

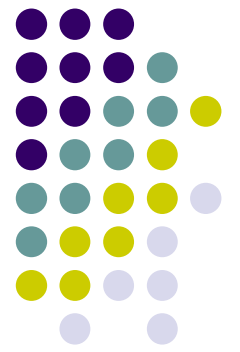
International Positioning Strategy for Hanoi's Manufacturing Sector



Hanoi
Dec. 2006

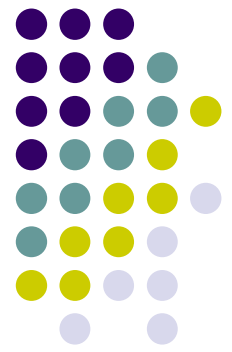
Kenichi Ohno
Co-leader, VDF

Topics



- (1) Introducing VDF
- (2) Policy orientation for Vietnam and Hanoi
- (3) Policy formulation method
- (4) Glass ceiling, China challenge and integral manufacturing
- (5) Strategic thinking and targeting

(1) Introducing Vietnam Development Forum (VDF)



- Established in 2004 by Japan's research grant
- Joint research project between National Graduate Institute for Policy Studies (GRIPS) in Tokyo, and National Economics University (NEU) in Hanoi
- Objectives: (1) Research innovation
(2) Policy impact & networking
(3) Mobilizing young talented Vietnamese

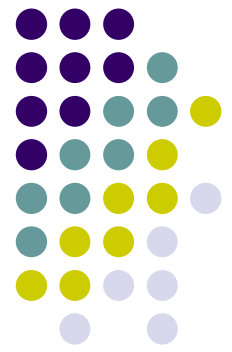


Workshop



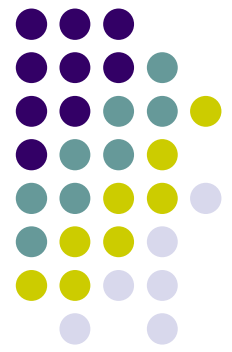
Office

Industrial Policy Support by VDF

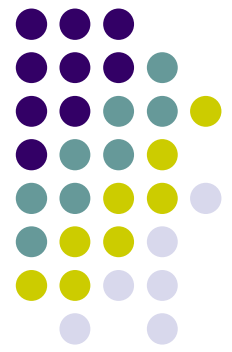


- **Research and surveys** on electronics, motorbike, automobile, steel, power, supporting industries, infrastructure, business architecture, database, etc.
- Joint missions with Ministry of Industry (MOI) to **Thailand, Malaysia, Japan** comparing policy drafting method, master plans, business involvement
- **Supporting Industry Master Plan**—working with MOI to conduct surveys and related research
- **Motorbike Master Plan**—VDF is a coordinator among MOI, businesses and experts; new drafting method
- **Hanoi's development (this conference)**

VDF Publications on Industry, 2005-2007



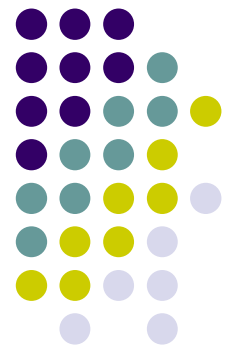
- ***Improving Industrial Policy Formulation*** (Eng & Vn, March 2005).
- ***Industrial Policy Formulation in Thailand, Malaysia and Japan*** (Eng & Vn, Sep.2006).
- “Supporting Industries in Vietnam from the Perspective of Japanese Manufacturing Firms” (Eng, Vn & Jpn, June 2006).
- ***Industrialization of Developing Countries: Analyses of Japanese Economists*** (Eng & Jpn, Nov.2006).
- ***Business Environment and Policies of Hanoi*** (Eng & VN, Dec.2006)



VDF Publications (cont.)

- ***Economic Development of Japan*** (Ohno/GRIPS, Japanese 2005, Eng & Chinese 2006)
- ***Building Supporting Industries in Vietnam*** (Eng & Vn, forthcoming in early 2007).

(2) Policy Orientation for Vietnam



- **Open up trade and FDI boldly**

Step-by-step liberalization is not effective; create freest business environment in East Asia, and use it to market Vietnam

- **Promote FDI-local linkage vigorously**

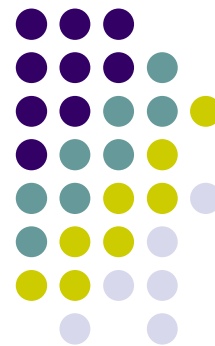
Analyze why other ASEAN countries are slow to link up with FDI and foreign buyers

- **Learn integral manufacturing**

This strategy is needed to avoid direct clash with China and to overcome the “glass ceiling”

- **Strategic Thinking and Targeting**

General marketing and promotion do not work



Hanoi's Issues

- **Become a better business host**

Improve policy method, business involvement, business-friendly attitude

< VCCI's Provincial Competitive Index >

- Hanoi no.14 among 42 (2005)

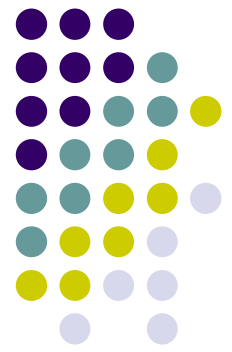
- Hanoi no.40 among 64 (2006)

- **Strategic issues in industrial planning**

- Possibility of China-Northern Vietnam production linkage?

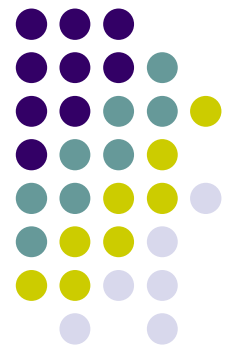
- Agglomeration of printer/copier and motorbike production?

- Targeted marketing: invite specific high-skill FDI firms



Hanoi's Issues (cont.)

- **Geography of industry activity**
Industrial zone expansion from Hanoi to neighboring provinces; Greater Hanoi being formed
- **Transportation and logistics**
 - Faster and reliable access to Haiphong and Cailan
 - Reducing urban congestion
 - More speed and capacity for Noibai Airport
 - Inviting foreign logistic/forwarding companies to come
- **Adopting international standards**
 - Hanoi should lead the nation in environment, traffic management, intellectual property rights, etc



