Chapter 2  Industrial Planning in Vietnam and Lessons from Abroad

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Among economic policy instruments, planning is essential in assisting the government to regulate and manage the economy effectively and achieve socio-economic goals for each stage of development. This chapter first reviews historical transformation and problems in industrial planning of Vietnam. In Section 2, experiences from other countries are reviewed. Finally, Section 3 draws lessons for Vietnam from these experiences.

1. Changes in industrial planning in Vietnam

Vietnamese industrial planning in principle has followed the general rules required by economic planning. Historically, industrial planning can be divided into three stages: (i) central planning period from 1955 to 1977, (ii) initial renovation period from 1976 to 1985; and (iii) innovation period from 1986 to present.

1.1 Central planning period from 1955 to 1977

In the early period, Vietnam was divided into two regions. The North, after liberation, started to construct socialism while the South continued to fight for unification. In the North, the government applied planning methodology originated in the Soviet Union with the following characteristics:

(i) Resource allocation was prioritized to two main economic sectors, namely the state and collective sectors, to achieve plan objectives.

(ii) Plan objectives were mandatory. There were a large number of commodity targets which were closed and balanced within each sector and within each region. The state budgeted both inputs and outputs in production and enterprise operation.
(iii) The state managed and controlled economic activities through central directives. Concrete objectives were determined by planners. Resources such as capital and materials and product distribution among sectors were decided by criteria which rarely changed.

(iv) The plan building process was characterized by hai len ba xuong (two ups and three downs—the sequence of top-down provision of numerical targets, bottom-up checking and drafting, top-down revisions, bottom-up redrafting, and top-down synthesis and final approval; see Figure 2-1).

(v) The highest planning authority was the State Planning Committee whose main function was to synthesize key plan contents from all industries and all local governments while giving a focus on strategic economic areas, essential economic objectives, and important products and projects for the national economy. As the next authorities in charge, ministries and general offices also compiled their plans by giving directives to their lower units. Provinces and cities were responsible for constructing and synthesizing plans for their own areas.

Figure 2-1. Designing and Approving Process of Planning
(“2 up 3 down” Modality)
The centrally planned mechanism represented state power and legality of economic objectives, and assured fundamental balances of the entire economy as well as principal industrial and agricultural products. Concrete objectives of the government were mainly aimed at reconstructing, improving, and developing the socialist economy in the North while simultaneously supporting the South to fight for the unification of the country.

However, from 1975 as the socio-economic situations changed significantly, planning based on old methodology began to show many constraints and meet many obstacles, which tended to deter economic development. These constraints and obstacles included the following:

(i) The system of rigid commodity targets reduced enterprises' flexibility and creativity. Enterprises reacted perfunctorily, passively and unwillingly, and hence could not play the role of the engine of economic development.

(ii) Plans were subjected to the discretion of leaders and planners.

(iii) Scientific foundation, such as the use of growth projection, master plans and IO tables, was lacking.

(iv) Objective rules were not recognized and applied properly.

To overcome these constraints for the sake of production and economic efficiency, initial changes in planning method were introduced during the post-unification period, particularly at the beginning of 1980s.

1.2 Initial renovation period from 1976 to 1985


In the period 1976-1980, planning was still highly administrative, direct and material. For instance, Parliament Decision dated December 28, 1977 approved the basic tasks of the five-year state plan from 1976 to 1980 with numerical targets such as 21 millions tons of cereals, 1.8 million laborers to open new economic regions, 3,500 million eggs,
16.5 millions pigs, 1 million tons of meat, 1 million tons of sea fish, 14 million square meters of housing (excluding houses built by people), 450 million meters of cloth, etc. Needed resources were mainly supplied from abroad.

