

**Study on the Economic Development Policy in  
The Transition toward a Market-Oriented Economy in  
The Socialist Republic of Viet Nam  
(Phase 3)**

**Final Report  
Vol. 2 Trade and Industry**

**March 2001**

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**Ministry of Planning and Investment  
The Socialist Republic of Viet Nam**

**Japan International  
Cooperation Agency**

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## Foreword

This study entitled "Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in Viet Nam (Phase 3)" was conducted within the framework of the technical cooperation program of the Government of Japan, in response to the request from the Government of the Socialist Republic of Viet Nam.

This study was carried out as a joint research by professionals specializing in economic policy from both Japan and Viet Nam. The research groups headed by Shigeru Ishikawa, Professor Emeritus of Hitotsubashi University for the Japanese side, and by Dr. Nguyen Quang Thai, Vice president, Development Strategy Institute, Ministry of Planning and Investment, for the Vietnamese side were set up in each country, assisted by consultant teams from leading institutes in both countries.

The research groups and consultant teams held a series of discussions, and conducted several field surveys. This report was prepared jointly by Japanese and Vietnamese research groups based on a mutual understanding.

I hope that the useful suggestions presented in this report will contribute to the formulation of policies for economic transition and sustainable development of Viet Nam, and it would be my great pleasure if the report would be used practically by concerned organizations, officials and experts.

I wish to express my sincere appreciation to Professor Ishikawa, Dr. Thai and each research member for their close cooperation extended to the study, and to the officials concerned for their valuable opinions.

March 2001



**Kunihiko SAITO**

**President**

**Japan International Cooperation Agency**



## Preface

The joint Viet Nam Japan Project of the Study on Economic Development Policy in the Transition toward a Market-oriented Economy in the Socialist Republic of Viet Nam, which we called in short Joint Vietnamese-Japanese Research (JVJR), has just terminated its 6-year activities of an undertaking for "intellectual cooperation" with the aim of advising various issues in designing and implementing the Five-year Social-Economic Plans in Viet Nam. JVJR was agreed upon in the consultations between the Governments of Japan and Viet Nam in 1994 and 1995 and was inaugurated in August 1995. The project was formally implemented under the Japan International Cooperation Agency (JICA)'s Social Development Studies Program as well as Technical Assistance Program.

Under the agreement, the research was to be conducted jointly by Japanese and Vietnamese study groups each consisting respectively of an average 20 academic scholars and high-ranking experts of a similar number.<sup>1</sup> Japanese study group was supported by professional consultants. In fact, these research members were regrouped into a small number of Study Group organized by different academic disciplines, and the joint studies were carried on mainly through these Study Groups. Moreover, the whole studies were conducted in three Phases and one Follow-up, and the Study Groups were specified for each Phase or Follow-up.

Below, the names of the Study Groups with their main study topics are shown according to this phasing.

### Phase 1 (August 1995 - June 1996)

Main topic: Issues relating to the draft documents about the 6th Five-Year Plan

- (1) Macro-economy Group
- (2) Fiscal and Monetary Group
- (3) Industrial Policy Group
- (4) Agricultural and Rural Development Group

### Phase 2 (July 1996 - March 1998)

Main topic: Issues relating to the participation to AFTA/APEC/WTO, and Industrial policy

- (1) Agricultural and Rural Development Group
- (2) Participation for AFTA/APEC/WTO and Industrial Policy Group
- (3) Fiscal and Monetary Policy Group
- (4) State Enterprise Reform Group

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<sup>1</sup> By the end of Phase 2, the Vietnamese-side members of JVJR Study Group consisted solely of the high-level officials and experts of Ministry of Planning and Investment, but thereafter the high-level officials and experts of other Ministries: Ministry of Finance, State Bank of Viet Nam, Ministry of Trade, Ministry of Industry, and Ministry of Agriculture and Rural Development and Ministry of Labor, War Invalids and Social Affairs were permitted to participate in the JVJR Study Group as fullfledged members.