(3) Policy Formulation Method

<Two Problems in Vietnam's Industrial Policy>

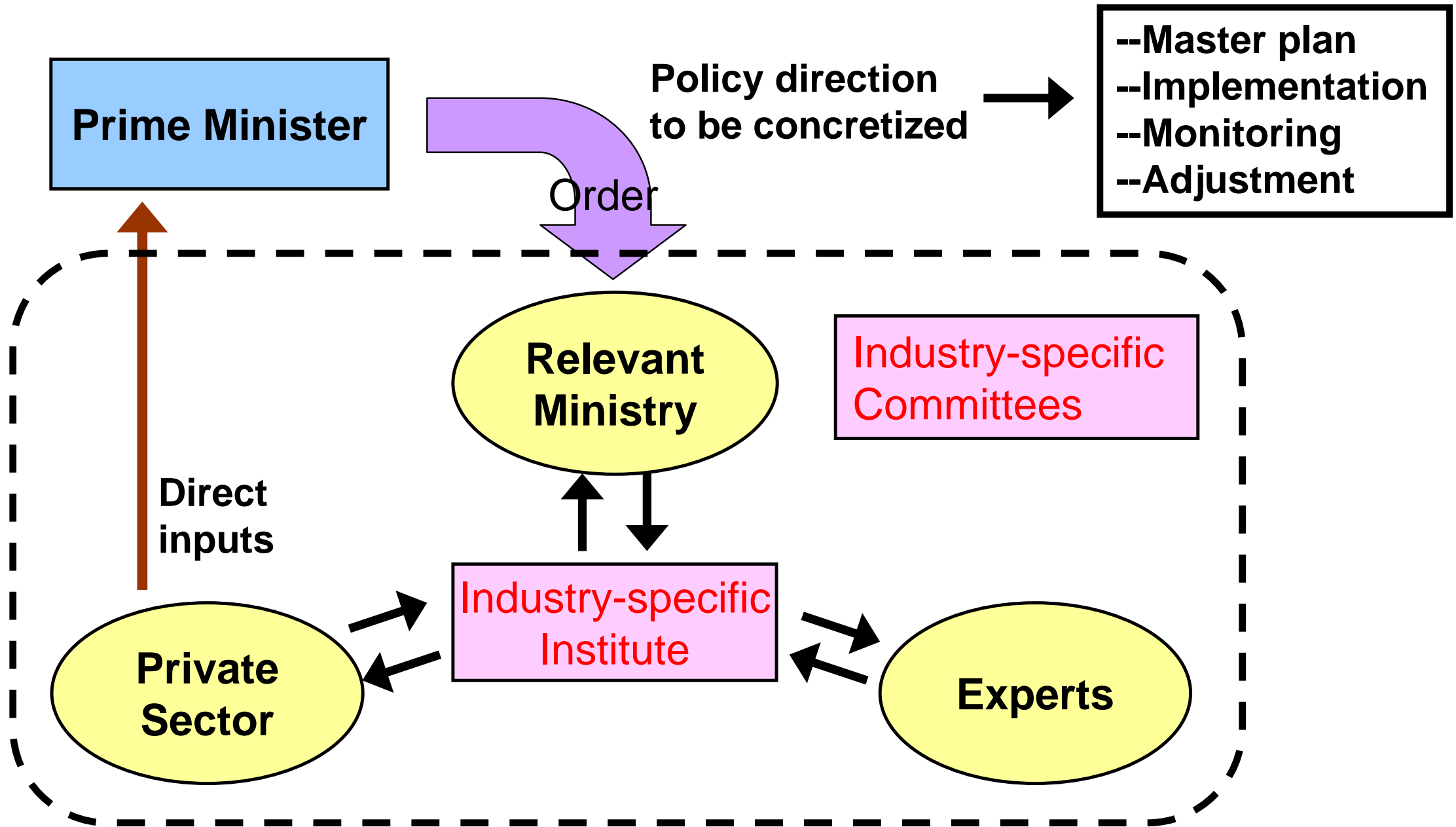
- **Lack of business involvement**
 - Unrealistic analysis & targets not supported by firms
- **Lack of coordination within government (ministries, departments)**
 - Listing policies without concrete action plans

These problems are unique to Vietnam; they do not exist in Japan, Thailand or Malaysia

Within Vietnam, North is said to be worse than South; but some provinces are becoming more business-friendly

Thailand (under Thaksin, 2001-2006)

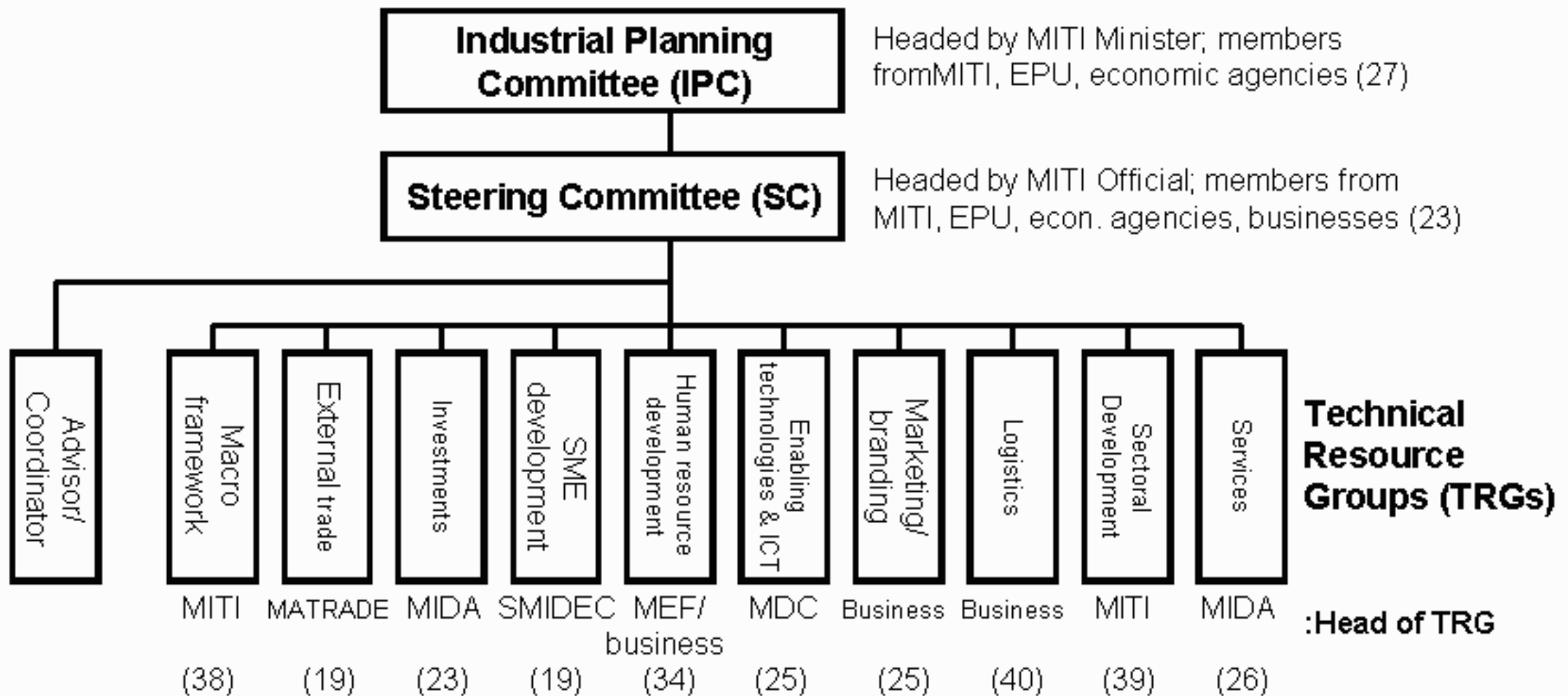
Tripartite coordination under industry-specific institutes and committees



Malaysia:

Industrial Master Plan 3 (IMP3), 2006-2020

338 members + support staff; actual drafting time—about two years



Source: MITI website.