In the period 1981-1985, renovation was initiated with Decision No.25-CP and No.26-CP dated January 13, 1981, which introduced "three-part industrial planning." The planning mechanism changed from direct to indirect. A system of mandatory targets was reduced and gradually replaced by an indicative system of informative guidance. Enterprises were given self-control based on market demand and economic contracts. Some targets were retained for key products. Profit and financial policies were changed to encourage enterprises to proactively develop self-balance plans. The chairman of the Interministerial Committee issued Instruction No.3-CT on January 11, 1982, which required a change in the design of the five-year plan 1981-1985 with respect to the content and modality of planning. According to the Instruction, plans were designed at three levels, namely central, provincial and lower units. Designing and collecting plans were to start from lower units. This encouraged the spontaneity of the lower level while securing the consistent central management of the state. At the central level, the State Planning Committee remained the national planning authority, which ensured the macro balance of the economy. Provinces and cities designed and collected plans from their lower units and districts. They were to implement the state's legal targets while promoting capital accumulation for provinces. Lower units (enterprises, cooperatives, farms, etc) were required to be proactive and creative in their business and production based on the principle of self-finance while executing state's policies, regulations, and targets.

Planning methodology changed dramatically in this period. Importance was now placed on basic surveys, socio-economic forecasts, master plans, technical and economic norms, and selection of most effective projects. Productivity, quality, efficiency in all activities of the value chain began to be considered essential. Legitimacy of plans was strengthened, various economic measures were mobilized to encourage enterprises to achieve their potential, and linkage was created between
the economic plan and the technical progress plan, and between the material plan and the value plan.

The drafting process of plans was shortened. The State Planning Committee propagated work direction and numerical indicators to be checked, which became more selective and shorter. It held guidance seminars for ministries, provinces, and cities. Ministries, general offices, provinces, and cities guided lower units, synthesized plans that had legality and self-balance, and sent them to the government and the State Planning Committee. The State Planning Committee presented the synthesized national plan to the Prime Minister, the Central Executive Committee of the Communist Party, and the Parliament. After approval, the plan was promulgated.

Some minimum and maximum plan targets were applied in the five-year plan. Material balance was calculated according to the state’s minimum technical and economic norms, for both national and provincial levels. The drafters of the five-year plan were ministries, general offices, and provinces. In some cases, ministries and general offices asked large enterprises to build their own five-year plans.

Planning in the period 1975-1985 did not bring positive impact on the economy. Despite new renovating measures, the Vietnamese economy fell into recession due to the low level of the economy, heavy consequences of war, termination of external resources and some mistakes in economic policies. National income increased slowly at an annual 3.7% in the period 1976-1985. In details, national income growth was 2.8% in 1977, 2.3% in 1978, 2.0% in 1979, 1.4% in 1980, 2.3% in 1981, 8.8% in 1982, 7.2% in 1983, 8.3% in 1984, and 5.7% in 1985. Industrial output increased only 5.2% annually in the same period. In details, increases were 10.8% in 1977, 8.2% in 1978, 4.7% in 1979, 10.3 % in 1980, 1.0% in 1981, 8.7% in 1982, 13.0% in 1983, 13.2% in 1984, and 9.9% in 1985. Mistakes in distribution caused chaos in the market and led to high inflation, reaching 700% in some year. The lives of people became increasingly difficult. In the planning period 1981-1985, Vietnam had conducted two rounds of price, salary and monetary adjustments but the result did not fulfill expectation. The economy remained in recession.
1.3. Renovation period, 1986-now

In December 1986, the VIth Communist Party Congress evaluated the ten years of national socio-economic construction and development in 1975-1985. Some lessons were drawn and causes were discussed. This congress provided a historical turning point as it recognized the way to develop Vietnam into a new era including renovating economic mentality, developing a multi-sector commodity economy, and eliminating the centrally planned subsidy economy.

The VIIth Communist Party Congress reconfirmed that the “economic mechanism of Vietnam was the socialist-oriented market mechanism with state adjustment”. This mechanism required diversification of economic sectors, equitization of SOEs, private sector development, use of the market mechanism as a tool to regulate production, and use of market prices as a basis for production, consumption and resource allocation.

