

# **THE L2C VIETNAM SCOPING PAPER: THE INDUSTRIAL POLICY**

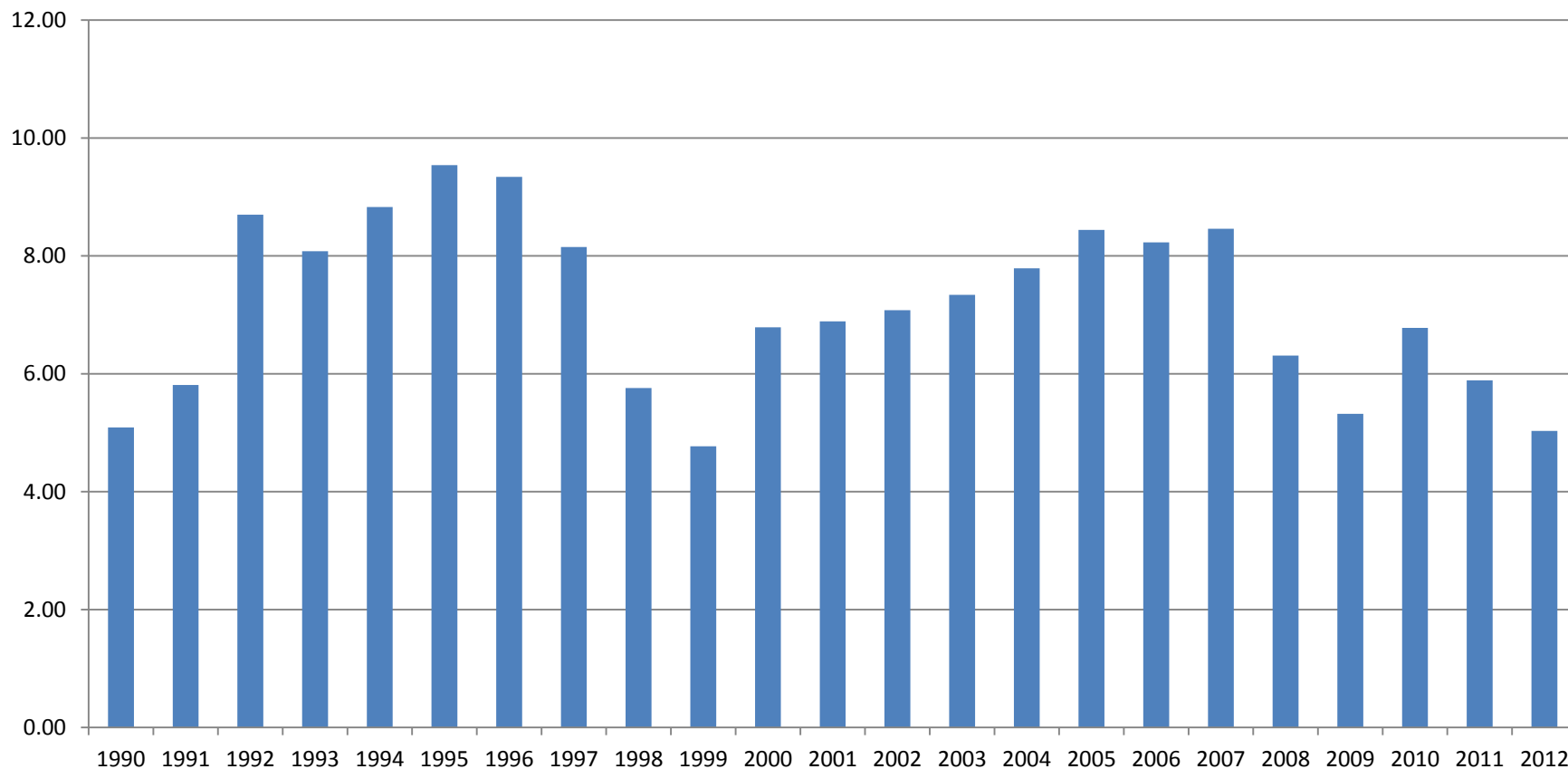
## ***Content:***

- 1. VIETNAM GROWTH PATTERN**
- 2. THE INDUSTRIAL POLICY**
- 3. MAJOR RESULTS AND ISSUES OF THE INDUSTRIAL POLICY**
- 4. LESSONS LEARNT FROM VIETNAM**

