

The 2010 Vietnam Competitiveness Report

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Vietnam Competitiveness Report Launch
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The Vietnam Competitiveness Report

Objectives

- Provide policy makers and external observers with **a data-rich assessment** of Vietnam's competitiveness, using a comprehensive internationally-accepted methodology
- Develop an integrated set of **policy recommendations**, supported by a transparent logic and data
- Engage decision makers from different constituencies in a **dialogue** on the future of Vietnam's competitiveness

Partners



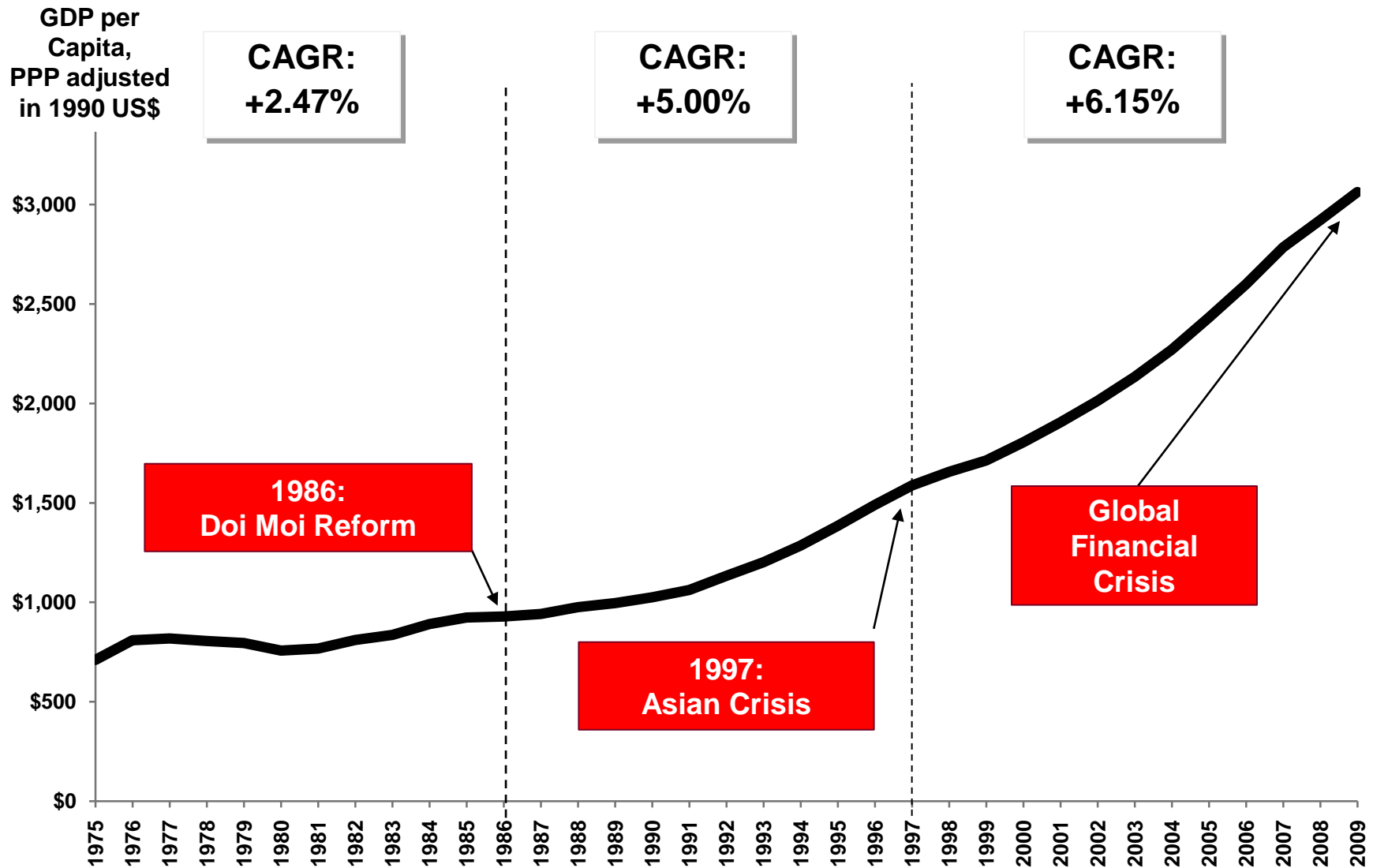
The 2010 Vietnam Competitiveness Report

- **Vietnam's Economic Position and Development Model**
- **Assessing Vietnam's Competitiveness**
- **A Competitiveness Strategy for Vietnam**

Vietnam's Position in 2010

- Significant **growth** over the last two decades
- Widespread **reduction in poverty**
- **Resilience** in the face of the global economic crisis

Vietnam's Long-Term Prosperity Growth 1975 - 2009



Source: Groningen Growth and Development Centre and The Conference Board (2010)

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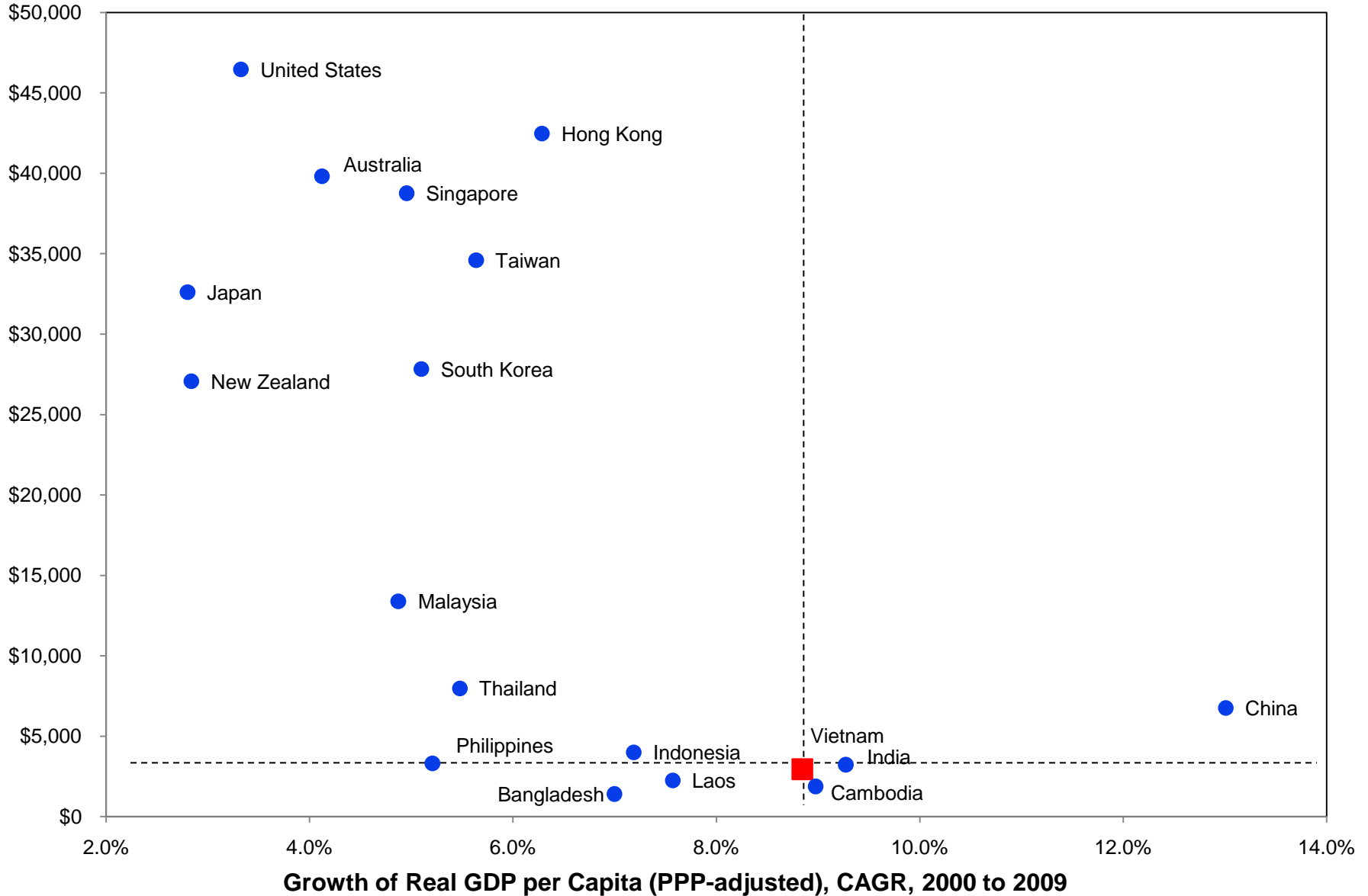
BUT

- Still **low level** of prosperity and productivity
- Growing concerns about the economic **sustainability of Vietnam's current development model**

Prosperity Performance

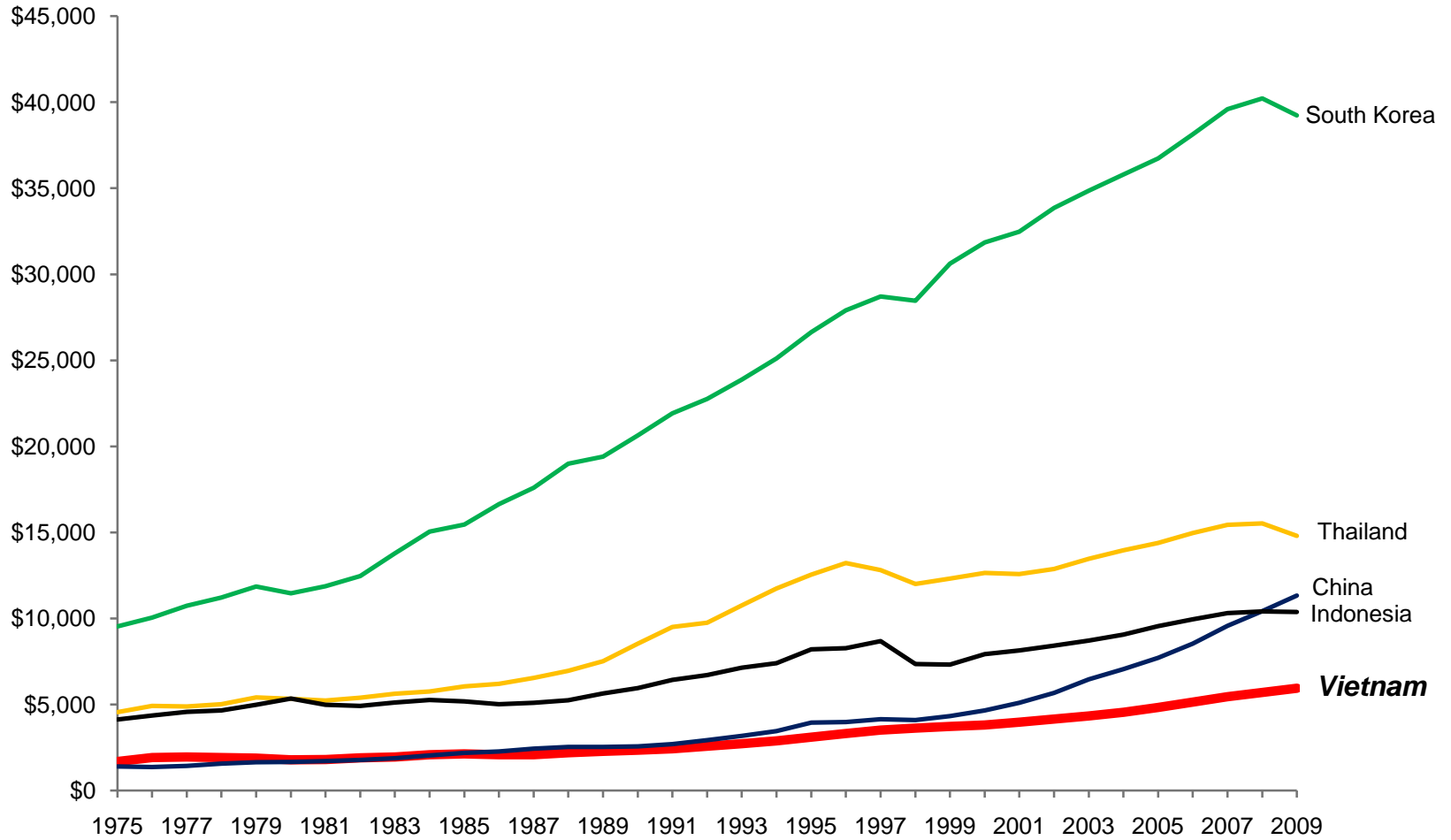
Selected Countries, 1999 to 2009

PPP-adjusted GDP per
Capita, 2009 (\$USD)



Vietnam's Labor Productivity

PPP-adjusted GDP per Employee, 1990-\$USD



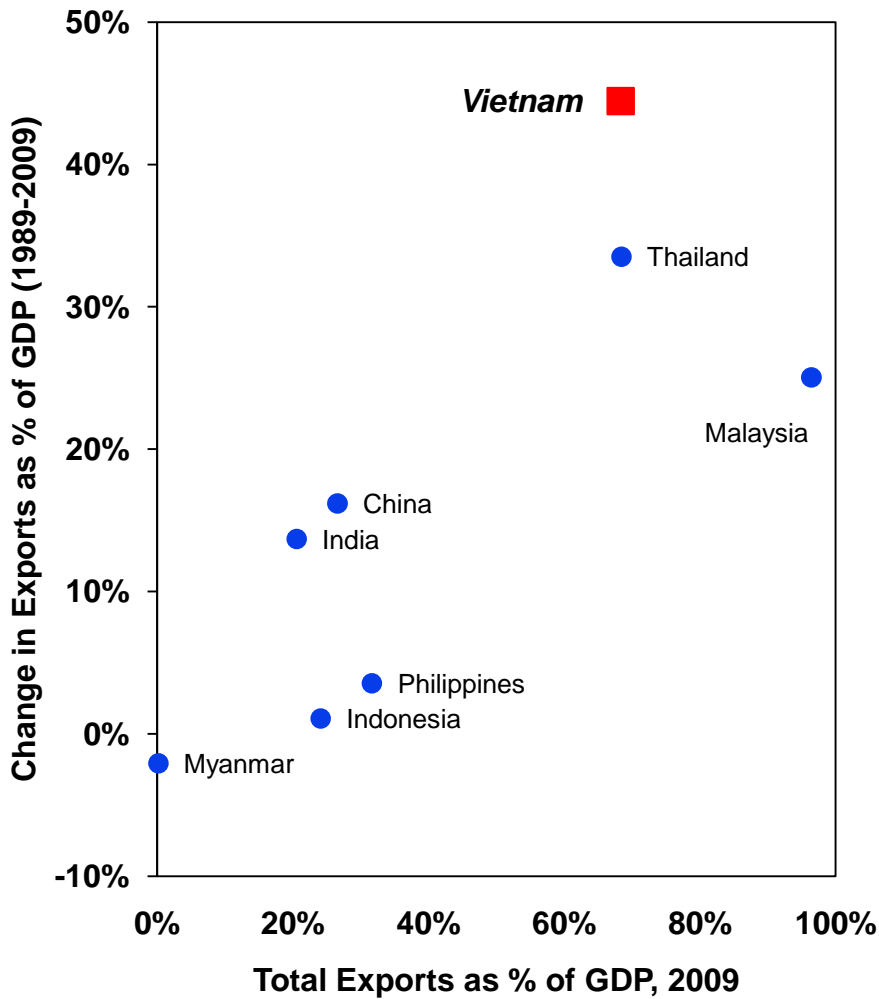
Source: Groningen Growth and Development Centre and The Conference Board (2010)