## Follow-up Phase (July 1998 - July 1999)

Main topic: Issues arising from the impacts of the East Asian Economic Crises on the Vietnamese economy

- (1) General Commentary Group
- (2) Industry and Trade Group
- (3) Fiscal and Monetary Matters Group
- (4) Agricultural and Rural Development Group

## Phase 3 (September 1999 - March 2001)

Main topic: Issues relating to the draft documents about the 7th Five-Year Plan

- (1) General Commentary Group
- (2) Trade and Industry Group
- (3) Fiscal and Financial Reform Group
- (4) Agricultural and Rural Development Group
- (5) State-owned Enterprise Reform and Private Sector Promotion Group

While conducting these studies, we held a large number of workshop either on the Study Group level or the overall project level, and either in Tokyo or Hanoi. Workshop on overall project level numbered 12.<sup>2</sup>

The results of these studies and the policy options derived therefrom were published in official reports jointly by JICA and MPI.<sup>3</sup> In addition, we have attempted the commercial publication of a book on overall results of JVJR at the stage of the Phase 2 end.<sup>4</sup>

In retrospect, JVJR started at the period of Vietnamese economic development in which long years of Indo-Chinese War ended and the recovery from war-torn productive facilities and economic system minimumly completed, and therefore, it became possible for the government to think over Vietnamese economic development plans from a long-term perspective. We recognized on the other hand, that the Vietnamese economy was still at the embryonic stage of industrialization and market economy development. Hence, the

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### <sup>2</sup> Phase 1

Hanoi Preparatory Meeting (May 29, 1995); First Hanoi Workshop (August 28-29, 1995); Consultations on the work plan for joint research (November 27-28, 1995, Tokyo); Tokyo Workshop (January 28-29, 1996); Second Hanoi Workshop (March 1-2, 1996)

### Phase 2

Tokyo Workshop (March 22-23, 1997); Consultations on the progress of joint research and announcement of results (May 22-23, 1997, Tokyo); Hanoi Workshop (June 6-7, 1997);

### Follow-up

Hanoi Workshop (July 20-21, 1999)

### Phase 3

Tokyo Preliminary Meeting (May 30-31, 2000); Tokyo Workshop (July 26-27, 2000); Hanoi Workshop (December 8-9, 2000)

challenging task before us was, in a sense, how to combine the existing theories of development and other disciplines with the practical knowledge of the Vietnamese economy to obtain the really useful prescriptions for triggering the development process in such an early-stage developing country. In the more-recent years when Vietnamese economy encountered a series of difficult issues from the international economic aspects, the task was again quite new and challenging. It was to discover for a country of embryonic industrializations those development policies that enable her to industrialize herself without resorting to conventional policy of "infant-industry protection."

The results of the study have not yet been very satisfactory. But the progress achieved in the method of the joint study has been satisfactory in that the relationship of mutual trust between the Vietnamese and Japanese study groups and among all research members, and even deep friendship, have begun to take root while tackling with these challenging tasks jointly. We both sides believe this mutual trust and friendship would continue to alive even after this round of the joint research ended.

The Japanese side members of JVJR feel extremely fortunate that throughout these six years they have been given many opportunities to meet with the former Secretary General Do Moui, the present Secretary-General Le Kha Phieu and other Vietnamese leaders and seek their opinions. These opportunities were

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<sup>3</sup> Phase 1

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.1 General Comments*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.2 Macro Economy*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.3 Fiscal and Monetary Policy*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.4 Industrial Policy*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.5 Agricultural and Rural Development*, JICA, Tokyo.

Phase 2

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.1. General Comments/Agricultural and Rural Development*, JICA, Tokyo.

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.2. Participation in AFTA /APEC/WTO and Industrial Policy*, JICA, Tokyo.

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.3. Fiscal and Monetary Policy*, JICA, Tokyo.

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.4. State Enterprise Reform*, JICA Tokyo.

Follow-up

MPI/JICA(1999): *General Commentary / Industry and Trade*, JICA, Tokyo.

MPI/JICA(1999): *Financial and Monetary Matters*, JICA, Tokyo.

MPI/JICA(1999): *Agricultural and Rural Development*, JICA, Tokyo.

<sup>4</sup> Ishikawa Shigeru and Hara Yonosuke (1999): *Viet Nam no Shijo Keizai ka* (Marketization of the Vietnamese Economy), Toyo Keizai Shinpo-sha, Tokyo.



instrumental in bringing depth and strength to our study and findings.