**Nguyen Thi Tue Anh  
Helsinki, 24-25 June, 2013**

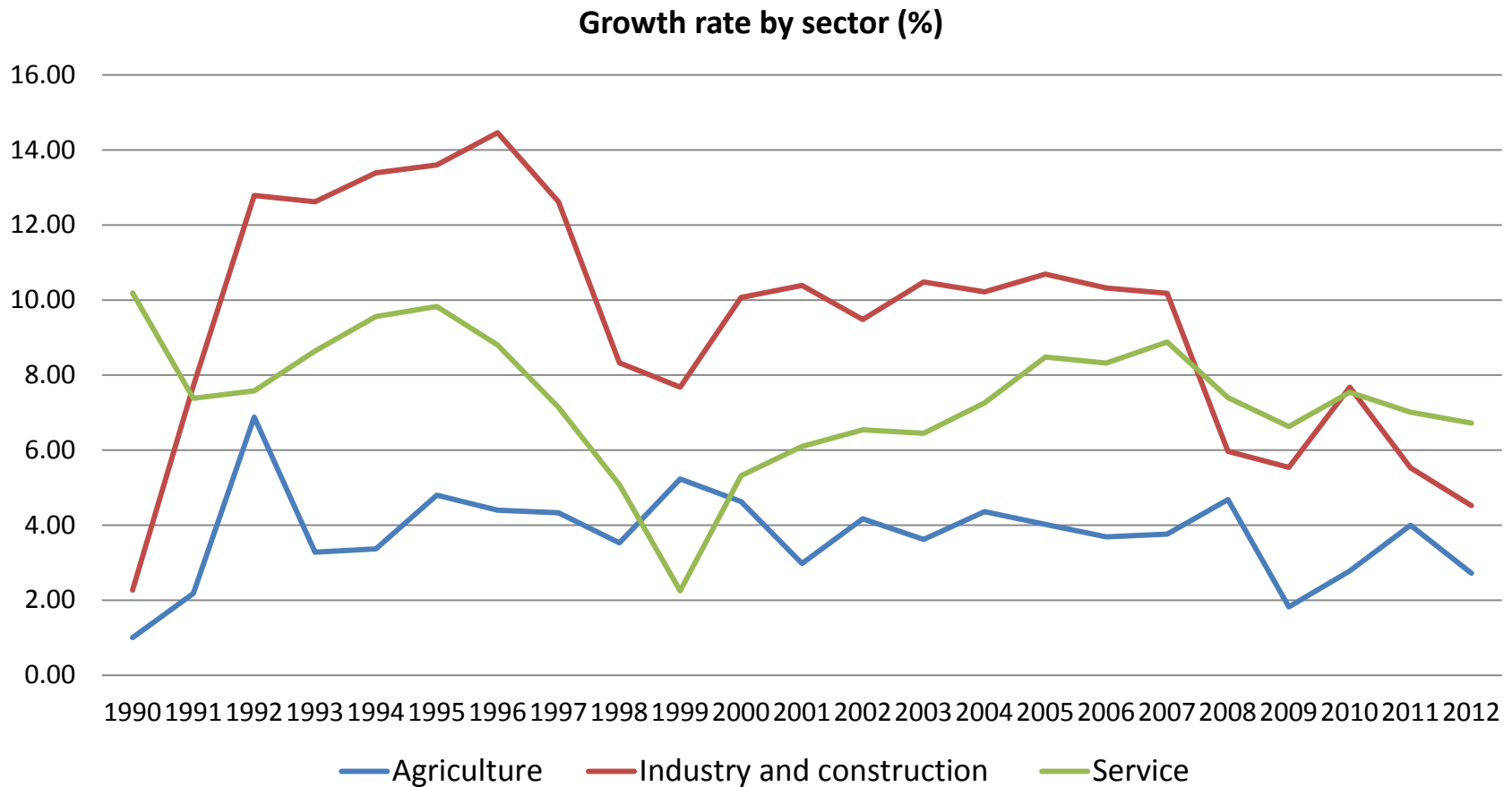
# 1. GROWTH PATTERN

**GDP growth rate (%)**



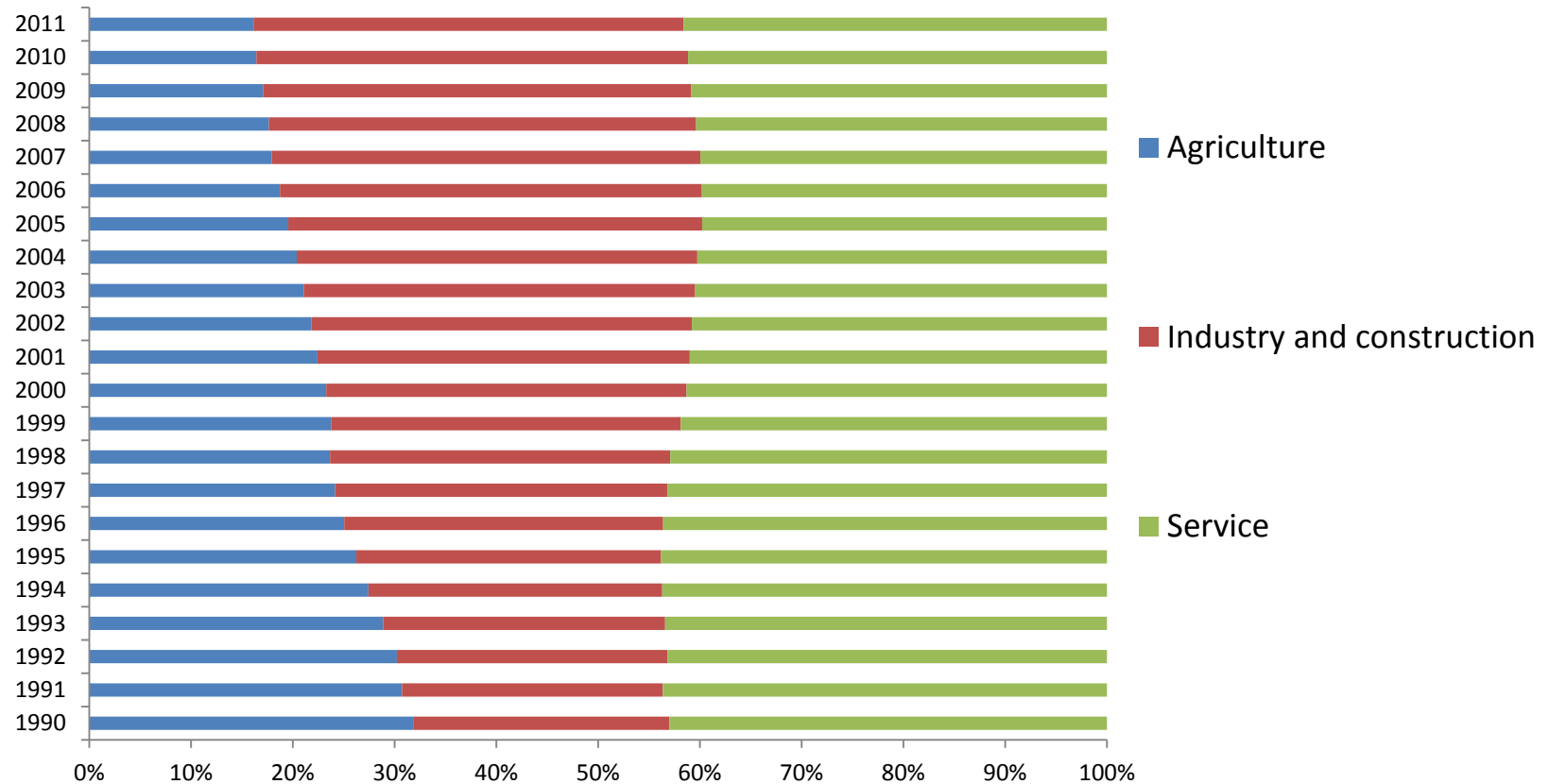
**Source: GSO.**

The growth of the Industry and construction experienced the highest rate from 1992 to 2007 when Vietnam jointed the WTO, but went down afterwards.



Source: GSO.

# Contribution of each sector to GDP (at constant price 1994)



Source: GSO.

# Contribution of each sector to GDP growth rate



Source: GSO.

## 2. THE INDUSTRIAL POLICY

The institutional and regulatory framework for the industrial policy are governed and implemented in the three levels:

- Ten- year socio-economic development strategy (SEDS: 1991-2000; 2001-2010 and 2011-2020) approved by the National Party Congress.
- Five- year socio-economic development plan (SEDP), approved by the National Assembly.
- Sectoral strategies and master plans approved by the Government.

# Vietnam Industrial Policy from 1991- now

## Objectives of the Industrial policy

**1991-1995:** *Development of the key sectors, including:*

- + Heavy industry (cement, steel, automobile), mainly for domestic consumption and natural resource –based industries (oil exploitation and mining).
- + Foodstuff industries, mainly for domestic consumption.
- + Gradually encouraging export of manufactured labour-intensive products.

**1996-2000:** continued the objectives in the previous period, but more export-oriented:

- + Expanding the manufacturing and processing labour-intensive industries, mostly for export (textiles and garments, shoes and leather products, and seafood etc).

## Objectives of the Industrial policy

### 2001-2005:

Following the objectives in the previous period, but more export-oriented and with an expansion of manufacturing sector towards high-tech industries such as electronics etc. while still maintaining the labour-intensive sectors.

2006-2010: continued by the previous, but with the priority of boosting the economic structural change towards industrialisation and modernisation; **more export-oriented to take advantage of the WTO accession in 2007.**



# Key instruments of the industrial policy

## 1991-1995:

- + Protectionism for the key industries through import/export duties and export subsidies.
- + Implementation of the Law on Foreign Investment enacted in 1988 to attract FDI and the Law on company and private enterprises enacted in 1992.

