

A nighttime photograph of a modern bridge with a central pylon and cables, illuminated with warm lights. The bridge spans across a body of water, and the lights from the bridge and surrounding area are reflected in the water's surface. The background is dark, suggesting a night sky.

# Overcoming a Middle Income Trap and Sustaining Growth

Prospects of Vietnam's Development in the Context of the  
Regional and the Global Economy

**Kenichi Ohno**

**Vietnam Development Forum (VDF)  
National Graduate Institute for Policy Studies (GRIPS)**

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# Summary & Conclusion

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- ❑ Since Doi Moi, VN has made good progress in liberalization and integration, and took some steps toward equitization (privatization).
- ❑ However, past growth has been driven mainly by trade openings and foreign money inflows (ODA, FDI, remittances, stock & property investment...) rather than productivity or innovation.
- ❑ To sustain growth, VN must introduce policies that promote (or even force) accumulation of knowledge, skills and technology.
- ❑ VN can learn much from best policy practices of neighboring countries in East Asia.

# What Is a Middle Income Trap?

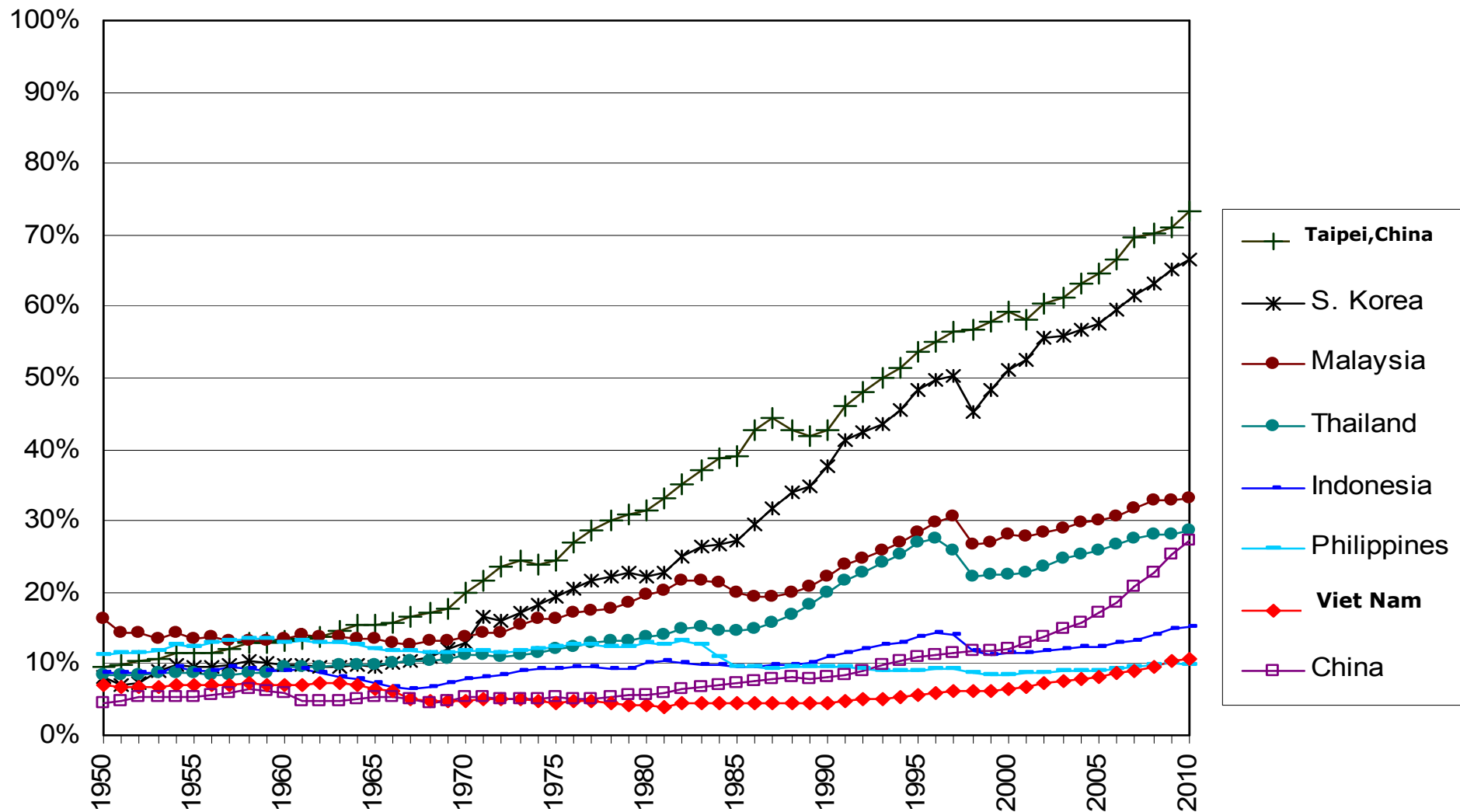
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- ❑ A trap occurs when a country is stuck at the income dictated by given resources and initial advantages, and cannot rise beyond that level (only luck and no effort).
- ❑ Growth based on FDI, ODA, natural resources, big projects, stock & property investments, etc. will eventually end. The true source of growth is value creation by domestic citizens and firms.
- ❑ Middle income can be reached by liberalization, integration and privatization. But attaining higher income requires strong policy effort to enhance private dynamism.

# Speed of Catching Up: East Asia

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

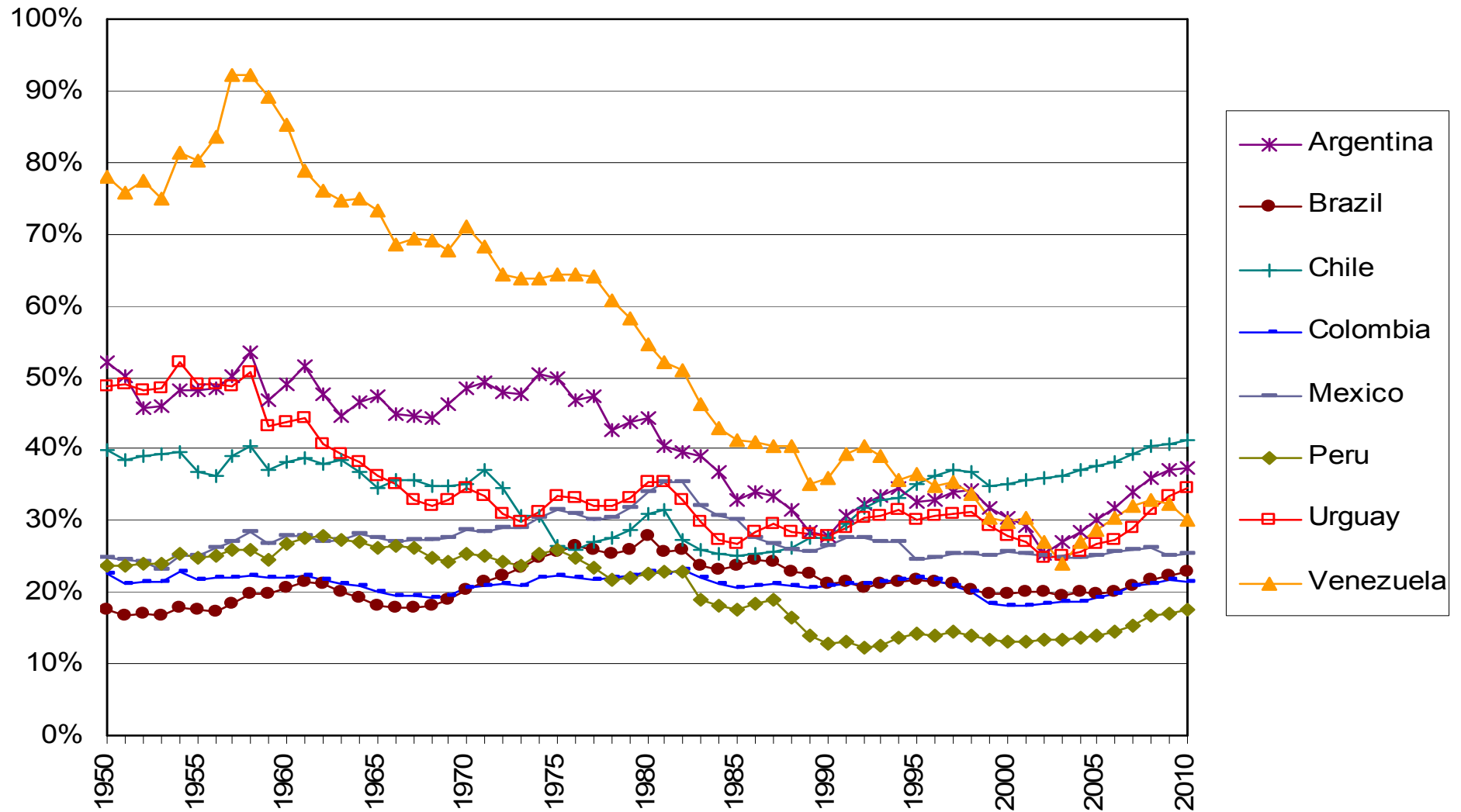


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).