Vietnam's Current Development Model

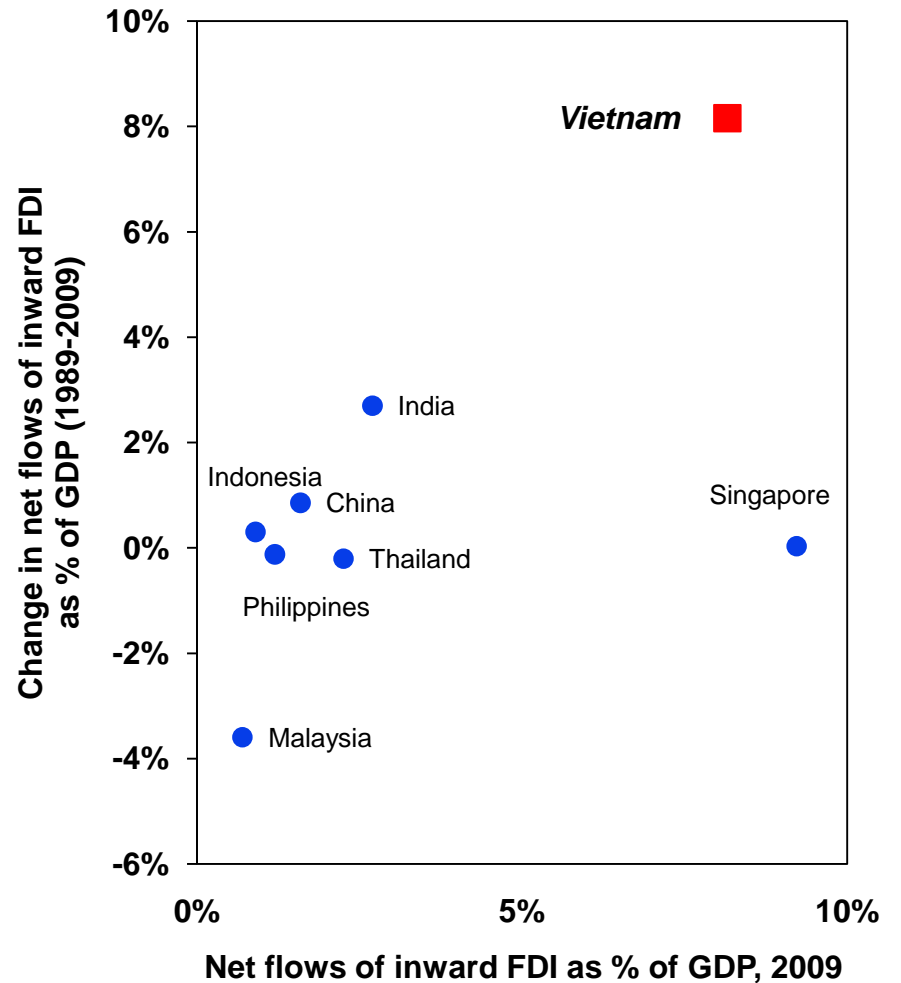
- **Structural change**, fuelled by Vietnam's **integration into the global economy**, has been the key driver of Vietnam's growth
- **Foreign investors** have combined capital with Vietnamese labor and imported inputs to serve global markets, and increasingly also domestic demand

Drivers of Structural Change: Economic Openness

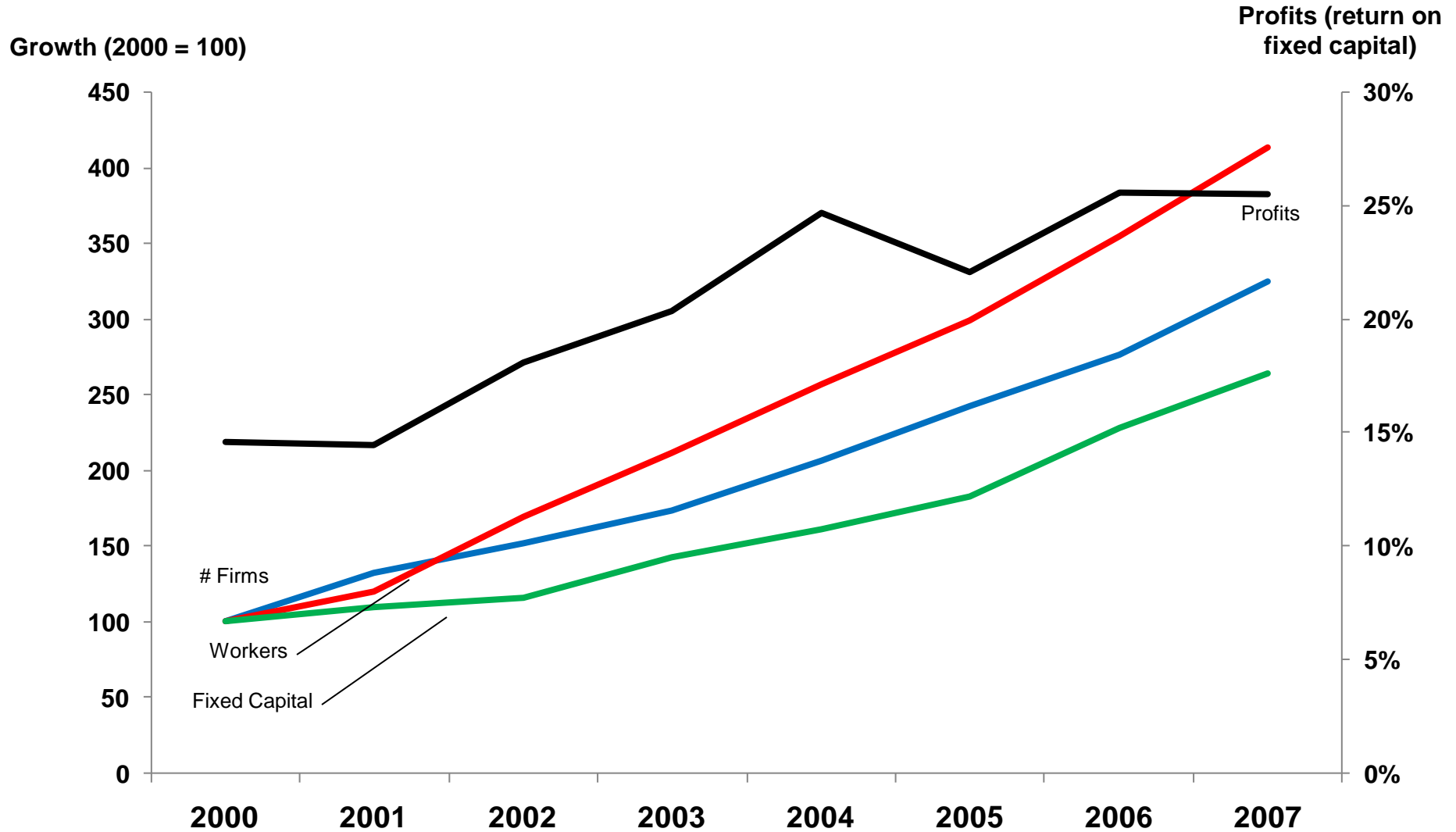
Openness to Trade



Openness to Investment



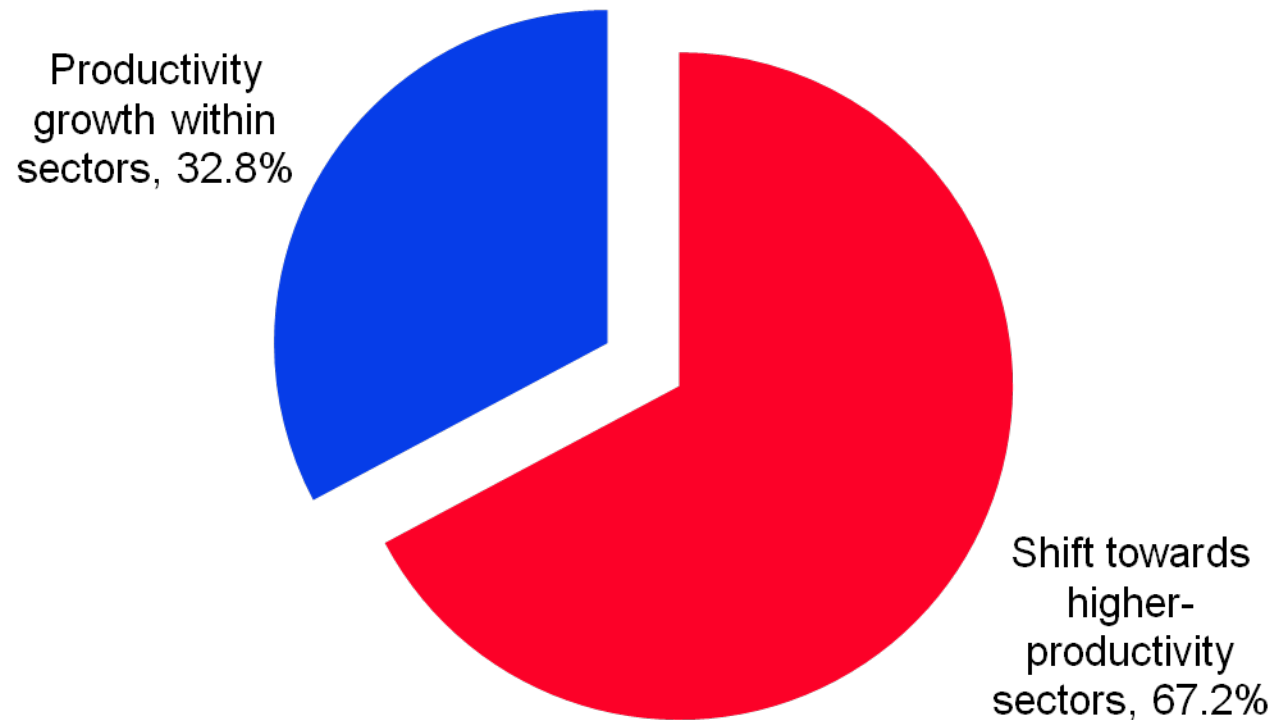
The Growth of the FDI Sector



Source: Data from General Statistics Office, Vietnam.

Structural Change and Vietnamese Growth

Decomposing Vietnamese Labor Productivity Growth, 2000 - 2008

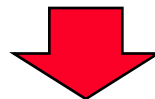


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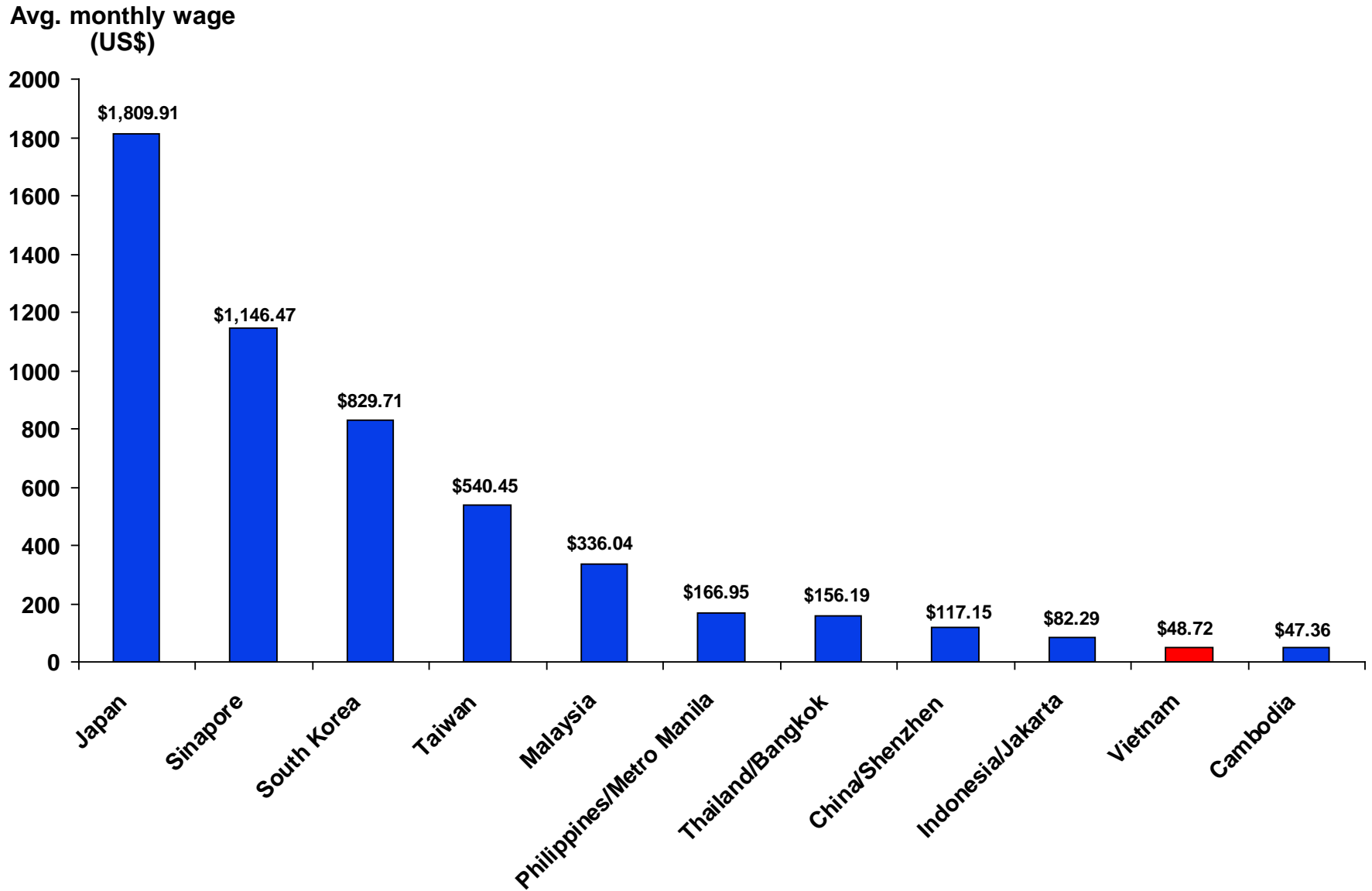


- Despite increasing exports of processed goods, value added and productivity in Vietnam's export sector **remains low**
- Vietnam's strongest export market position is in **labor- and natural endowment-driven clusters** with little direct linkages between them



- Vietnam's attractiveness to investors is almost solely the result of the **low prevailing wages**
- In a **changing global market environment**, this is unlikely to be sufficient for sustained growth

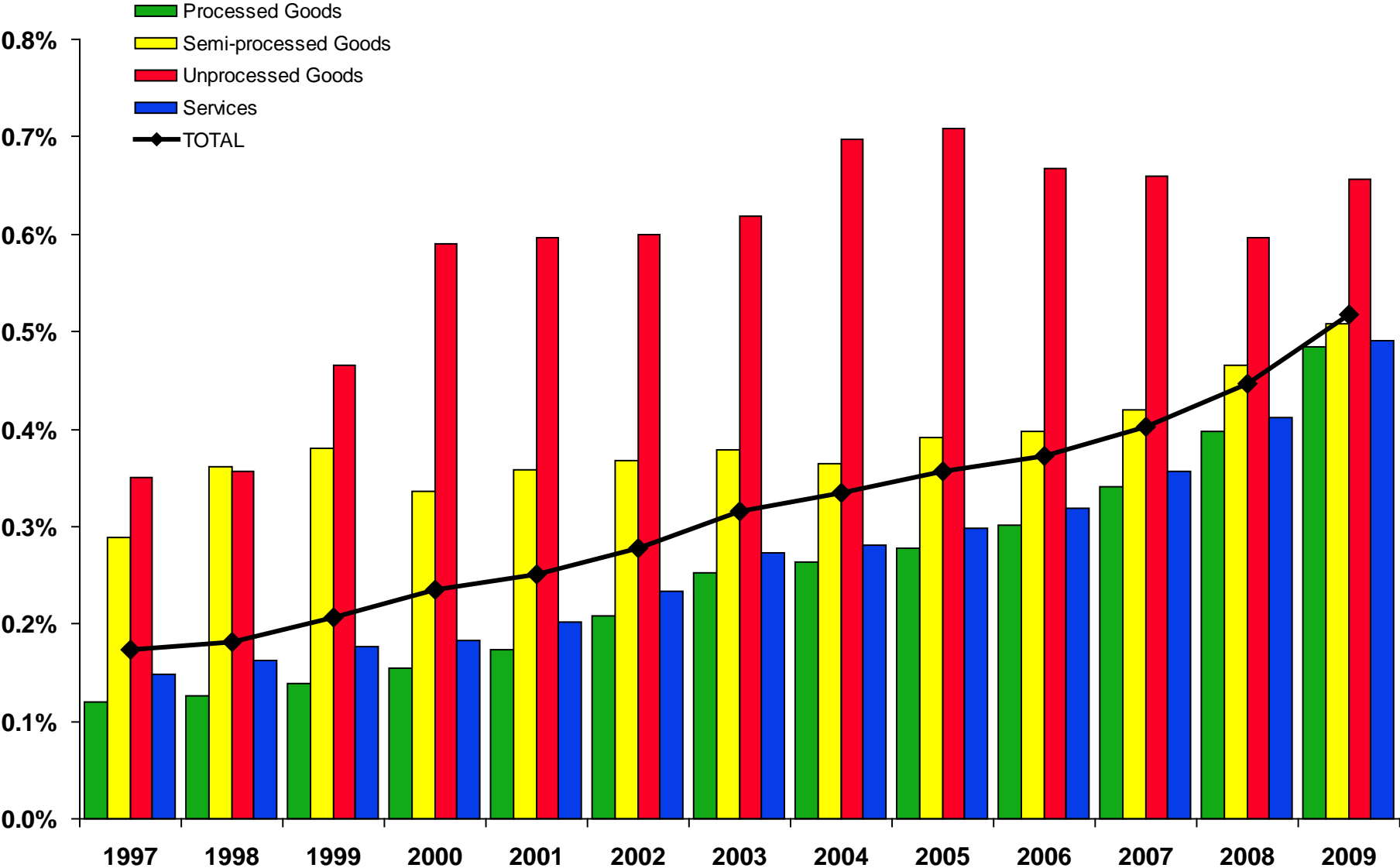
Relative Wages: Selected Countries



Source: Philippines Department of Labor and Employment (2010)