## 1996-2000:

- + 5 years Public Investment Program to attract investment for development of physical infrastructure;
- + Equitization of State-owned enterprises (SOEs) and building of State General Corporations to enhance the competitiveness of the SOE sector which were the main beneficiaries of the protectionism policy.
- + Development of IZs, EPZs; ..to provide production estates and simplify investment-related administration procedures for doing business; attract FDI and private investment for industrial and export production.
- + Loosening conditions for export activities after entering ASEAN and implementing AFTA commitments.

2001-2005: Following the same instruments in the previous period, but:

- + Stronger trade liberalisation, mostly driven by Vietnam-USA BTA since 2001.
- + **Specify many manufacturing key industries**
- + Acceleration of equitization of State-owned enterprises (SOEs) to cope with the WTO accession.

2006-2010:

- + Trade liberalisation, mostly driven by the accession to WTO and stronger Investment liberalisation, mostly driven by the unified Law on Investment and Law on Enterprise passed in 2005.
- + Building of State Economic Groups to enhance the competitiveness of the SOE sector.
- + Build high-Tech zones; Economic Zones/open ecoeconomic zones to provide more prioritized incentives to attract investment;
- + Provide tax Incentives, Investment allowance etc. for technology renovation, development of high technologies, promotion of technology transfer via foreign investment (Law on Technology transfer; Law on high technology).

# The current Industrial Policy

- Context:
  - Full implementation of AFTA in 2018; After WTO accession: much smaller room for administrative policy intervention.
  - SEDS 2011-2020: aims to develop a modern industrialized economy by 2020 with some targets:
    - + Industry and services shall account for 85% GDP;
    - + Hi-tech products and those using high-tech products account for 45% GDP;
    - + Manuf. shall contribute 40% to industrial output.

- **Objectives:** Improving the industrial competitiveness towards expanding high – tech industries and high – value added products ; improving the competitiveness of the domestic firms, incl. SOEs and private ones.

+ Export-oriented towards products with higher value-added

- **Key Instruments:**

+ Restructuring industrial production towards increasing technology and local content; creating linkages in regional and global production network.

+ Restructuring SOEs, focusing on State economic Groups, started since 2011.

+ Give more incentives to build supporting industries;

+ Adjustment of FDI policy to attract investment with more technological content and to develop environment friendly industries.

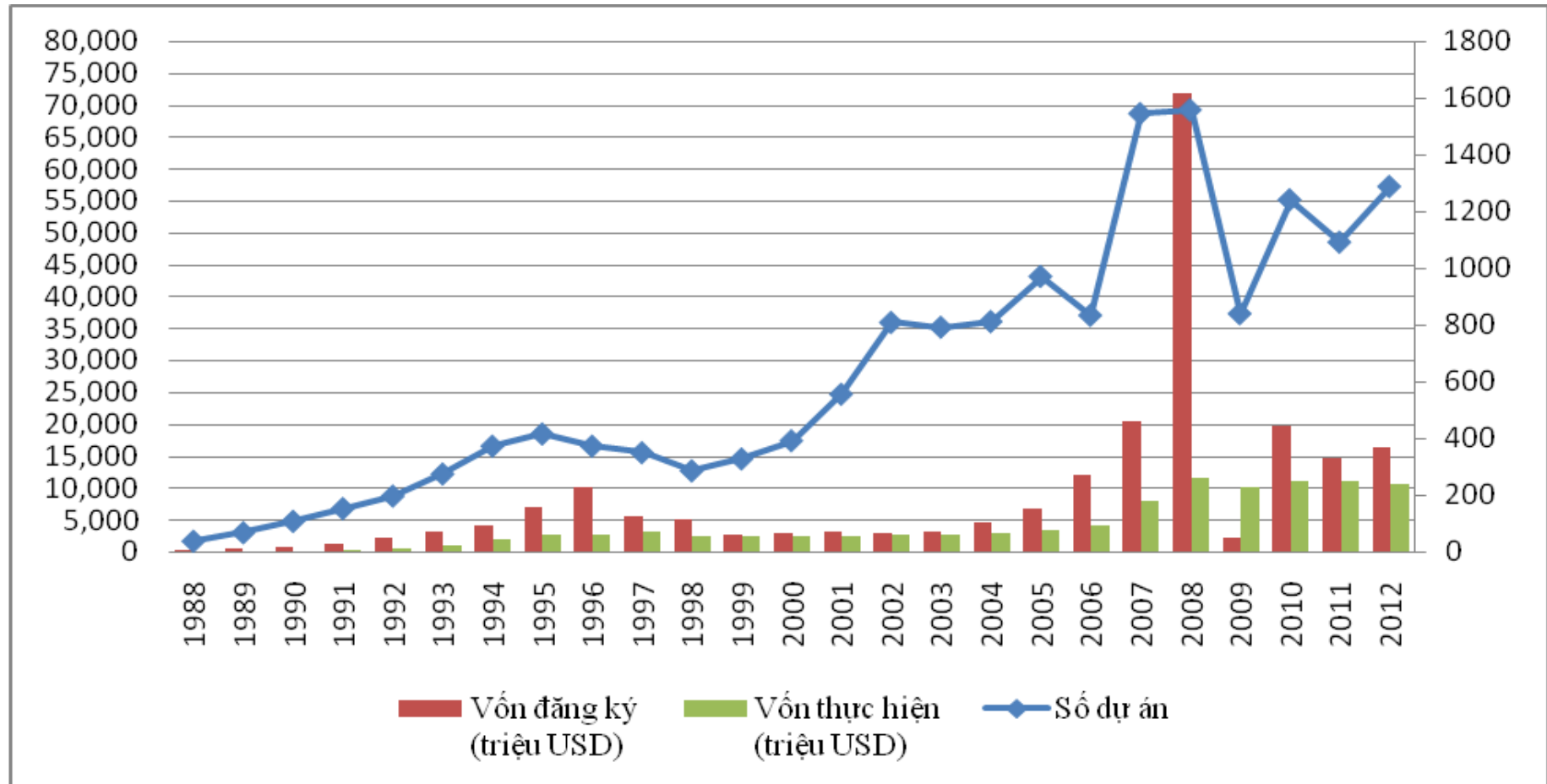
+ Financial incentives; tax incentives etc.

