

Early Industrializers and Latecomers in ASEAN

Coping with Japanese and Chinese Manufacturing



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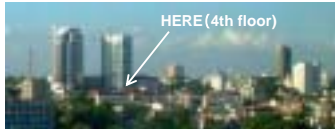
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Introducing VDF (Vietnam Development Forum)

- Established in 2004 by the grant of Japan's Ministry of Education
- Joint research project between National Graduate Institute for Policy Studies (GRIPS), Tokyo, and National Economics University (NEU), Hanoi
- Objectives: (1) Research innovation
(2) Policy impact & networking
(3) Mobilizing young talented Vietnamese
- Conducting and supporting research in many areas related to Vietnam's development



Vietnam Development Forum (Hanoi)



Workshop



Work area

VDF Office in GRIPS, Tokyo



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**—official coordinator among MOI, businesses and experts; implementing a new drafting method
- Study on **Hanoi's development**

VDF Publications on Industry, 2005-2006

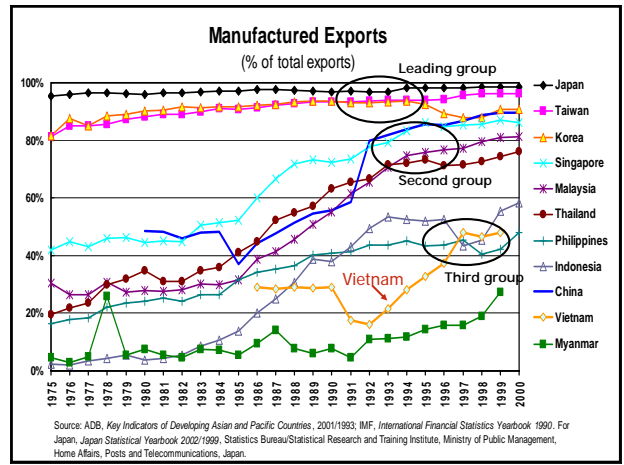
- **Improving Industrial Policy Formulation** (Eng & Vn, March 2005).
- **Economic Development of Japan** (Ohno/GRIPS, Japanese 2005, Eng & Chinese 2006)
- **Supporting Industries in Vietnam from the Perspective of Japanese Manufacturing Firms** (Pamphlet in Eng, Vn & Jpn, June 2006).
- **Industrial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

Issues to Consider

- East Asian Dynamism—each country must level up constantly, or stagnate.
- Early comers in ASEAN promoted SIs and SMEs for many decades with only modest results—why?
- Now, latecomers must open up before FDI accumulates. What should they do?
- *FDI-led growth* or *forced capability-building*—which is the winning strategy in the long run?
- Japan and China: two manufacturing centers in East Asia—how to position yourself against them?



Photo by Saizou Uchida (location: Sakai-gun, Fukui Prefecture, Japan)

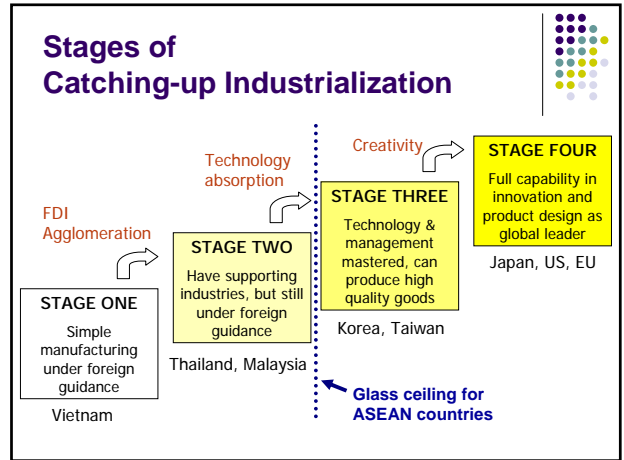


Motorbike Industry in Three Countries

Duration of import bans, localization requirement and high tariffs varies

	Vietnam	Thailand	Indonesia
1960		1964 Yamaha 1965 Honda 1967 Suzuki	
1970	1964 Vietnam War 1975	1971 Local content restriction (over 50%); ban on construction of new assembly plants 1977 Local content restriction (more than 70%); lifting of ban on new assembly plants of 1971 1978 Ban on importing CBU Increasing tariff for parts	1971 Honda 1974 Yamaha Suzuki 1977 Local content restriction with penalty
1980	1986 Doi Moi		
1990	1996 Suzuki 1997 Honda, ban on importing CBU 1999 Yamaha	1996 Import Liberalization of 1997 Absolution of local content restriction	1993 Local content restriction with incentive 1999 Import Liberalization of CBU
2000	2003 Import Liberalization of CBU		

Source: Kohei Mishima in VDF, Improving Industrial Policy Formulation (2005)



Supporting Industries in ASEAN4

- Japan's MITI, White Paper on Economic Cooperation 1985—first official use of “supporting industries” to highlight the lack of such industries in ASEAN4.
- Policies and institutions to promote SIs already exist, with some positive results (Thai automobiles, Malaysian electronics).
- But local firms produce “easy” parts and generally lack skills and creativity for global competition.