Planning in this period can be characterized as follows: (i) a shift from resource allocation planning to resource exploitation planning with targets for individual economic sectors; (ii) a shift from direct planning to indirect planning; (iii) a shift from closed planning in each sector and/or province to strategic orientation with harmonization and combination among sectors and provinces.

The following documents provided the background for compiling plans.


(2) Viewpoint and modality of the Communist Party is expressed in the Ten-year Strategy 2001-2010 including industrialization and modernization, sovereignty, proactive integration, rationalization of economic structure, and linkage between economic development and socio-cultural development.

(3) Objectives, targets, and tasks of socio-economic development
and main self-balance in the economy are used to direct the development of sectors.

(4) The current situation of each sector and region, the ability to expand domestic and foreign markets, and the ability to mobilize internal resources and attract foreign capital.

(5) Development orientation of each sector and province, and regional and sectoral master plans have been established and updated.

Planning now considers the macro balance of the economy such as labor, capital, budget and finance, etc. Its content is more closely linked with the implementation of policies. Economic and social issues are better integrated. Planning has been renovated by shifting dramatically toward oriented planning with quantitative models. Indicators such as savings, investment, ICOR, unemployment, etc. are applied. Macro planning targets such as GDP, trade balance, etc are reconstructed to follow general practices of the region and the world. Instead of top-down assigning of numerical indicators to be checked, there have been meetings to share foreign and domestic information and policies.

Sector management of each ministry has been enhanced, and discretionary functions have gradually been eliminated. The central government together with ministries are now responsible for overall master plans and consolidating and optimizing plans of general corporations and enterprises. Provinces are in charge of provincial socio-economic and sectoral development master plans. The Ministry of Planning and Investment is responsible for synthesizing and balancing the entire national plan and reporting it to the Prime Minister. The government submits it to the Parliament in the form of the Socio-economic Development Plan in the second parliamentary session of the fiscal year.

Several issues are being deliberated on the current planning method, including the role of planning, methodology of planning, content of planning, the proper way to use targets, and allocation of budget and resources.
2. Experiences of planning in other countries

2.1 France: improving forecast efficiency and planning flexibility.

Indicative planning was first adopted in France. France’s first five-year plan (1947-1951) aimed at recovering the economy after the War. The
subsequent five-year plans up to the fifth plan (1967-1971) gave important orientations for France to achieve economic growth based on the advances of science and technology, gradually integrating the French economy into the regional and global economy. The capitalist recession in the early 1980s highlighted the need to reform economic structure and planning. The French planning reform emphasized improving forecast accuracy and replaced long-term planning by strategic developing plans that permitted more flexible responses.

2.2 Japan: providing information to compile flexible rolling plans under long-term commitments

Japan is one of the typical capitalist countries that achieved a miracle in economic development by combining the market mechanism and government planning. The Japanese government began to directly control the economy in the 1930s. After WW II and the dropping of two atomic bombs, Japan had lost 30% of its economic potential. In May 1948, Japan implemented the five-year plan (1949-1953) to recover the economy. After attaining economic recovery and stability, Japan terminated direct control of the economy but maintained economic planning. From then until 2000, Japan implemented 14 consecutive five-year plans.

Japanese five-year plans had the following characteristics: (i) plans were constructed by the methodology which could quickly adapt to changing domestic and international conditions, (ii) plans were always accompanied with economic policies and measures that reflected government's commitment to carry out stated plans, and (iii) plans informed firms and people of official priority in resource allocation as well as changes in market conditions.