The Vietnamese side members of the project express sincere thanks to JICA and its Viet Nam Office for supporting its research activities particularly in Japan.


This Final Report is submitted herewith to the leaders of Viet Nam Government as well as to other government agencies concerned. Also, we shall be presenting it to the interested parties in order to seek comments and opinions that would be useful for the possible future joint Vietnamese Japanese Research along the similar lines of the present work.

In addition, we have presented an Executive Summary in March 2001. This was prepared even before the Final Report, as it was required that the research outcome of Phase 3 could be available even briefly before the 9th National Party Congress. It is hoped that this Executive Summary will also be referred to by the readers.

March 31, 2001, Hanoi/Tokyo



Nguyen Quang Thai  
Vietnamese Cochair of the JVJR  
Doctor of Economics



Shigeru Ishikawa  
Japanese Cochair of the JVJR  
Doctor of Economics

## Acronyms & Abbreviations

ADB:	Asian Development Bank
AFTA:	ASEAN Free Trade Area
AICO:	ASEAN Industrial Cooperation
APEC:	Asia-Pacific Economic Cooperation
ASEAN:	Association of South East Asian Nations
CEPT:	Common Effective Preferential Tariff
CGE:	Computable General Equilibrium
CIEM:	Central Institute for Economic Management
CIS:	Commonwealth of Independent States
CKD:	Completely Knocked Down
CMT:	Cut, Make and Trim
CONCETTI:	Consulting and Research Company for Technology Transfer and Investment
CPI:	Consumer Price Index
DSI:	Development Strategy Institute
EAF:	Electrical Arc Furnaces
FDI:	Foreign Direct Investment
FOB:	Free on Board
FYP:	Five-Year Plan
GC:	General Corporation
GDP:	Gross Domestic Product
GRIPS:	National Graduate Institute for Policy Studies
GSO:	General Statistics Office
HNU:	Viet Nam National University, Hanoi
ICT:	Information and Communication Technology
IMF:	International Monetary Fund
IT:	Information Technology
JICA:	Japan International Cooperation Agency
JVJR :	Joint Vietnamese-Japanese Research (officially “the Study on the Economic Development Policy in the Transition toward a Market-oriented Economy in the Socialist Republic of Viet Nam”)
LLDC:	Least Less Developing Country
MARD:	Ministry of Agriculture and Rural Development
MITI:	Ministry of International Trade and Industry (currently “the Ministry of Economy, Trade and Industry”)

<b>MNC:</b>	<b>Multi-National Corporation</b>
<b>MOF:</b>	<b>Ministry of Finance</b>
<b>MOI:</b>	<b>Ministry of Industry</b>
<b>MOSTE:</b>	<b>Ministry of Science, Technology and Environment</b>
<b>MOT:</b>	<b>Ministry of Trade</b>
<b>MPI:</b>	<b>Ministry of Planning and Investment</b>
<b>NEU:</b>	<b>National Economic University</b>
<b>NISTPASS:</b>	<b>National Institute for Science and Technology Policy and Strategy Studies</b>
<b>NPL:</b>	<b>Non-Performing Loan</b>
<b>NTB:</b>	<b>Non-Tariff Barrier</b>
<b>ODA:</b>	<b>Official Development Assistance</b>
<b>OOG:</b>	<b>Office of Government</b>
<b>PCF:</b>	<b>People's Credit Fund</b>
<b>PE:</b>	<b>Polyethylene</b>
<b>PP:</b>	<b>Polypropylene</b>
<b>PPH:</b>	<b>National Political Publish House</b>
<b>PRSP:</b>	<b>Poverty Reduction Strategy Papers</b>
<b>PVC:</b>	<b>Polyvinyl Chloride</b>
<b>SBV :</b>	<b>State Bank of Viet Nam</b>
<b>SI:</b>	<b>Supporting Industry</b>
<b>SME:</b>	<b>Small and Medium Enterprise</b>
<b>SOCB:</b>	<b>State-Owned Commercial Bank</b>
<b>SOE:</b>	<b>State-Owned Enterprise</b>
<b>SSC:</b>	<b>Southern Steel Corporation</b>
<b>SSC:</b>	<b>State Securities Committee</b>
<b>TISCO:</b>	<b>Thai Nguyen Iron and Steel Corporation</b>
<b>TVE:</b>	<b>Township and Village Enterprise</b>
<b>UNDP:</b>	<b>United Nations Development Programme</b>
<b>VASI:</b>	<b>Viet Nam Agricultural Science Institute</b>
<b>VAT:</b>	<b>Value-Added Tax</b>
<b>VBA:</b>	<b>Viet Nam Bank for Agriculture and Rural Development</b>
<b>VBP:</b>	<b>Viet Nam Bank for Poor</b>
<b>VNCC:</b>	<b>Viet Nam Cement Corporation</b>
<b>VSC:</b>	<b>Viet Nam Steel Corporation</b>
<b>WEI:</b>	<b>World Economic Institute</b>
<b>WTO:</b>	<b>World Trade Organization</b>