# Latin America

## Per capita real income relative to US

(Measured by the 1990 international Gearv-Khamis dollars)

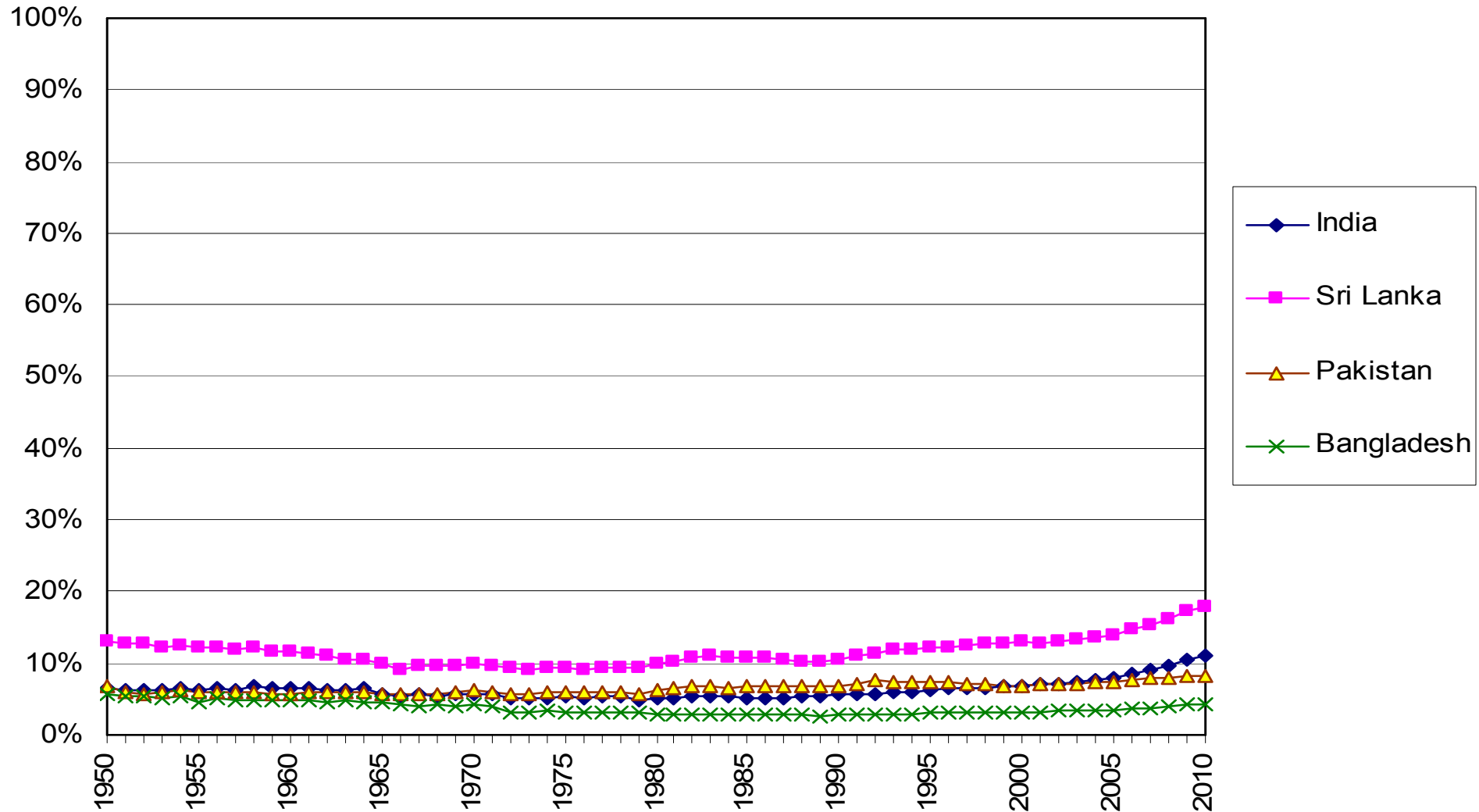


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).

# South Asia

## Per capita real income relative to US

(Measured by the 1990 international Gearv-Khamis dollars)

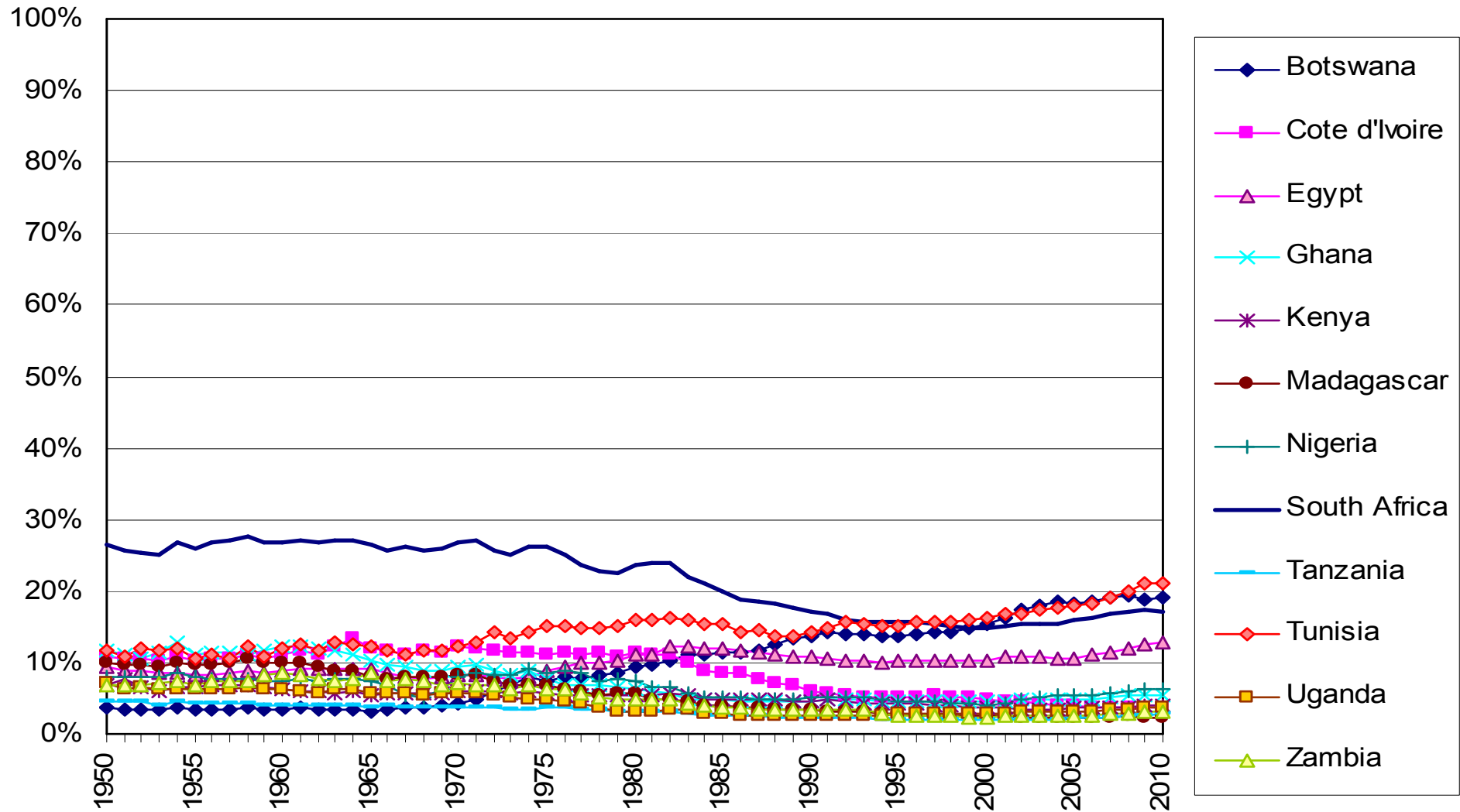


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).