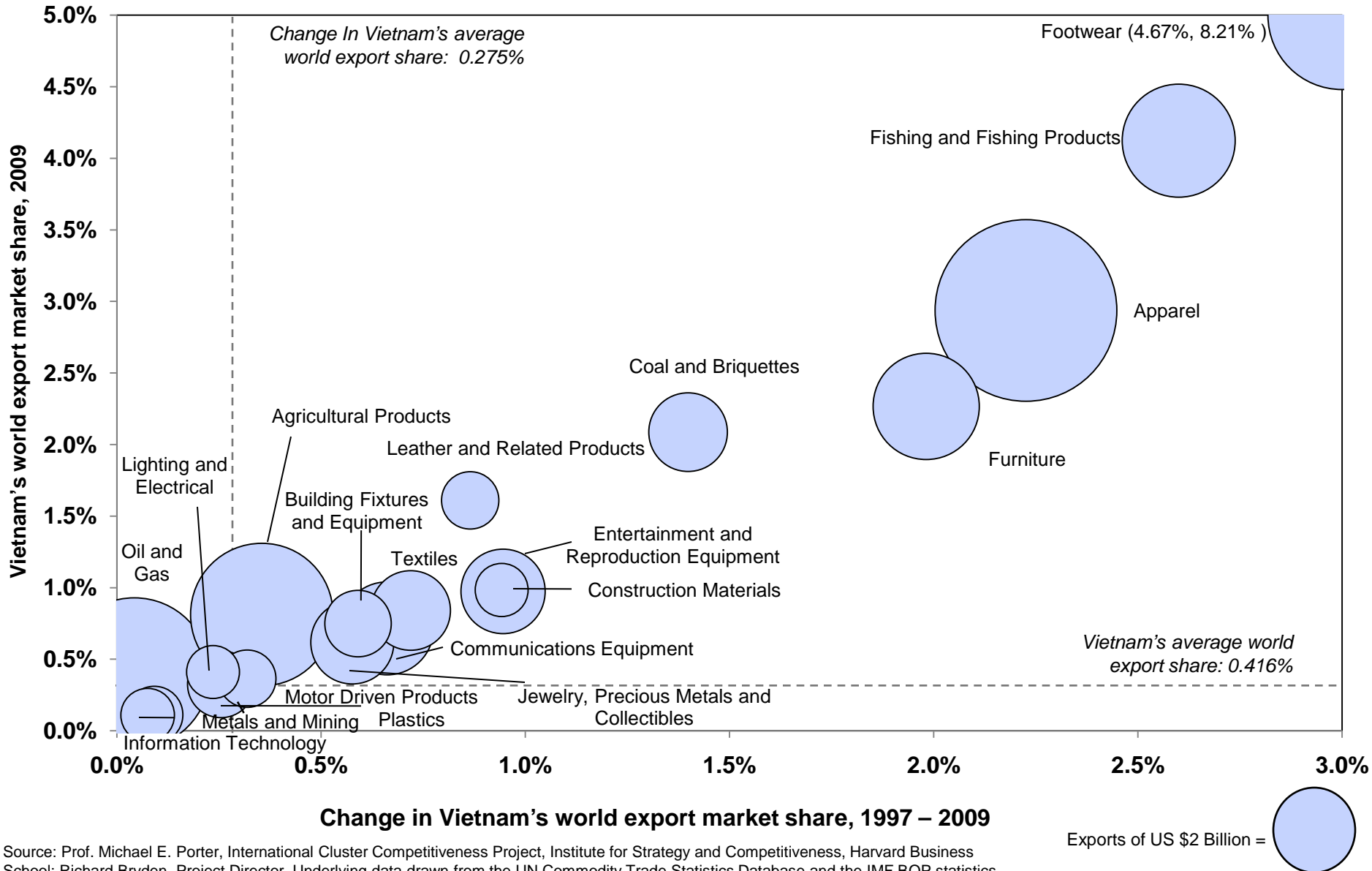
Vietnam's Exports By Type of Industry

World Export Market Share (current USD)



Source: UNComTrade, WTO (2010)
 Vietnam Competitiveness 20101130 - v8 Mon Nov 22 10AM

Vietnam's Cluster Export Portfolio 1997 - 2009



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics. Vietnam Competitiveness 20101130 - v8 Mon Nov 22 10AM

Share of World Exports by Cluster

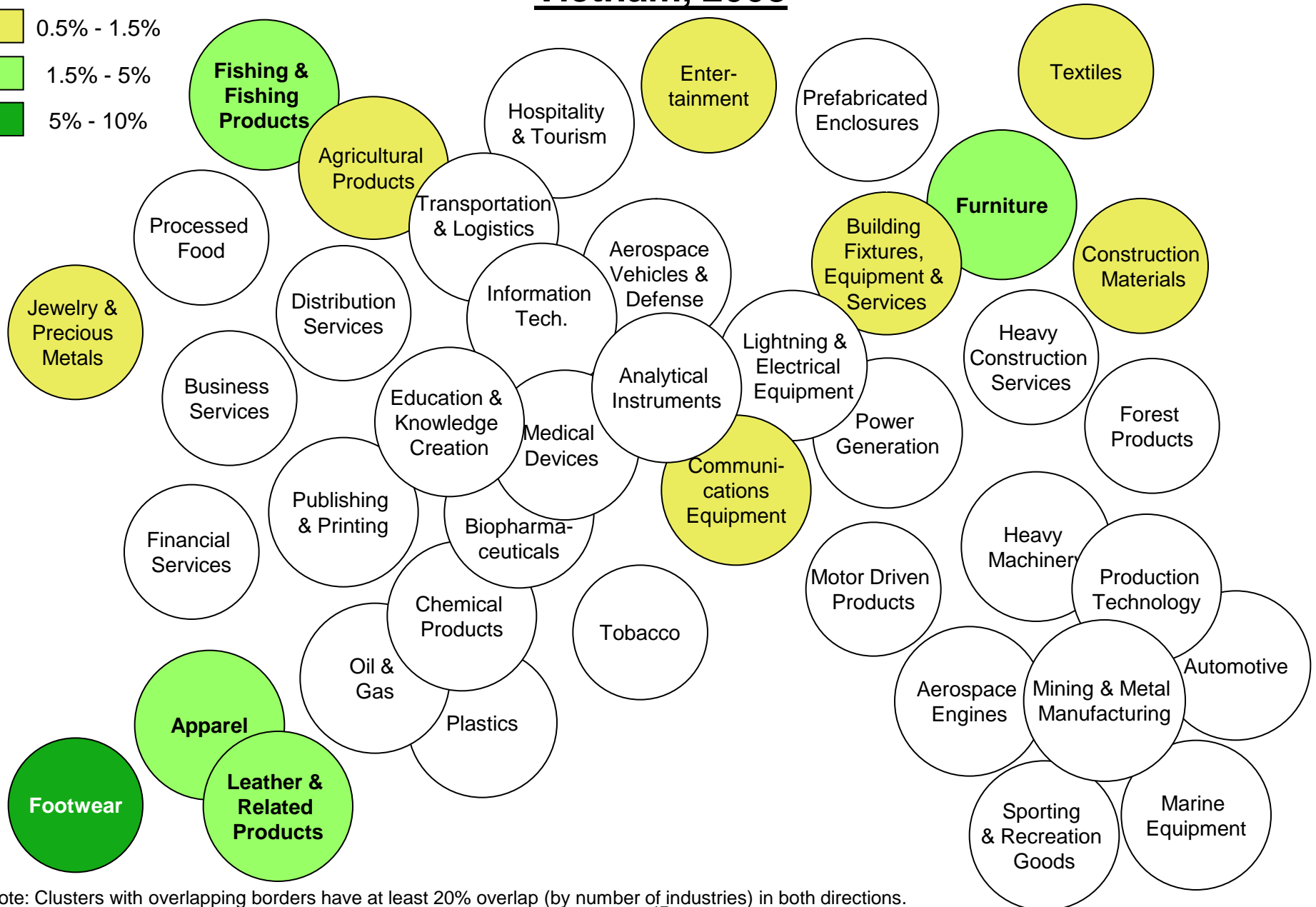
Vietnam, 2008

World Market Share

0.5% - 1.5%

1.5% - 5%

5% - 10%



Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.

The External Environment in 2010

Opportunities

- Opportunities to **serve new demand**
 - Emergence of Asia
 - Increasing market of consumers with similar needs as in Vietnam
- New opportunities as a **supply base**
 - Cost pressure on global companies
 - China + 1 strategy of MNCs

Threats

- Disruptions that could **limit demand**
 - Rising protectionism
 - Overheating in China; sluggish growth elsewhere
 - Climate change
- Competition that could **reduce Vietnam's attractiveness**
 - From other low-wage locations
 - From within the increasingly open ASEAN region

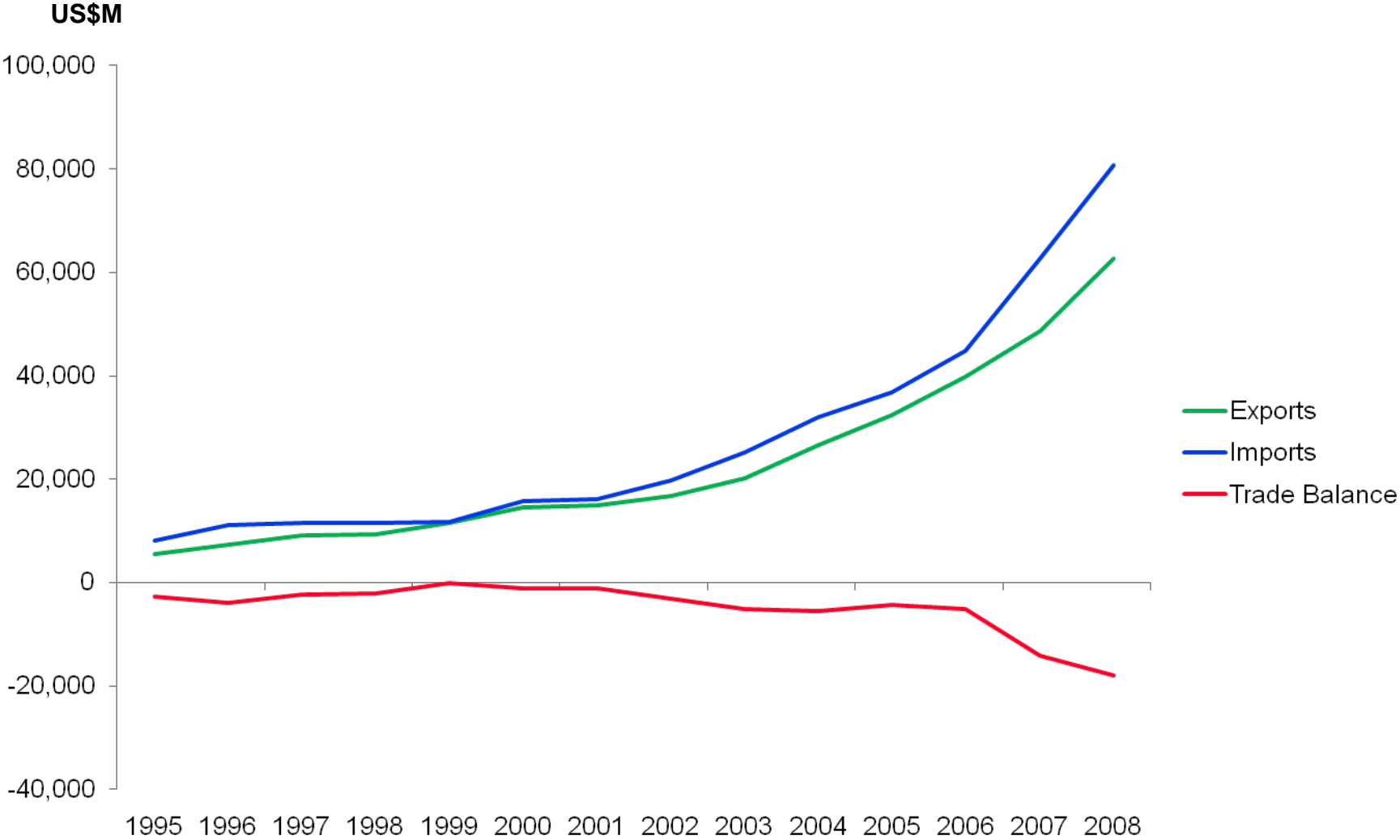
Vietnam's Current Development Model

Emerging Weaknesses

- Low sophistication in the export sector coupled with strong domestic demand drive growing **trade deficit**

Vietnam's Balance of Trade

1995 – 2008



Source: Data from General Statistics Office, Vietnam.