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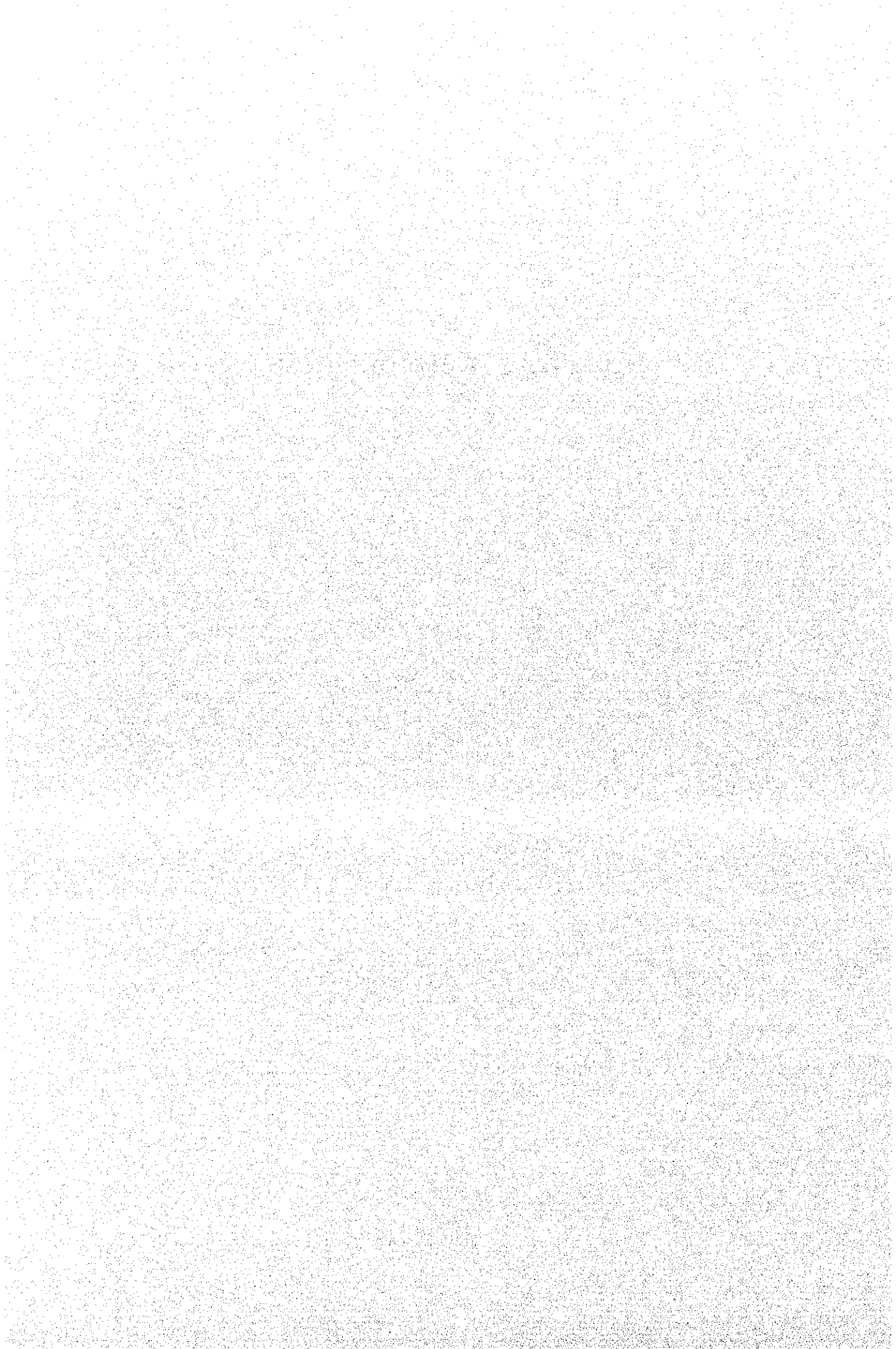
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### **Member List of Research Group**