# Africa

## Per capita real income relative to US

(Measured by the 1990 international Geary-Khamis dollars)

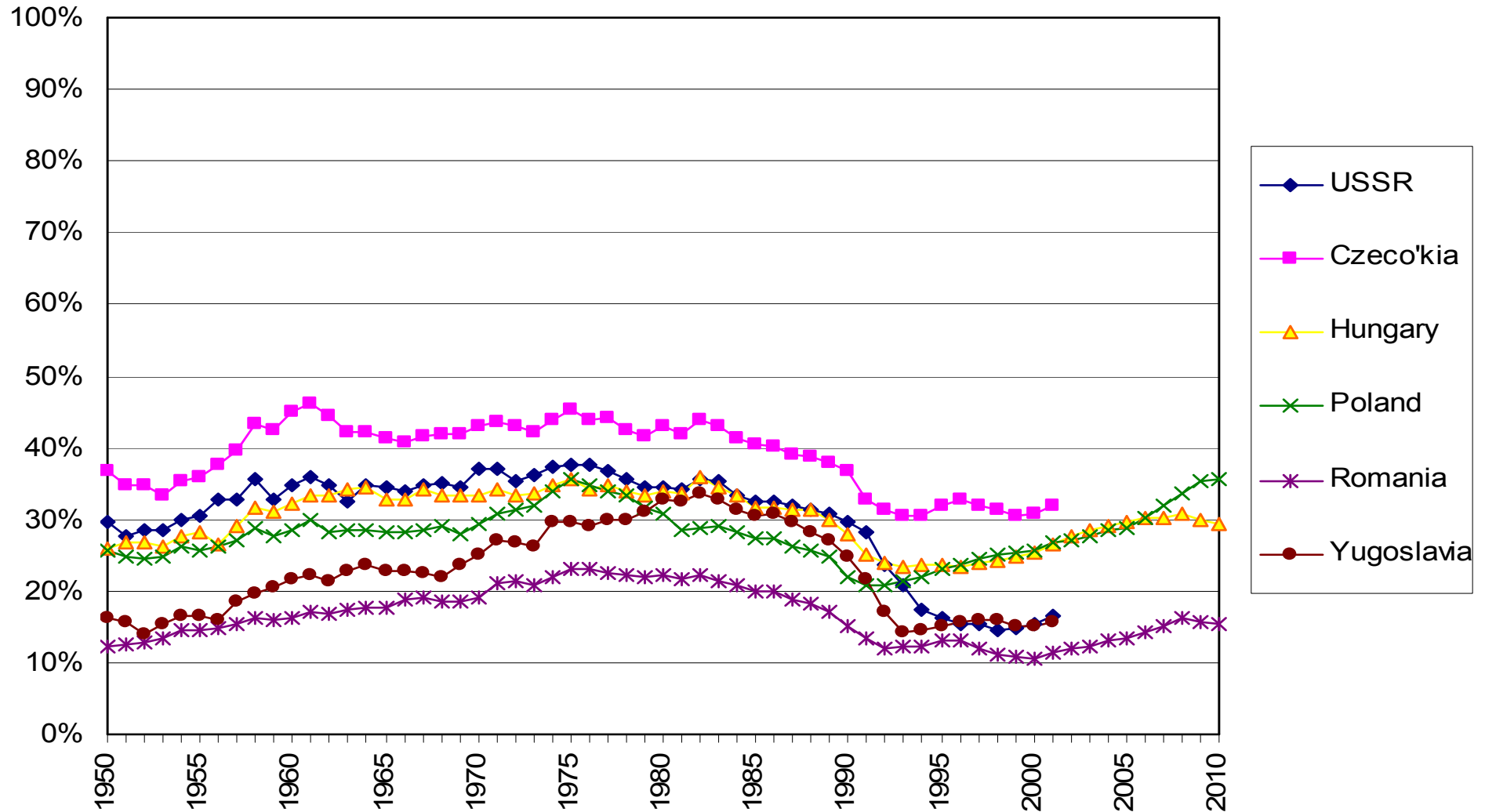


Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).

# Russia & Eastern Europe

## Per capita real income relative to US

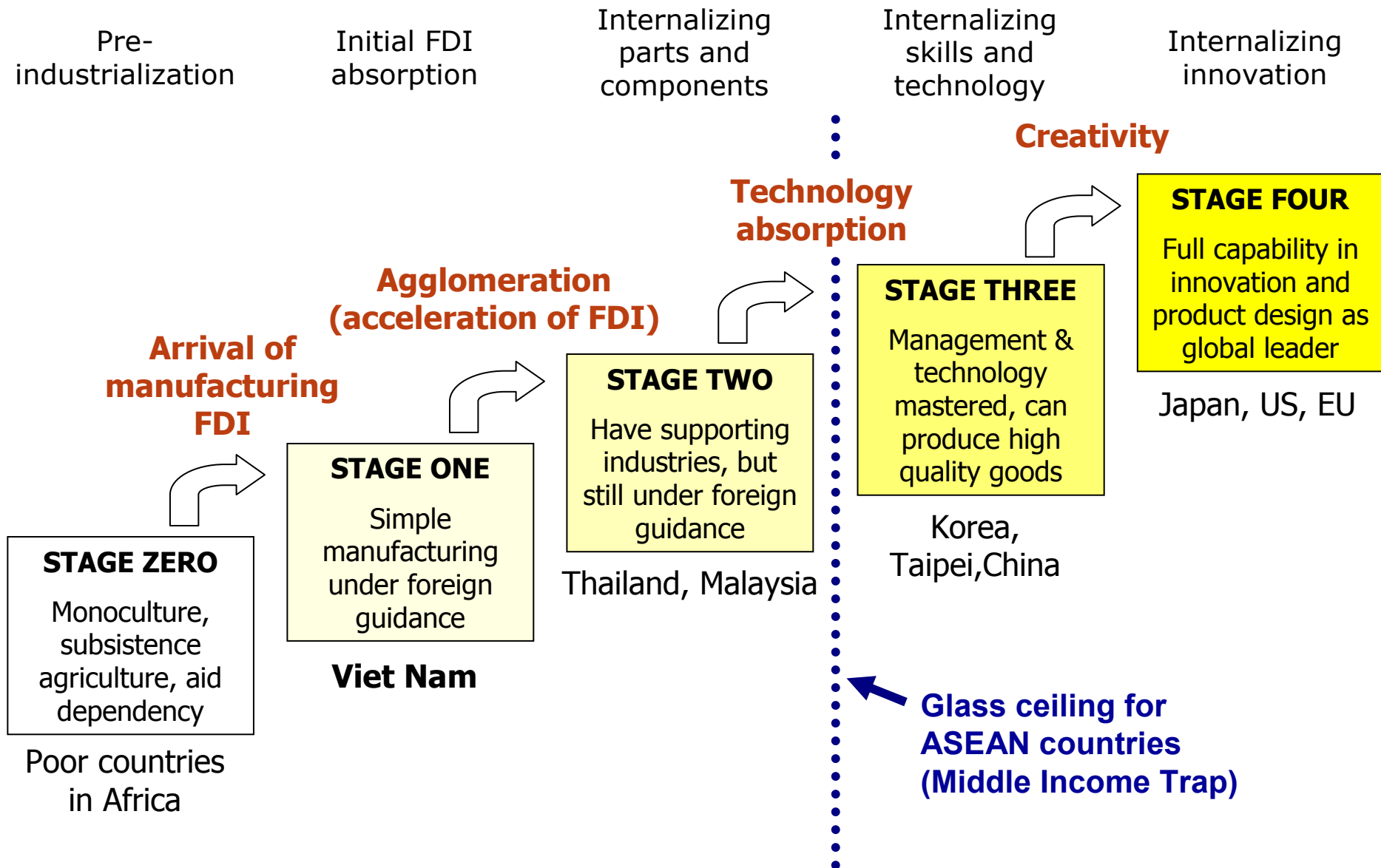
(Measured by the 1990 international Geary-Khamis dollars)



Sources: Angus Maddison, *The World Economy: Historical Statistics*, OECD Development Centre, 2003; the Central Bank of the Republic of China; and IMF, *World Economic Outlook Database*, April 2010 (for updating).



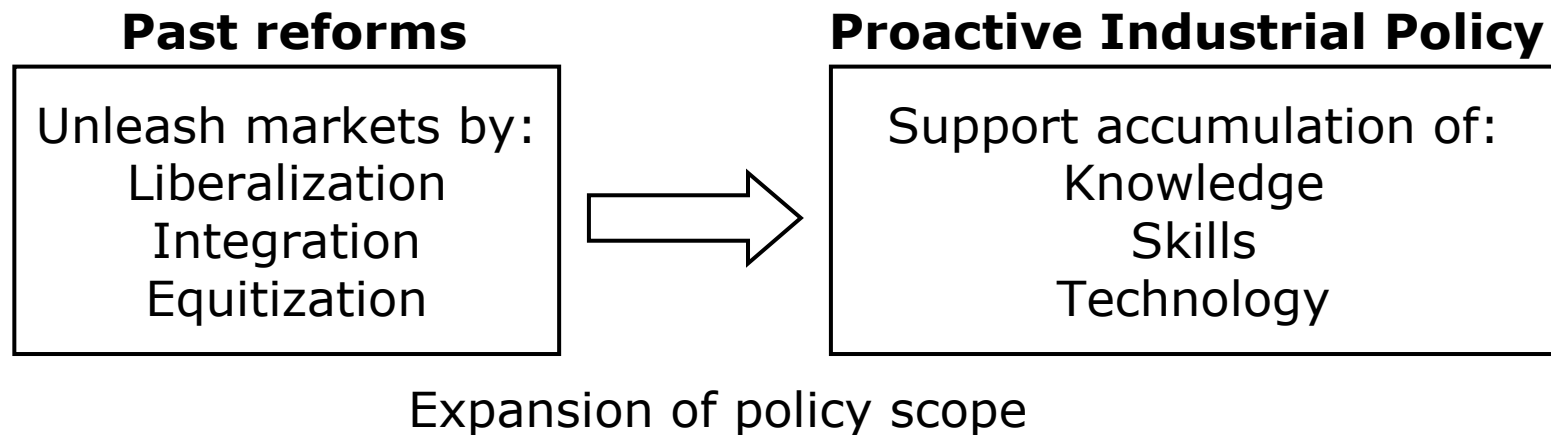
# Stages of Catching-up Industrialization



# For Improving the Quality of Growth

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## 1. Creating the sources of growth



## 2. Coping with growth-related problems

Income and asset gaps, environment, rural-urban migration, housing, traffic...

