

INDUSTRIAL DEVELOPMENT IN VIETNAM

AGAINST THE BACKGROUND OF GLOBALIZATION AND INTERNATIONAL INTEGRATION

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1. Major features of modern times from an economic aspect and consequences of industrialization

Sciences and technologies develop very fast producing goods of superior quality and life circle of products contracts. It is the fast development of sciences and technologies that affirms Marx's famous saying, "What distinguishes one economic stage from others is not what is produced but how it is produced." This leads to the fact that the choice of product strategy that taps full potential advantages of a company or a country is not as important as ways of producing that product.

Globalization and economic links become more extensive and intensive. Internationalization of production and labor division become widespread producing the so-called "global production network and value chain." As a result, the market for each company expands not only within domestic mar-

kets but also on the international one. Companies can get access to markets governed by free trade agreements and preferential tariffs but they also face very fierce competition from international rivals on both international and domestic markets because all tariffs are cut to the bone.

This situation leads to changes in models of industrialization in the following directions:

- Before the 1980s, protectionism was very common. Industrialization was oriented towards substitution of imports and based on two conditions: (1) High tariff barriers and non-tariffs measures were used for reducing import and protecting local production; and (2) Competition on domestic market was encouraged by facilitating development of private sector.

Due to the protectionism and domestic competition, companies could replace their technologies and improve management to cut production cost,

deal with competition and develop their industries. Japan and South Korea were good examples of industrialization by substitution of imports.

- In the late 1980s, protectionist barriers were lowered while fast development of sciences and technologies changed and mutated comparative advantages among countries. Industrialization based on substitution of imports could not produce positive results as expected, and export-oriented strategy based on comparative advantages made its appearance. NICs were examples of success of the new strategy.

- In the mid-1990s, globalization became a major trend with appearance of free trade agreements and the birth of the WTO whose economic nature was free movements of inputs (capital, technology and labor) from one country to another at a global level with open-door institutions based on (1) cross-border supply; (2) consumption abroad; (3) commercial presence; and (4) presence of a natural person (although it is still limited at present). Consequences were:

- There was no clear boundary between domestic and international markets. Transport cost was reduced due to development of multimodal transport. Companies have to compete against foreign enterprises not only on foreign markets but also on the domestic one. This made the so-called export-oriented or import-substituting industrialization ceased to have their traditional meanings. A product that is competitive on the domestic market is competitive on foreign ones.

- Along the globalization went busier operations of multinationals, which created the global production network and value chain.

In such a context, implementation of industrialization was based on: (1) long-term comparative advantages (2) economic scale from an interregional aspect; (2) Market capacity; and (3) cuts in tariff as agreed upon. This factor must be taken into consideration when implementing the industrialization and developing an industry or a product.

In such conditions, companies do not necessarily produce various goods or a finished product because they can select a stage with high added

value or profitability or competitiveness thereby engaging in the global production network and value chain.

- Exhaustion of natural resources, especially non-renewable ones, environmental degradation, climate change, and sea level rise are threatening economic growth and human life, which forces governments and industries to find a new way of industrialization based on use of new sources of energy and materials. The growth accounting that links three contents – economic growth, solution to social problems and environmental protection – becomes a must for each company and country as well.

2. Manufacturing sector in Vietnam today and suggested solutions to its future development

a. Some facts about Vietnam's manufacturing sector:

There are two weaknesses in this sector:

- It gains continuously high increases in industrial output (some 15% on average) but depth of production (measured by added value) is on the decrease. Share of added value of this sector to total output fell from 42% in 1995 to 26.3% in 2007 and might be lower in 2010.

- Vietnam's industrial production (for export and domestic consumption as well) depends too much on imports from China. This situation goes from bad to worse without any solutions. Main causes come from the fact that Vietnam can only exploit its natural resources and does assembling jobs – the stage with the lowest added value – because of lack of supporting industries. Vietnam is slow to work out a strategy to develop such industries.

b. Suggestions about a new approach and policies:

(1) Developing the supporting industries is an urgent matter in an effort to increase local content and added value of Vietnamese manufactured goods and an effective way of developing local industries.

- Supporting industries, generally, are industries that produce materials, parts, and accessories needed for making of a finished product. In

this sense, supporting industries is related to all industries from textile, fiber, hide tanning, spare parts, production of moulds used for making parts of machines; automobile; and ship, to electric and electronic spare parts or accessories. They are called collectively as parts and materials industry by South Korean experts. This is a broad but exact concept for supporting industries.

