



# Avoiding the Middle Income Trap:

## Renovating Industrial Policy Formulation in Vietnam

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### Main Argument

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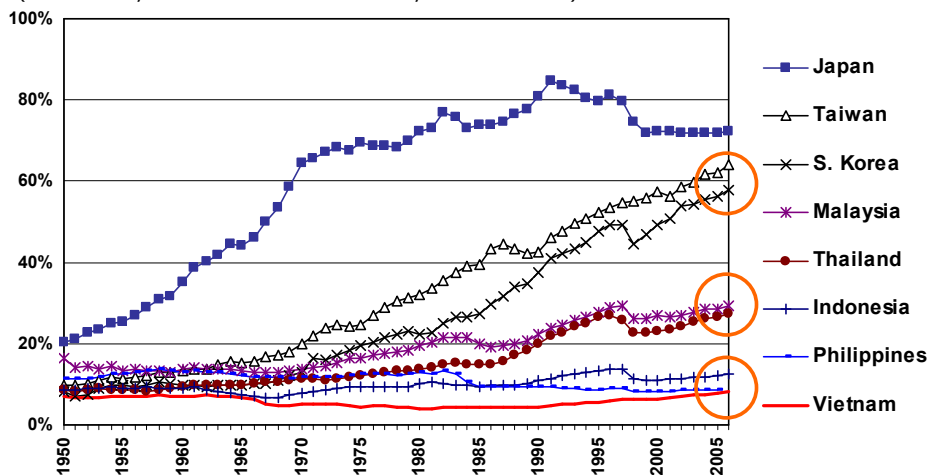
1. Vietnam's challenge:  
Creating internal value and avoiding the middle income trap
2. Vietnam must renovate:
  - Policy content and structure
  - Policy making organization
3. Where to begin?
  - Draft a policy renovation plan
  - Establish a technocrat group
  - Mobilize foreign partners strategically

## Vietnam's New Era

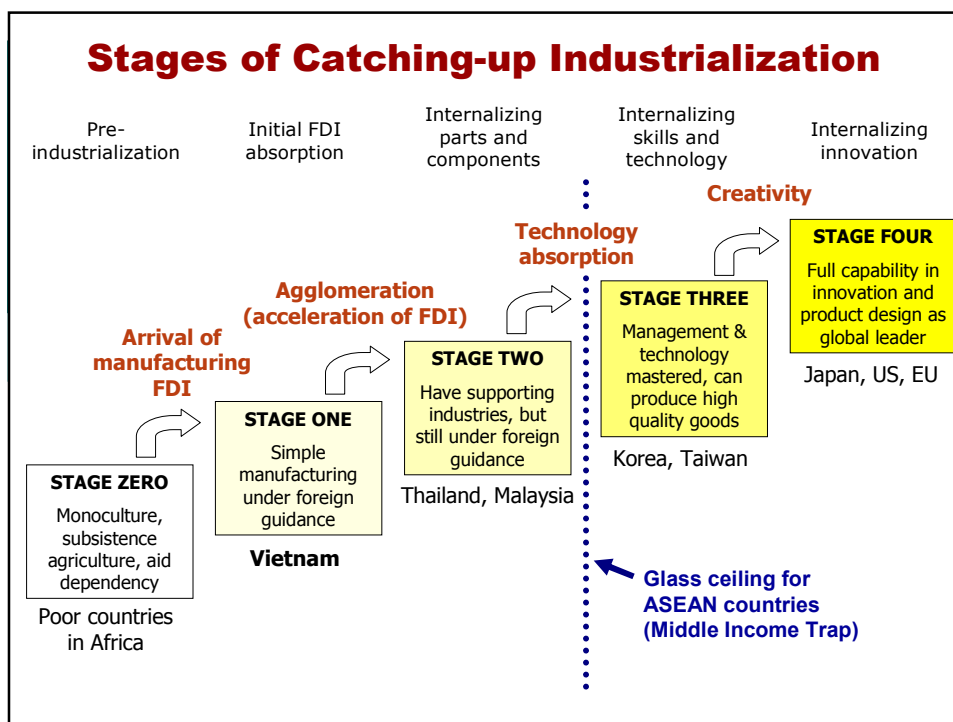
- Vietnam is entering a new era where productivity breakthrough and value creation are needed.
- Opening up and receiving FDI can attain middle income (\$1,000+), but higher income (\$10,000+) requires *good policy* and *private dynamism*.
- The question is how to level up skill and technology embodied 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)