## 3. Macroeconomic management under integration

Managing global and regional crisis, commodity inflation, capital flows, asset bubbles, exchange rate pressure...

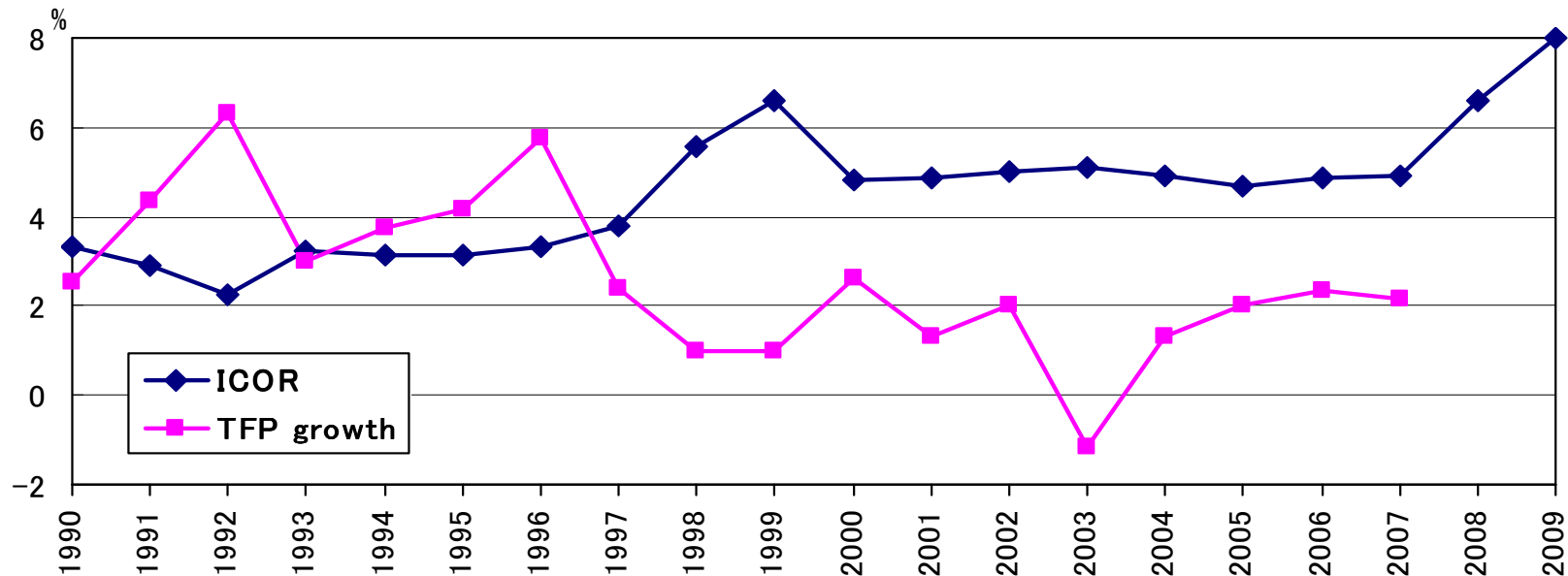
# Proactive Industrial Policy: Seven Required Features

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1. Strong commitment to global integration and private sector driven growth
2. A wise and strong government guiding private sector
3. Securing sufficient policy tools for latecomer industrialization
4. Constant policy learning through concrete projects and programs
5. Internalization of knowledge, skills and technology as a national goal
6. Effective public private partnership
7. Collection and sharing of sufficient industrial information between government and businesses

# Viet Nam's Challenge

- ❑ VN has reached lower middle income by 2008 (pc GDP of \$1,200 in 2010). But policies to upgrade human capital are not yet established.
- ❑ VN cannot continue to rely on simple assembly with unskilled labor. Industries will leave as wages rise and integration deepens. Without domestic value creation, VN will surely face a middle income trap.



# Problems of Viet Nam's Policy Making

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1. Coherent policy structure is lacking:
  - Industrialization & Modernization – must be concretized
  - SEDP & SEDS – comprehensive, but too many priorities
  - Overall industrial master plan – does not exist
  - Subsector master plans – electronics, automobile, motorcycle, etc. not effectively implemented
2. Inter-ministerial coordination is weak – budget, staffing, legal framework, etc. necessary for execution are not provided.
3. Stakeholder involvement is weak – businesses do not support implementation.

# Policy Learning

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- ❑ It is NOT copying some policy adopted in some other country to VN without local context. Ad hoc or random copying should be avoided.
- ❑ The claim that “our country is unique” should not be used as an excuse for not learning from others.
- ❑ Learn **mindset** and **methodology** for conducting industrial strategies effectively. Learn *how to make policies*.
- ❑ Early achievers (Japan, Korea, Singapore...) improvised through self-effort and trial-and-error. For latecomers, more systematic learning is desirable.

# What Need to Be Learned

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1. Leadership
  2. National movement for mindset change
  3. Policy measures
  4. Policy procedure and organization
  5. Policy structure—vision, strategy, actions, monitoring
- ➔ Strengthen **capability to create policy package** suitable for VN using foreign models as building blocks and references