- Results: on-going process; some are not yet approved.

### **3. Major Results of the industrial policy**

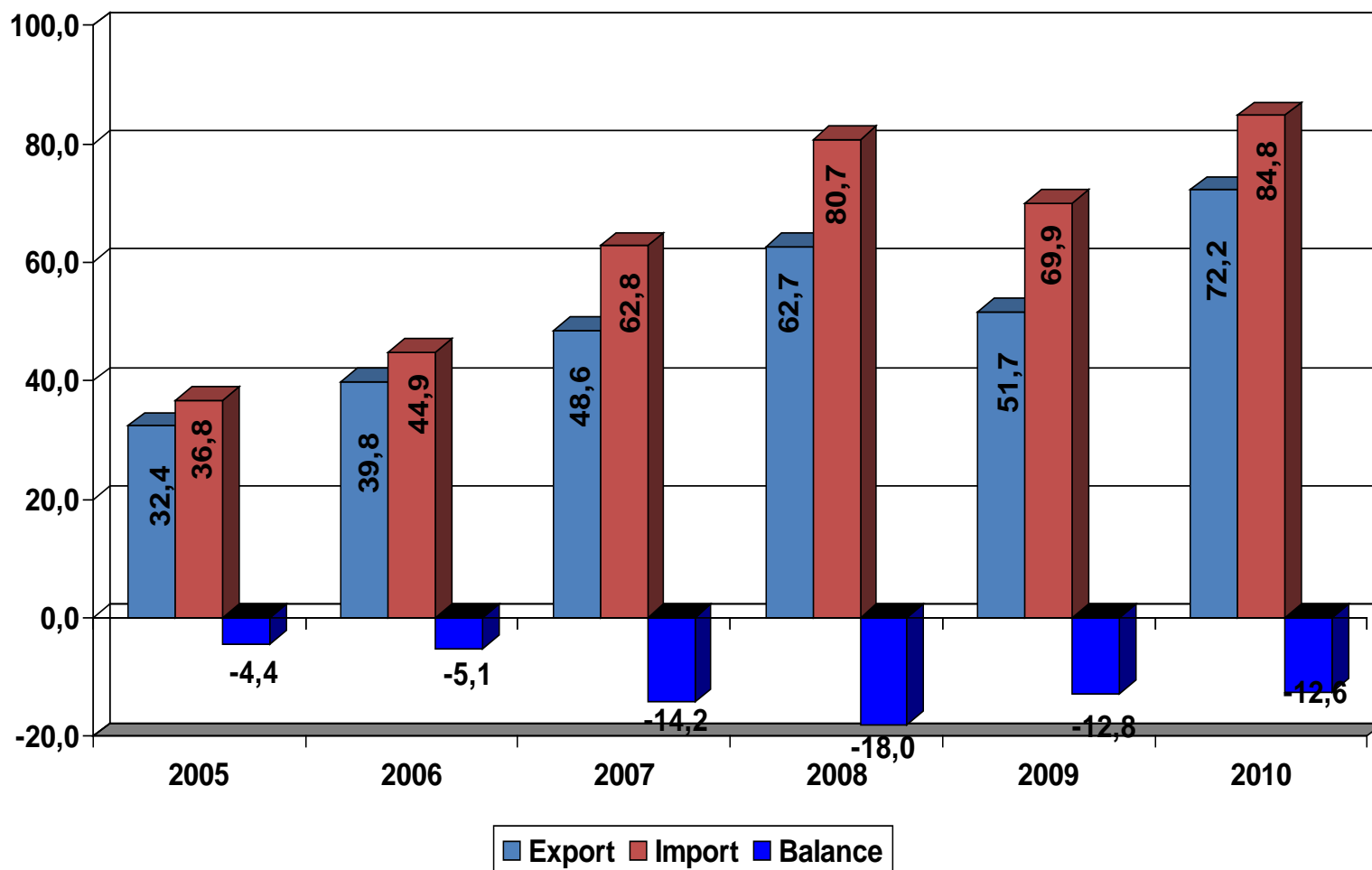
- + High growth rate of the industrial value added;
- + Rapid expansion of the manufacturing sector;
- + Important role in attracting FDI.
- + Important contribution to export performance.
- + Promote the shift of industrial production towards the non-state sector (FDI and private).
- + Promote the shift in export structure towards the manufactured goods.