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

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

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

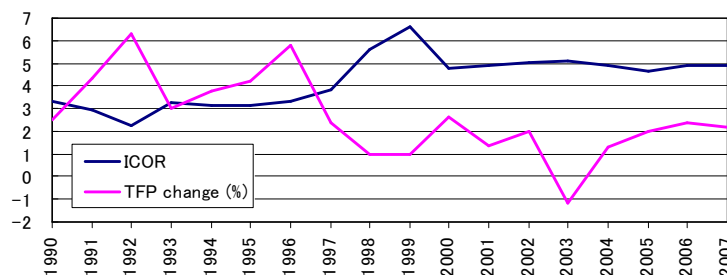
- Foreign dependency—inability to send foreign managers home
- Value and capability are not internalized—middle income trap
- Risk of wage pressure and FDI shifting to China/India/Vietnam

## 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!



## Policy Content and Structure

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.

	Description	Examples
<b>Vision</b>	-Slogan -Short and Vague	-Vision 2020 (Malaysia) -Detroit of Asia (Thailand) -Industrialization & Modernization (Vietnam)
<b>Strategy</b>	-Document specifying goals, roadmaps, policy measures -Scope & detail depend on each case	-Industrial Master Plan (Malay.) -Automotive Master Plan Main Text (Thailand) -e-Japan Strategy -Industrial Cluster Plan (Japan)
<b>Action plan</b>	-Document, action matrix, formal or informal mechanism, or ongoing process	-Automotive Master Plan Action Tables (Thailand) -Vietnam-Japan Joint Initiative -Triangle of Hope Project (Zambia)
<b>Review &amp; Adjustment</b>	-Numerical monitoring, document report, organizational review, or no formal review	-Interim & final review by joint committee (VJJI, ToH Zambia) -Industry specific committees (Thailand)

**<Malaysia>**

Vision 2020 → IMP → OPP/Malaysia Plan → Budget  
 “Become fully (15 yrs) (5-10 yrs) (annual)  
 developed” 1991

**<Thailand under Thaksin> (2001-06)**

PM’s vision → Auto Master Plan → Action Plan Matrix  
 Become Business-MOI-experts agree on  
 “Detroit of Asia” targets for car/motorcycle production & export

**<Ethiopia>**

ADLI → Ind.Dev.Strategy → M/Ps → Exp.St.Committee  
 1994 2003:policy principles Leather/garment/flower/  
 food processing

**<Vietnam>**  
 Goal 2020 → Overall industrial M/P? → Action Plan?  
 10YS/5YP (Does not exist) (Does not exist)

**Sample Format of Thai Automotive Master Plan**

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

Source: Executive Summary (English), Master Plan for Thai Automotive Industry 2002-2006, page 10.



## Vietnam's Industrial Vision under Global and Regional Integration

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- 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

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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

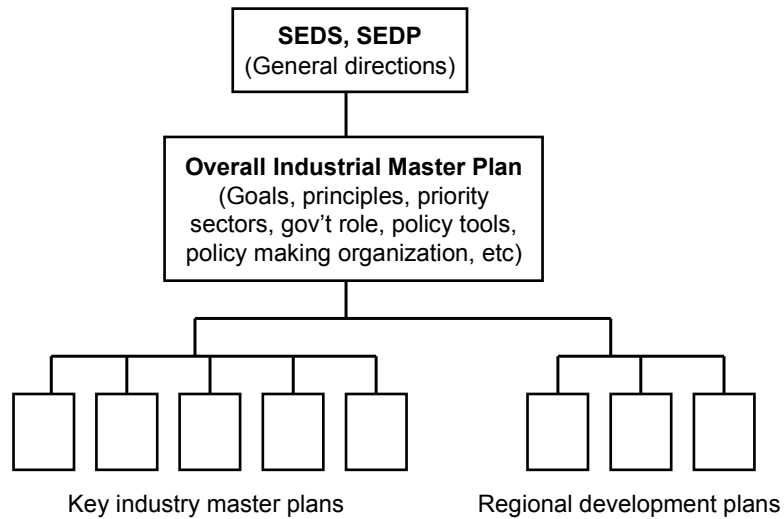
It is hoped that A/P will be finalized and put into implementation by Sep. or Oct. 2009.