In the time when globalization and internationalization of production is widespread, protectionist barriers are lowered, and competition becomes keener, no country can produce all parts for a finished product. Each can only produce some parts based on its comparative advantages in order to engage effectively in the global network of production and value chain. Selection of supporting industries can be based on the following criteria:

- They should be appropriate to industrial development strategy in rather long time.

- Manufacturing and assembling factories must be available. This factor should be taken into consideration but is not a decisive one because high competitiveness allows export of products from supporting industries, especially to markets within FTA.

- They should match long-term comparative advantages. This is the most decisive factor.

By these criteria, the following products can be selected: engineering spare parts, and electric and electronic accessories and spare parts. In those two lines of products, Vietnam had better choose parts made of metal (Vietnam has to import metal now but a foreign-invested project to produce this raw material is under construction) and of plastic (Vietnam has produced high-quality plastic) produced by casting, pressing or lathing techniques, including parts of high precision. Those lines of products are appropriate to Vietnam's industrial development strategy when Vietnam has had projects producing steel, factories producing plastic, and many assembling and engineering concerns. In producing such products, Vietnam can also enjoy cheap labor as an advantage if training programs are carried out properly. Moreover, electronic and engineering industries in Vietnam are

developing their cooperation very effectively, especially in producing machine-tools.

However, many efforts should be made to work out a list of more specialized items from those two lines of products. To achieve this aim, opinions and efforts from various parties (industrial authorities, universities, technical institutes, and associations of producers from related industries, etc.) are much needed.

(2) Organizing the production of supporting products:

- Building parks for supporting industries: Such specialized parks are preconditions for ensuring production and supply of standardized parts or components of the finished products. The building of such parks or clusters also aims at:

- + Ensuring the shortest and quickest transport and supply of raw materials and products needed for assembling process, thereby cutting transport cost.

- + Offering chances to share technologies and equipment among various factories to run the machinery at full installed capacity and reduce initial investment.

- + Facilitating exchange of information among concerns in the same supporting industries, and between assembling factories and producers of parts and components.

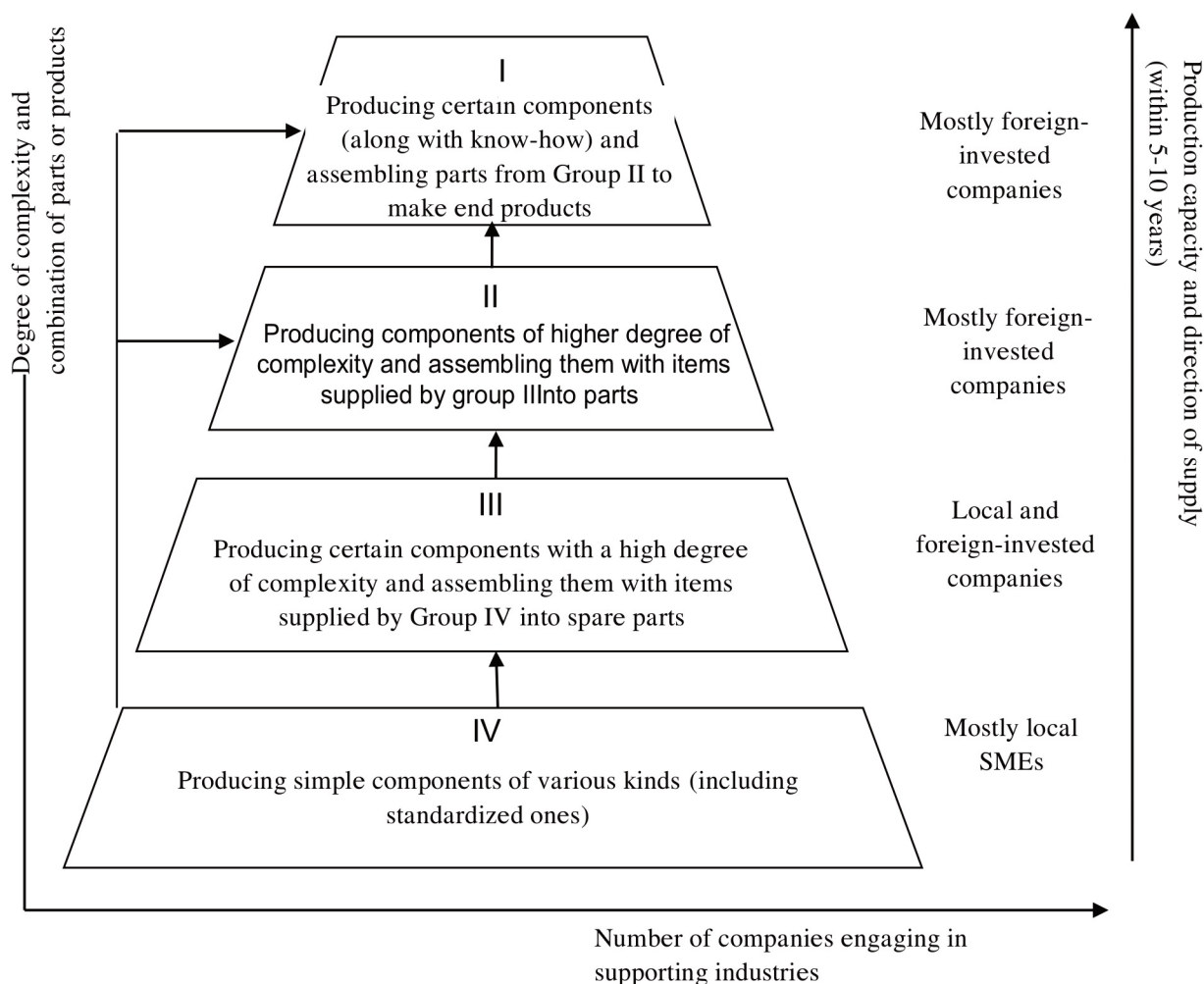
- + Helping assembling concerns check the quality control system in factories producing parts and components, and allowing all of them to securing supply of services needed for their business.