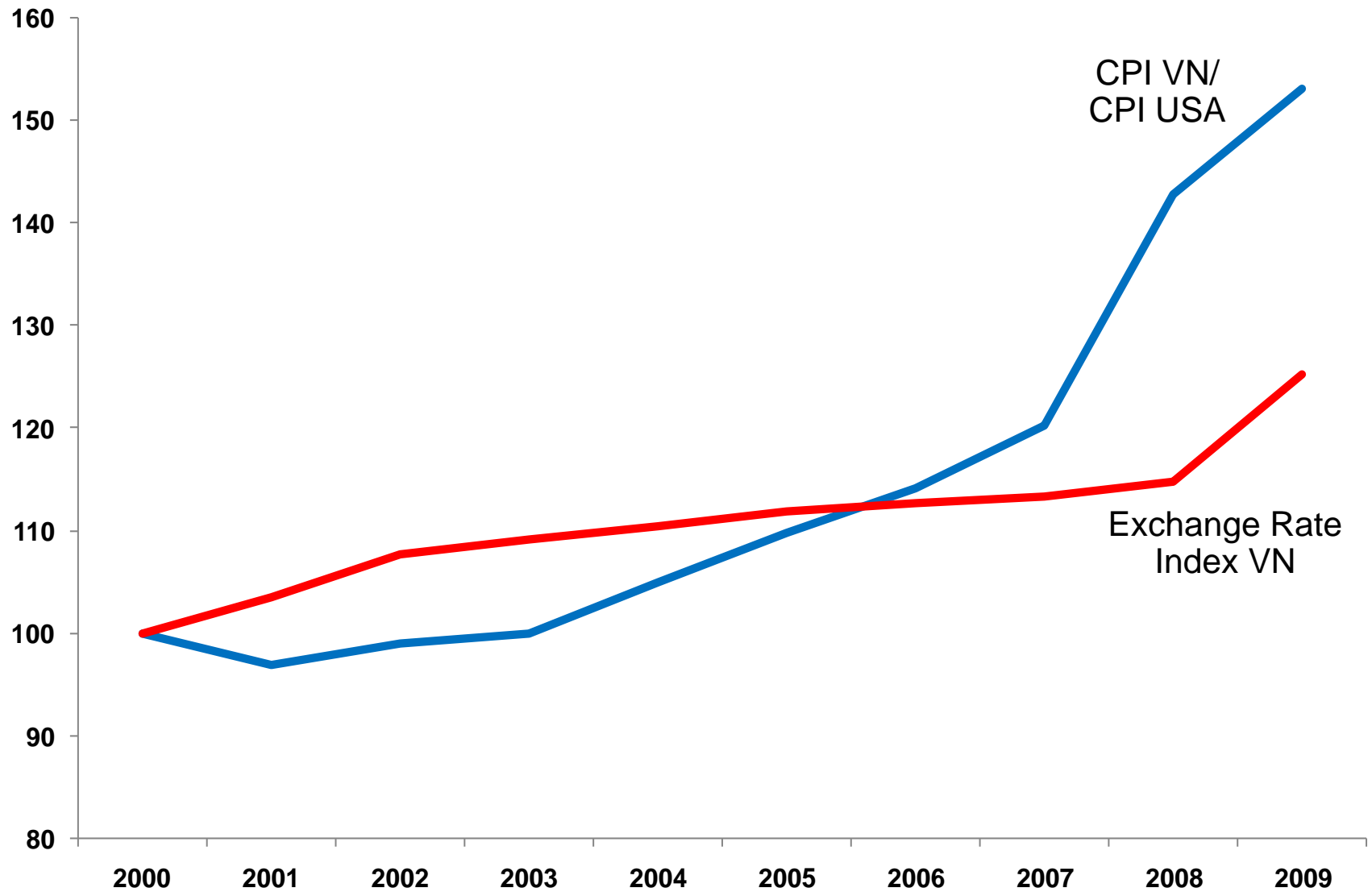
Vietnam's Current Development Model

Emerging Weaknesses

- Low sophistication in the export sector coupled with strong domestic demand drive growing **trade deficit**
- **Real appreciation of the Dong** further contributes to the deficit

Vietnam's Currency Valuation

Index (2000 = 100)



Source: 2000-2008 data – WDI; 2009 data – EIU

Vietnam's Current Development Model

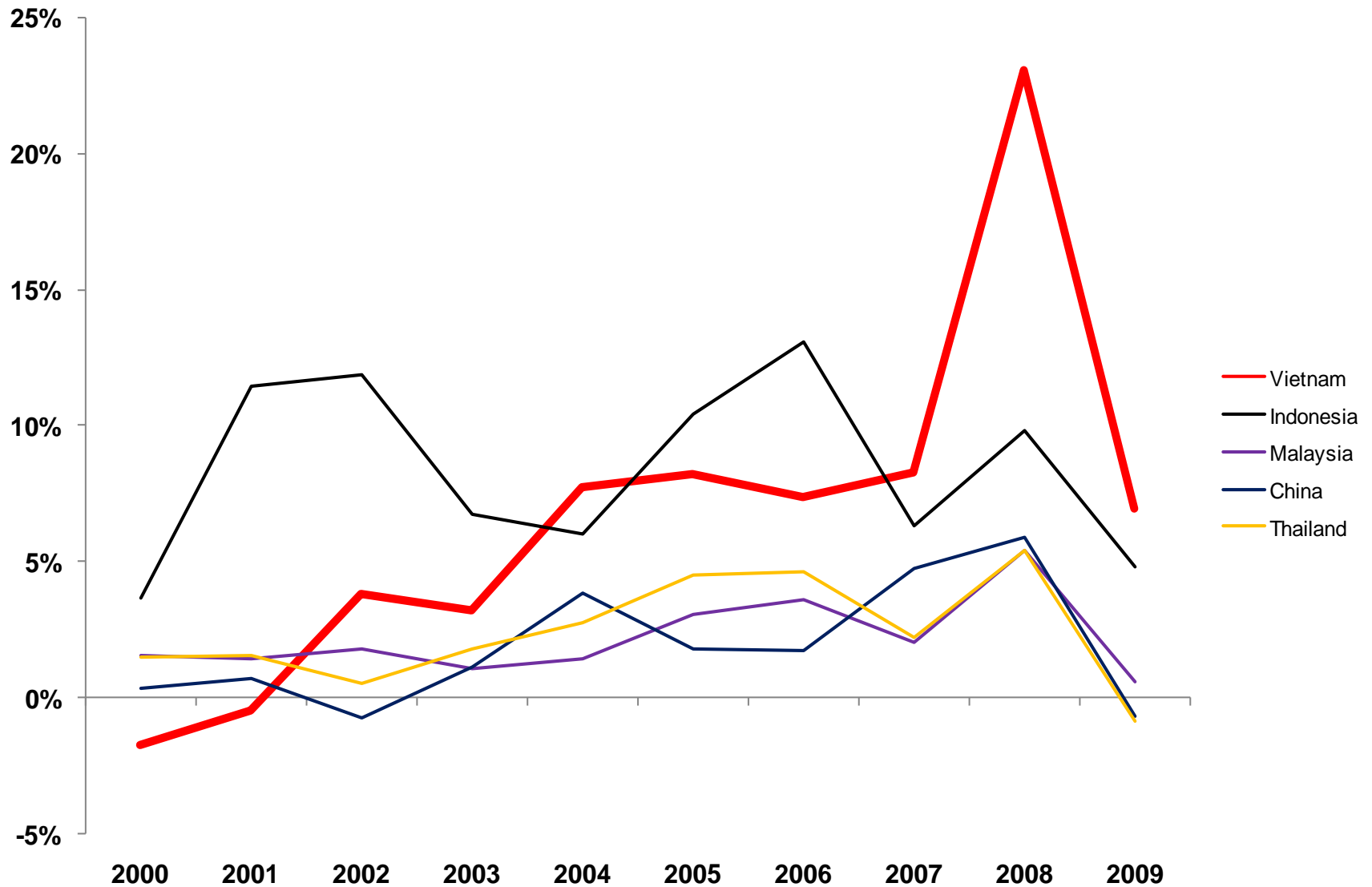
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- Significant **capital inflows** fuel domestic demand growth and inflation
- **Expansionary fiscal and monetary policies** worsen inflation, rather than control it

Rate of Inflation

Selected Countries, 2000 - 2009

% change in CPI



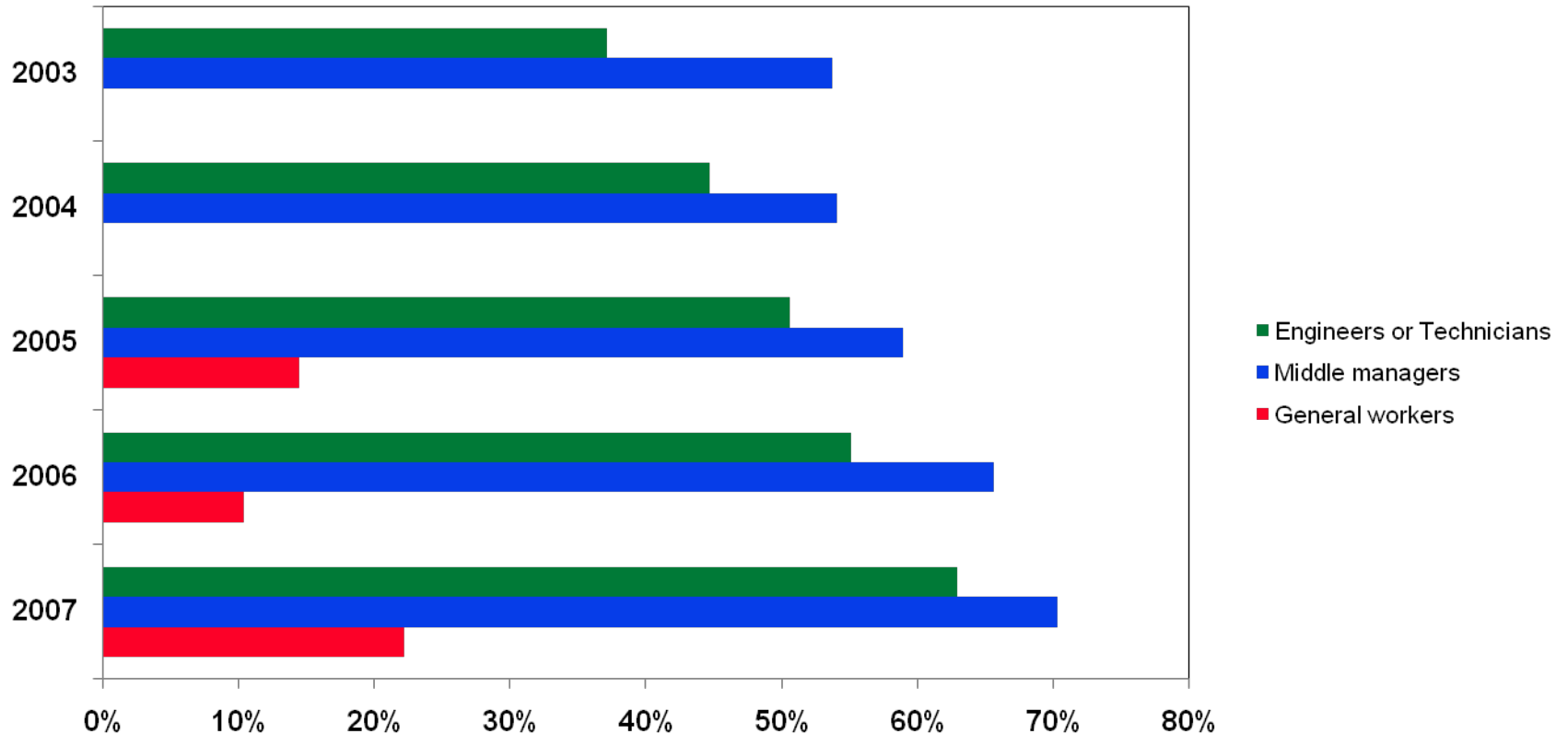
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- **Falling ratio of GDP growth to investment** increases the need **for capital inflows** to maintain the growth rate
- Demand growth is outstripping the existing **microeconomic capacity** in terms of skills and infrastructure

Ease of Worker Recruitment

Percentage of Firms that report Difficulty in Recruiting



Source: Junichi Mori , Nguyen Thi Xuan Thuy, and Pham Trung Hoang (2009) – data drawn from Japanese-Affiliated Manufacturers in Asia, JETRO. Note: Surveys in 2003-2004 did not include questions about recruitment of general workers

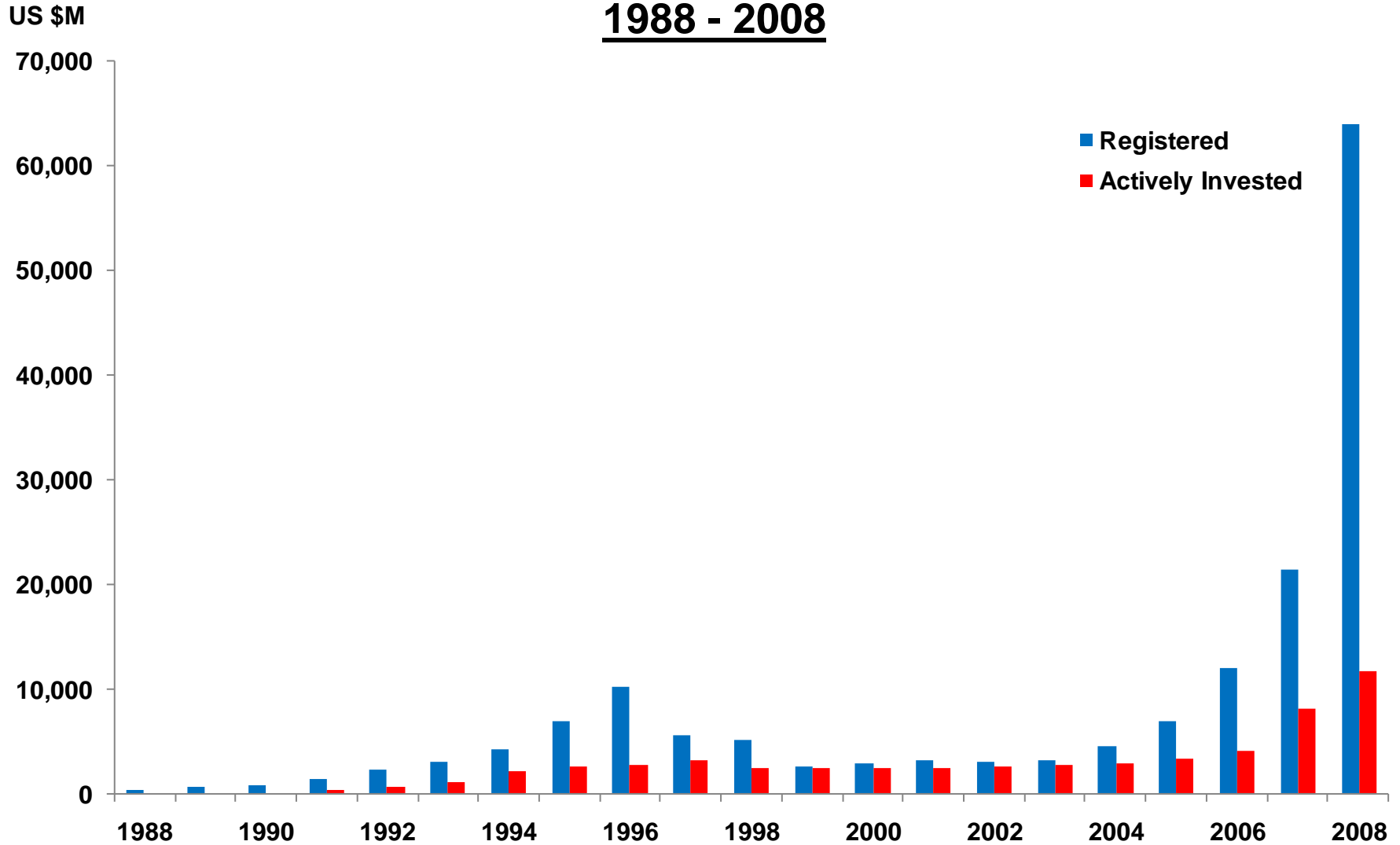
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- The **gap** between announced and implemented FDI is rising