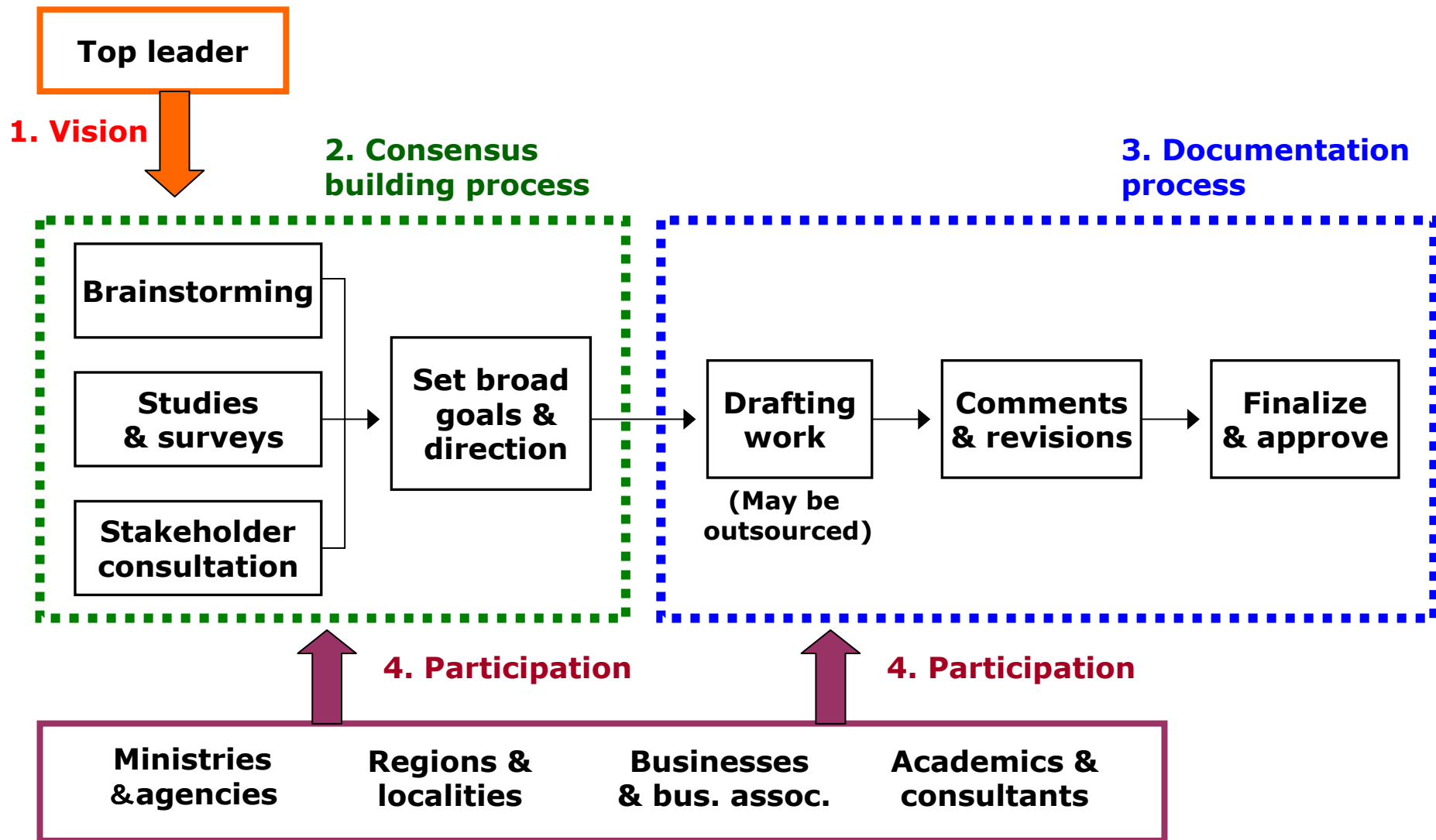
# Standard Policy Menu in East Asia

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- *Kaizen* (factory productivity tools)
- *Shindan* (SME management consultant system)
- Engineering universities (King Mongkut ITK, Nanyang Polytechnic, Thai-Nichi Institute of Technology...)
- TVET-business linkage (Singapore, Thailand...)
- SME finance (two-step loans, credit guarantees...)
- Integrated export promotion (Korea)
- Industrial zone development (Taipei, China, Korea, Thailand, Malaysia, Singapore...)
- Strategic FDI marketing (Thai BOI, Malaysia's MIDA, Penang, Singapore)
- Supporting industry promotion (parts & components; Thai auto)
- Innovation drive (Singapore, Taipei, China...)



# Standard Policy Making Procedure



5. The entire process must be managed and coordinated by a lead ministry or agency.

# Contemporary Examples of Best Policy Practices in East Asia

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- ❑ Singapore – New Productivity Drive
- ❑ Taipei, China – Innovation and Soft Power
- ❑ Korea – Presidential Committees
- ❑ Malaysia – New Economic Model for overcoming the middle income trap; SME promotion
- ❑ Thailand – auto industry strategy (regional auto base, Eco-Car...)

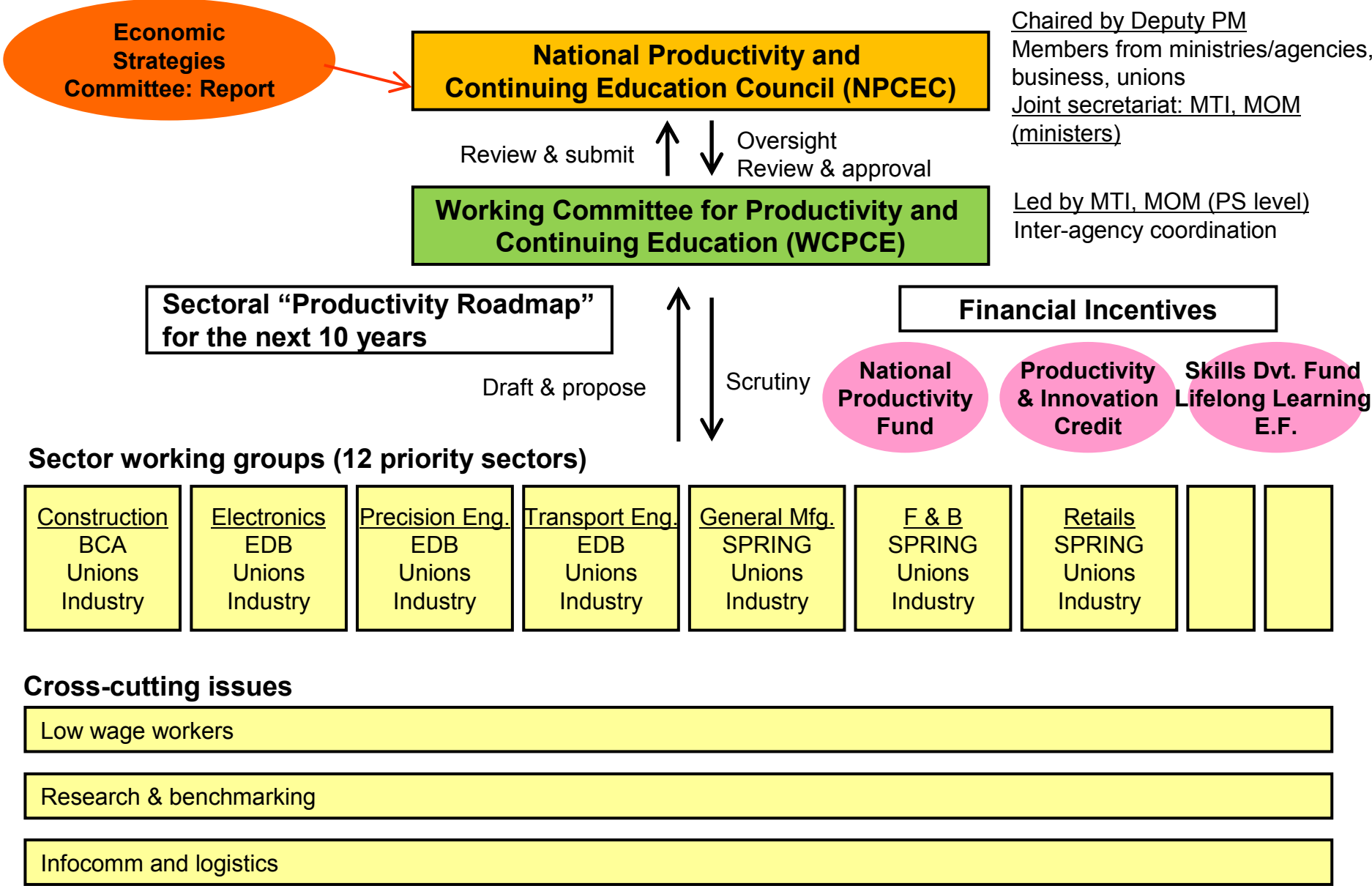
(Source: VDF/GRIPS policy research missions, 2009-2011)

# Singapore: New Productivity Drive

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- ❑ Singapore has long targeted productivity as top national priority (including Japan-assisted *Productivity Movement* in the 1980s).
- ❑ Currently, sluggish productivity performance and emerging China and India are major challenges. Productivity of aged, SMEs and foreign unskilled workers must be improved.
- ❑ The Economic Strategies Committee submitted a report to PM (Jan.2010). The National Productivity & Continuing Education Council was created to carry out report proposals (Apr.2010).
- ❑ 12 priority sectors and 3 cross-cutting issues are identified. 3 funding mechanisms are set up.