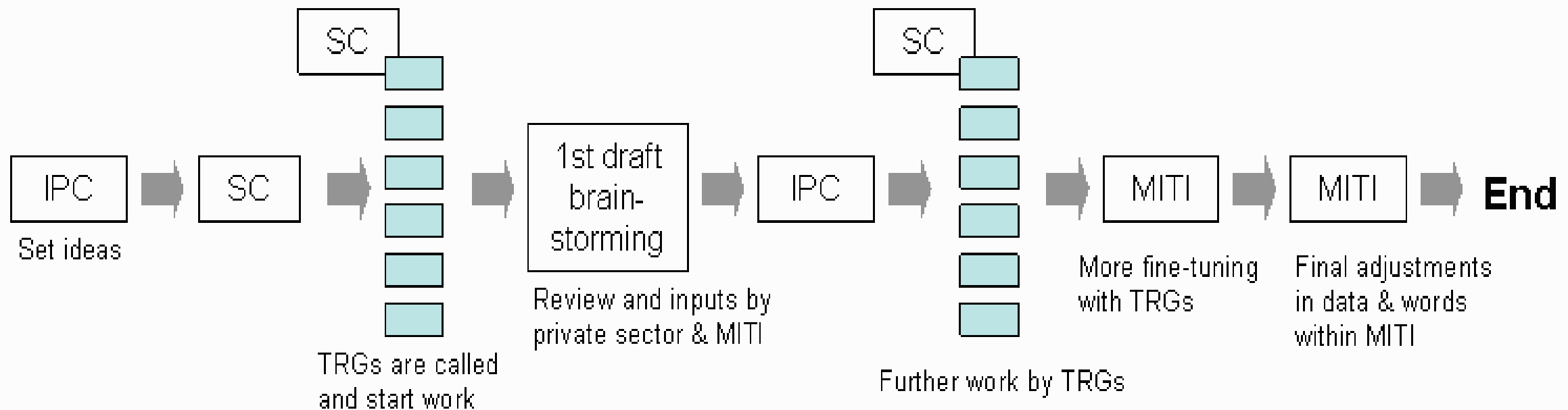
Note: Numbers in parentheses indicate the number of members in each committee or group.

Malaysia: Drafting Process of IMP3

IPC: Industrial Planning Committee (headed by MITI Minister)

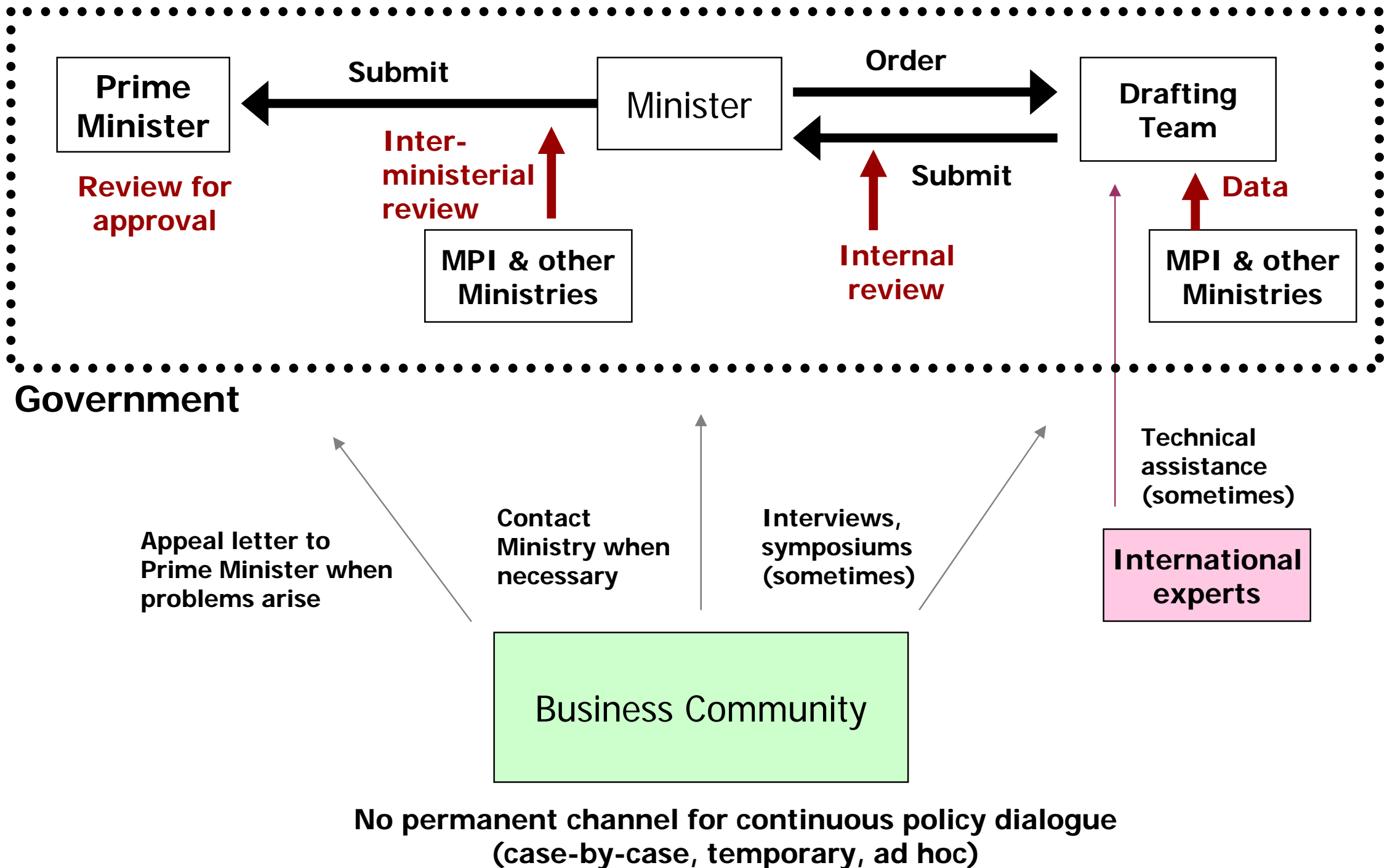
SC: Steering Committee (headed by MITI high official)

TRGs: Technical Resource Groups (headed by various experts)

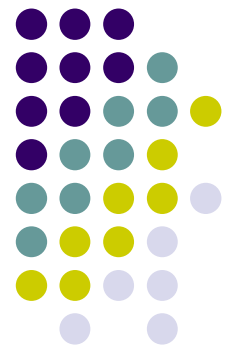


↑ ↑ ↑
Business opinions reflected through TRGs and brainstorming

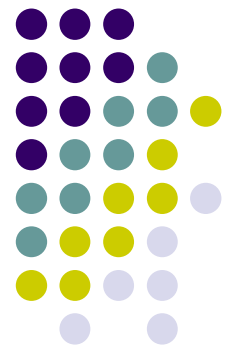
Vietnam: Traditional M/P Drafting Process



Does Hanoi Interact Effectively with Stakeholders? (chapter 1 of book)



- No agency specializes in comprehensive business support like HCMC's Investment & Trade Promotion Center (ITPC). Hanoi's DPI is too busy and short-staffed. SME Support Center (2005)?
- Motorbike registration ban lacked support of businesses and consumers, and was ineffective
- Hanoi received \$1.6 billion of FDI in 2005; but maybe due to locational advantage, not because of excellent policy

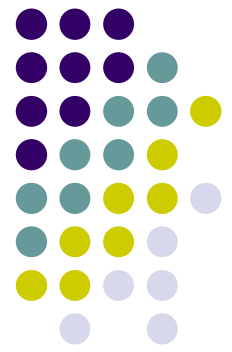


Interact with Stakeholders? (cont.)