Foreign Direct Investment in Vietnam

1988 - 2008

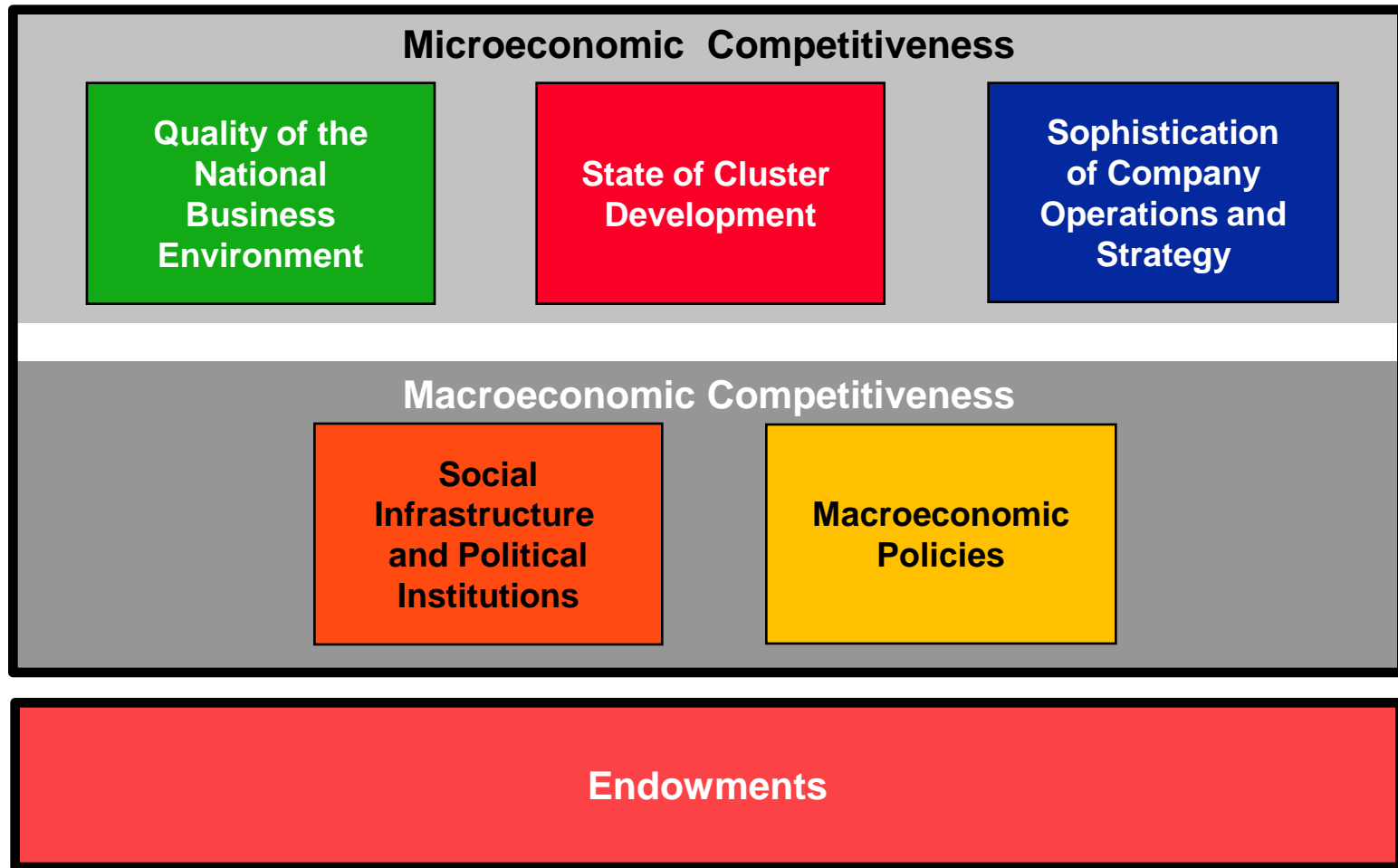


Source: General Statistics Office, Vietnam

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Determinants of Competitiveness



- Macroeconomic competitiveness creates the potential for high productivity, but is **not sufficient**
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**

Macroeconomic Competitiveness

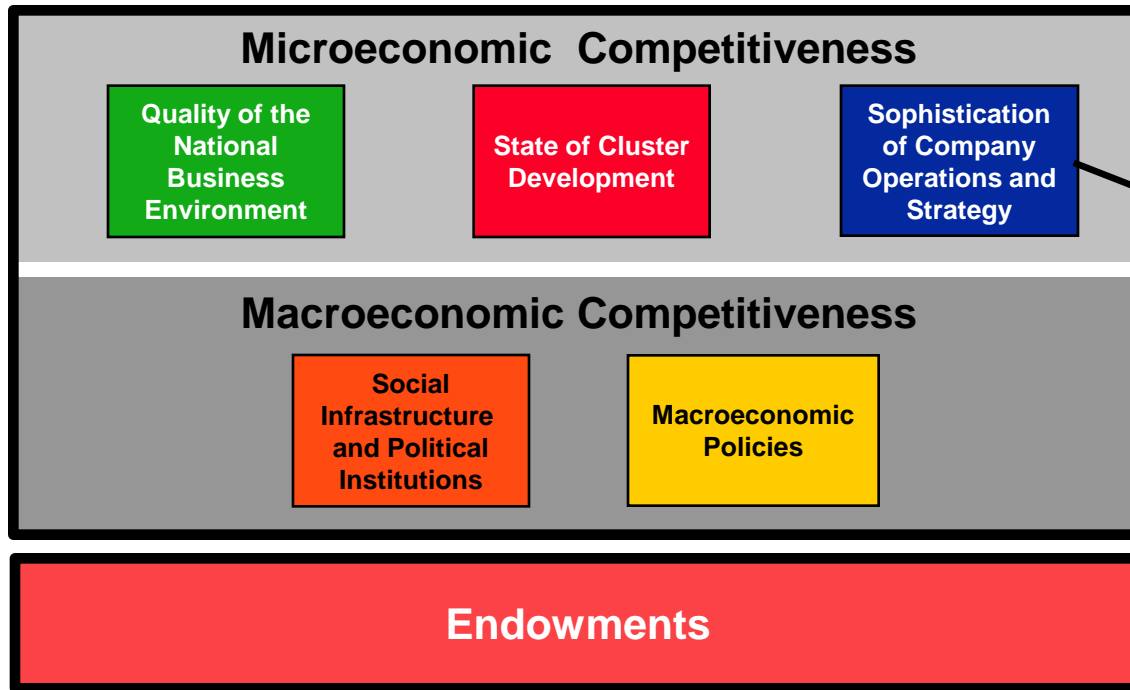
Social Infrastructure and Political Institutions

- **Human development**
 - Basic education
 - Health system
- **Political institutions**
 - Political freedom
 - Voice and accountability
 - Political stability
 - Government effectiveness
 - Centralization of economic policymaking
- **Rule of law**
 - Security
 - Judicial independence
 - Efficiency of legal framework
 - Business costs of corruption
 - Civil rights

Macroeconomic Policies

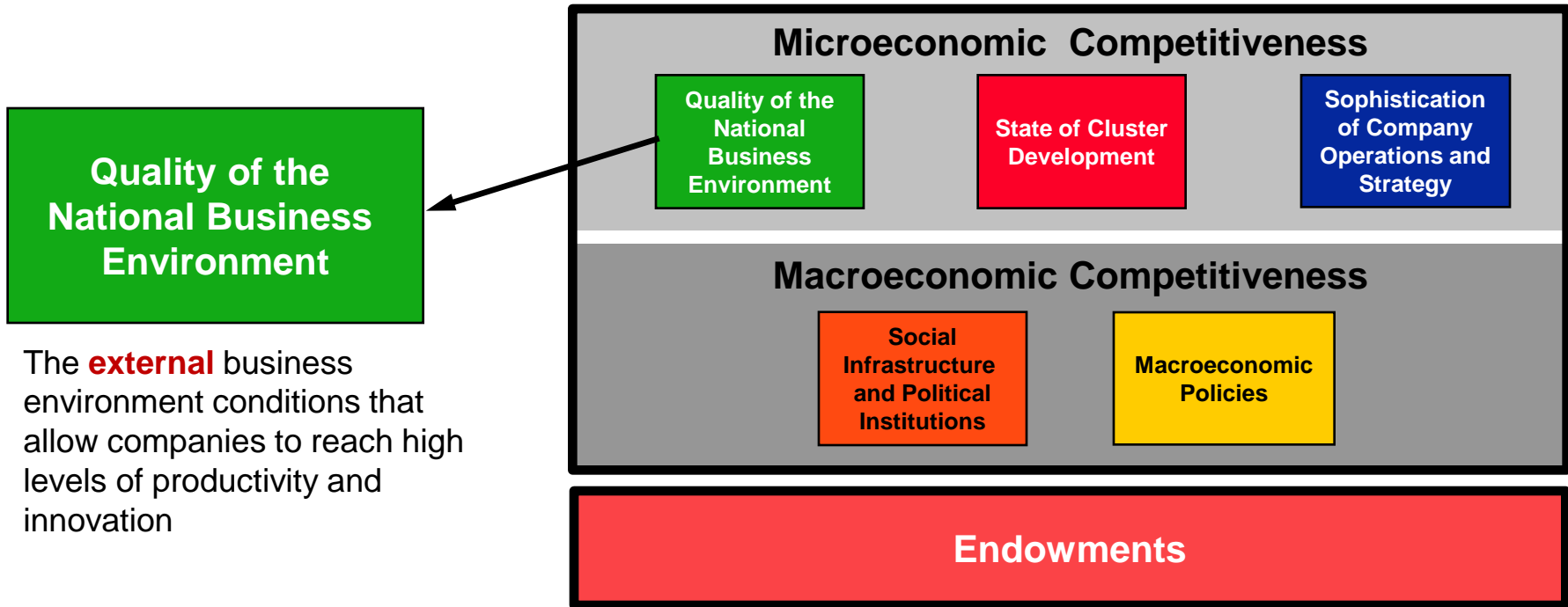
- **Fiscal policy**
 - Government surplus/deficit
 - Government debt
- **Monetary policy**
 - Inflation

Determinants of Competitiveness

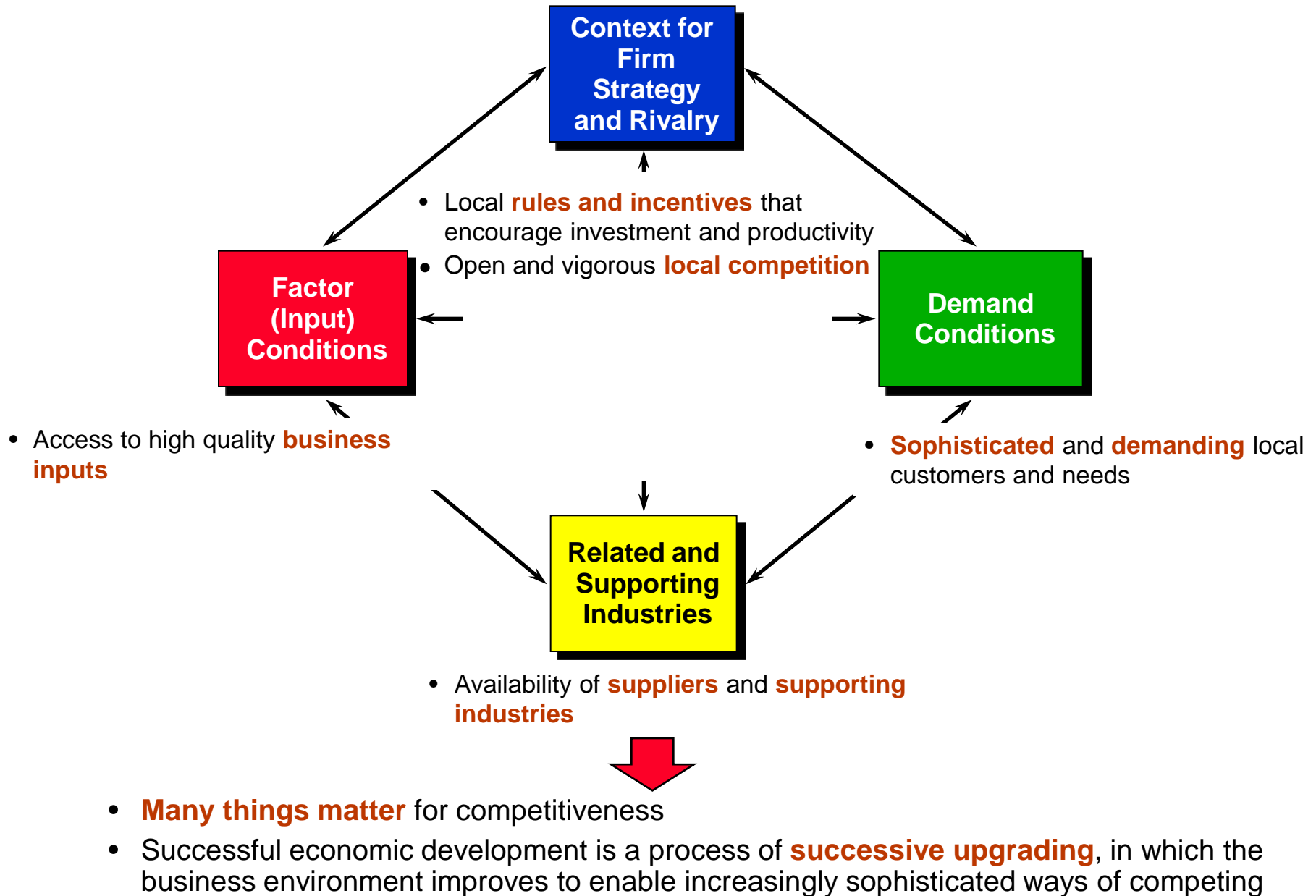


- The **internal** skills, capabilities, and management practices needed for companies to attain the highest level of productivity and innovation possible