# Singapore: New Productivity Drive



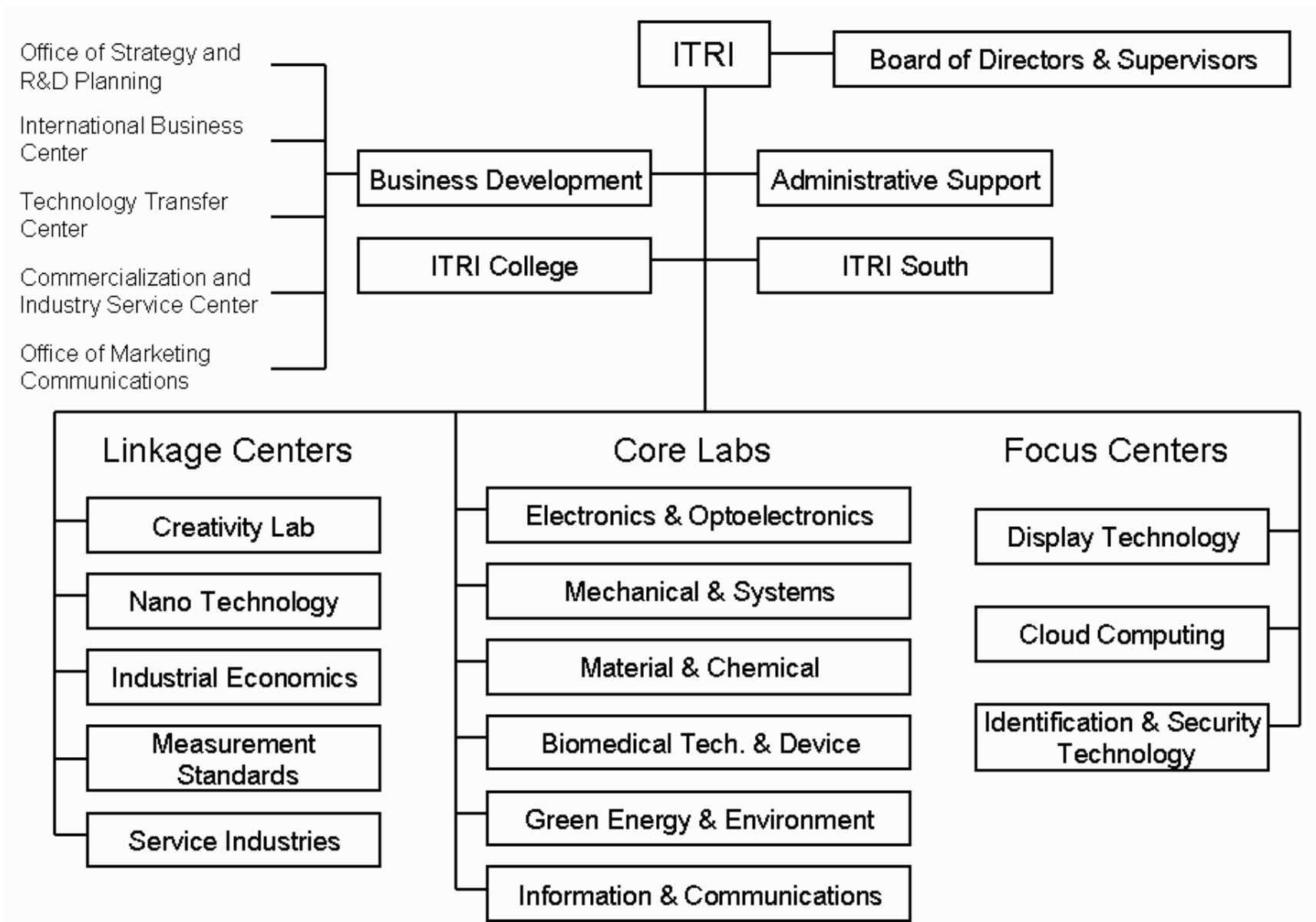
# Taipei, China:

## Innovation and Soft Power

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- ❑ The Ministry of Economic Affairs (MoEA) is the lead ministry for industrialization.
- ❑ The Industrial Statute of May 2010 lowered corporate tax to 17% and abolished all incentives (except for R&D).
- ❑ The soft power drive includes (i) supply of industrial professionals; (ii) promoting emerging industries; and (iii) upgrading existing industries.
- ❑ Technology projects are the main policy tool for innovation. Research institutes play key roles in creating policies and commercializing R&D.

# Industrial Technology Research Institute (ITRI)

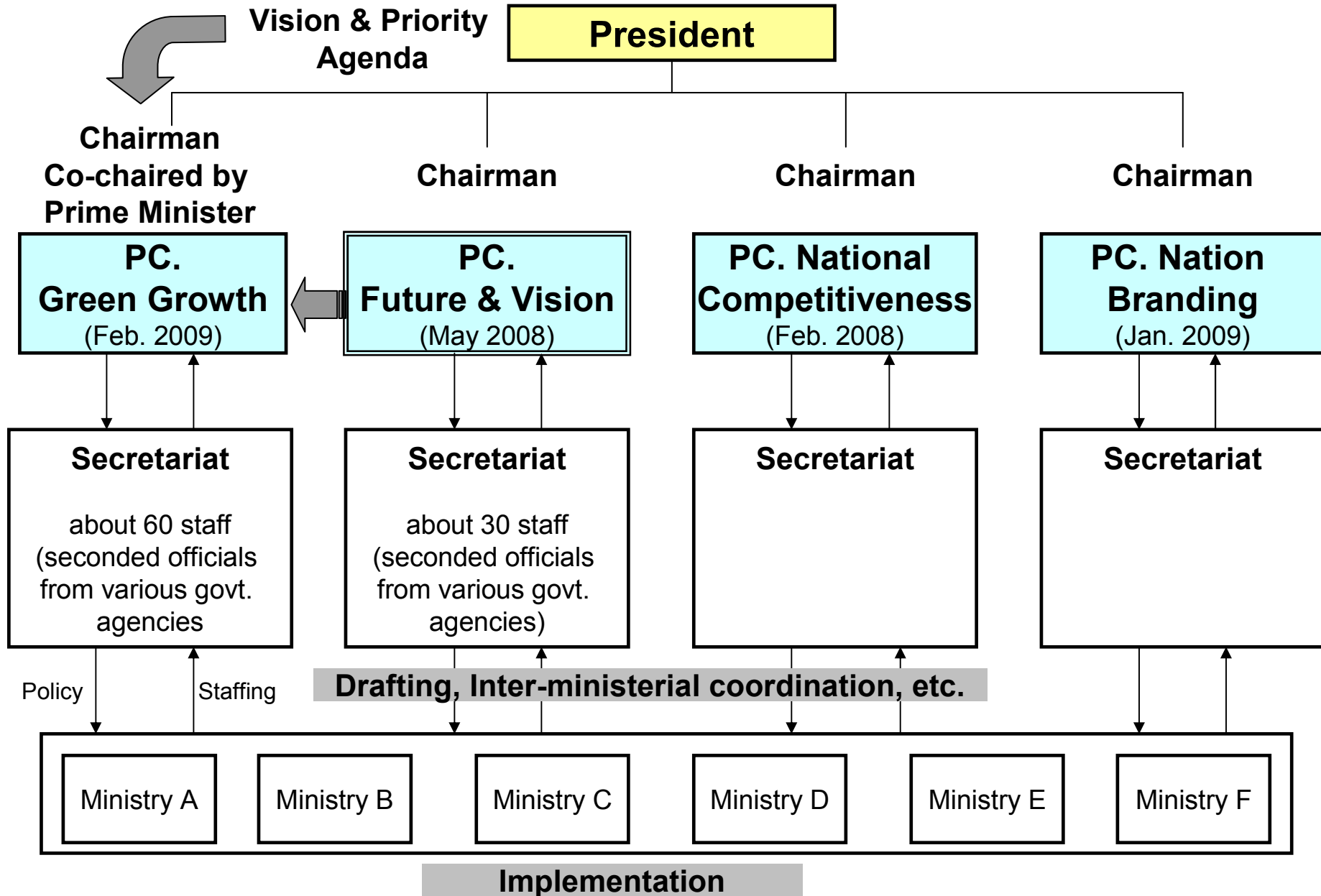


# Korea: Presidential Committees

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- ❑ Presidential Committees are the key policy tool in Korea. Each president establishes committees to design and implement his priority agenda.
- ❑ President Lee Myung-bak has 4 such committees. Among them, the Future and Vision Committee is most important in setting national goals and strategies. It is chaired by the Dean of Korea University and attended by vice ministers, academia, NGOs, experts and business leaders.
- ❑ The other committees cover Green Growth, National Competitiveness, and Nation Branding.

# Korea: Presidential Committees





# Malaysia: Overcoming the Middle Income Trap

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- ❑ Malaysia feels trapped: “We are caught in a middle income trap - we are not amongst the top performing global economies” (NEAC, vol.1, pp.3-4)
- ❑ Goals for 2020:
  - { High income (\$15,000-20,000)
  - { Inclusiveness (everyone benefits)
  - { Sustainability (fiscal, environmental)
- ❑ Under PM Najib’s leadership, *New Economic Model* was launched (Mar.2010) and elaborated (Dec.2010) with 8 Strategic Reform Initiatives.
- ❑ SME promotion is one of the key entry points.

**Enabling Actions**

**Strategic Reform Initiatives**

**Outcomes**

Coherent "big push" to boost transformation and growth

Break logjam of vested interests through political will and leadership

Prepare Rakyat for change

- 1. Re-energising the Private Sector
- 2. Developing Quality Workforce and Reducing Dependency on Foreign Labour
- 3. Creating a Competitive Domestic Economy
- 4. Strengthening of the Public Sector
- 5. Transparent and Market friendly Affirmative Action
- 6. Building the knowledge base infrastructure
- 7. Enhancing the Sources of Growth
- 8. Ensuring Sustainability of Growth

Possible policy measures

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Feedback : Review, Revise

# Malaysia: National SME Dev. Council

**National SME Development Council**

Est. 2004,  
chaired by PM

14 Other  
Ministries

**Ministry of Int'l Trade and Industry  
(MITI, lead ministry for SMEs)**

## MITI's key departments

Strategic Planning

Entrepreneurship  
Development

Sectoral Policy &  
Industrial Service

Investment Policy &  
Trade Facilitation

Services Sector  
Development

## Implementing agencies under MITI

**-SME Corp. Malaysia (lead agency for SMEs  
and secretariat to National SME Dev. Council)**

-Malaysian Ind. Dev. Authority (investment)  
-Malaysia Productivity Corp (research,  
training, consultation)

-SME Bank (finance)

-Malaysian Ind. Dev. Finance (finance)

