THE L2C VIETNAM SCOPING PAPER: THE INDUSTRIAL POLICY

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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 joined 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry and Construction</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>8.7</td>
<td>37.6</td>
<td>53.7</td>
</tr>
<tr>
<td>2011</td>
<td>11.2</td>
<td>39.4</td>
<td>49.4</td>
</tr>
<tr>
<td>2010</td>
<td>6.9</td>
<td>47.2</td>
<td>45.9</td>
</tr>
<tr>
<td>2009</td>
<td>6.0</td>
<td>43.0</td>
<td>50.9</td>
</tr>
<tr>
<td>2008</td>
<td>14.3</td>
<td>37.6</td>
<td>48.2</td>
</tr>
<tr>
<td>2001</td>
<td>10.1</td>
<td>53.4</td>
<td>36.5</td>
</tr>
<tr>
<td>1995</td>
<td>13.8</td>
<td>41.2</td>
<td>45.0</td>
</tr>
<tr>
<td>1991</td>
<td>11.9</td>
<td>33.4</td>
<td>54.7</td>
</tr>
</tbody>
</table>

Source: GSO.
2. THE INDUSTRIAL POLICY

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


• 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.

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!