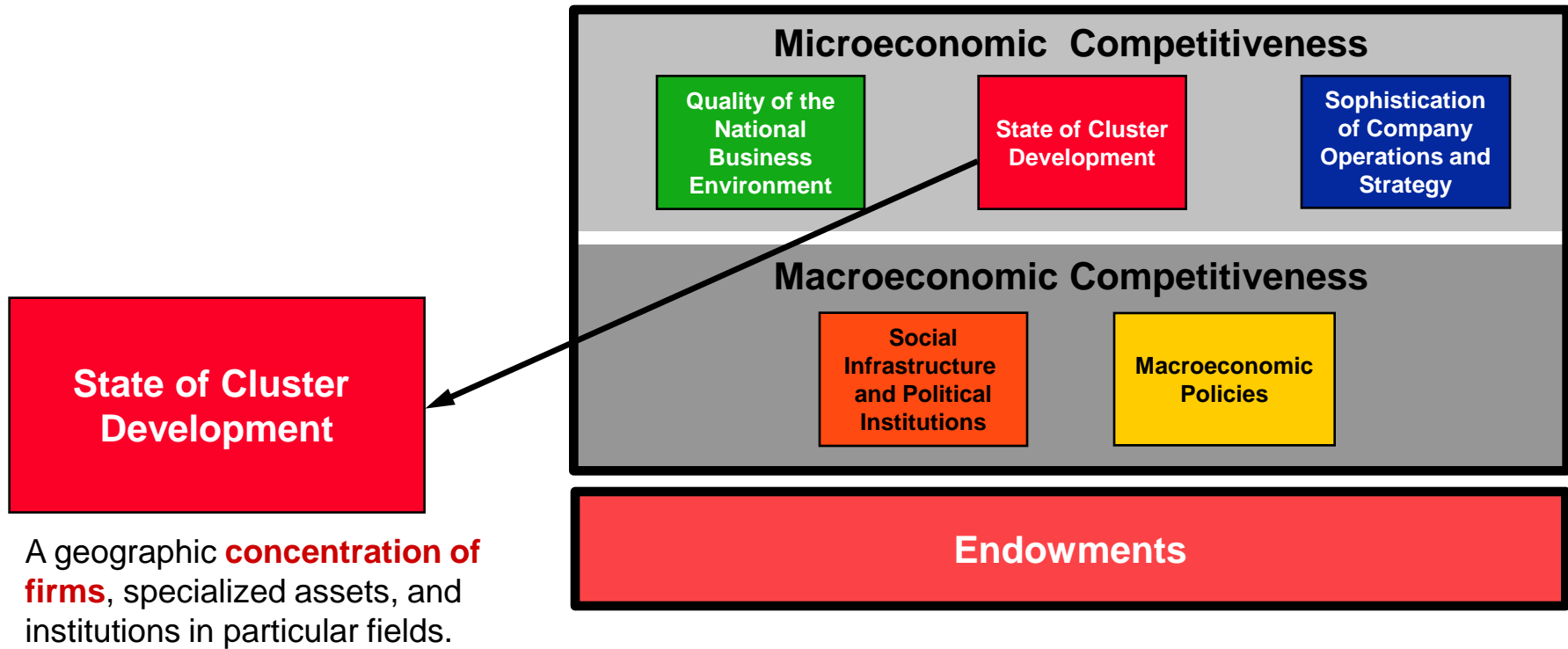
Determinants of Competitiveness



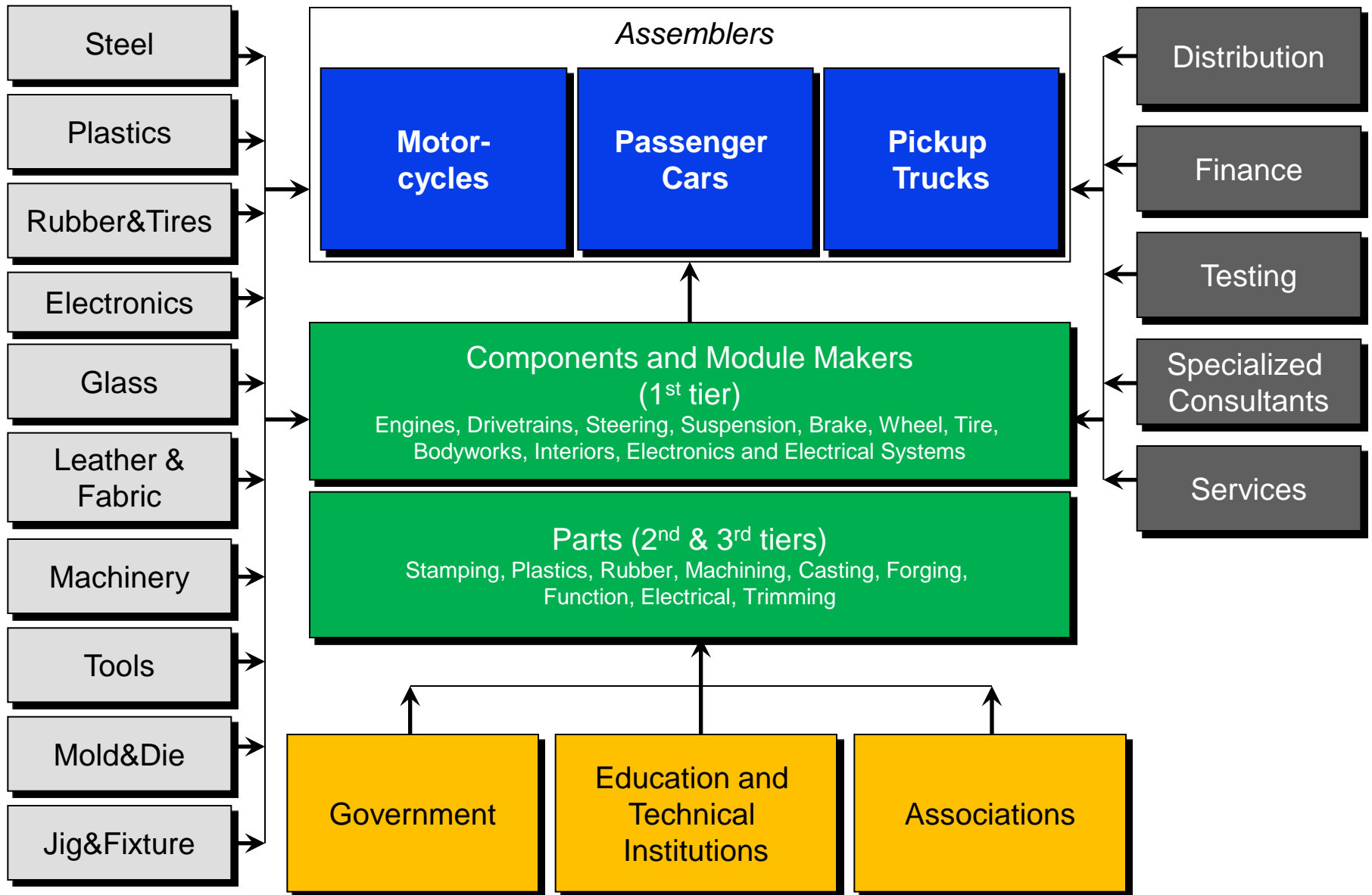
Quality of the National Business Environment



Determinants of Competitiveness



The Thai Automotive Cluster



Clusters and Competitiveness

- Clusters **increase productivity** and **operational efficiency**
- Clusters stimulate and enable **innovations**
- Clusters facilitate **commercialization** and **new business formation**



- Clusters reflect the fundamental influence of **linkages and spill-overs** across firms and associated institutions in competition

Stages of National Competitive Development

Shifting Policy Imperatives



Low Cost Inputs

- Macro, political, and legal stability
- Improving human capital
- Efficient basic infrastructure
- Lowering regulatory costs of doing business

Productivity

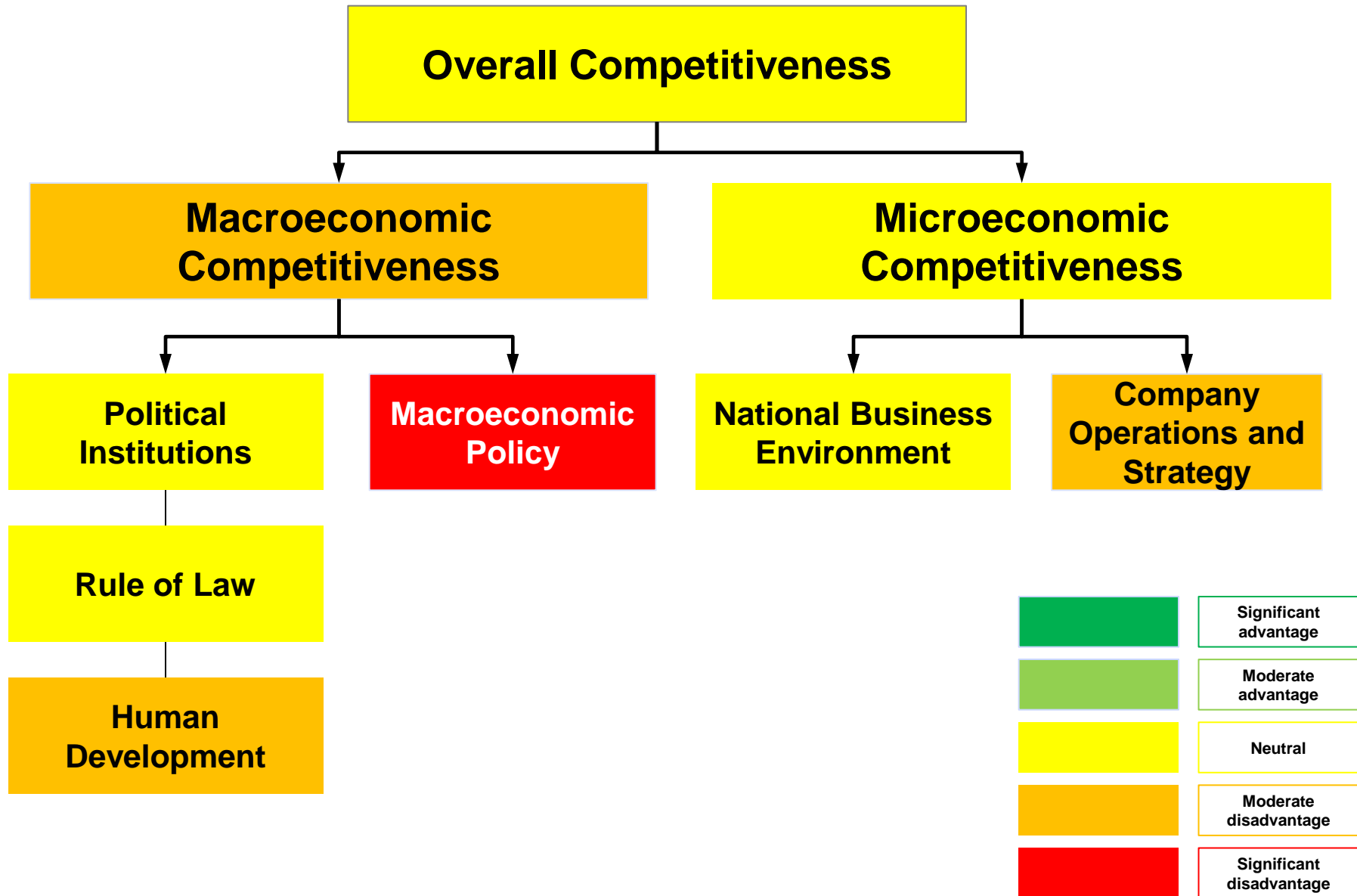
- Increasing local rivalry
- Market opening
- Advanced infrastructure
- Incentives and rules encouraging productivity
- Cluster formation and activation

Unique Value

- Advanced skills
- Scientific and technological institutions
- Incentives and rules encouraging innovation
- Cluster upgrading