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

Time Frame	Vietnam's action	Resp. bodies	Japan's assistance	Resp. bodies
Short: By mid 2010	1. SME survey	MPI	1. TA, finance	METI, JICA
	2. Priority sector list	MOIT	2. FDI survey	METI, JBA
	3. Set up inter-ministerial system	MOIT	3. Expert & information	METI, JICA
	4. Create excellent company prizes	VCCI	4. Japanese experience	JP Gov't
	5. 5YP 2011-2015	MPI	5. Expert	METI, JICA
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



## Proposed Structure of Industrial Policy Documents



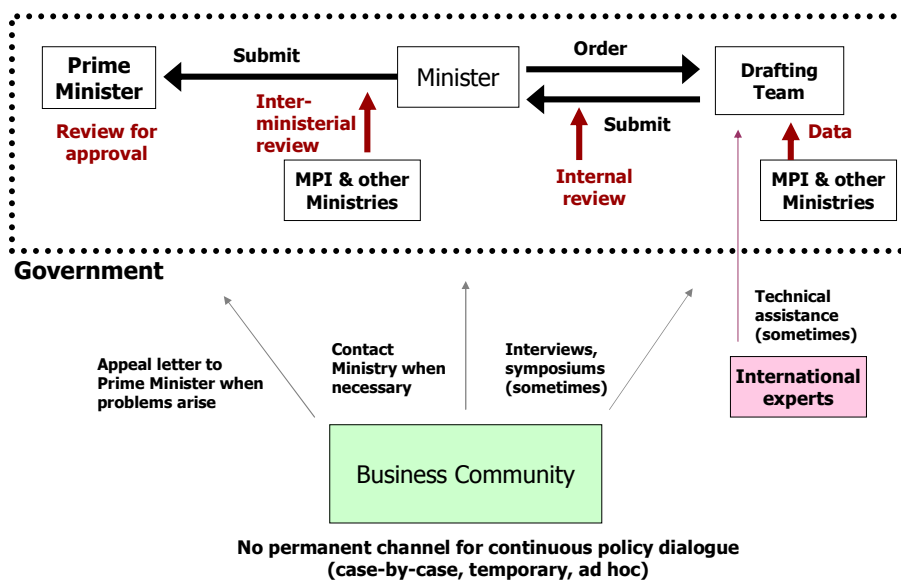
## Policy Making Organization

- 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

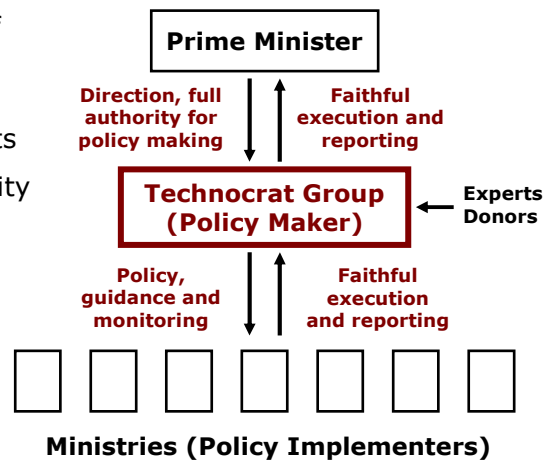
### Vietnam: Traditional M/P Drafting Process