- Socio-economic development plan, 2001-2005 & 2006-2010 (HAPI) -- drafting process generally lacked business involvement
- Hanoi Integrated Development and Environmental Program (HAIDEP) by Hanoi PC & JICA -- public exhibition (Aug. 2006)

→ Improving, but not yet nation's leader

VDF's Support for MOI's Motorbike Master Plan



- In Spring 2006, Joint Working Group (JWG) was organized to draft Motorbike Master Plan
- 17 members from IPSI/MOI, motorbike assemblers, experts, and VDF
- Improving business involvement and inter-ministerial coordination
- Final draft by end May 2007

www.vdf.org.vn/jwg.htm

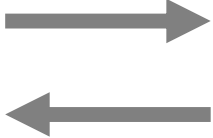
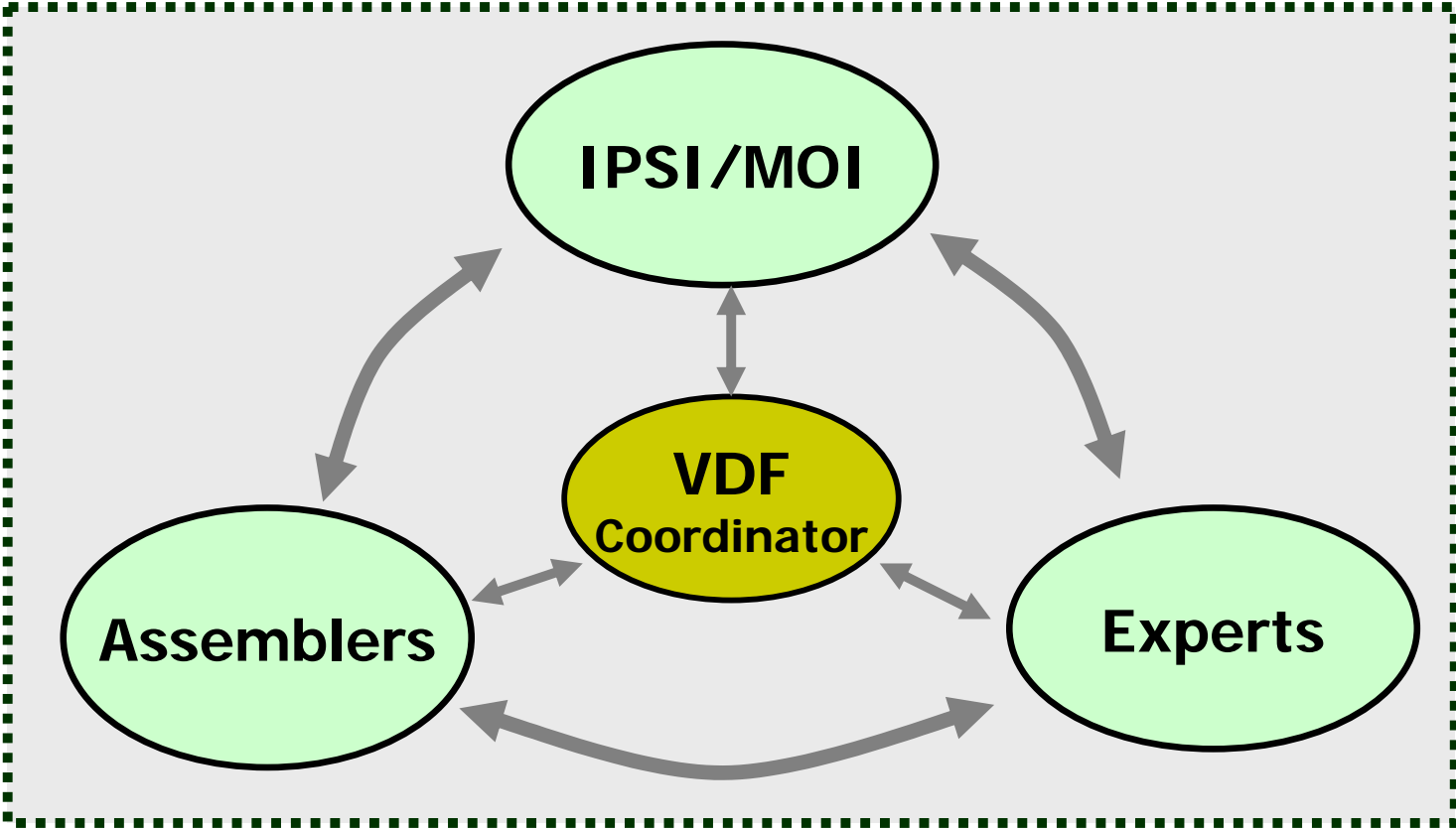
Ministry of Industry

**Drafting
Organization**

Master Plan for approval

Motorbike Joint Working Group

**Relevant
ministries
and
agencies**



Opinions

Information
& analysis

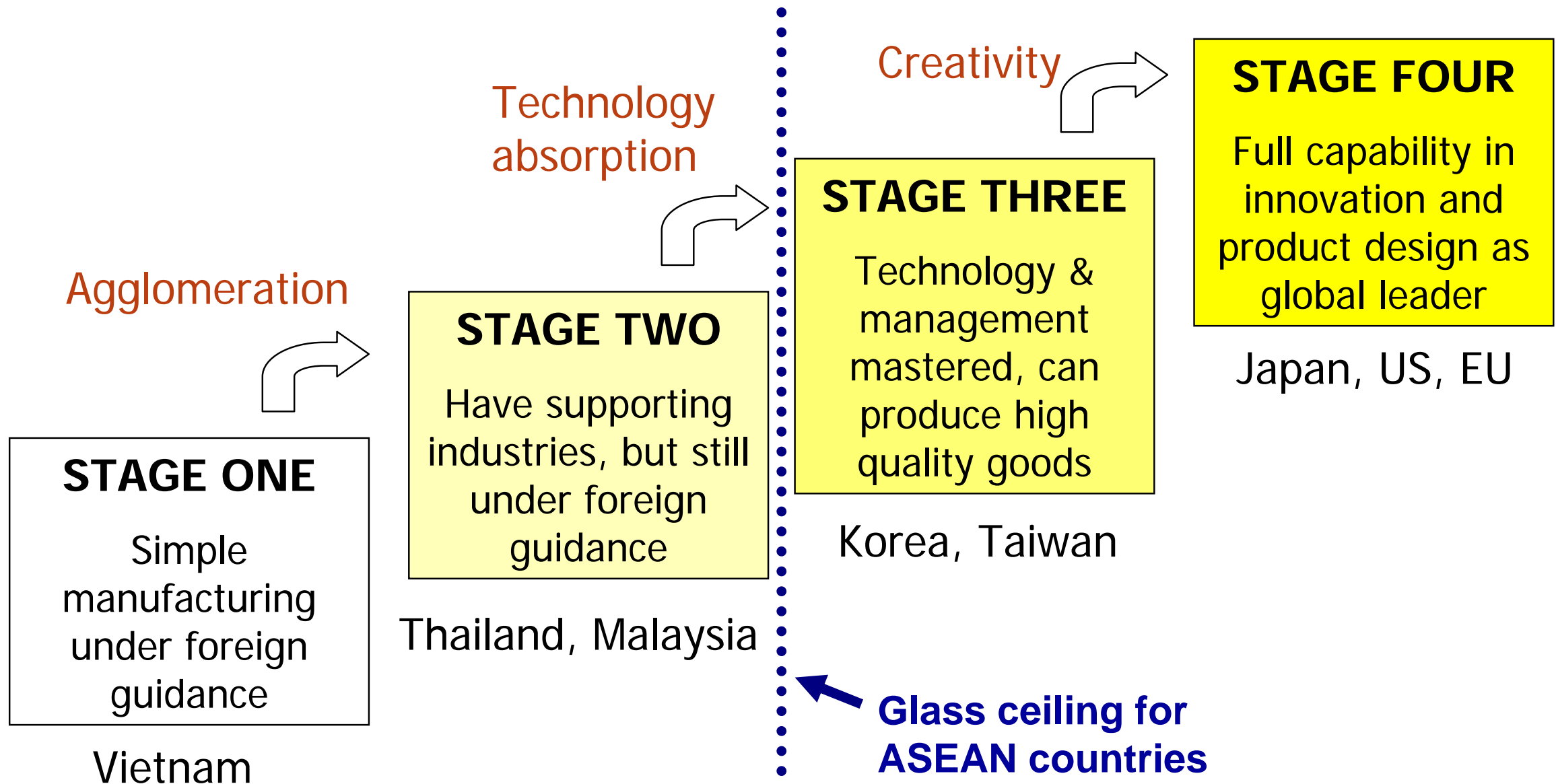
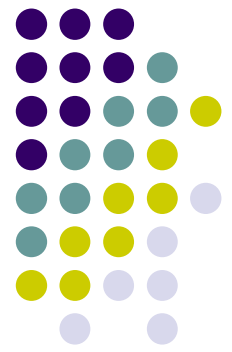
Assemblers