-MATRADE (trade)

## Private sector partners

Service & training providers (private  
consultants & companies)

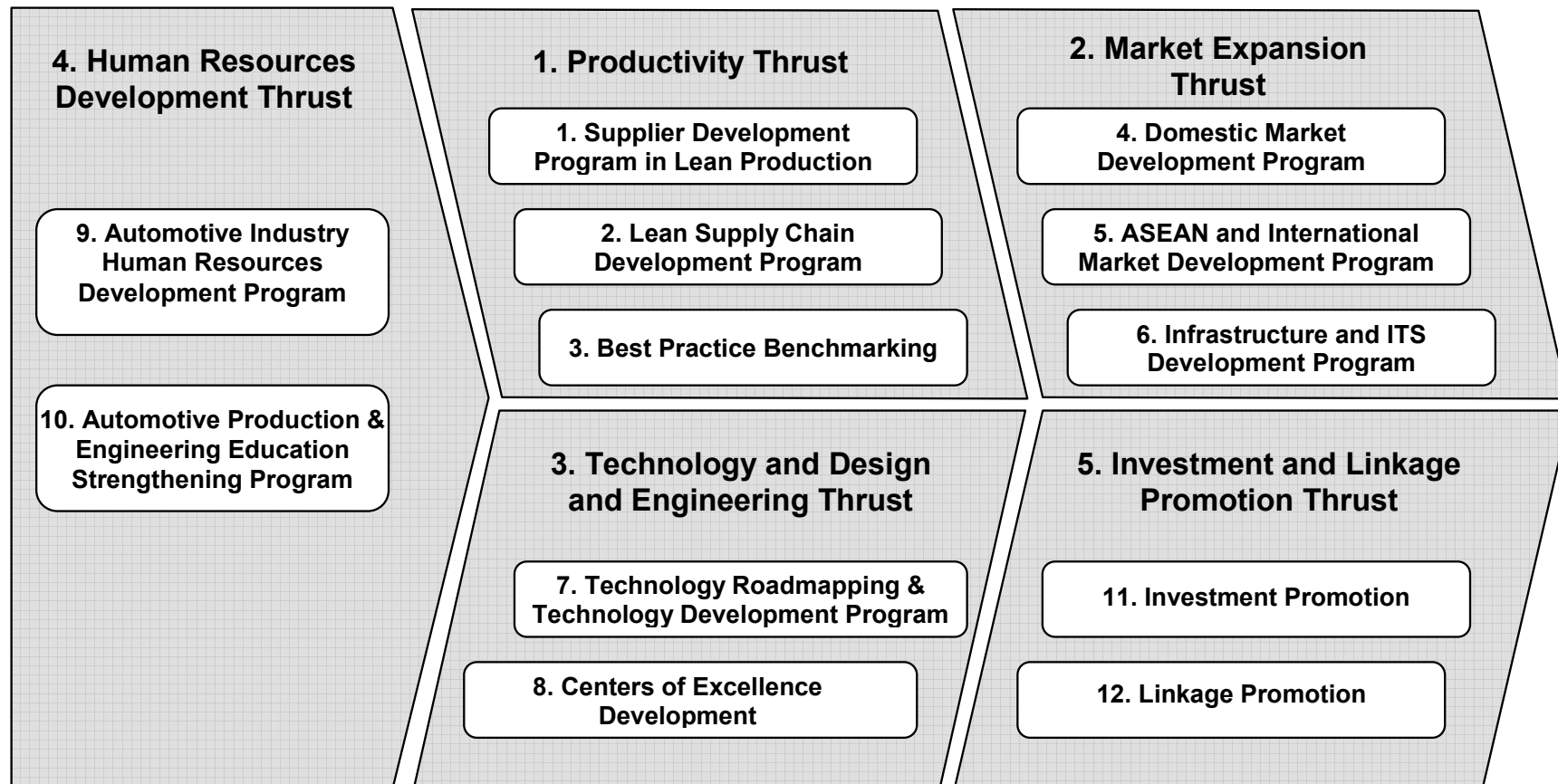
# Thailand: Auto Industry Strategy

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- ❑ Policy making is coordinated competently by Thailand Automotive Institute (government-created but self-funded NPO).
- ❑ Vision—“Asia’s auto production base with value-added and strong parts industry” (since 2002)
- ❑ Open market; no national brand is promoted.
- ❑ Very good relation between government and FDI/local producers.
- ❑ Eco-Car drive – seems successful.

# Thai Automotive Master Plan, 2007-2011

Five Thrusts and 12 Actions Plans are summarized as follows:

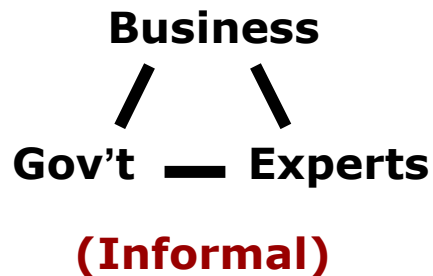


Source: Thailand Automotive Institute, *The Automotive Industry Master Plan 2007-2011 Executive Summary*, p.4.

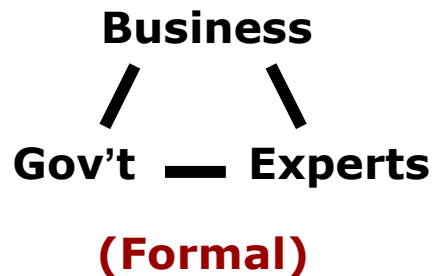
# Thailand: Automotive Industry Master Plan 2007-2011

- The whole process (about 1 year) is managed by Thailand Automotive Institute (TAI).
- Goals are set by private firms; no government approval is needed for final M/P.

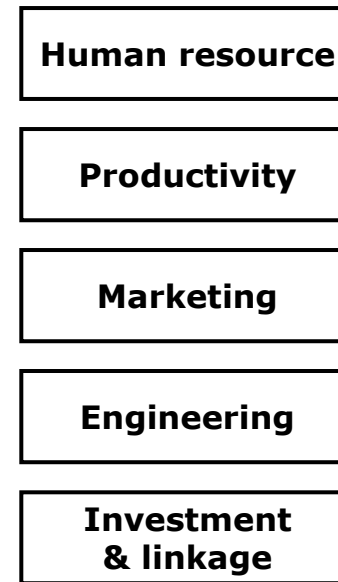
**Brainstorming;  
agreeing on goals  
& directions**



**Set up formal  
committee for  
drafting M/P**



**Subcommittees  
study identified  
issues**



**Comment &  
dissemination**

**Implementation**

# Recommended Actions for Viet Nam

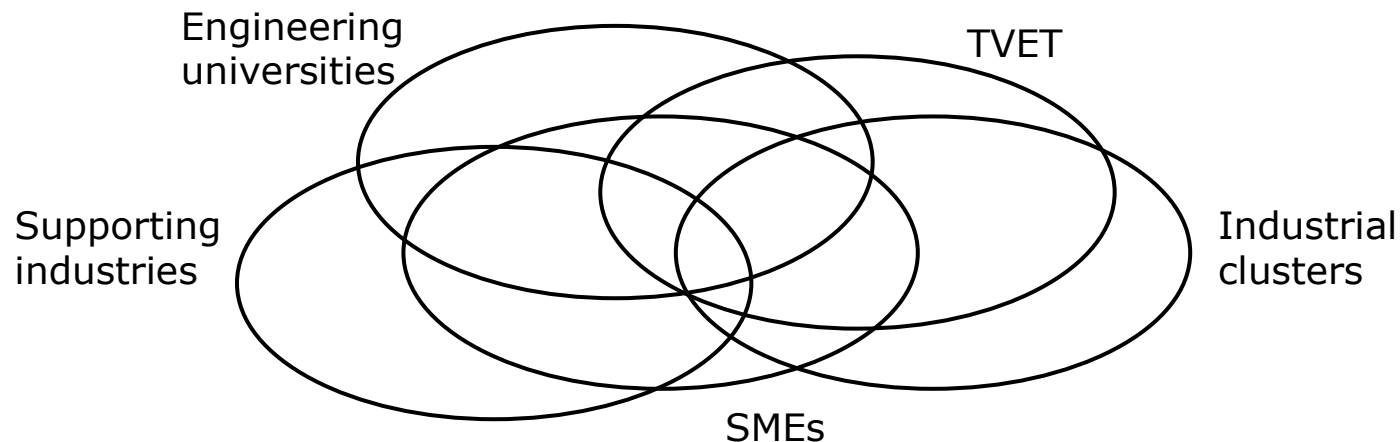
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1. Identify a small number (up to several) of key industrial strategies toward 2020.
2. Study international best practices in chosen strategies as building blocks of a policy package suitable for VN.
3. Create appropriate policy procedure and policy organization to implement chosen policies.
4. Progress review by highest level.