# Foreign Direct Investment in the period 1988-2012 (in Million USD)



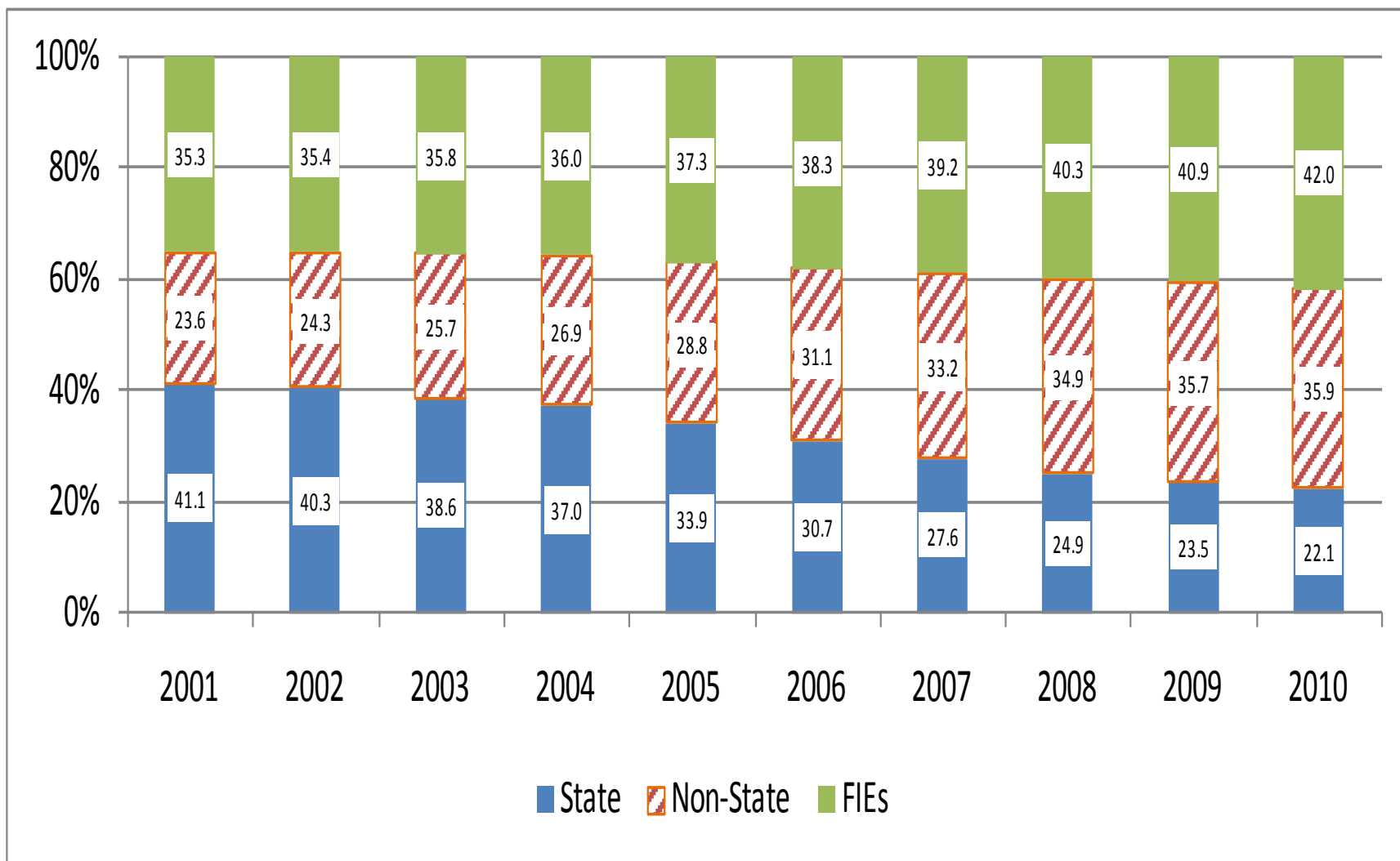
Source: GSO.