# **Chapter 1 General Studies**



## **The Industrial Policy of Viet Nam**

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### **Introduction**

The Draft Political Report to be submitted to the 9th Party's National Congress states "The overall objective of the 2001-2010 Socio-economic Strategy is to speed up industrialization and modernization so that to overpass the state of underdevelopment, to build up some selected heavy and capital industries that are of strategic importance to provide inputs for the other sectors of the economy and to meet the requirements of national defense, and to create foundations for Viet Nam to transform into an industrialized country by 2020".

In order to achieve these ambitious objectives, it is necessary for Viet Nam to build up an effective industrial policy. Given the strategic importance of industrial policy, the public awareness of this type of economic management pattern is however relatively poor. That makes the issue of industrial policy become even more complicated, as the concept itself is controversial. Research on industrial policy therefore makes sense both theoretically and practically.

The research on the Viet Nam industrial policy aims at reviewing theories and experiences of industrial policy. This is the foundation for further assessment and comments on particular industries such as steel, garment and textile, agricultural and aquacultural processing, and softwares. The research focuses on the four following parts:

1. Part I titles the theories of industrial policy presents essential concepts of industrial policy, as well as debates on this type of economic management pattern.
2. Part II concentrates on experiences of Japan and other NIEs in implementing their industrial policies as well as lessons for Viet Nam.
3. The real situation of the Viet Nam industrial policy is analyzed in the third part. Viet Nam has industrialized its economy for about 40 years. The country is however agricultural-based economy. Insights of industrialization of Viet Nam are divided into two period: the pre-Doi moi and the Doi moi.
4. Finally, the research proposes certain recommendations to build up an effective industrial policy in



the 2001-2020 period. This part focuses on major principles and policy options to ensure a good performance of industrial development.

The research is led by Prof. Dr. Mai Ngoc Cuong, Director of the Scientific Management Department. Team members include other researchers of the National Economics University. The part I, II are prepared by Prof. Dr. Nguyen Duy Bot, Dean of The Faculty of Commerce, and Pham Thai Hung (MSc), Lecturer at Faculty of Commerce, Part III by Dr. Phan Dang Tuat, Vice Dean of Industrial Business Administration and Basic Construction, Part IV by Prof. Dr. Mai Ngoc Cuong.

## **Part 1 Industrial policy: an overview**

### **1. The context of industrial policy**

A quarter century after the Second World War was the golden age of capitalist countries. These countries experienced a period of rapid growth, with both low inflation and unemployment rates. This impressive economic growth has put the Keynesian economic management into the most popular in great powers of the world.

However, oils shocks in the 70s made an end to that golden age. After two decades, there had been several structural changes in the world economy. The switch of labour from traditional agriculture into industries and services removed labour surplus, bought into a tight labour market with increasing labour cost and trade union power. Investment by MNCs into manufacturing became the major form of international capital movements. In addition to developed countries in the West, Japan has developed into a main economic power. The newly industrialized countries in East Asia have acquired the leading position in some international markets such as garment and textile, electronics, ship building, and steel industry. These structural changes had significantly changed the world industry. The rapid economic growth before the 70s clouded the fact that there was a remarkable difference in economic management system among industrial countries. This difference was factualized in different speeds of adjustment towards the structural changes.

In responding to these structural changes, industrial countries had to adjust their economic management system. A brave new world of monetarism and supply-side economics seemed to be on central debate. The declining competitiveness of the UK economy (manifested in its massive trade deficits) and the threatened position of the US economy as the world leading economic power provided more incentives for capitalist governments around the world to produce various attempts to examine alternative ways to run the capitalist economy, or alternative patterns of economic management, especially after the first half of the 1980s.