Part procurement of Thai automobiles

Imported (30%)
FDI suppliers (45%)
Thai suppliers (25%)

Source: Nomura Research Institute, Aug.2004

Lessons from Malaysia & Thailand (for Vietnam)

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

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

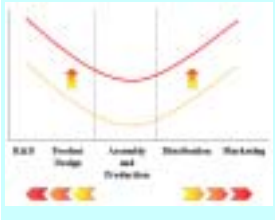
- Foreign dependency—inability to send foreigners home
- Value and capability are not internalized
- Risk of wage pressure and shifting FDI to China or Vietnam
- Is this due to policy inadequacy or something else?

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

Manufacturing ++ and High Value Industries



Malaysia's Industrial Master Plan 2 (1996-2005)



Thai Industrial Strategy under Thaksin (2001-2006)

- Top-down quick decision
- Committed to integration and open market
- “Nationality of firms does not matter”
- Gov’t supports SMEs, SIs and human resources
- Target industries with high domestic values

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.

Alternative Paths: FDI-led or Do-it-yourself?



(1) FDI-led indirect competition

FDI agglomeration under open market + policy support for linking local suppliers with FDI firms & foreign buyers
ex. Thai automobiles, Malaysian electronics

Risk: local capability may grow too slowly, and foreign dominance continues

(2) Forced leveling-up and localization

Create national companies and internalize skills quickly with preferred policies

ex. Korean steel & cars, Malaysia's Proton

Risk: local ability grows, but if not enough to compete globally, effort may eventually fail under integration

(Besides, the world no longer accepts such policies)

Vietnam's Broad Policy Direction?



- Planned economy is no longer possible
- Laissez-faire is out of question
- Infant industry protection is not acceptable (cf. Japan/Korea in old days)
- FDI-led growth of Thailand/Malaysia cannot be copied

They used tariffs, import bans, entry restriction, forced localization in parallel with FDI attraction for a few decades until industry accumulated; this is no longer permissible

The Way Forward for Vietnam

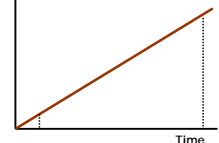
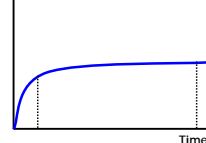


- **Open up trade and FDI boldly**
Step-by-step liberalization is not effective; create freest business environment in East Asia, and use it to market Vietnam
 - **Promote FDI-local linkage vigorously**
Analyze why other ASEAN countries are slow to link up with FDI and foreign buyers
 - **Learn integral 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
- ➔ Follow the first path (FDI-led indirect competition) vigorously, but also learn from ASEAN4's shortcomings

Business Architecture Typology

	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 and USA=China can form effective partnership

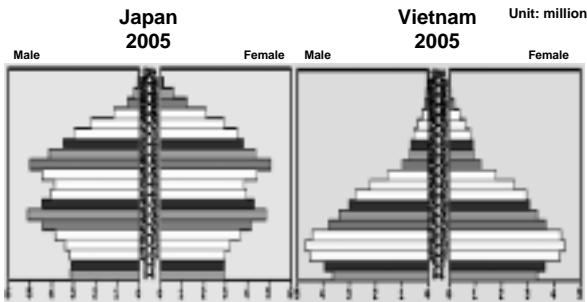


Source: compiled from Prof. Takahiro Fujimoto's explanation to the Joint VDF-MOI mission, June 2005.

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

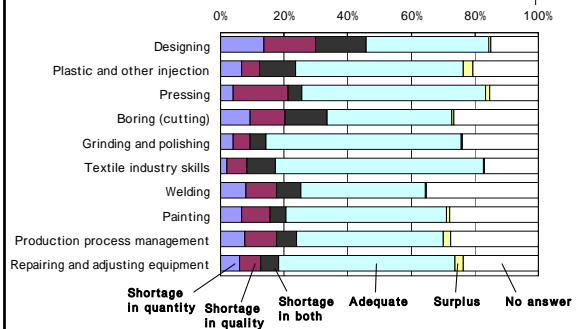
Population Pyramids



Source: US Census Bureau, International Database.

Monozukuri Workers in Japan

Monozukuri means manufacturing with skill, pride and dedication



Source: White Paper on Monozukuri, 2005.

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

Don't target high-tech (biotech, nanotech, new materials, etc) as key industry; pure research is fine, but commercialization of latest technology is beyond latecomers' ability.

Old Problem, New Effort

- IHR and SIs have been recognized as important and promoted in ASEAN for many decades. But results are mixed.
- The key to success is doing basic things patiently and consistently:
 - Set a clear goal of becoming an integral manufacturing country
 - Work with and learn from teacher countries (don't do it alone)
 - Concentrated implementation until goal is attained.



The End