# Export and Import (Bill. USD)



Source: GSO.

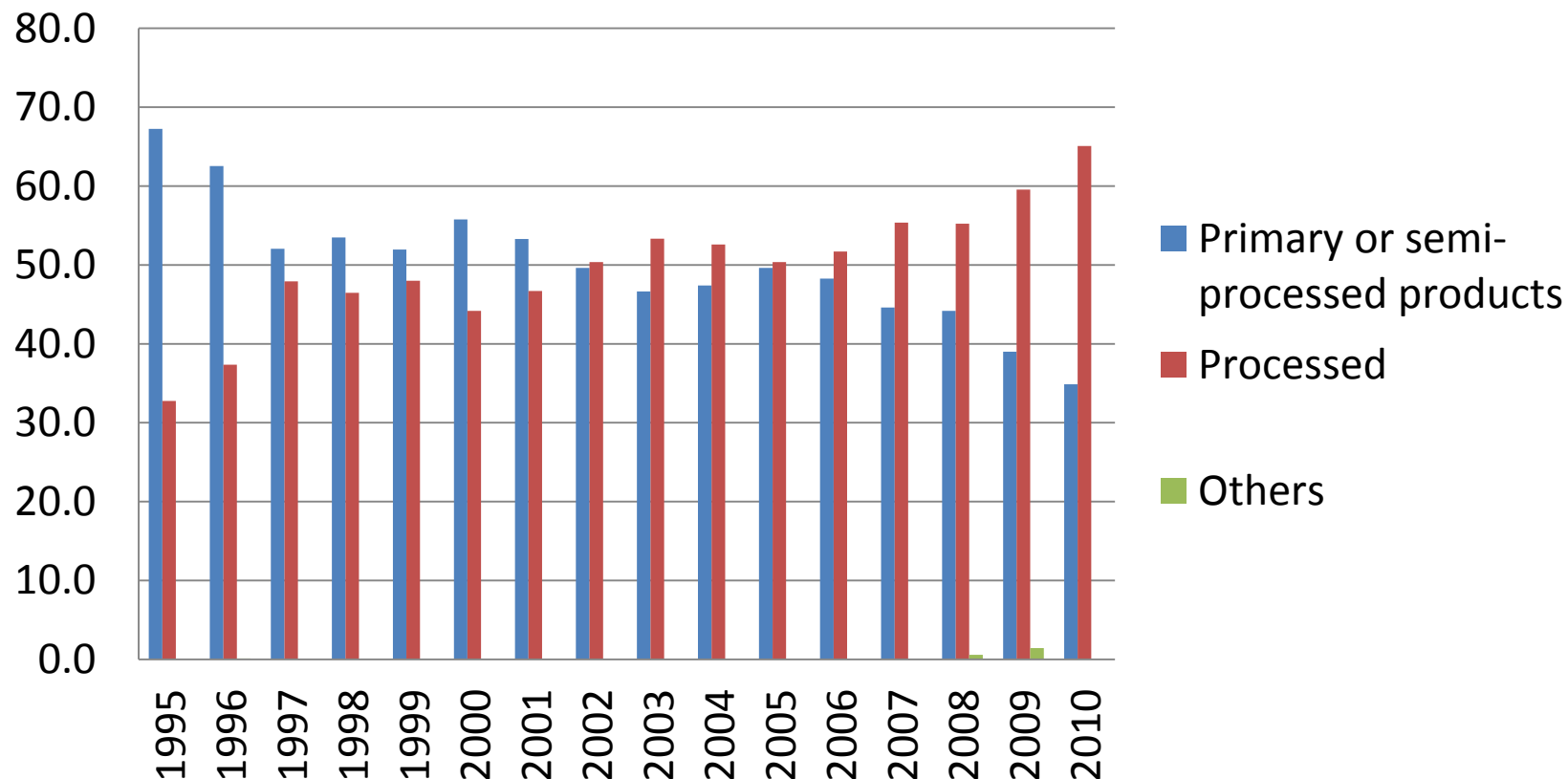
# Shift in industrial output structure by ownership



Source: GSO.