**Part
suppliers**

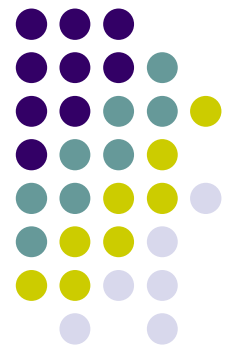
Experts



(4) Glass Ceiling, China Challenge, and Integral Manufacturing



Lessons from Thailand & Malaysia



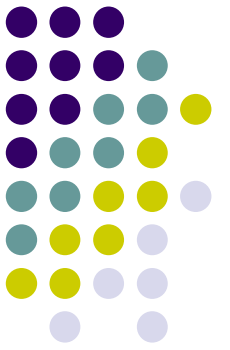
(Success) Impressive growth and industrialization led by FDI and reasonable policy

(Failure) Domestic private-sector capability is still weak after many decades of industrialization

- Foreign dependency--inability to send foreigners home
- Value and capability are not internalized
- Risk of wage pressure and shifting FDI to China/Vietnam
- Is this due to policy inadequacy or people's characteristics?

Thailand and Malaysia recognize these weaknesses and try to support SMEs, FDI-local linkage, value-chain upgrading, creation of higher-value industries, etc.

Coping with China

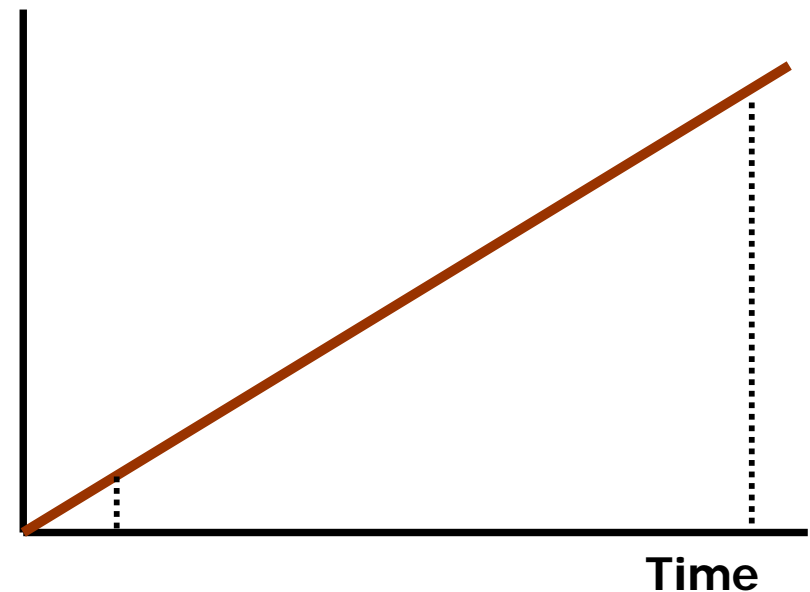
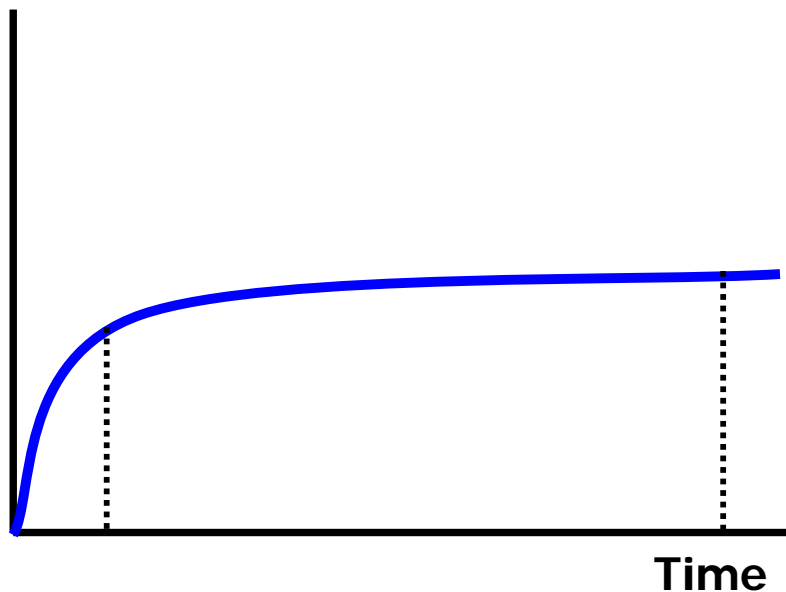


- It is foolish to directly compete with China, in the same product, market and technology.
- Vietnam should take a complementary position vis-à-vis China (use Chinese inputs but do not compete with Chinese products)
- To do this, business architecture theory is useful.
- To cope with China, go *integral* rather than *modular*

For business architecture theory by Prof. Fujimoto (Tokyo Univ.), see VDF publications, Sep.2006 & Nov.2006.

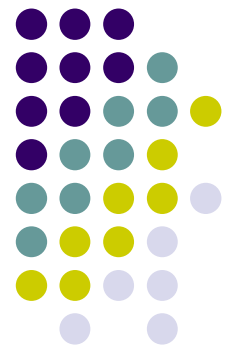
	Modular manufacturing	Integral manufacturing
Parts interface	Parts are common and can be used for any model	Each product has unique parts, specifically designed
Merits	Quick results and flexibility	Endless pursuit of quality
Demerits	No differentiation, excess entry, low profit, lack of R&D	It takes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