- A trapezoid-shape model for supporting industries:

(3) Preferential treatments from authorities:

Vietnam is a latecomer that can only develop its supporting industries with preferential treatment and strong support from the government in the context of cut protectionist barriers and keener competition. These treatments and support should be given only to companies in process of producing and assembling end-products (including assembling companies in foreign countries). This means that only companies in the production- assembling line presented in the above model can receive preferential treatments and support from





the government.

A fund for supporting industries must be established to provide such treatment and support. This fund will be run by the Ministry of Industry that grants financial support according to policies and programs set by the Government and submits full financial reports to Ministry of Finance at the end of the year. A similar fund of some 300 billion won has been formed in South Korea when the won has not been devaluated.

- The following are some feasible preferential treatments:

+ Offering low land rental to projects producing supporting products (In many countries and territories, companies in supporting industries all enjoyed very low land rentals; and in some cases, the companies were allowed to delay rental payments until they earned some profits).

+ Exempting all taxes on capital goods used for producing supporting products: This policy is very common in many countries.

+ Exempting companies from corporate income tax for a certain number of years from the day the companies start earning profit, and giving tax relief for some years that follow. In Taiwan, companies enjoy a 15% cut in corporate income tax whenever they develop a new product regardless of how many years they have operated.

- Policies to encourage the development of supporting industries are:

+ Supporting training programs: This is a decisive factor. The Government had better work out annual programs to train the human resource for supporting industries.

+ Considering some incentives to companies to hire foreign experts for a certain number of years.

- + Establishing public consultancies and encouraging such companies to serve companies in supporting industries, and paying for advisory services (In Taiwan, authorities pay 80% of fee for consultancies and companies pay 20% while these figures in South Korea are 70% and 30%).

- + Forming a fund for credit guarantee to serve companies in supporting industries.

- + Giving financial support to purchases of patents and know-how needed for production of supporting products: When the company secures such patents and know-how, they should share them with others when required. They can share expenses on technology transfer beyond grant given by the state.

- + Negotiating with South Korea, Taiwan and Japan about joint action programs to develop supporting industries in Vietnam (South Korea and Taiwan have done the same with Japan when they started developing their supporting industries).

- + Building technological laboratories in universities and research institutes to help companies realize their ideas of new technologies (This model has produced good results in Japan and Taiwan).

- Tasks to carry out first:

- + Promulgating decrees and national action programs for supporting industries, including a list of prioritized products, preferential treatments and incentives.

- + Establishing a Supporting Industries Agency

under Ministry of Industry and Trade to monitor and develop these industries (and similar departments within provincial offices of industry and trade).

After promulgation of the said documents, they should be disseminated among companies in order to: (1) help companies understand policies to develop supporting industries, list of prioritized products, preferential treatments and incentives; (2) introduce new ideas of products from supporting companies to companies; and (3) develop relations between companies in supporting industries.

It is necessary to survey companies with potentials and organize them according to the above-mentioned trapezoid-shape model, beginning with companies acting as suppliers for producers of end-products (in Taiwan, South Korea and Japan), and foreign-invested companies and local ones as well (based on existing data from surveys in the past and further analyses). The Government can help companies reach agreements about development of supporting industries based on market rules and orientation set forth by the Government.

Associations of producers in supporting companies are necessary for development of vertical cooperation (between suppliers and producers) and horizontal cooperation (between producers of similar products)■

