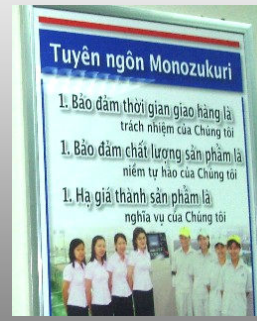


Vietnamese Supporting Industries

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



Kenichi Ohno (VDF)
September 2008

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



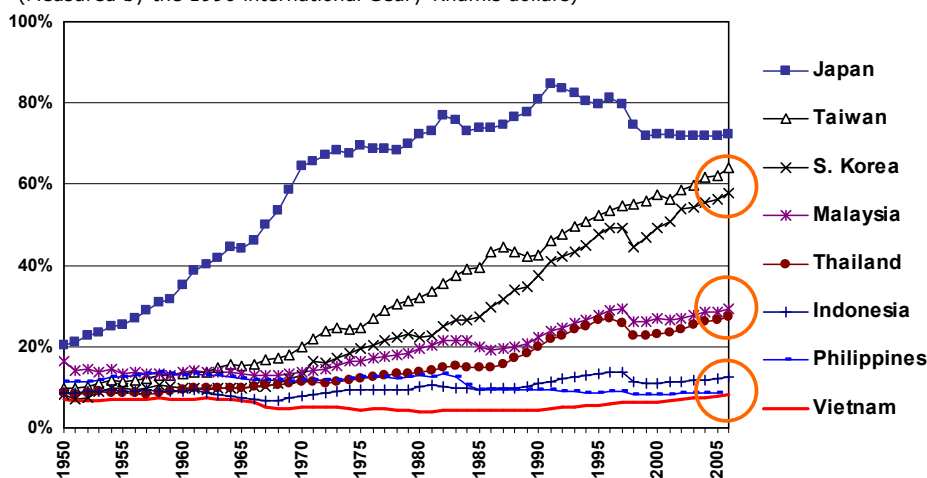
Vietnam's New Era

- 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.

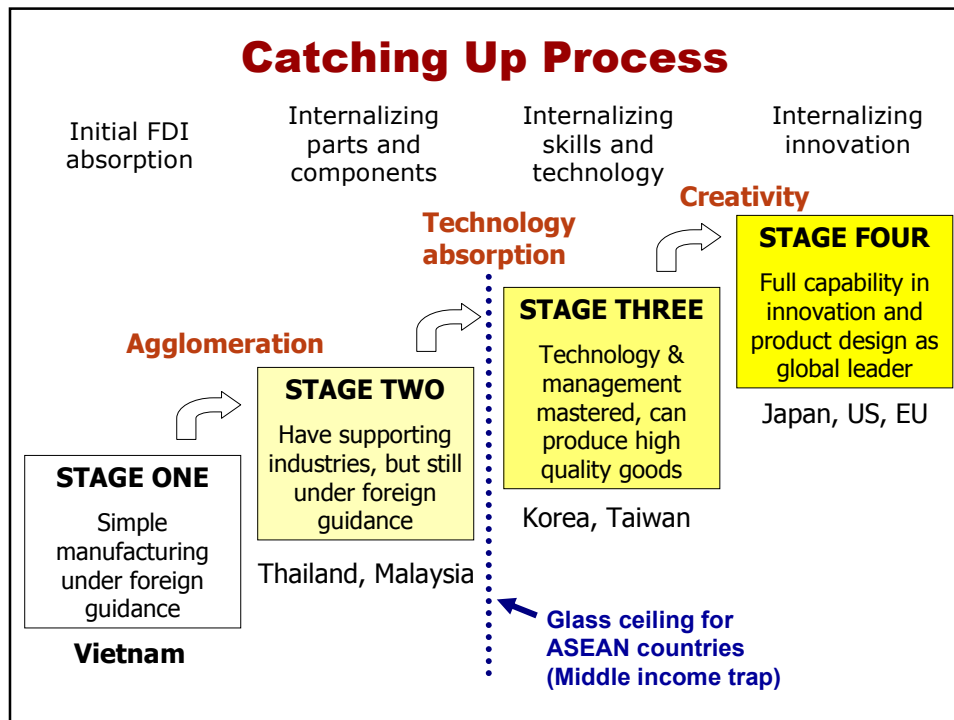
Different Speed of Catching Up

Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)



Sources: Angus Maddison, *The World Economy: A Millennium Perspective*, OECD Development Centre, 2001; the Central Bank of the Republic of China; and IMF *International Financial Statistics* (for updating 1998-2006).

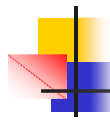


Lessons from Thailand and Malaysia

(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



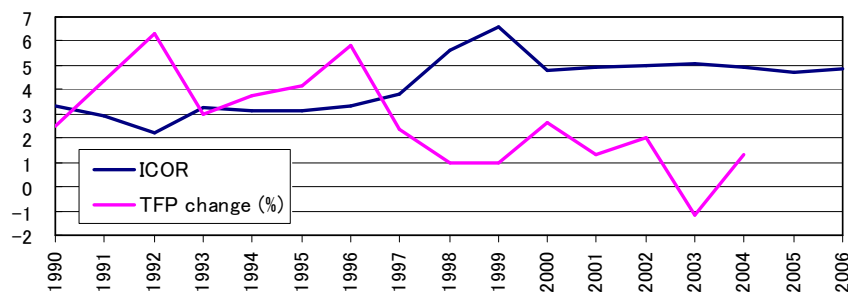
Vietnam's Challenge

- 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!