# Need for Policy Focal Points

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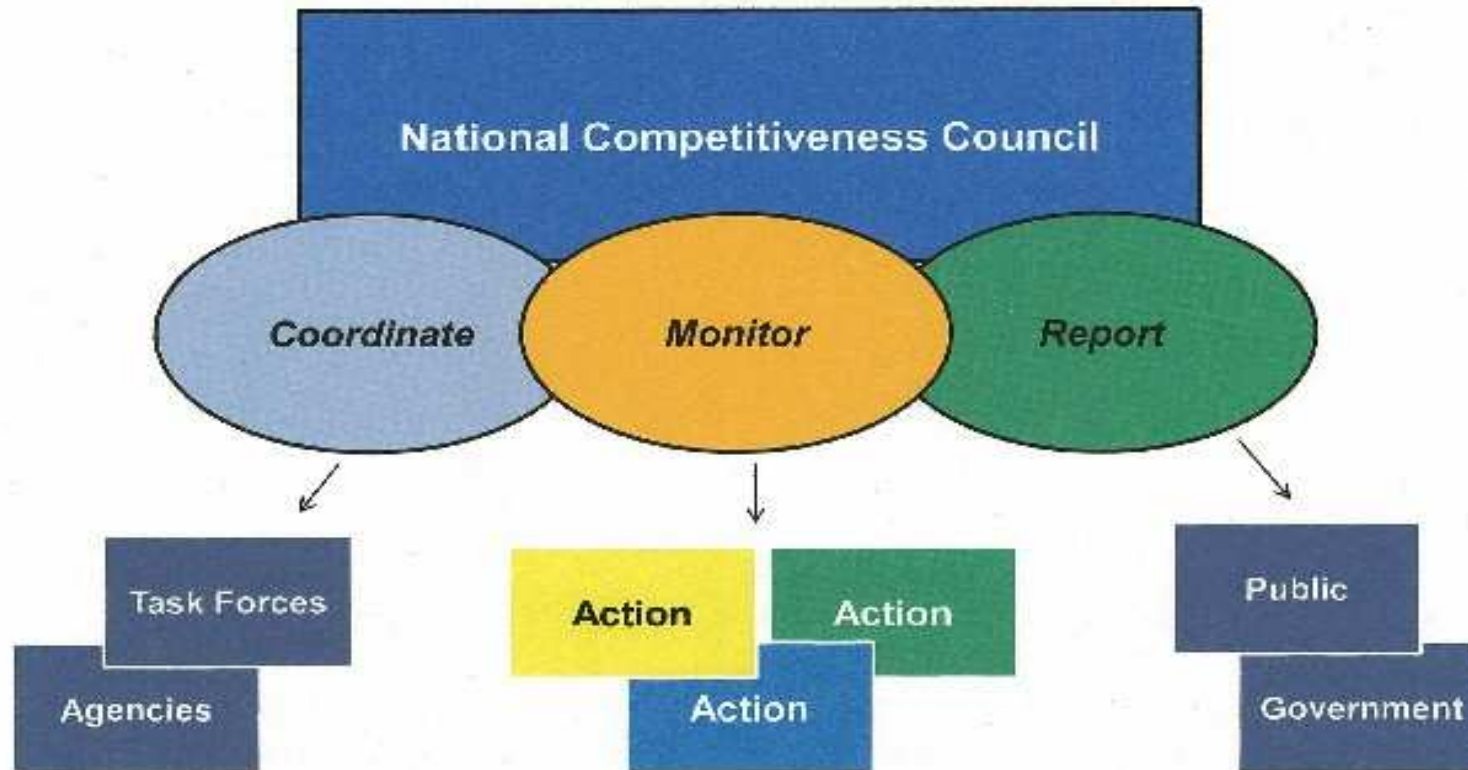
- ❑ Too many priorities is equivalent to no priority. A few strategies should be chosen for vigorous action.
- ❑ Each chosen strategy must have lead ministry/agency, master plan, budgeting, staffing, monitoring, and international cooperation.
- ❑ Strategies may have overlaps. Coordination must be done at above-ministry level (PM or DPM).





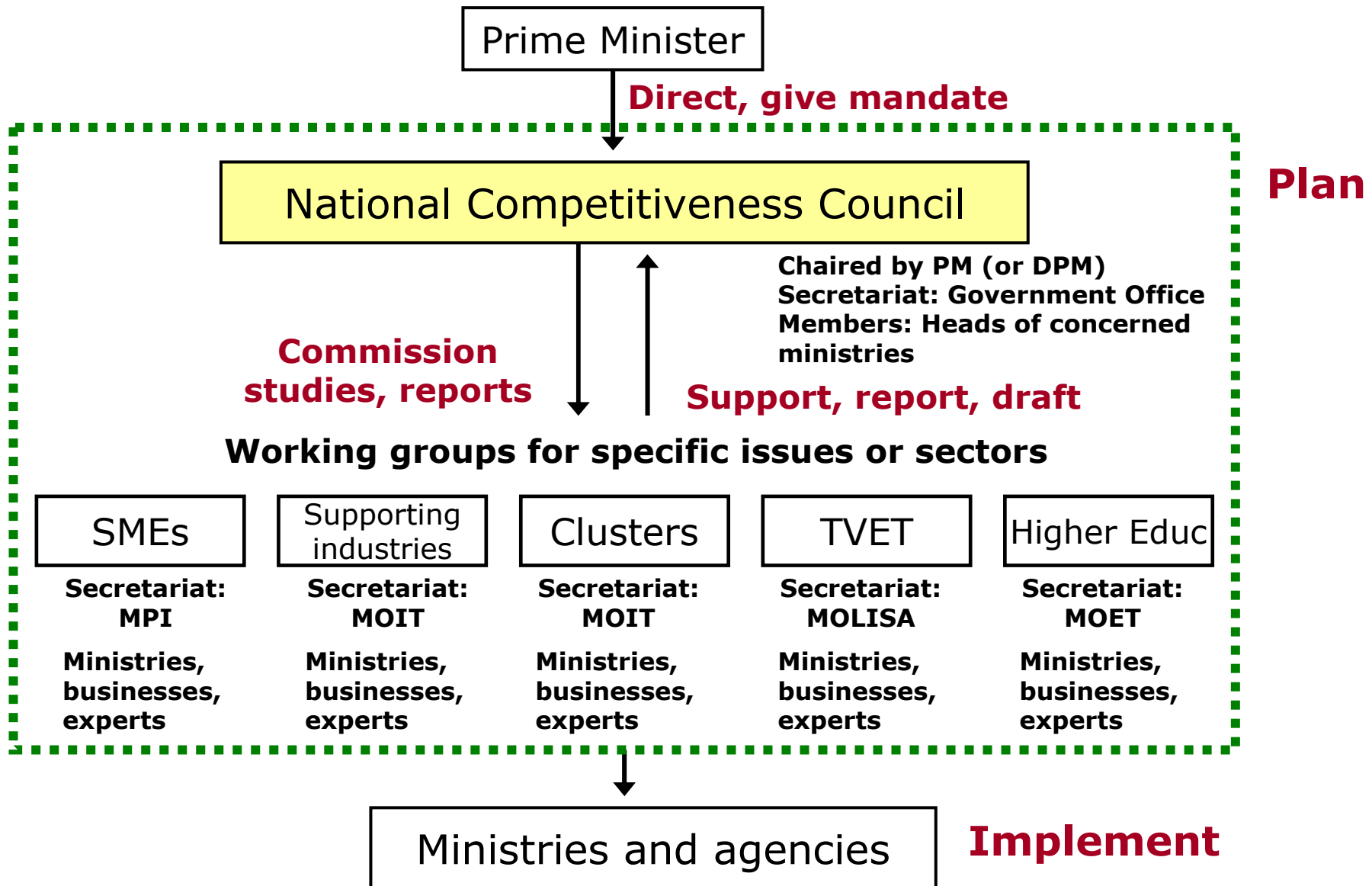
# Michael Porter's Proposal for Vietnam

## Implementation Model Creating a National Competitiveness Council



Source: M. Porter's Presentation at Vietnam Competitiveness Report launching seminar, Hanoi, Nov. 2010.

# Vietnam: My Proposal for NCC



Note: This is a preliminary idea of K. Ohno to initiate discussion; listed issues and ministries are suggestions only; everything is subject to addition, deletion or change.

## A Proposal for NCC (cont.)

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- ❑ Full-day NCC meeting, chaired by PM, should be organized every three months or so.
- ❑ PM should give concrete instructions and ask for reports, studies, and solution of problems. He should coordinate among issues and ministries.
- ❑ NCC members are ministers, prominent experts, and business representatives.
- ❑ NCC secretariat to be created within Government Office to offer administrative support.
- ❑ Issue-based working groups should be formed and lead ministry should be assigned. They must work constantly with stakeholders and report results at every NCC meeting.

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