (Thailand)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Vietnam-Japan Joint Initiative</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Triangle of Hope Project (Zambia)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Review &amp; Adjustment</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Numerical monitoring, document report, organizational review, or no formal review</td>
<td>- Interim &amp; final review by joint committee (VJJI, ToH Zambia)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Industry specific committees (Thailand)</td>
</tr>
</tbody>
</table>
### Sample Format of Thai Automotive Master Plan

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Action Plan</th>
<th>Output</th>
<th>Key success indicator</th>
<th>Main resp. org</th>
<th>Cooperative org</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2 Automotive Human Resource Development</td>
<td>3. Automotive training center project</td>
<td>Standardized automotive training center</td>
<td>1. Number of trained persons</td>
<td>TAI</td>
<td>OIB/TAIA/TAPMA/FTI</td>
</tr>
<tr>
<td></td>
<td>3.1 Provide Systematic training to the industry from workers to management level</td>
<td></td>
<td>2. Number of companies sending employees for training</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.2 Skill training</td>
<td></td>
<td>3. Increased income of trained persons</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.3 Provide training to engineers in the field of advanced engineering and specialized technology</td>
<td></td>
<td>4. Cost reduction and profitability</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Vietnam’s Industrial Vision under Global and Regional Integration

- Global re-location of manufacturing sites by MNCs ➔ Only attractive production locations can survive and prosper
- Policy must progress:
  1/ Basic: regulatory efficiency
  2/ Intermediate: Responsiveness to business needs
  3/ Advanced: pro-active creation of attractive location
- Vietnam’s strengths are *good geographical location* and *hardworking people*, but these are not fully utilized.

Policy Must Create Three Pillars of Competitiveness

To create domestic value and take part in global value chain effectively, VN needs:

- Competitive industrial human resources (management, skill, technology)
- Supporting industries and supporting services
- Logistics (efficient transportation)

These must be achieved with concrete timetables and action plans.
Example: Supporting Industry Action Plan Matrix (Proposal)

Japan proposed this matrix to MOIT/MPI for comment and discussion (June 2009):

**STF1**: Legal and policy framework  
**STF2**: Capacity building & human resource  
**STF3**: Finance  
**STF4**: FDI marketing  
**STF5**: FDI-local business linkage

It is hoped that A/P will be finalized and put into implementation by Sep. or Oct. 2009.

### Supporting Industry Action Plan (Proposed Matrix for STF1)

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Vietnam’s action</th>
<th>Resp. bodies</th>
<th>Japan’s assistance</th>
<th>Resp. bodies</th>
</tr>
</thead>
</table>
| **Short: By mid 2010** | 1. SME survey  
2. Priority sector list  
3. Set up inter-ministerial system  
4. Create excellent company prizes  
5. 5YP 2011-2015 | MOIT  
VCCI  
MPI | 1. TA, finance  
2. FDI survey  
3. Expert & information  
4. Japanese experience  
5. Expert | METI, JICA  
METI, JBA  
METI, JICA | METI, JICA  
JP Gov’t |
| **Medium: End 2011** | 1. Prepare legal framework                                                      | MPI/ASMED    | 1. Expert                     | METI, JICA   |
| **Long: (2015?)**   | 1. Revise SI M/P and A/P as needed                                              | MPI etc.     | 1. Provide information        | JP Gov’t     |
For continued industrialization, Vietnam needs a fundamental reform in policy formulation. Minor repairs of current system are not enough.

- **Government trap** – low efficiency, low morale, low salary → brain drain from the public sector → low-quality policies
- Strong political will and risk-taking at the top level (Party, Prime Minister) is needed to initiate such reform.
Key Issues in Policy Making Organization

- Dynamism of leadership – political will, economic literacy, effective use of technocrats and committees
- Creation of focal point in policy making - some organization must take lead and responsibility
- Ensuring implementation
- Public Private Partnership (effective cooperation with businesses)
- Inter-ministerial coordination

Vietnam: Traditional M/P Drafting Process

- Prime Minister
  - Review for approval
  - Submit
- Minister
  - Inter-ministerial review
  - Order
  - Submit
- MPI & other Ministries
- Drafting Team
  - Data
  - MPI & other Ministries
- Business Community
  - Contact Ministry when necessary
  - Interviews, symposiums (sometimes)
  - Appeal letter to Prime Minister when problems arise
  - Technical assistance (sometimes)
  - International experts

No permanent channel for continuous policy dialogue (case-by-case, temporary, ad hoc)
My Recommendation for Vietnam

- Elite technocrat group under strong leadership of Prime Minister
- Choose young, well educated officials & experts
- Streamline policy authority and procedure

Korea – Econ. Planning Board
Malaysia – Econ. Planning Unit
Thailand – NESDB
Taiwan – Kuomintang Elites
Indonesia – “Berkeley Mafia”
Chile – “Chicago Boys”

So why not Vietnam also?