Performance

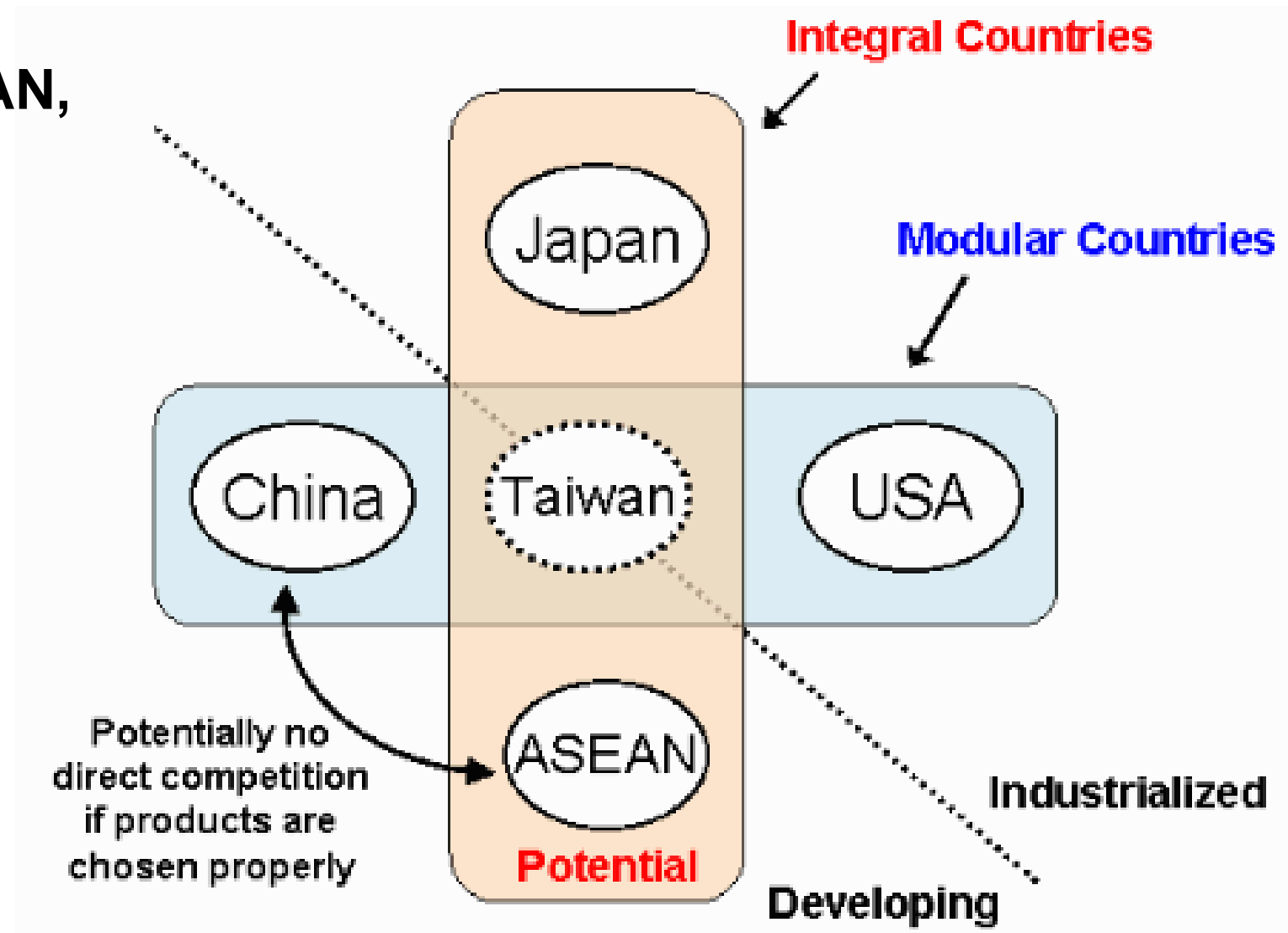


Partnership Possibilities

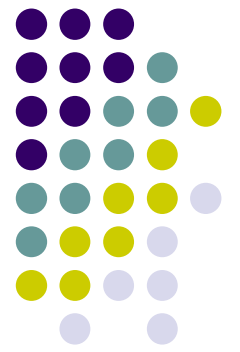
Business architecture viewpoint



From the viewpoint of business architecture matching, Japan=ASEAN, USA=China can form effective partnership



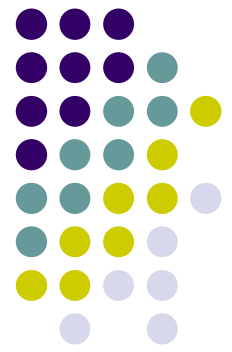
Source: compiled from Prof. Takahiro Fujimoto's explanation to the Joint VDF-MOI mission, June 2005.



Japan: Ageing Problem

- Japan has high technology, high wages, and ageing population
- **“The 2007 Problem”**—Postwar baby boomers (born 1947-49) with high skills will retire soon
- Merit of integral manufacturing cannot be fully exploited by using unskilled labor in developing countries
- Japan needs a young developing country as a reliable partner in integral manufacturing