The role of planning in the market economy was explained as follows. First, plans provided information and economic forecast which helped private firms to make their decisions. Second, plans constituted government's long-term commitment regarding goals and expenditures. Third, plans were a consistent and sufficient source of information for the government and private firms alike, creating reliable environment for production, commerce and consumption.
2.3 Russia: one authority exercising all planning functions

In transition to a market economy, planning remains crucially important for Russia. Concerned authorities need to predict the progress of privatization, breaking monopolies, formation of various means of production under different ownerships, and advance of technology. Previous planning method is no longer applicable in the transition period and must be replaced by new strategic planning. Both the administrative branch and the legislative branch must take part in this. The legislative branch creates legal foundations for the state's adjustments, forecast, and strategic planning, and approves the federal budget which is the backbone of state general planning. The administrative branch, namely the government, implements planned tasks in all aspects of socio-economy. This branch includes the Ministry of Economy, the Ministry of Finance, the Ministry of Science and Technology, the Ministry of Natural Resources, the Ministry of Industry, the Ministry of Agriculture and Food, the Ministry of Fuel and Energy, the Ministry of Labor and Social Development, the Ministry of Science and Education, the Ministry of Transport, as well as the federal committees such as the Communication and Post Committee, the Environment Protection Committee, the Housing Policy Committee, the National Reserve Committee, and the Measure and Standard Committee. Among them, the Ministry of Economy stands out as the central coordinator.

The main role of the Ministry of Economy is to draft forecasts and strategic planning programs. Together with related authorities, the Ministry of Economy compiles and synthesizes socio-economic development reports for regions, industries, and economic sectors, drafts financial balance sheets to ensure a balanced budget, checks the demand-supply situations of goods markets and equilibria for essential goods, and thus plays the leading role in planning work in Russia. The Ministry of Economy guides all other related authorities for methodology, coordinates them in drafting and implementing national goals, and sets up a list of objectives with specified priority in federal budget allocation.
2.4 China: reducing the scope of planning and adopting indirect plans

China has a socio-economic development strategy which reflects China's unique socialism that always stresses the role of planning. Central planning has existed in China for a long time, counting 9 five-year plans. Despite some initial achievements, China's early central planning caused serious problems and the economy stagnated. The five-year plan of 1976-1980 which advocated “four modernization” ended the era of central planning.

Generally speaking, China seems to handle properly the relationship between the market mechanism and macroeconomic planning, which requires an appropriate combination of theory and practice. As to planning methodology, China has shifted from central planning to indirect development planning. The scope of planning has been reduced with an intention only to orient or guide. Previous material targets for commodities have been replaced by value targets. Allocation of targets to individual firms has been reduced, and planning gradually shifted to balancing macroeconomic indexes by applying economic forecasting models and policy instruments.

2.5 Korea: industrial planning is the core of planning with commitments in long-term supporting investments

South Korea implemented its first five-year plan (1962-1966) featuring import substitution industrialization strategy. Its main purpose was to produce industrial goods such as textile, shoes and food for domestic consumption. However, high GDP growth of 8.5% in this period failed to strongly upgrade economic structure or improve the trade balance. This prompted Korea to quickly move to export-oriented industrialization strategy. The second five-year plan (1967-1971) and the third (1972-1976) endeavored to develop labor-intensive industries for export such as textile, leather, wood, paper, glass, plastic, beverages, and food processing. At the same time, they also prepared for export-oriented industrialization by increasing investment in industrial foundations with high science and technology contents. Thanks to this preparation, Korea was later became one of the Newly Industrializing Countries. At the end of 2000, Korea completed the
eighth five-year plan which featured modernization and trade liberalization.

In Korean planning, the government was able to build proper strategies, be flexible in responding to changes, and apply strategies creatively. Korea's planning can be regarded as national industrial planning which succeeded in achieving strong export-led growth.

2.6 Malaysia: industrial master plans to promote basic industries and later to create high value-added

Malaysia's overall economic development plans carry such objectives as employment, broadening and diversification of economic structure, and economic growth through export-orientation. During the last four decades, Malaysia has experienced a series of structural shifts, moving from primary commodities to a more diversified economy with a strong industrial base.