Technocrat Group as the Brain of Government

○ Work directly under Top Leader to concretize his vision.
○ Create key policies including Overall Industrial Master Plan.
○ Guide and coordinate ministries for implementing policies.
○ Invite businesses, academics, foreign experts and donors for cooperation.
○ Emphasize economic logic; counter-balance against interest groups and rent seekers.
Japan (late 50s-70s): Development and Industrial Vision Formulation

- MLT Economic Plans
- Comprehensive National Development Plans (physical planning)

Deliberation Councils

- Industrial vision
- Industry-specific policies
- Coordination & support to business activities (e.g., finance, technology)

Prime Minister

PM’s Office
Econ. Planning Agency, Land Agency, etc.

MOF

MITI

Deliberation Councils

Participation from officials, business, academia, media, labor, consumers.

South Korea (60s-70s): Development Vision and Govt.-Business Partnerships

- Direct presidential control over economic policies
- EPB as super-ministry
- Research institute (KDI, etc.), providing analysis for MLT economic policies
- Govt.-business: very close & cooperative relations
- Performance-based rewards & penalties

President
(Blue House)
Economic Secretariats

State Council

Chaired by Deputy PM

Govt.-Business Meetings:
- Export promotion
- Economic briefs
- HCI drive, etc.

EPB Deputy PM

KDI

KDI

Ministries/Agencies

Five-year plan

Direct presidential control over economic policies
Malaysia: Mechanisms for Industrial Policy Coordination (1991-)

Vision 2020
Malaysia Plan (Five-Year DP)

Political Parties

Malay society
Chinese society
Indian society

Chambers of Commerce

PM’s Dept
PM
Deputy PM

EPU (planning)

MITI

Industry Coordination Council (ICC)

Industry Policy and Incentive Committee (IPIC)

Industry Cluster Working Groups (18 CWGs)

Budget dialogue

ICU (monitoring)

Central Bank

Chaired by MOTI Minister, Govt & business.

Source: Adapted from Takashi Torii, “Mahathir’s Developmentalism and Implementation Mechanism: Malaysia Incorporated Policy and BCIC,” ch.4, Higashi (2000), pp. 166, Figure 2.

Public-Private Partnership for Industrial Restructuring (Thailand after 1997)

Prime Minister
Cabinet

Economic Cabinet Meeting

Nesdb

Financial Sector Reform

Industrial Restructuring

Social Infrastructure

Others

Examine & discuss basic policy & direction

Examine & discuss detailed measures & actions

Information sharing; Specific MP formulation, etc.

National Committee on Industrial Development

Chaired by Deputy PM

Sub-committee on National Industrial Restructuring

Chaired by Deputy Minister, MOI

Operated jointly by public & private sectors

Line Ministries

Thai EXIM Bank
IFCT
SICGC

Institutes
Textile, Food, Automobile, Iron & Steel, SME, Productivity, Mgt. System Certificate, etc.

Federation of Thai Industries
Industry Associations
Chamber of Commerce

Commercial Banks

Source: Shigeki Higashi “Industry: Business and Government in a Changing Economic Structure” ch.3, Suehiro & Higashi (2000), p.166. Figure 3
How to Begin Policy Renovation

- Set up a task force to study international experiences and draft a policy renovation plan. Get international help if necessary.
- Debate the plan for PM’s approval.
- Establish a technocrat group. This group must be really excellent and dynamic.
- Let technocrat group do the following:
  - Implement the policy renovation plan.
  - Draft the overall industrial master plan to concretize the 2020 vision.
  - Cooperate strategically with foreigners.

Strategic Cooperation with Foreign Partners

- After VN’s industrial vision and roadmap are clarified, let FDI & ODA support them. Do not randomly accept industrial aid.
- In manufacturing, Japan wants to do the following cooperation:
  - Supporting industry action plan (since 2008)
  - Industrial Corridor Initiative in Northern Vietnam (since early 2009)
Example: Industrial Corridor Initiative (PPP Policy) by METI & ERIA

METI, Trade & Econ. Coop. Bureau
Econ. Research Institute for ASEAN & E. Asia (ERIA)

“Asia PPP Policy Report” (April 2009)
- Regional development with core infrastructure
- PPP policy package (M/P drafting, finance, TA)
- Expanded and more flexible use of ODA
- Policy dialogue for better institutional framework
- Mobilization of Japanese firms

Implementation (beginning)
- PPP Task Force, headed by Prof. Urata
- Industrial Corridor Group, headed by me – VN & India as initial cases
- Global Finance Group