## My Recommendation for Vietnam

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

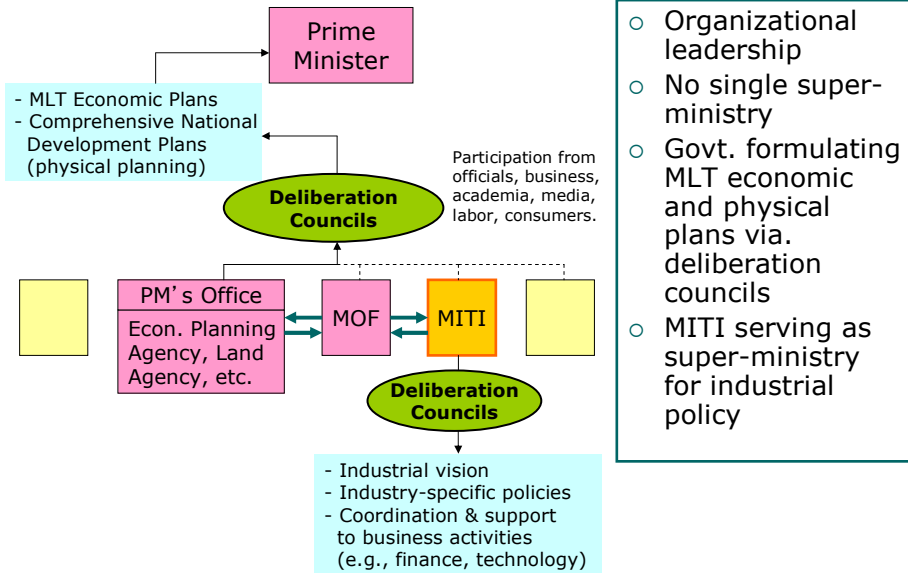
Korea – Econ. Planning Board  
 Malaysia – Econ. Planning Unit  
 Thailand – NESDB  
 Taiwan – Kuomintang Elites  
 Indonesia – “Berkeley Mafia”  
 Chile – “Chicago Boys”  
**So why not Vietnam also?**



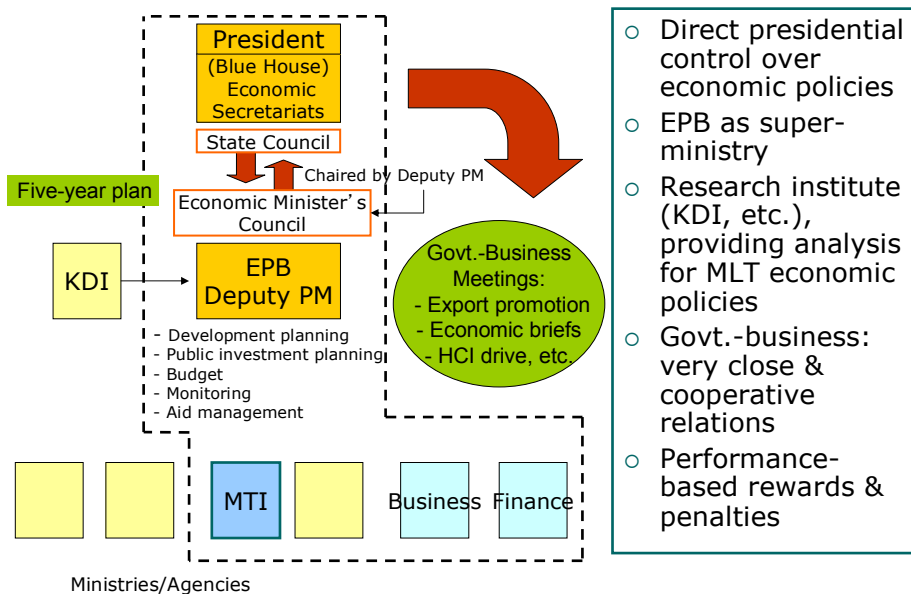
## Technocrat Group as the Brain of Government