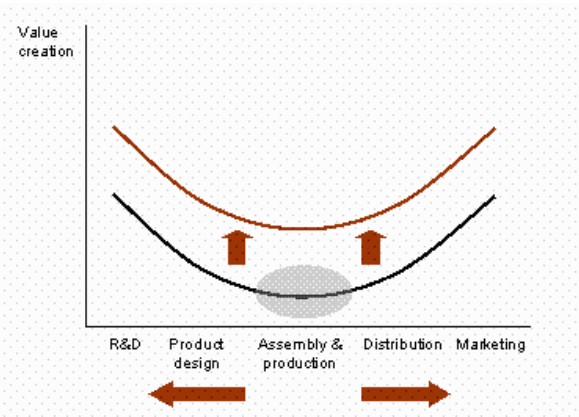


Malaysia's Manufacturing++

Malaysia's 2nd Industrial Master Plan (IMP2, 1996-2005) aimed at raising and broadening the value chain

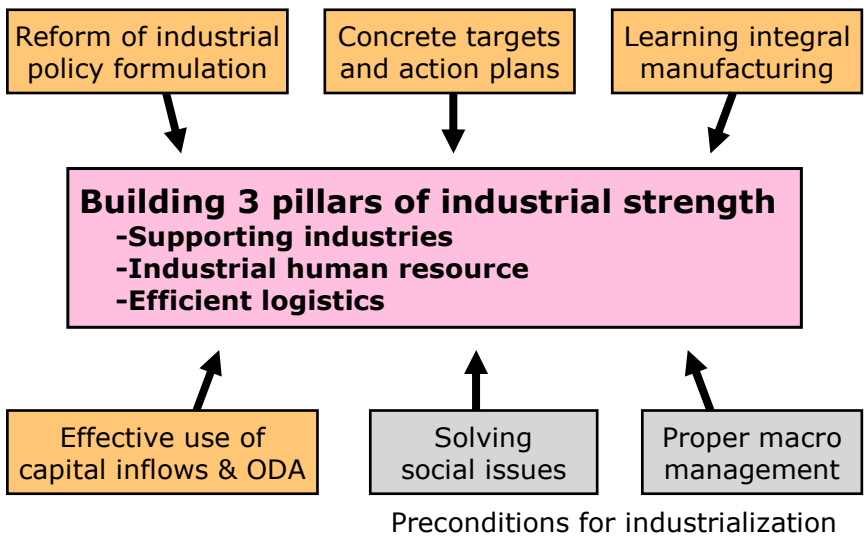
Leveling up of each industrial cluster

- Core production
- Supporting industries
- Supporting services
- Human resources
- Logistics
- R&D



Proposed Strategy for 2020

(presented at VDF Conference, March 2008)





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 Japanese Style Skill-based Manufacturing

- *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.



Sakichi Toyota
1867-1930



Konosuke Matsushita
1894-1989



Soichiro Honda
1906-1991



Akio Morita
(Sony’s co-founder)
1921-1999

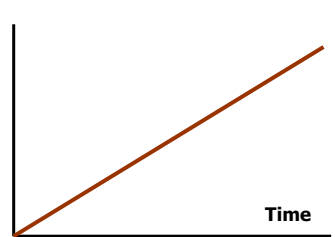
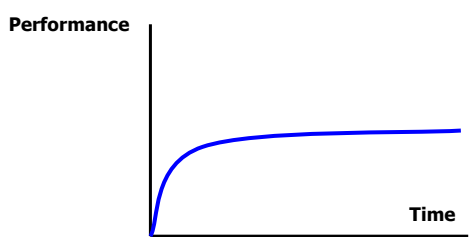


Monozukuri – cont.

- 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.

Two Types of Business Architecture

	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 requirements	Openness, quick decision making, flexible outsourcing	Long-term relations, building internal skills & knowledge



Partnership Possibilities From the Viewpoint of Business Architecture

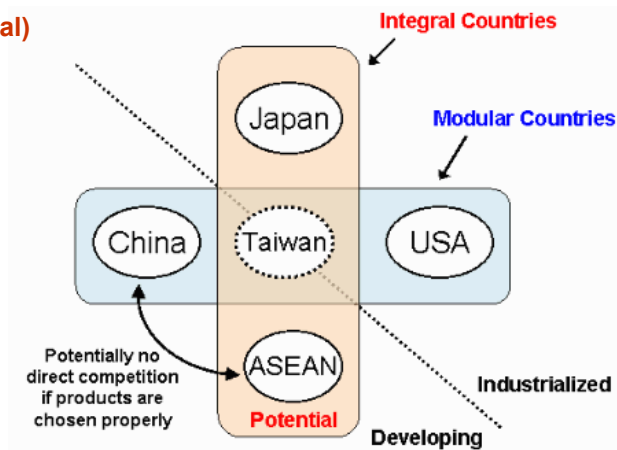
Effective partnership:

USA=China (modular)

Japan=ASEAN (integral)



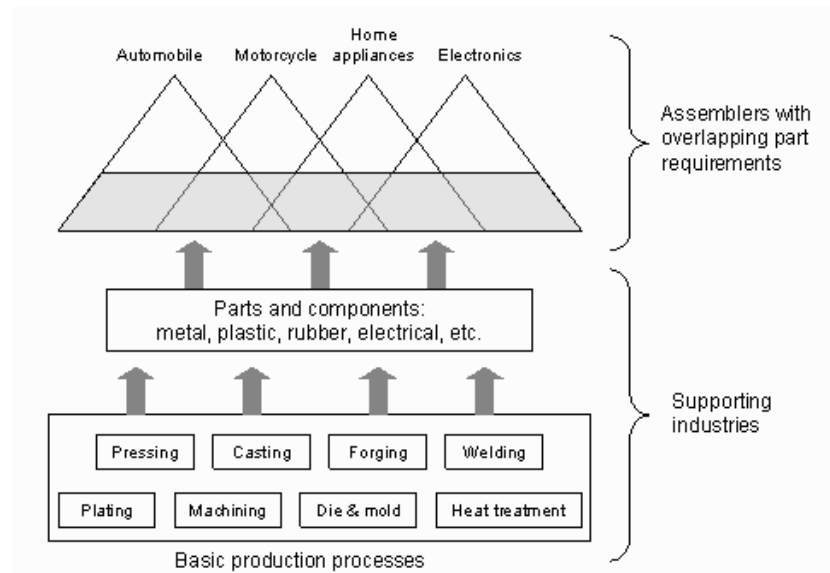
Source: compiled from Prof.
Takahiro Fujimoto's explanation
to the Joint VDF-MOI mission,
June 2005.



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

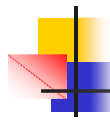
- **Resetting the mindset** – Vietnamese managers and workers must be more aggressive in learning and marketing
- **Commitment to international standards** – quality, safety, environment, intellectual property
- **Positioning in the global value chain** – jointly specializing high skilled processes and 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

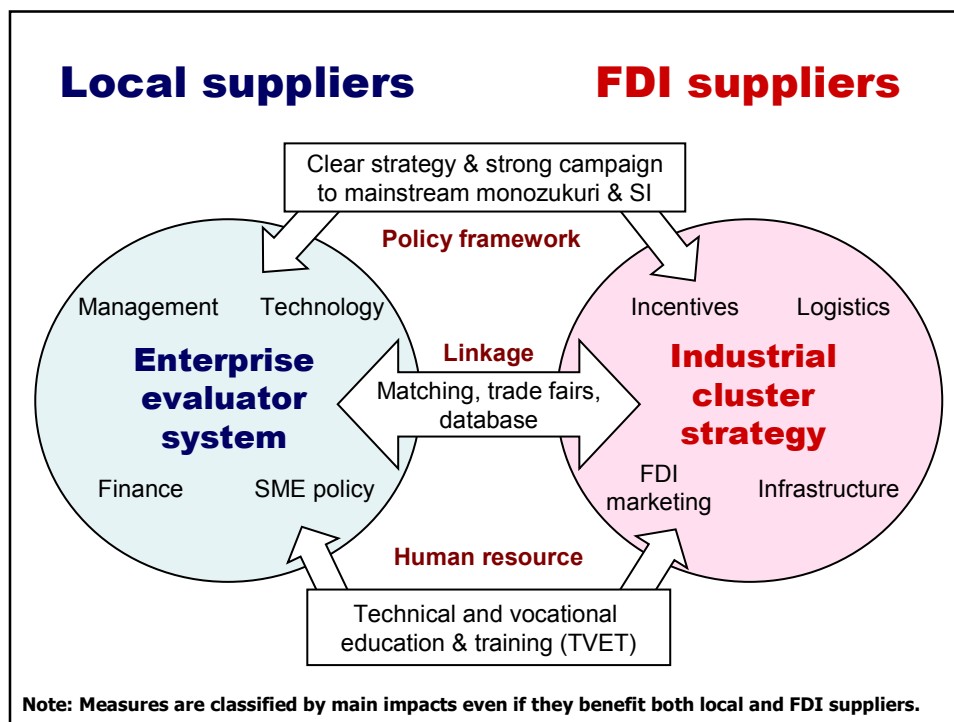
Action menu:


- 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.






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)

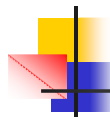
- SI firm support should be added to existing SME finance programs.
- Strengthen banks' capacity to evaluate and provide loans to SI firms.
- Develop credit guarantee fund, subsidized policy loans, non-property collaterals, etc.



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.