Vietnam's Competitiveness Profile

Position Relative to Current Prosperity

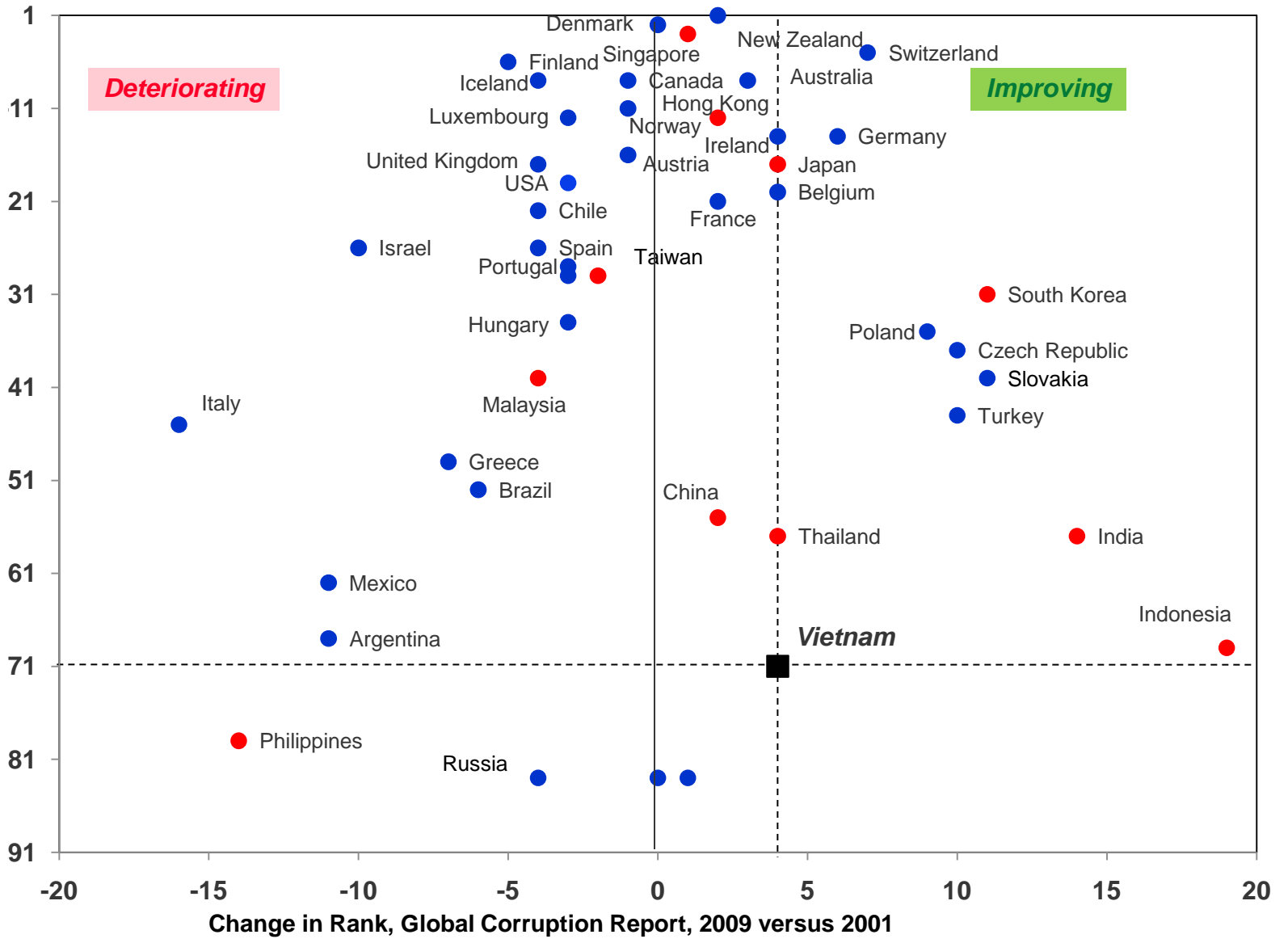


Corruption Perception Index, 2009

Rank in Global
Corruption Index,
2009

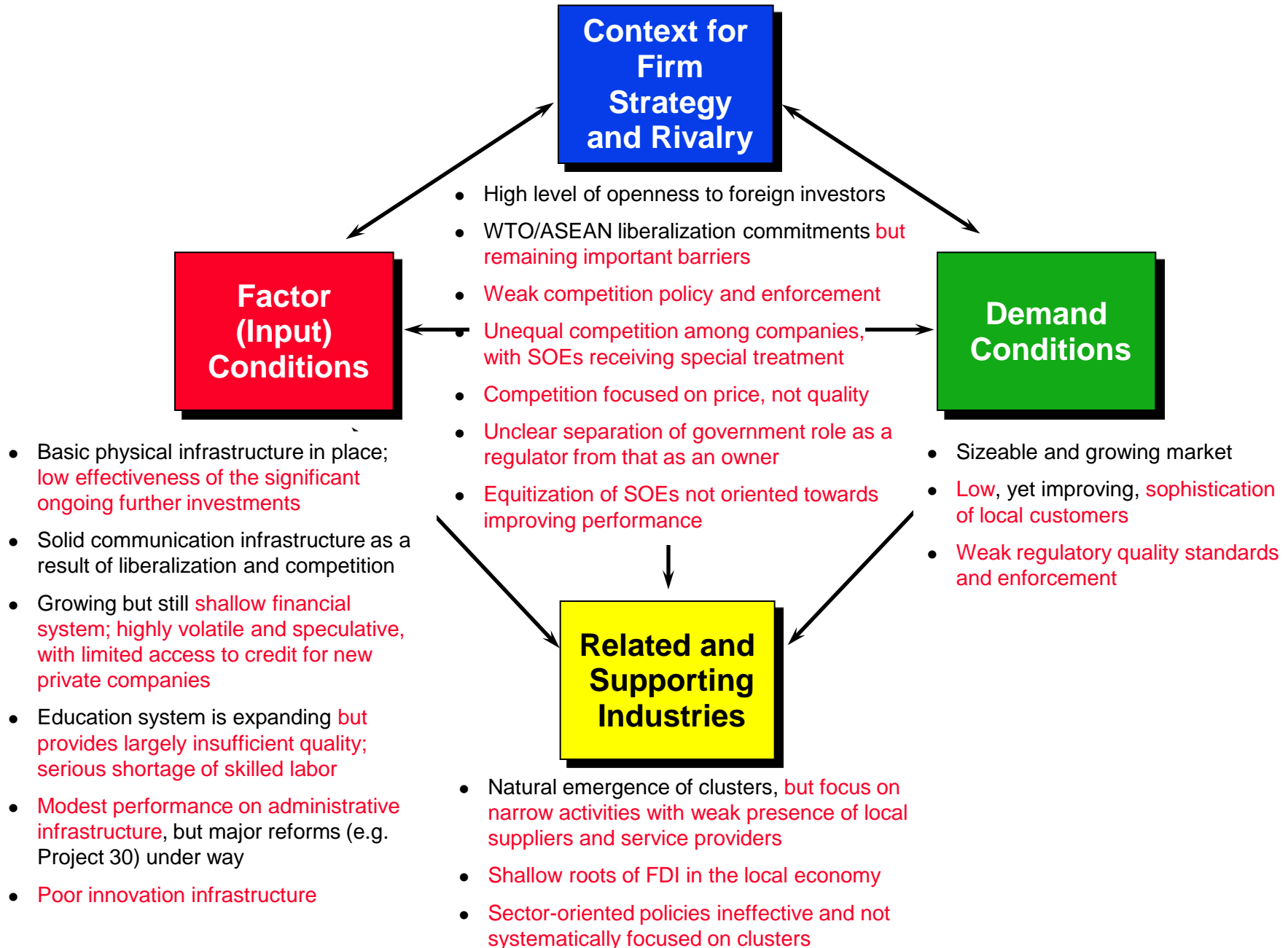
Low
corruption

High
corruption



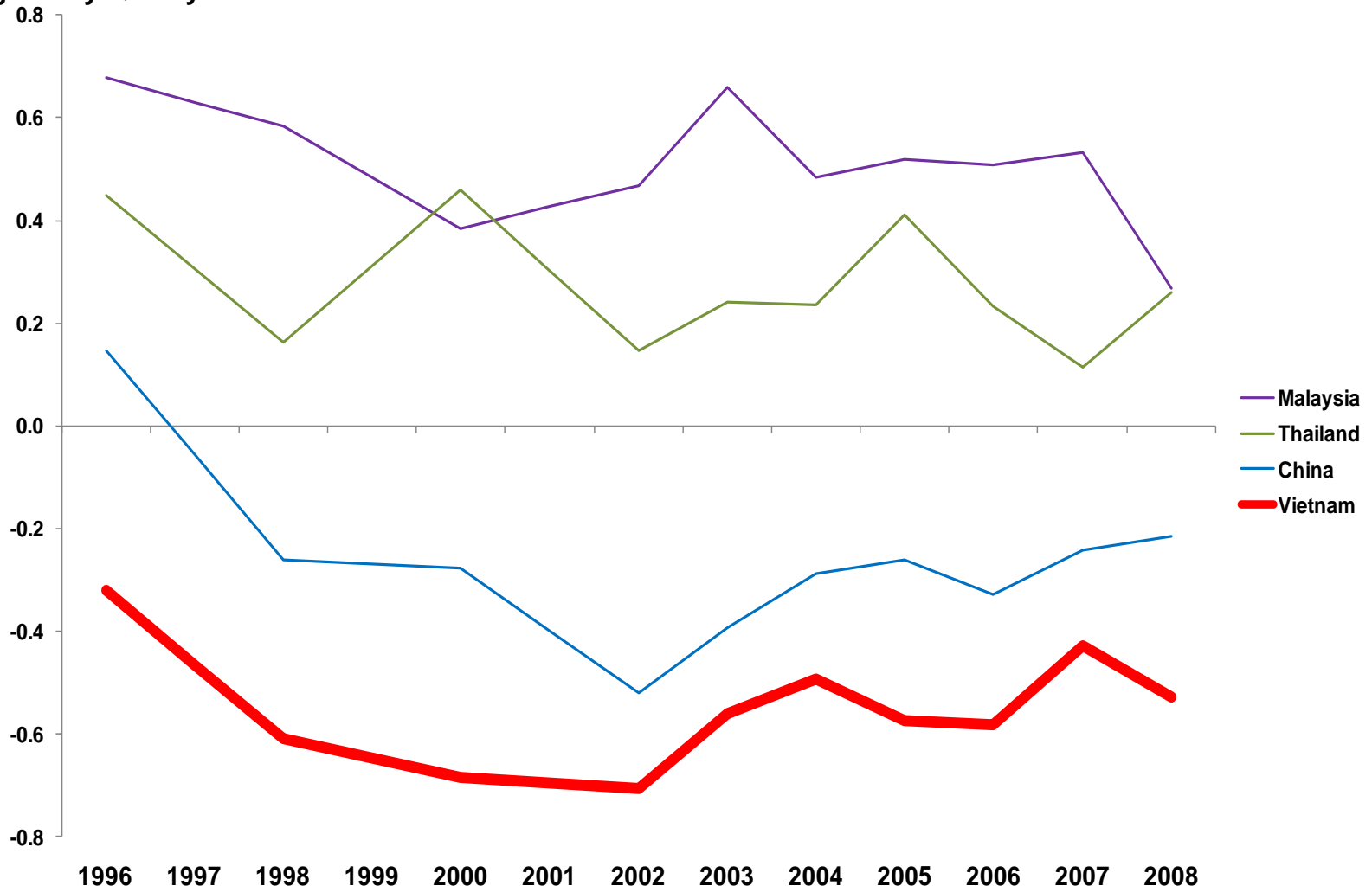
Note: Ranks only countries available in both years (91 countries total)
Source: Global Corruption Report, 2009

Vietnam's National Business Environment



Regulatory Quality: Selected Countries

Composite Measure of Regulatory Quality



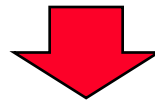
Source: World Bank Institute, Global governance indicators, 2009. Values for 1997, 1999 and 2001 have been interpolated.

Sophistication of Vietnamese Companies

- High levels of **flexibility** and **responsiveness** to market opportunities
- **Short-term, opportunistic** company strategies
- Compete primarily on **cost**, not quality
- Low level of **operational sophistication**
- Large SOEs operating as corporate groups with little **synergy**
- Huge **gap in operational effectiveness and productivity** between Vietnamese SOEs, Vietnamese private companies, and foreign MNCs

Vietnam's Competitiveness in 2010: Summary

- Vietnam's key current competitive advantages are based on **inherited endowments**, especially its geographic location and demographic profile
- Government has realized these advantages through **market opening** and investments in **basic infrastructure**
- Vietnam has **not** created new, distinctive competitive advantages
- Government efforts to meet the infrastructure and regulatory needs of a growing economy are hampered by a **regulatory approach** focused on control
- While the development model has been successful, signs of its **fragility** are increasing



- Vietnam needs an **economic strategy** based on a new development model

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Towards a New Strategy: Three Guiding Principles

A new orientation towards competitiveness

- From a focus on macroeconomic drivers of structural change to upgrading macro- and microeconomic foundations of productivity

Structural transformation in the role of the private sector

- From a focus on SOEs and foreign MNCs to a market-driven combination of private firms, MNCs, and transformed SOE's

A new role for government

- From a government controlling a transition economy to a government creating competitive advantages in a market economy

Vietnam's Competitiveness Agenda

Strategic Action Priorities

Address emerging challenges

Prepare for the next stage of development

Manage the growing macroeconomic imbalances

Address emerging bottlenecks in key input factors

Create the foundations for higher productivity

Secure current growth

Enable future growth

Manage Macroeconomic Imbalances

Key Action Proposals

- Increase transparency of fiscal position of the government and SOEs
 - Create **central entity** with mandate to report on fiscal position of all government entities and of SOEs and on the current state of the economy
- Enhance budget discipline
 - Establish regular **monitoring/auditing of public spending**
 - Strengthen quality and effectiveness of **public debt management**
- Pursue a consistent and predictable monetary policy
 - **Clarify roles** of the National Assembly, the government, and the Central Bank
 - Set clear **monetary policy goals**
- Improve financial market regulation
 - Enhance **regulatory oversight** of the financial system through the Central Bank
- Coordinate overall macroeconomic policy over time
 - Strengthen mandate and operations of the **Central Committee for Financial and Monetary Policies**

Address Microeconomic Bottlenecks

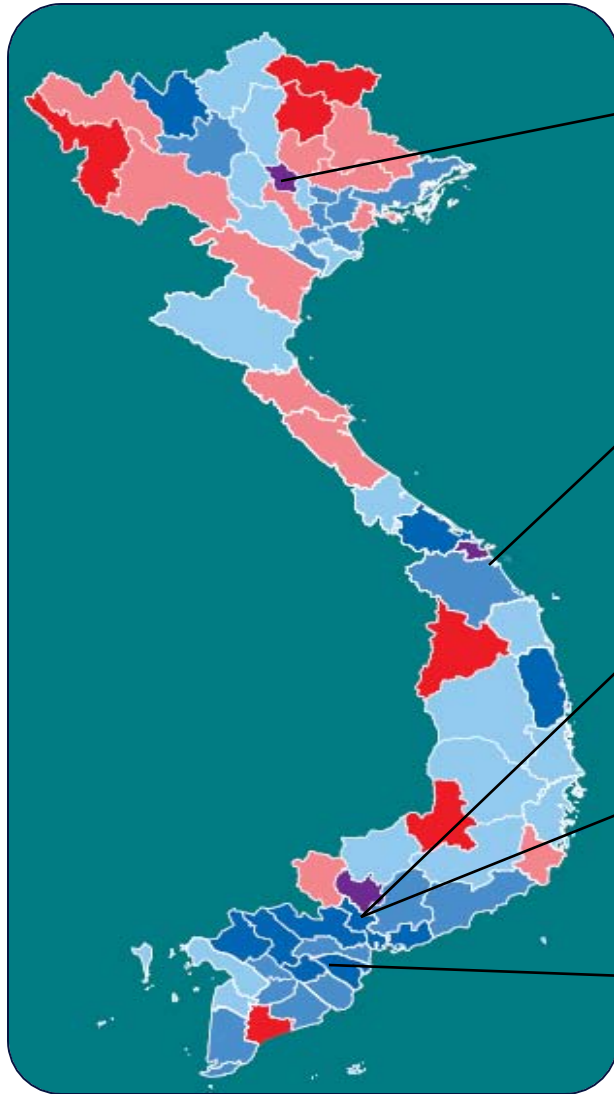
Key Action Proposals

- Microeconomic bottlenecks are emerging in **physical infrastructure** (transport, energy), **workforce skills**, and **administrative capacity**
- The government has identified all of these areas as **action priorities**
- However, current policies **lack effectiveness**, despite sometimes significant financial commitments

Outlines of a new approach

- Identify and alleviate problems in established regional **clusters**
- Focus individual cluster efforts on the **most pressing bottlenecks**
- Create **cluster-based task-forces** with the mandate and power to take action
- Learn from cluster problems about general issues and **possible nation-wide solutions**

Possible Cluster Initiatives



Electronics & engineering cluster in Hanoi and neighboring regions: *Local supplier capacity*

Tourism cluster in the Central Region: *Concept and related services*

Garment cluster in Ho Chi Minh Region: *Workforce skills*

Logistics cluster in Ho Chi Minh City region: *Infrastructure*

Agro-processing cluster in the Mekong Delta region: *Value-added Activities*

Create the Foundations for Higher Productivity

Key Action Proposals: Policies

- Enhance education and workforce skills
 - Develop a **national workforce strategy** with rigorous studies on the type of skills and competencies required for future growth
 - Reform the **regulatory framework for the education sector**
 - Promote **vocational training**
 - Set up a **National Productivity Fund** to support cluster-based initiatives in skill upgrading efforts
- Improve physical infrastructure
 - Create a **centralized planning mechanism** to coordinate, oversee and evaluate infrastructure development
 - Strengthen the system for **managing public procurement**
 - Provide viable **market-based financing** options for infrastructure investment
 - Address electricity shortages through a **utility action package** of investment, market regulation and technological measures

Create the Foundations for Higher Productivity

Key Action Proposals: Policies (continued)

- Improve governance of State-Owned Enterprises (SOEs)
 - Separate the **role of the government** as an owner from that as a regulator
 - Define and enforce modern **governance standards for SOEs**
 - Ensure **competition and market discipline** in the markets in which SOEs operate
 - Improve the **equitization process** and define policy for effective management of divestment proceedings
- Enhance the approach to Foreign Direct Investment (FDI) Attraction
 - Develop a new **FDI attraction strategy** for Vietnam
 - Strengthen the **capacity of the Foreign Investment Agency (FIA)**
 - Set up **outreach initiatives with foreign MNCs** to build the local supplier base and clusters around foreign investments

Create the Foundations for Higher Productivity

Key Action Proposals: Policies (continued)

- Pursue a Cluster-Based Development Model
 - **Re-organize existing policies around clusters**, especially in areas linked to investment attraction, workforce skill development, industrial parks, and SME/private sector-development.
 - Conduct a **national cluster mapping project** to identify and assess clusters across the country
 - Encourage the launch of pilot cluster initiatives through the creation of a **Vietnamese Cluster Initiative Fund**

The Role of Government in Cluster Initiatives

Government should

- Support *all* existing and emerging clusters
- Participate
- Enable data collection and dissemination at the cluster level
- Be ready to implement recommendations

Government may

- Initiate/ Convene
- Co-Finance

Government should not

- Pick favored clusters
- Pick favored companies
- Subsidize or distort competition
- Define cluster action priorities

Industrial Policy versus Cluster-Based Policy

Industrial Policy

- Target areas of perceived **market demand** or **attractive technology**
- **Intervene** in competition (subsidies, protection, etc.)
- Favor **domestic** companies
- Require sustained **financial commitment** by the public sector
- Centralize decisions at the **national level**
- Has a high **failure rate**; short term impact but low sustainability



Distort and impede competition

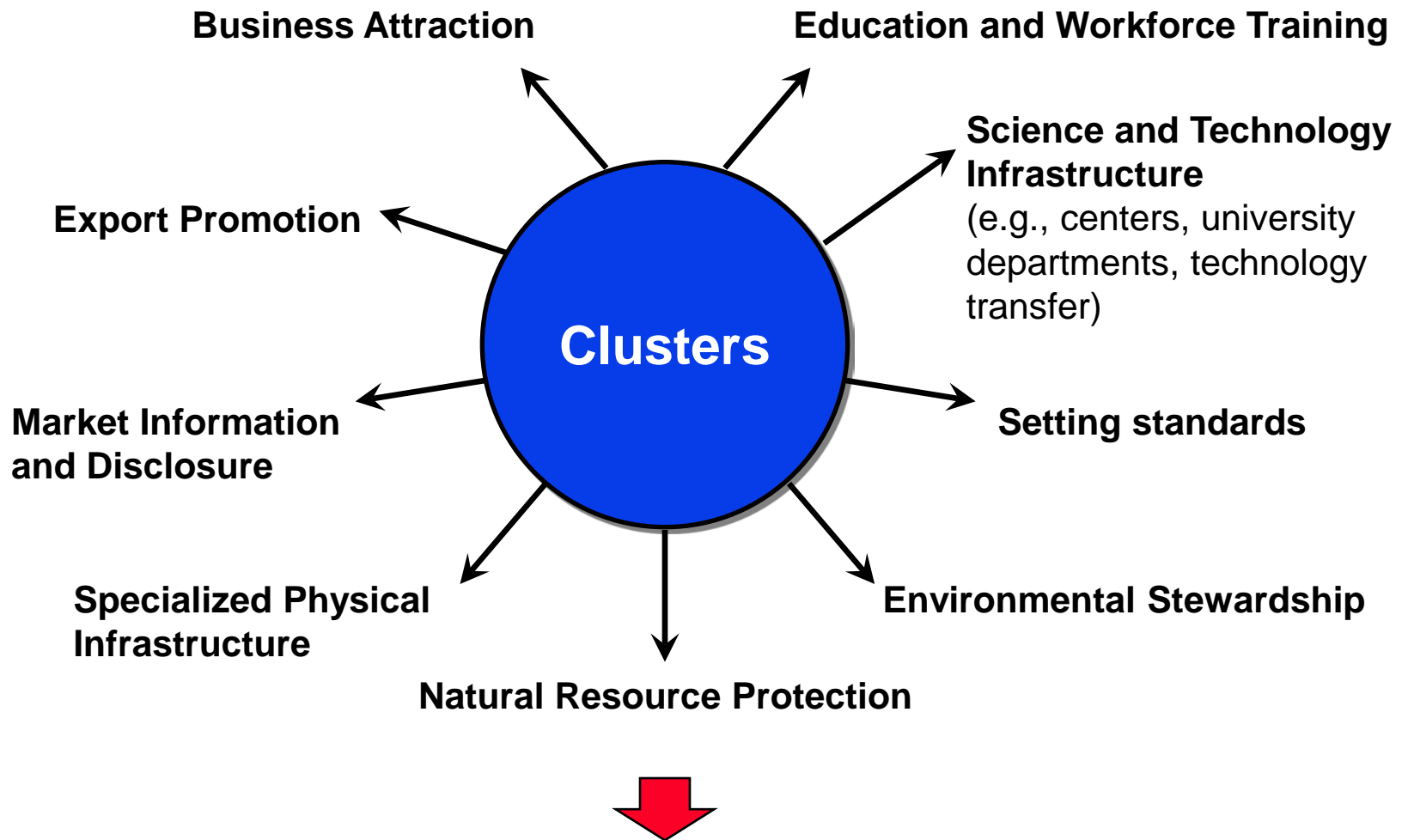
Cluster-Based Policy

- Leverage **existing assets, history,** and **geographic location**
- **All** clusters are good
- Enable competition to be more **productive and sophisticated**
- **Neutral** on ownership
- Require sustained **participation** by all actors
- Encourage initiative at **all** geographic levels
- Has rising impact over **time**; some quick successes are possible



Enhance and upgrade competition

Organize Public Policy around Clusters



- Clusters provide a framework for **organizing the implementation** of many public policies and public investments directed at economic development

Clusters, Growth, and Diversification



Grow activities
in **related clusters**

Grow activities in **new industries**
within existing clusters

Upgrade the **quality** of
activities in existing clusters

Create the Foundations for Higher Productivity

Key Action Proposals: Architecture

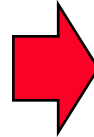
- Professionalize the Policy Process
 - Creation of a central **Regulatory Impact Assessment (RIA) unit** to review existing and a new laws and regulations
 - Establishment of an **institutionalized review process** for draft laws and regulations that invites stakeholders to comment
 - Development of a **medium-term budget planning process** with rolling updates
- Enhance Public Sector Capacity
 - Establishment a **Prime Minister's Policy Unit**
 - Launch an **anti-corruption campaign**
 - Review of the current **training system for public officials**, starting with pilot agencies
 - Develop comprehensive **civil service reform program** with modernization of organizational structures and HR practices, including hiring, pay, promotion, etc.