One of the attempts to search for alternative patterns of economic management is the literature on social corporatism. This literature starts with observations that some, notably Scandinavian advanced capitalist countries have not experienced the low economic growth with massive unemployment that has characterized many industrial countries since the late of 1970s. These countries achieved near-full employment, combined

with low inflation, and constantly rising levels of incomes and consumption for most of the population. Still more impressive was the fact that these countries have successfully restructured their economies in relatively painless manner in responding to the structural changes of the world economy. Especially, this success was achieved under strong trade unions (often accused of creating rigidities in the labour market which obstruct structural changes) and high taxation (often accused of being a disincentive to hard work and entrepreneur activity).

The essential explanation for this impressive performance is found in the tripartite bargaining between the centralized employer's organization, the centralized trade unions, and the state, through which the levels of investment, wage and employment in the economy was coordinated to ensure an effective structural change without causing high inflation and/or massive unemployment. In addition, the egalitarian wage policy, and an active labour market policy (i.e. retraining of and migration assistance to the dislocated workers) are the major means with which these countries have avoided social pressures (specially by the loosing groups in the society) on restructuring process.

Another major attempt to find alternative patterns of economic management is represented by the so-called industrial policy debates. Industrial policy, despite its importance in many industrial countries (notably France and Japan), and some Asian developing countries (notably Singapore, South Korea, and Taiwan) during the post-war period, was largely ignored until the late 1970s in the English-speaking academic world.<sup>1</sup>

The supporters of industrial policy argue that the success of East Asian countries is essentially due to the active role of the state in formulating a vigorous economic system which promotes capital accumulation, innovation, and productivity growth. The states in these countries exercise their interventions by direct state involvement in the fate (especially investment and technical change) of individual industries. Moreover, they argue that the declining competitiveness of the US and UK manufacturing and some other industrial countries is not only the result of macroeconomic mismanagement but of lagging investment, innovation, and productivity growth. Direct intervention through particularistic policy is the typical characteristic of industrial policy. This feature stands in sharp contrast to the indirect and general nature of macroeconomic policy, which was the main pillar of the Keynesian pattern of economic management.

The industrial policy, in contrast with the social corporatism literature where a lot of theoretical advance has recently been made, has suffered from the lack of a comprehensive theoretical ground. This is partly due to the fact that the proponents of industrial policy argument have concerned largely with practical policy issues, but mainly because there was very little in conventional economic theory that could justify such policy.<sup>2</sup> In the absence of a sound theoretical foundation to explain why industrial policy works, even the

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<sup>1</sup> The Palgrave Dictionary of Economics, one of the most influential dictionaries of economics, does not has industrial policy as an entry.

<sup>2</sup> In some recent resraches on industrial policy experiences of East Asian countries, authors only focusses on the practice of industrial policy in these countries.

most ardent proponents of industrial policy could do no more than describe in details how it works. Fortunately, there have been some recent developments in economic theory that can improve this situation.

## **2. Theories of State intervention into a market economy: a review of literature**

The role of state in a market economy has been one of the central issues in economic debates (Deane, 1989). Most economists recognize that there is a need for the state to interfere into a market economy. However, they strongly disagree on when and how state interfere?

### *(1) The market-failure literature*

The most developed literature on state intervention is that of market failure or welfare economics. The literature is primarily concerned with the failure of the market mechanism in equating private and social costs and benefits, and with the possible corrections to such failures through state intervention.

Public goods is one of the most popular failure of free market. Since it is possible for one to consume the good without paying for it, once somebody else has paid for it (i.e. non-excludability), there is always incentive for free-rider not to pay for the good (Scotter, 1985, pp. 57-63). The possibility of such strategic behaviour means that public goods are likely to be underprovided due to the free-rider problem or the problem of collective action. The state therefore needs to intervene by taxing people and providing public goods with the revenue.

Externalities provide another justification for state intervention. Externalities exist where there are some spill-over effects from an individual's activities to those of others, leading to a discrepancy between the private cost/benefit structure and the social cost/benefit structure. The presence of positive (negative) externalities means that private quantities of the good are likely to be underprovided (overprovided) compared with social optimal quantities. In principles, it may be possible to overcome this problem by defining property rights more precisely and having negotiations between the parties affecting and affected. However, in many cases, it is economically impossible to do so, because of the transaction costs involved in information acquisition, negotiation, and contract enforcement.

