Is Vietnamese Industrial Sector on a Wrong Direction?

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Industrialization and modernization is the inevitable way to development. Some Asian countries have succeeded in carrying out the industrialization and become "dragons." Their industrial sector not only achieves high growth rates but also develops within a reasonable structure appropriate to national resources and conditions, which allows them to obtain a sustainable development.

In fact, the most important lesson from the industrialization of NICs is to develop a reasonable structure of industrial production in which capital goods and raw materials are available for all industries. In three decades of industrialization, most NICs started with production of labor-intensive goods in the first decade; and development of technology- and capital- intensive industries in the second decade when goods from labor-intensive industries became less competitive on the world market. In the third decade, they developed high-tech industries to make highly competitive goods and services. To ensure the sustainable development of high efficiency, they paid a lot of attention to supporting industries in order to increase the local content in all exports, reduce production cost and enhance the added value.

In Vietnam, after 20 years of economic reform (1986-2006), industrial production has made good progress but also revealed many shortcomings.

In the years 1986-1990, the electricity output rose by 11.1%; cement 11%, steel bar 8%, while crude oil out increased by 2.7 million tones in 1990. The industrial output rose by 13.5% in the 1991-2000 period and 15.7% in 2001-05.

The industrial development in the past two decades, however, was not inefficient and sustainable in spite of its high growth rates. It still has an underdeveloped structure. Its technologies and machines are two or three generations older than ones employed by developed countries. Obsolete equipment accounted for some 60-70%. Staple products and exports – crude oil, clothing, footwear, furniture and electronics – are not well processed and their added value is very small because the technological level of the industrial sector, especially the absence of supporting industries, prevents it from processing goods before exporting. According to many experts, Vietnam's productivity is from two to 15 times lower than ones found in ASEAN countries.

We can see that the industrial policy of the period paid too much attention to light or labor-intensive industries (clothing, food processing, footwear or wood processing) instead of heavy or technology-intensive ones (this is partly because of the need to create more jobs for the increasing number of untrained laborers) with the result that Vietnam became a subcontractor for foreign companies and only did simple and low-paid jobs of the lowest added value.

Vietnam fails to develop heavy industries that produce capital goods and play an important role in the industrialization. They include energy, steel and iron, cement, petrochemicals, and engineering industries, among others. As for the high –tech industries, they has just received some attention in recent years although they are the dynamic for the development of the whole industrial sector. In addition, industrial authorities have done nothing to develop supporting industries that could help increase the local content in manufactured goods, and as a result, many local industries had to depend on imported raw materials or spare parts and suffer high production cost and less competitiveness. The clothing industry for example, has to import all raw materials it needs and it accounts for only 25-30% of the value added to the product although its export earnings are among the highest in Vietnam. The electronics industry has developed in the same way. Its main job is to assemble things according to models supplied by foreign partners and it has done this job for a very long time while its counterparts in other Asian countries spent from five to 10 years only on this stage before producing spare parts or designing new products.

At present, the electronic factories in Vietnam are mainly assembling audio-visual devices that have stopped to be high-tech ones. Of these devices, Vietnamese industry could only produce TV screen and the rest are imports. Moreover, the assembling cost in Vietnam is still high, from US$6 to 9 per TV set. Computers with Vietnamese labels include nothing made in Vietnam (design, spare parts or software), manual labor is the only added value given by local companies to such products. The main task in the Intel multi-million project in Vietnam is to check and pack chips instead of designing them.

License has been granted to a 660-million project to do something with the CDMA technology for mobile phone, but it is only a project to trade in mobile phones instead of making them. In short, the local content ensured by the electronics industry is somewhere between 20% and 30%, and the added value varies from 5% to 10%.