Population Pyramids

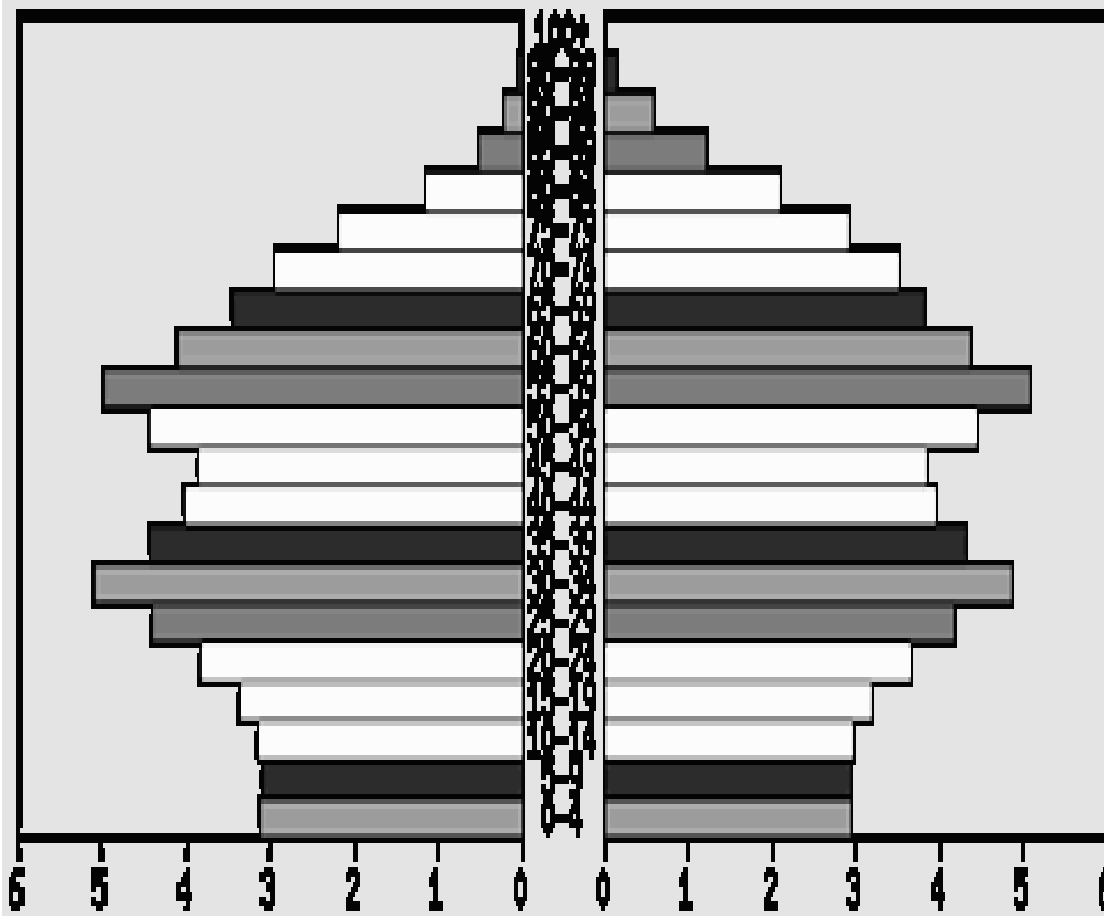


Unit: million

Japan 2005

Male

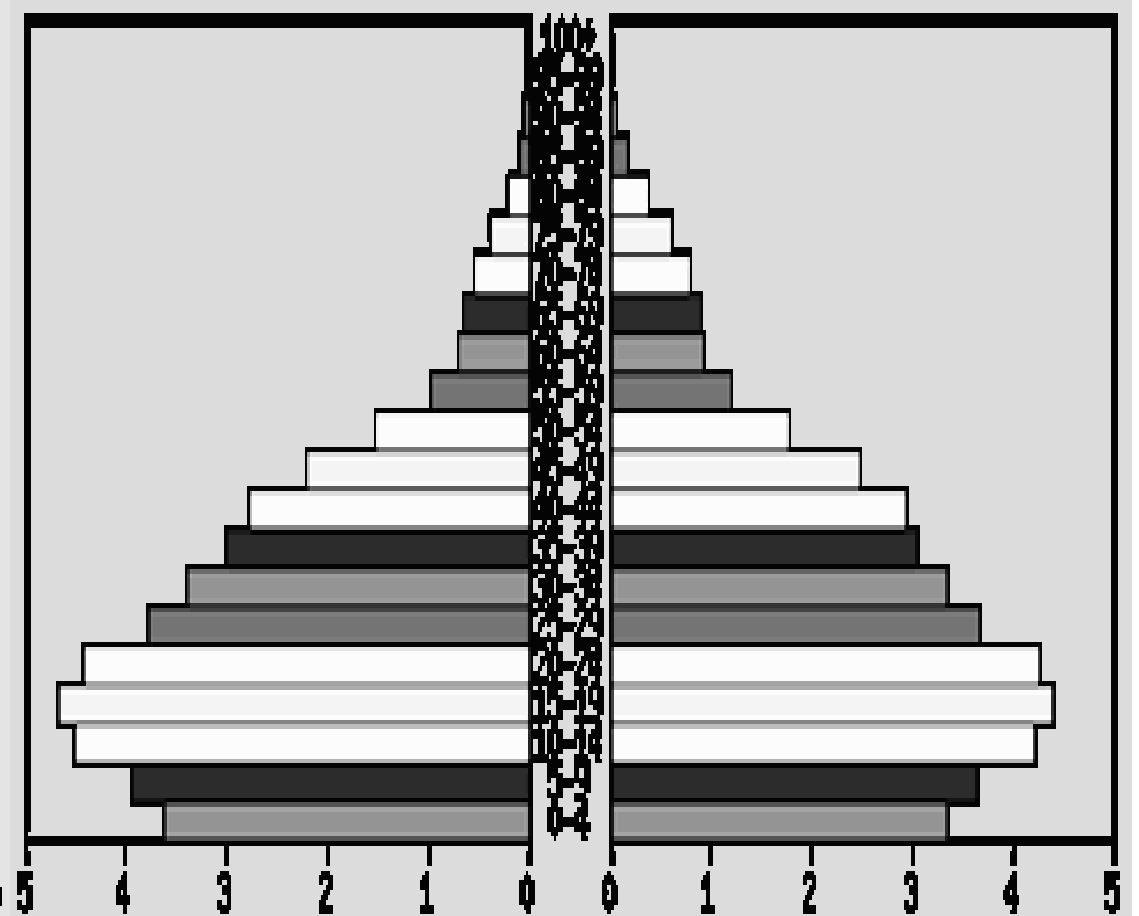
Female



Vietnam 2005

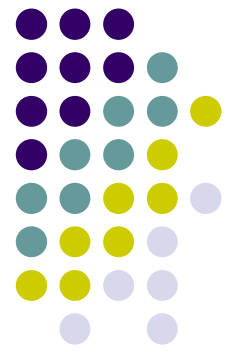
Male

Female

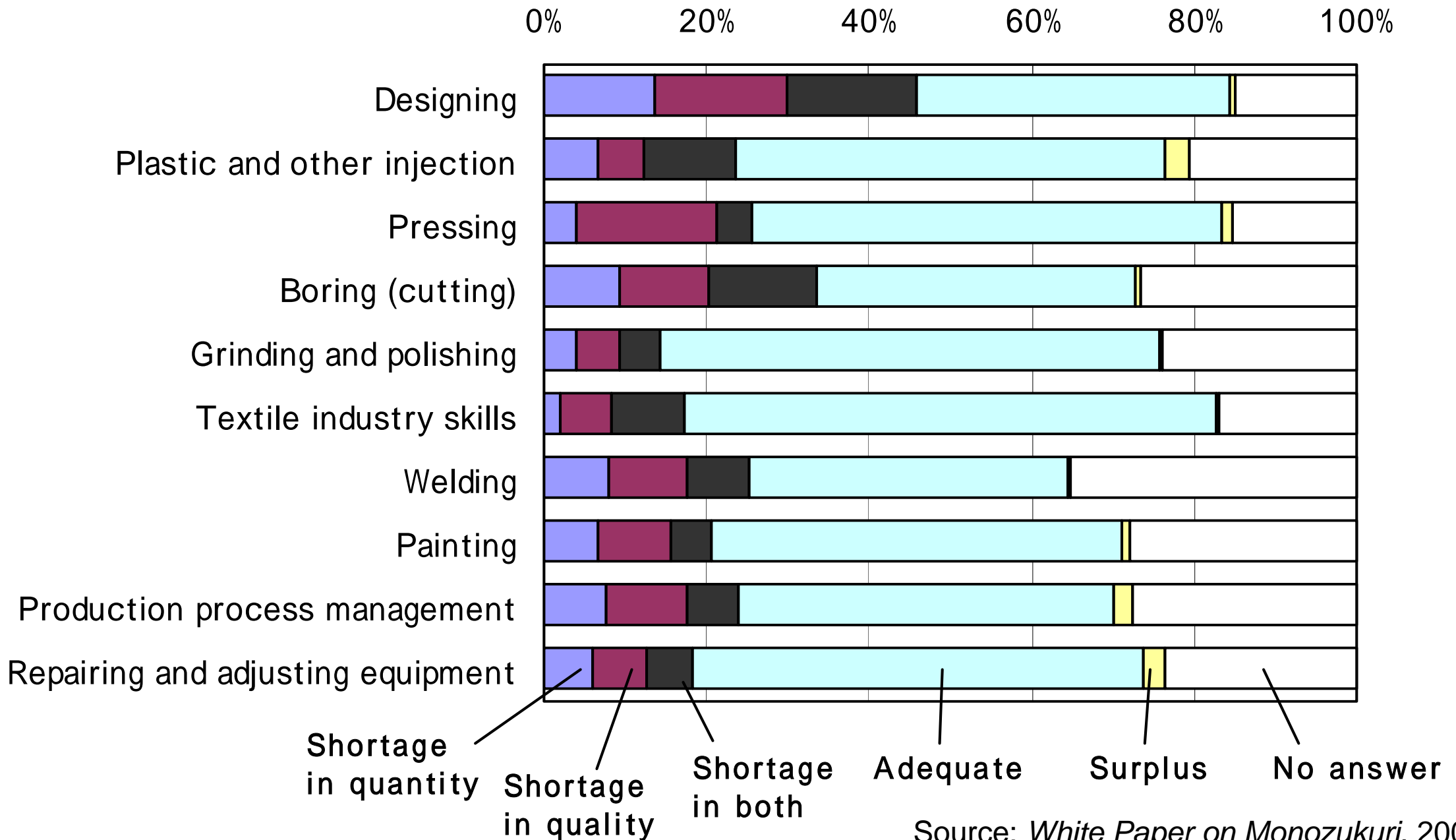


Source: US Census Bureau, International Database.