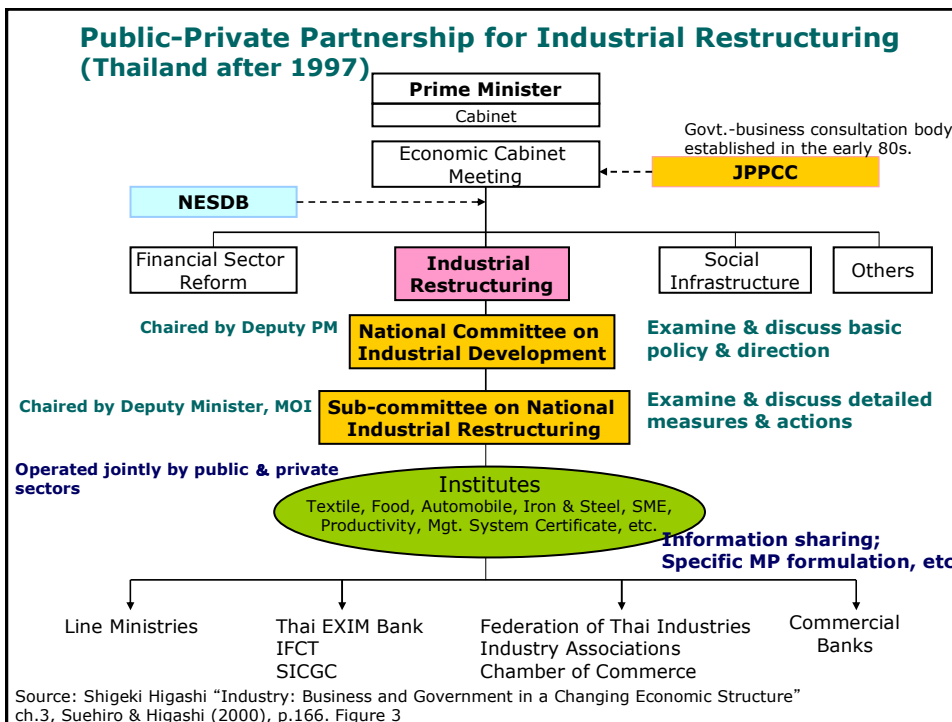
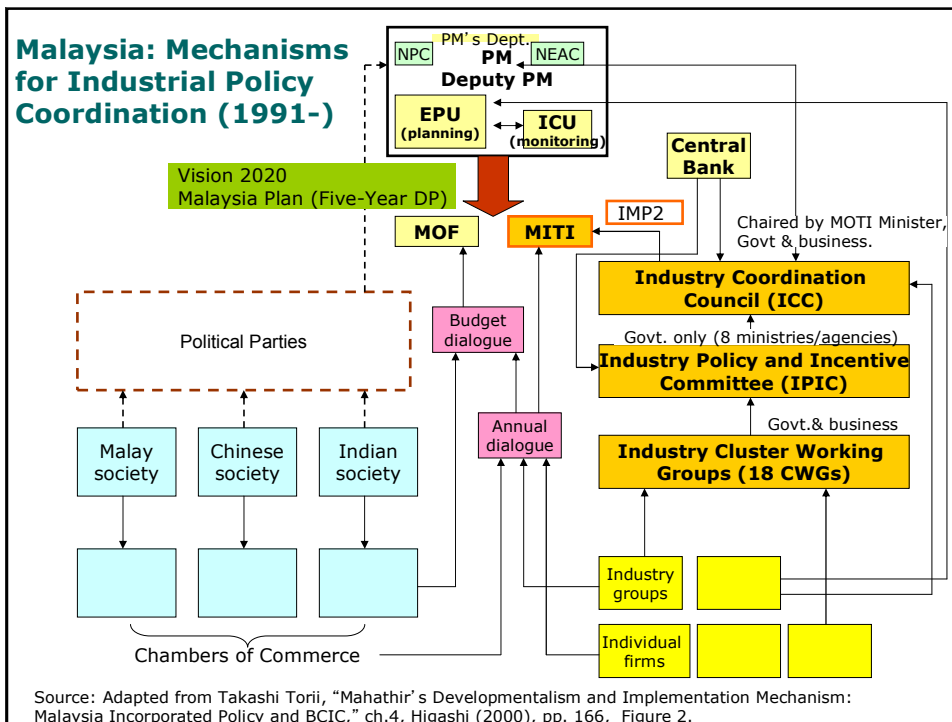
- Work directly under Top Leader to concretize his vision.
- Create key policies including Overall Industrial Master Plan.
- Guide and coordinate ministries for implementing policies.
- Invite businesses, academics, foreign experts and donors for cooperation.
- Emphasize economic logic; counter-balance against interest groups and rent seekers.

## Japan (late 50s-70s): Development and Industrial Vision Formulation



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







## How to Begin Policy Renovation

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- 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

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- 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**

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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