

The globalization helps to develop international trade and bring great benefits to all countries: free trade provides consumers all over the world with better goods and services at reasonable prices and helps producers get easy access to different factor inputs. Liberation of trade also makes international competition keener. The global competition forces all countries and companies to improve their business strategies: concentrating more on the task of tapping and developing comparative advantages with a view to competing more successfully in the world market. In such a situation, the national comparative advantages model introduced by Michael Porter -famous professor of strategy at Harvard- could be a good instrument for analyzing and



## FROM COMPARATIVE ADVANTAGES TO AN INVESTMENT STRATEGY TO TAP THEM

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developing competition strategies of companies and countries as well.

### 1. Factor Inputs

Factor inputs provide a basis for deciding on what to produce. They could be divided into the following groups:

- + Basic factors: all factors available in a country, including natural resources, climatic and geographical conditions and untrained labor.

- + Advanced factors: these factors need investment to develop and must be upgraded regularly. They include infrastructure, power and trained labor force.

- + General factors: include capital and well-trained labor force. These factors have great effects on all economic activities.

- + Specialized factors: include research institutes, experts and specialized labor force that are needed for developing specific industries.

In recent years, the Vietnamese economic growth has depended

mainly on developing and liberating basic factors. It's worth noting that these factors are limited and their importance will be smaller and smaller in the globalization. Advanced and specialized factors will be of great service to competition if they are developed well. Vietnam has made good progress in developing infrastructure: communications are improved remarkably, big investments have been put in the power industry, road network is being developed, many industrial parks and export processing zones are built and developed all over the country.

However, these achievements aren't great enough to industrialize and modernize the economy. The international competitiveness must depend on advanced and specialized factors, instead of basic factors, and big investments are required to upgrade these factors. So in the coming years, one of the most important tasks is to mobilize all possible re-

sources to develop advanced and specialized factors. Industries and sectors with favorable conditions must be developed in order to make use of advanced and specialized factors, and employ effectively all basic factors. The lesson on Thai financial crisis that originated from unreasonable structure of industry and investment forces us to be more cautious about this task.

Increase in output is determined by two elements: input and efficiency. Better efficiency means that more value is added to the product. This requires a better trained and skilled labor force. Competitive advantage based on cheap labor (because it is untrained labor) is unstable because the labor cost will certainly increase as the economy develops, and moreover, untrained labor will lead to poor employment of resources. It's regrettable that many people have been proud of Vietnamese cheap labor as a competitive advantage.



It's worth noting that Vietnam has started its industrialization and modernization as an agricultural country whose labor force is of poor quality and the cream of this force has left agricultural production and rural areas for big cities. Therefore, developing the agriculture with a view to attracting and developing a skilled labor force needed for rural development must be considered as a matter of top priority.

## 2. Market demand

Decision on business domain made by companies is affected by the market demand, the second element of the Porter's diamond. Companies will find it difficult to develop if the domestic market demand is small. The increasing domestic demand provides knowledge of consumers' tastes and changes in demand but it leads to keener competition that forces all companies to make improvements with a view to satisfying new needs.

A population of 77 million people and a growing domestic market is a condition favorable for development of all companies. However, Vietnam's low personal income and living standard (because some 80% of the population live in rural areas) leads to weak purchasing power. Therefore, improving the quality of life and investing in rural areas become main measures to increase the domestic market demand.

Of some 5,700 existing state-owned companies, around 3,500 ones can only break even, or even suffer losses. So to reform the system of state companies and make the best use of all available resources becomes the most urgent task in which the army of managing officials must try their best to im-

prove managerial skills.

At present, there are some 10 million farmer families in rural areas and 2 million small family businesses in cities. To help these 12 million families develop their business will be of great importance to the economic development. In my opinion, it's essential to improve managerial skills of owners of these small businesses. This matter hasn't been considered properly in recent years.

To increase the market demand, the market must be made healthy and free from all trade barriers. The free market has just come into being in Vietnam and has been affected by illegal practices: smuggling, speculation, unfair competition and faking. This situation produces many obstacles to the development of companies and the economy as a whole. The government must take action to provide fair legal infrastructure needed by all companies and develop other markets for capital, labor, technology and other factor inputs.

## 3. Relating and supporting industries

Certain industries can't develop by itself, however abundant its advantages are. They must depend on some relating and supporting ones. Supporting industries can help to improve the international competitiveness of the leading industry by supplying advanced components and prevent potential competitors, while relating industries can provide the leading industry with necessary information and technical solutions.

Looking at Vietnam's staple exports, we saw that their relating and supporting industries were underdeveloped. At present, Vietnam has to import most essential inputs and the better part of output isn't well processed, that is, only a little value is added to the

produce. That is why Vietnam's exports are of low value and can't compete successfully in the world market. So concentrating on production of staple exports isn't enough, it's necessary to develop all relating and supporting industries with a view to increasing the value, or the competitiveness, of Vietnam's exports. The Government had better introduce appropriate policies to encourage all classes to invest in these industries, thereby increasing the international competitiveness of Vietnam's exports.

## 4. Business strategies, structure and competitiveness

Efficiency and competitiveness of an economy depend on business performance of each company which in its turn depends on (1) development strategies of the country, competitive and organizational structures, and (2) international strategies of companies.

National policies and strategies affect strongly companies' developmental orientation and sets of targets. Changing policies and unstable law system prevent companies from making long-term strategies. Developing and perfecting the legal infrastructure will allow fair competition, effective employment of resources and technical developments, and encourage companies to enter foreign markets.

## 5. Conclusion

In the trend of globalization, Vietnam is integrating step by step into the world economy. The globalization will only be of great benefit to Vietnam when we know how to develop existing competitive advantages. The national competitive advantages model can inspire us to work out effective investment strategies to employ existing resources and complete the industrialization period.

**M. Porter's diamond:** Elements determining competitive advantages of a nation