In the early 1960s, the strategic orientation of Malaysia was to speed up import substitution in manufacturing, encourage the use of domestic natural resources, and create jobs through oil, wood, and rubber products. With adaptable and cheap labor, financial incentives, good infrastructure and political stability, Malaysia attracted a large number of foreign investors, especially in export-oriented and labor-intensive sectors such as textile and electronics. Export-oriented strategy brought a remarkable increase in exports from 22% of GDP in 1980 to 80% of GDP in 1995. Nevertheless, Malaysia is still strongly dependent on foreign technology.

In the 1980s, Malaysia tried to develop export industries and diversify economic sectors by promoting manufacturing industries that required large investments such as steel and cement, and strategic firms such as Proton, a national car project, and HICOM, to stimulate industrial development.

The Industrial Master Plan (IMP) of 1986-1995 was a landmark for government's industrial strategy. IMP was successful in accelerating growth; the manufacturing sector grew 13.5% annually and unemployment declined from 6.9% in 1985 to 2.8% in 1995. From an
agriculture- and resource-based economy, Malaysia became a major exporter of industrial goods, achieving three-fourths of the way targeted by national competitiveness drive, which advocated three principles of enhancing factors [of production], investment, and reform.

The second IMP of 1996-2005 aimed at accelerating growth through the internal strength of manufacturing and, at the same time, emphasized the need to accumulate, specialize and diversify supporting industries, and strengthen linkage among them. The orientation of IMP2 was to coordinate the management of manufacturing according to the “value chain” for competitiveness, productivity and industrial linkage. The industrial clustering model in IMP2 provided theoretical solutions to the marketing problem and the creation of strong linkages and economic foundations. In other words, the industrial clustering model ensured consistency among “value chain” activities such as R&D, design, and marketing. This model also provided a theoretical basis for domestic investment, including SMEs, to achieve economic balance under regional and global competition.

Malaysia's eighth planning cycle (2001-2005) ushered in a new period in industrial development which called for stability and growth of production sectors. In this period, industrial sectors had to face new challenges from free trade and high mobility of capital, knowledge, and technology. To become a meaningful part of the global economy, Malaysian firms were asked to utilize IT and participate in e-business.

2.7 Philippines: combining planning with budget

Planning in the Philippines is characterized by the combination of planning with the budget in the market economy.

In 1986, to achieve higher, broader and more sustainable economic growth, the Philippine government began a structural reform program which contained short-term policies for macroeconomic stability and long-term policies to restructure various sectors. The short-term target was a balanced budget. To conduct sectoral restructuring, the government carried out import liberalization, tariff reform, and privatization of SOEs.
In 1992, the government announced the Medium-term Philippine Developing Plan (MTPDP) for the period of 1992-1998 to attain sustainable growth and social reform. In building infrastructure, essential projects were short-listed for implementation even under a tight budget. In social reform, the plan attached priority to spending in education, health care, and poverty alleviation.

In the MTPDP of 2001-2004, the government considered reduction of the budget deficit as an urgent task. The MTPDP draft for 2004-2010, announced in 2002, continued to regard balancing the national budget as top priority.

MTPDP informs the public of the rules and policies that the authority is committing to achieve sustainable and equitable growth. The government makes adjustments using tax and expenditure policies. Financial assistance is needed in social investment such as roads, bridges, education, health care, and environment protection. Since the market does not solve the income inequality problem, without government intervention income gaps are likely to persist from this generation to the next. Subsidies are also needed in secondary and university education and vocational training. Compared with the central government, local governments better understand people's need and should be able to respond to them more quickly if they are given authority and resources.

The Medium-term Public Investment Program (MTPIP) accompanies MTPDP. This is a list of investment projects to be implemented by ministries and state organizations to realize the policy proposed in MTPDP. MTPIP sets maximum resource allocation for each sector. Within this limit, ministries and lower agencies make out their proposals. To offer additional financial support, the central government sometimes on-lends ODA funds to local governments through state financial bodies.

The Medium-term Expenditure Framework (MTEF) translates MTPIP-approved projects into annual budgets. Meanwhile, the Parliament has the right to ratify the budget. The government must somehow commit to provide funding for projects listed in MTEF even if the allocated