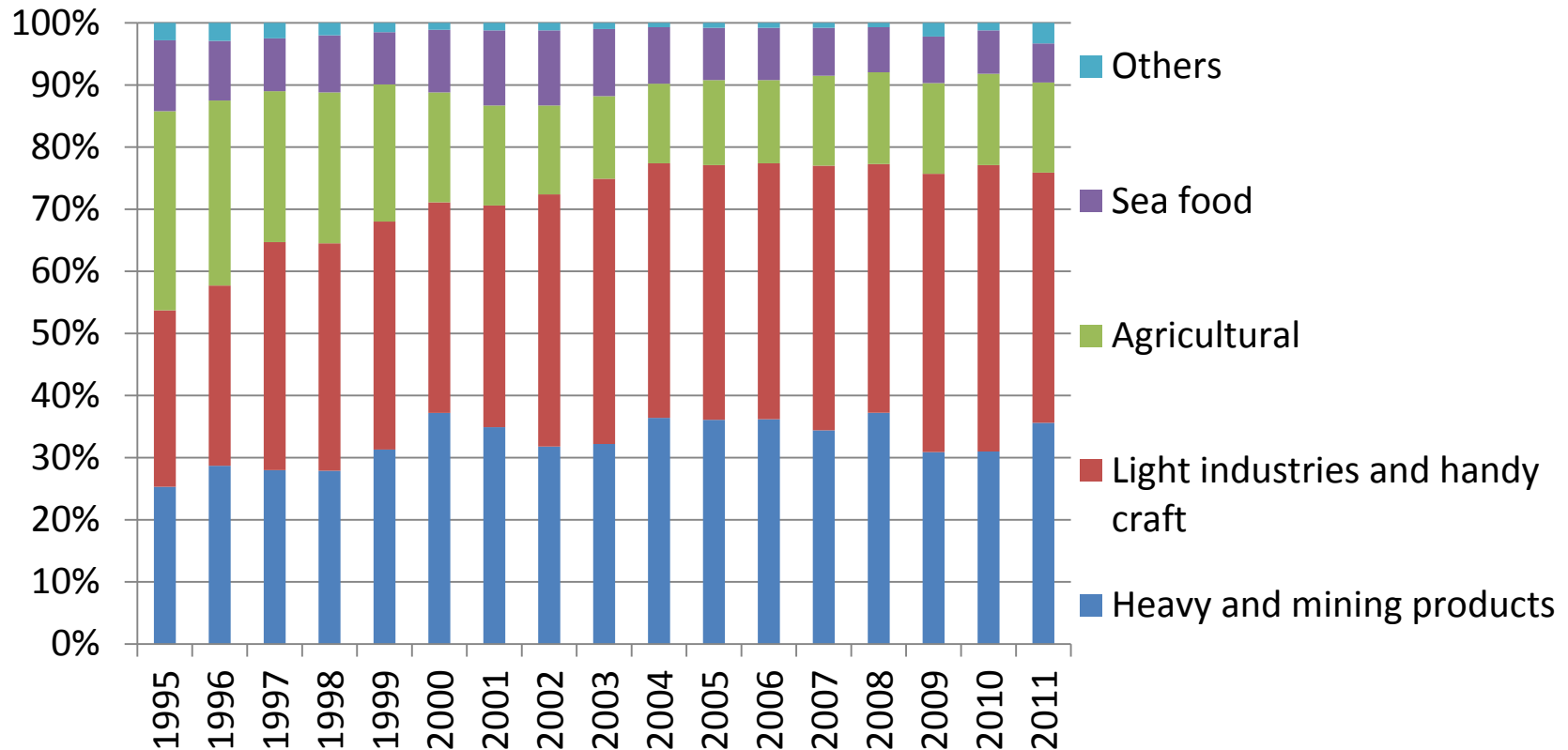


# Shift in export structure towards processed products



Source: GSO.

# Shift in export structure



Source: GSO.

# Major Issues

- The industry sector tends to grow with a declining rate since 2008, mostly due to the slowdown of the manufacturing sector.
- The Industrial production depends increasingly on the Foreign Investment sector.
- The shift into industries with higher technological content and product with higher value added has been in stagnation.
- Export performance depends increasingly on the Foreign Investment sector. Key export products were still labour-intensive or natural resource- intensive (electronics and computer; textile; coal; crude oil; electric wire and cable..).
- Inefficient SOE sector, incl. State Economic Groups in industrial production: currently under restructuring plan. Similarly, unclear improvement of the private sector is observed in terms of technology renovation, business scale and productivity.

## 4. Lessons learnt from Vietnam Industrial Policy

- Ambitious objectives; too many leading/key industries picked up for the period 2010-2020; many sector specific strategies and master plans; but with unclear vision, insufficient instruments and lack of realizable action plans.
- Lacks a well-coordinated framework for industrial policy (trade policy, investment incentives; monetary and fiscal policy, technology-related policies etc.).
- Lacks of a well-coordinated implementation between central and provincial level, leading to the late adjustment of the objectives and instruments of the IP (many IZs with low coverage rate; competition for FDI among provinces...).

**THANK YOU FOR YOUR  
ATTENTION!**