The automobile and motorbike industry in Vietnam also concentrates on assembling imported parts. Ten years after the industry came into operation with projects invested by internationally famous auto makers, the local content and supporting industries have not been improved. The proportion of local content in this industry varies from 2% to 10%, which made the production cost high in comparison with its regional counterparts. In 2004, there were 20 auto assembling factories in Vietnam, 11 of them were joint ventures with foreign partners. The JRD Motor Vehicle Co. Ltd from Malaysia has invested US$70 million in a factory to produce 10,000 7-ton vans and 5,000 16-seat minibuses and 70% of its output is to be sold to the domestic market. Honda Vietnam plans to invest US$60 million in five years. The capacity of this factory is 10,000 units a year and the factory is equipped with production lines that can do welding, painting, assembling engines and the whole car and checking the product quality. But it is still an assembling factory, not an auto making one. The local content should reach 40% after 10 years, if not, as experts said, there will never be an automobile industry in Vietnam.

In Thailand, authorities require assembling factories to ensure a local content of 60% after five years while Vietnamese ones require only 5%. Thailand has 15 assembling factories and 1,800 suppliers of spare parts. At present, Thailand has 19 supporting businesses at three levels (assembling, supplying of parts and other relating services) for the automobile industry. The Thai authorities in 1996 required a local content of 40% for minivans and 54% for minibuses, and local diesel engines should be used for cars made in Thailand. These regulations force foreign companies to build supporting factories for this industry. Thailand can export both automobiles and spare parts now and this industry is worth US$9 billion with some 700 manufacturers.

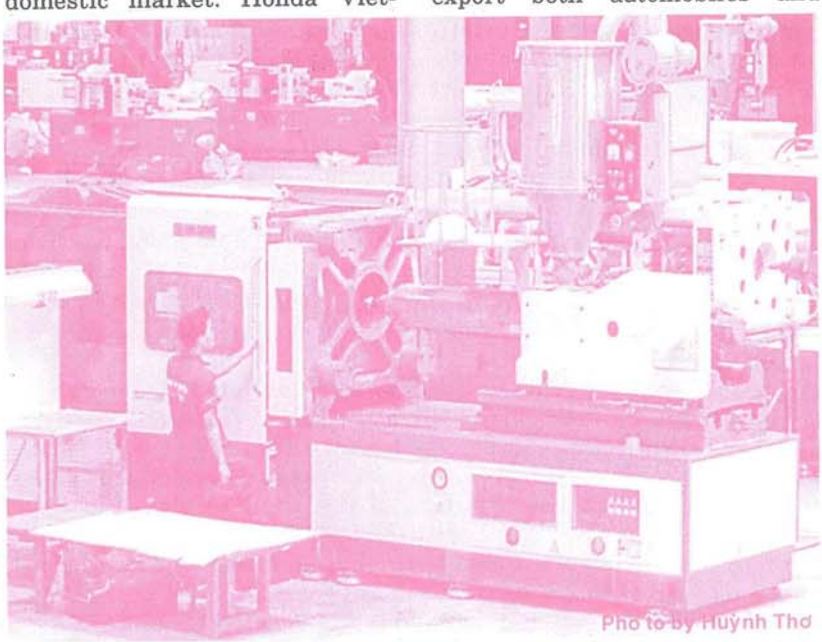
Photo by Huynh Thơ

Facing foreign competition, Vietnam needs a policy to change the structure of industrial products by working out a reasonable track for the industrialization. In the first phase of the track, labor-intensive industries are prioritized. And capital- and technology-intensive ones are developed in the next phases. Thirty years have passed since the war was over, the Vietnamese industrial sector is still in the first phase. This means that it is too slow in comparison with NICs.

To get free from dependence and stop to be an assembling factory for foreign companies, Vietnam needs a strategy to accelerate its industrial development in order to make up for lost time.

Vietnam has to attract multinationals with strong financial strength and modern technology to develop heavy and high-tech industries. New and bold policies must be adopted to encourage small and medium enterprises in supporting industries in order to improve the local content of the automobile and electronics industries. The Government has to be aware that developed countries tend to transfer old technologies, and polluting and labor-intensive industries to developing ones. Even NICs, such as South Korea, Taiwan and Singapore, also want to do so to underdeveloped countries such as Vietnam. This means that Vietnam must not attract the FDI at any price.

Vietnam has enjoyed 30 years free from war and political conflict but its industrial development has been too slow and sometimes on wrong directions. So it needs bold and scientific policies on the industrialization in order to bridge the gap between its economy and the world. ■