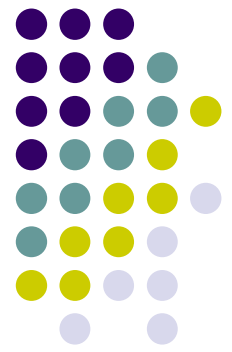
Monozukuri Workers in Japan



Monozukuri means manufacturing with skill, pride and dedication



Overcoming Two Problems



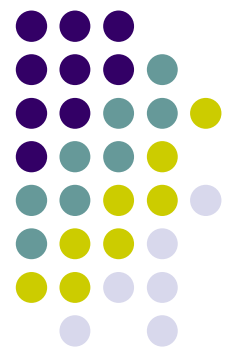
To cope with glass ceiling problem and China challenge, what must be done is clear:

- **Promote industrial human resources**

Training centers, Meister system, curriculum reform at industrial univs. & colleges, overseas educ. & training, incentive for brain return, using AOTS & JODC schemes, etc.

- **Promote supporting industries**

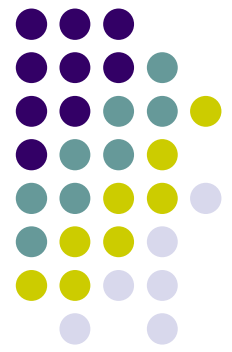
SME promotion (HRD, technology, finance), inviting FDI parts makers, industrial standards, quality standards and testing, factory doctors, local-FDI matching service, promoting SME networking, trade fairs & reverse trade fairs, database, using JETRO services



Old Problem, New Effort

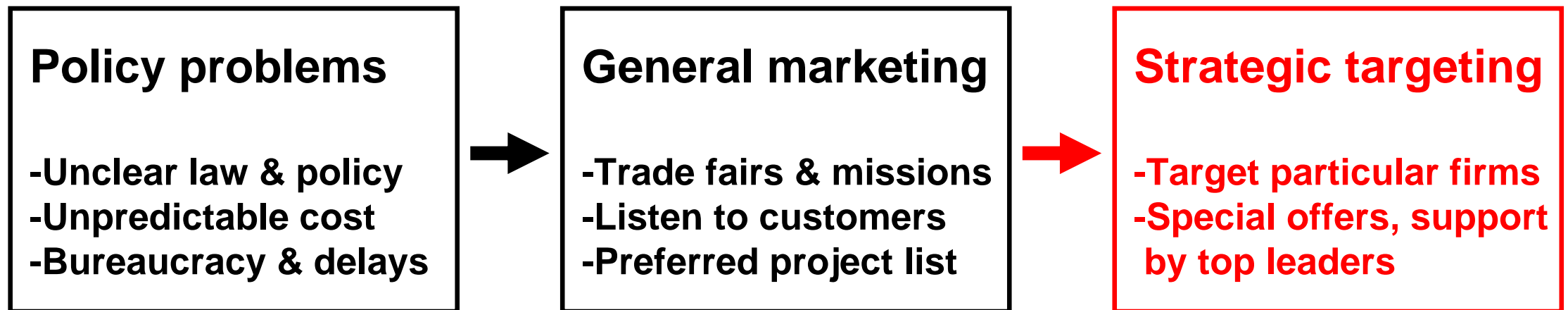
- SIs & IHR are old problems in ASEAN4. They have been promoted for many years, and Japan supported such effort (cf. MITI White Paper 1985).
- Despite long effort, results are mixed in ASEAN4.
- Key to success is doing basic things competently, not jumping to high-tech, bio-tech, nano-tech, new materials, etc.
- Vietnam should target integral manufacturing at an early stage, and Japan should support Vietnam through private and official channels.

(5) Strategic Thinking and Targeting



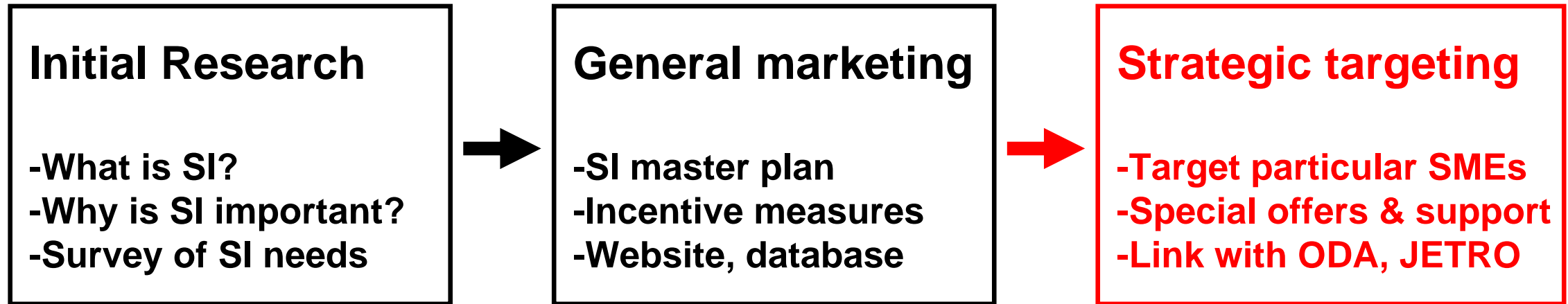
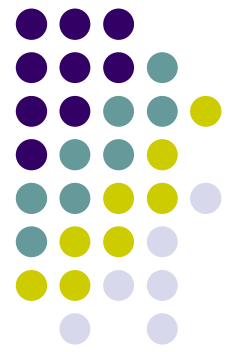
VN's policy has been general, passive and reactive. It must be result-oriented with concrete goals, actions & schedule.

<FDI Marketing>



FDI firms do not come by waiting. Vietnam should have concrete targets in terms of sectors, countries and companies. It should vigorously and individually approach targeted firms, and offer attractive conditions.

Promoting Local and FDI Supporting Industry Firms



<Malaysia>

--Under Japan-Malaysia FTA, Toyota & Honda jointly send engineers to local SMEs and teach die & mold skills. JBIC provides loans (2006).

<Indonesia>

--Japan-Indonesia High-level Government-Business Investment Forum sets up the Die & Mold Industrial Association (2005). Bilateral effort to improve skills and certificate system. Many other measures proposed.

<Thailand>

--**Ota Techno Park** created in Bangkok suburbs (June 2006): rental factory space with good support for SMEs from Ota Ward, Tokyo

--**Automobile Support Project:** JETRO (coordinator), Denso (teach kaizen), Toyota (teach kanban system), Honda (teach die & mold skills), Nissan (build certificate system)



Ota Techno Park in Amata Nakorn Industrial Estate, Thailand (less than 1 hour from Bangkok)

**<VDF interview with Ota Ward enterprise support leader>
(Tokyo, Sep.2006)**

“SMEs in Ota Ward are second-tier suppliers. We cannot go to VN unless VN has more first-tier suppliers. From what we hear, VN’s business environment is risky and lacks trust. We need more experience in Thailand before going to Vietnam.”

THE END