The Process of Economic Development

Shifting Roles and Responsibilities

Old Model

- **Government** drives economic development through policy decisions and incentives



New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and private sector organizations

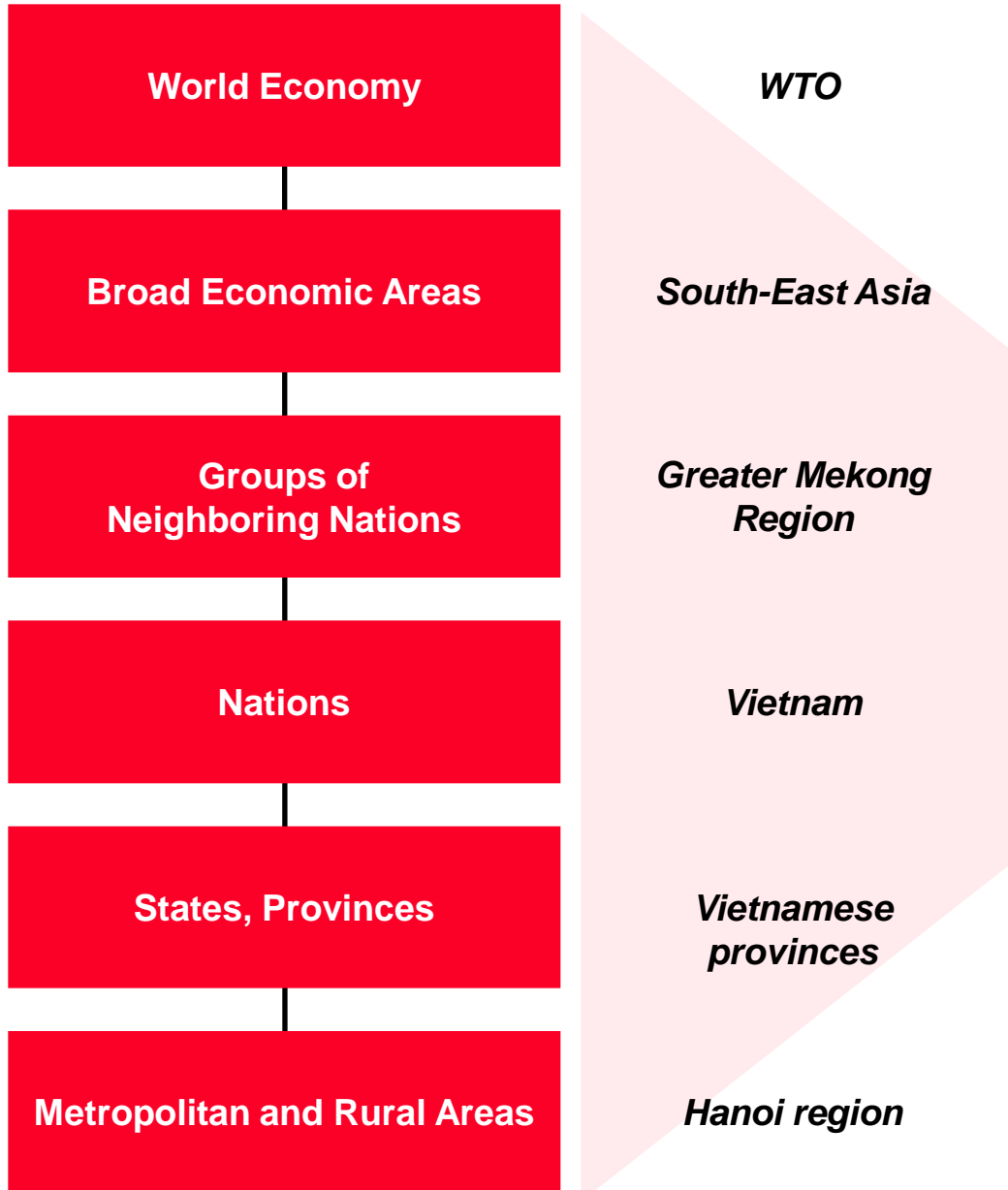
- Competitiveness is the result of both **top-down** and **bottom-up processes** in which many individuals, companies, and institutions take relevant decisions

Create the Foundations for Higher Productivity

Key Action Proposals: Architecture (continued)

- Strengthen Regional government
 - Launch funding competition for development of **regional economic development strategies**
 - Develop a **knowledge and skill infrastructure** for regional development
 - Review the current structure of **authority delegation** between the central and regional governments

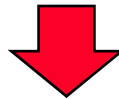
Geographic Levels Influencing Competitiveness



- The business environment at a given location is the cumulative outcome of policy at **all levels of geography**
- Microeconomic competitiveness raises the importance of **lower levels of geography**
- The **allocation of responsibilities** across levels of geography is a crucial policy challenge

Regions and Competitiveness

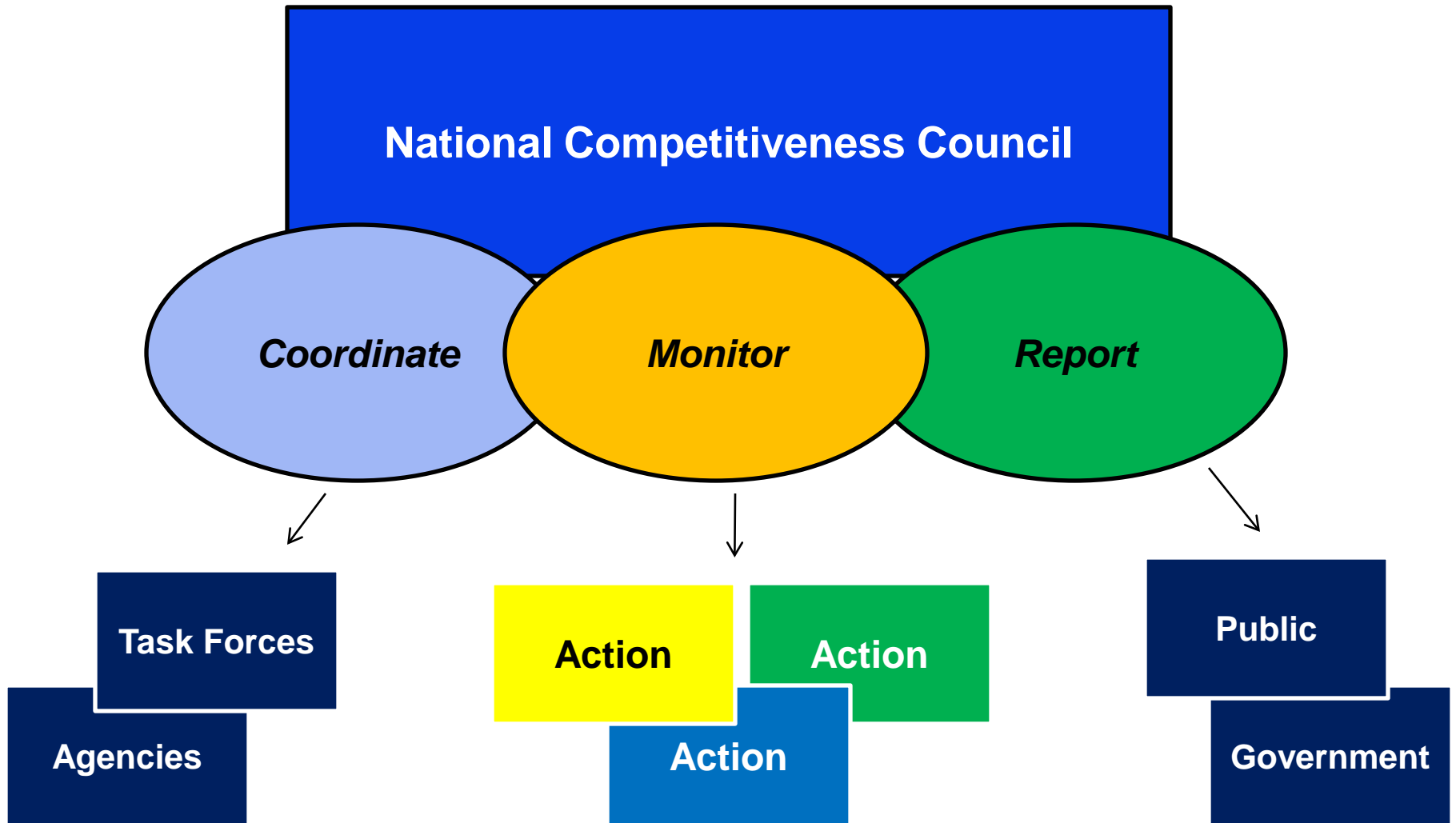
- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Region's **specialize** in different sets of clusters
- **Cluster strength** directly impacts regional performance
- Each region requires its own distinctive **competitiveness agenda**
- Improving competitiveness requires **effective policy collaboration** between regions and the national government



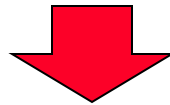
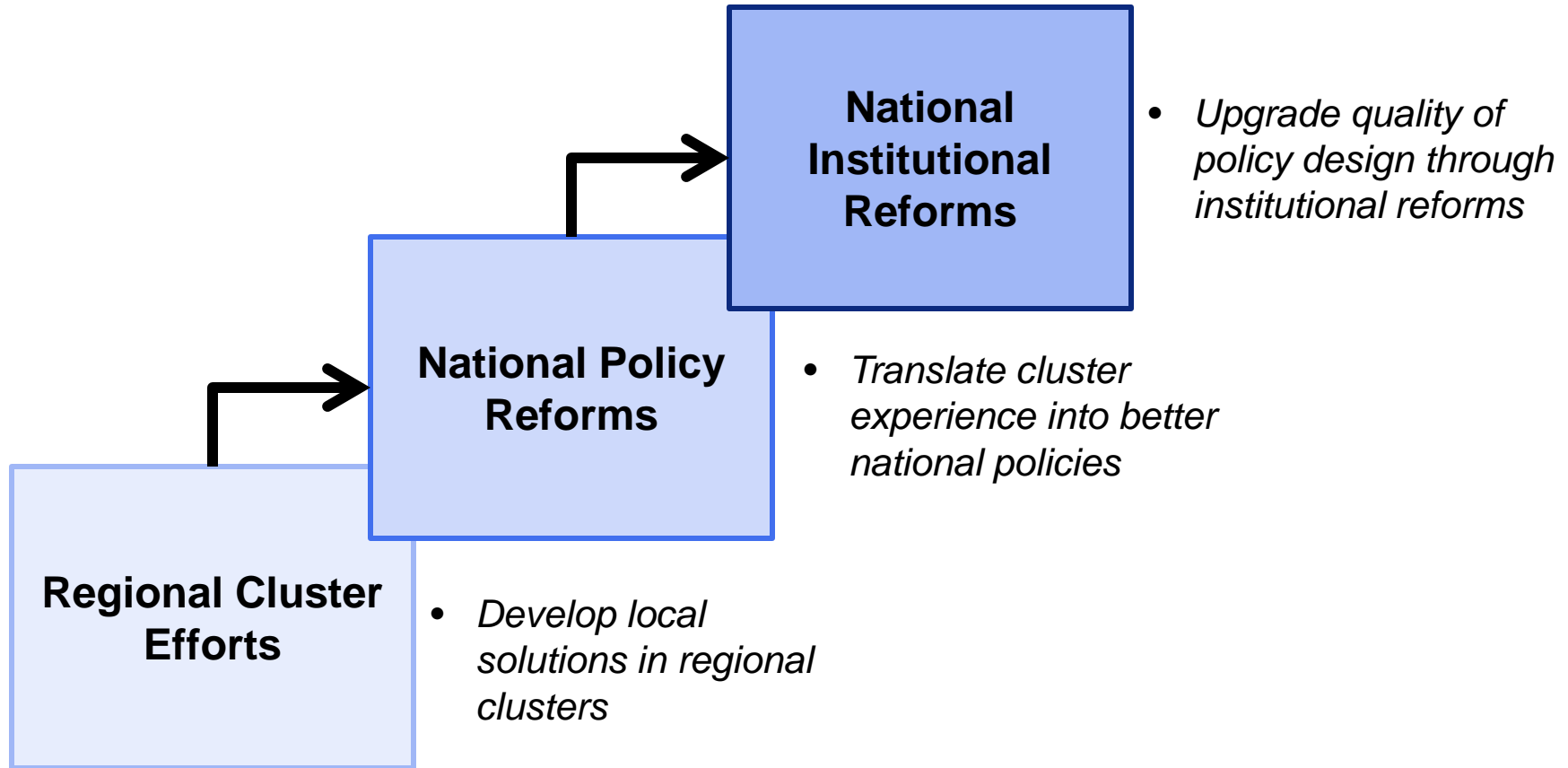
- **Decentralization** is important to foster regional specialization, internal competition, and greater government accountability
- Effective decentralization requires clarity on roles and responsibilities, and sufficient administrative **capacity at local and regional level**

Implementation Model

Creating a National Competitiveness Council



Sequencing Microeconomic Reforms



- A **bottom-up approach with gradually increasing scope** is more likely to engage all relevant constituencies than traditional top-down efforts

Creating a National Economic Strategy for Vietnam

National Value Proposition

- What is the **distinctive competitive position** of Vietnam given its location, legacy, existing strengths, and potential strengths?
 - What unique value as a business location?
 - For what types of activities and clusters?
 - And what roles with neighbors, the region, and the broader world?

Developing Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing** and **emerging clusters** represent local strengths?

Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer countries?

- **Priorities** and **sequencing** are necessity in economic development



Role of a National Value Proposition

- The value proposition should be an **inspiration** to the Vietnamese population
- The value proposition is a **signal to companies** from abroad and at home about **what assets and conditions can expect to find in Vietnam**
- The value proposition is a **signal to policy makers** in Vietnam of **what type of improvements are most critical** in order to make the value proposition a reality

Towards A Value Proposition for Vietnam

What is **Unique** about Vietnam?

- Location
- Demographics
- Legacy of influence from China, Europe, US
- Natural resources
- Established positions in selected global markets (footwear, apparel, coffee, and seafood products)
- Others

What is Vietnam's **Value Proposition**?

- Access to a growing market and region
- Second manufacturing location
- Integration/access to ASEAN
- Strong clusters in areas like footwear, apparel, coffee, and seafood products with potential to upgrade sophistication
- Others

Vietnam's Competitiveness Challenge: From Ambition to Action