The existence of economies of scale can result in non-competitive market structure. Since non-competitive equilibrium price is higher than competitive price, consumer surplus is eroded. Part of this consumer surplus erosion is transferred into producer surplus, but the other main part is passed into deadweight loss (the Marshallian triangle). Despite of the second-best theory and the argument that state intervention may also result in non-competitive market structure, the existence of economies of scale leading to non-competitive market structure is still another market failure that justifies for state intervention.

### *(2) The political economy of state intervention*

The market failure literature justifies state intervention by implicitly assuming that the objective of the

state is to serve the public interests. In contrast, the political economy viewpoints, both on the left (for example the Marxist) and on the right (for example the Chicago school) strongly rejects this assumption.

The autonomous-state approach views that the state should be regarded as a "dynamic independent force" (Findlay, 1990, p.195) with its own objective that is likely to be different with that of the society. State may pursue a certain degree of autonomy, especially where no social class is powerful enough to significantly influence or to impose its will on state decisions. Under such circumstances, state may act to maximize state revenue.

The interest-group approach views the state as an "arena within which economic interest groups or normative social movements contended or allied with one another to shape the making of public policy decisions about allocation of benefits among demanding groups. When an industry is of strategic importance to the economy, this industry formulates a strong interest group. The power of this group due to its strategic importance is likely to force the state to give decisions in favour of that industry at expense of the others. Some Marxists have argued that the state existence heavily depends on the reproduction of the dominant mode of production in society. The state therefore has to serve the interests of the economically dominant class in that society—that is the capitalist class in the capitalist countries. Under such situation, it is not the objective of the state to intervene to ensure the public interests.

The political economy literature goes further on state intervention debate with the theory of *rent-seeking bureaucrats*. The theory postulates that bureaucrats are in no sense different from other individuals in pursuing their own interests. The administration system of a state consists of bureaucrats at different levels. These bureaucrats also act under the light of the invisible hand. According to Niskanen (Niskanen, 1973, p. 22) among several variables that may affect the bureaucrats' decisions are: salary, perquisites of the office, public reputation, power, patronage, output of the bureau, ease of making changes, and ease of managing the bureau. All except the last two items are a positive function of budget revenue. This leads to budget maximization instead of correcting market failure as argued by welfare economists.

In short, distinct from the market failure literature, the political economy literature justifies state intervention base on the autonomy, socio-economic structure, and structural characteristics of the state.

### (3) *The government failure literature*

In many theories of state intervention it is explicitly or implicitly assumes that the state knows everything and can do everything. In welfare economics it is assumed that the state has all information necessary for social-welfare-maximizing intervention and is able to accomplish what it sets out to do. The political economy literature also suffers from the same problem.<sup>3</sup>

In fact, as market mechanism may fail, the state may also fail to achieve its intervention's objectives.

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<sup>3</sup> In the market failure literature, the expected result is improvements in public welfare, whereas in the political economy literature, the expected result of state intervention are certain benefits for the government or its bureaucrats.

The government-failure literature has two major strands. *First*, the informational argument postulates that the state may be able to collect and process data necessary for corrections of market failures only at costs that are greater than the benefits from such corrections. *Second*, in the presence of *rent-seeking activities*, state intervention may result in certain costs to the society, which is likely to be greater than benefits from its intervention.

In summary, the welfare economics convincingly identifies and explain how market may fail and what kinds of interventionist measures should be employed to correct such failures. However, according to other theories on state intervention, the market failure literature bases on a set of strong arguments on the nature and ability of the state. Even if one does not accept the contractarian viewpoint that since the state is a product of a social contract among free individuals, it has no right to interfere into the market, there are still two questions left: (i) does the state really serve the public interest? and (ii) can the state achieve what its sets out to do? Various answers to the first question combined formulate the political economy literature. Attempts to provide appropriate answers to the second question are the main concerns of the government-failure theory on state intervention.

#### (4) *A New Institutional theory*

As mentioned above, state intervention into market results in certain costs that are likely to be greater than benefits from state intervention. However, this argument is not sufficient to conclude that the state cannot effectively interfere into market.

The new institutionalist theory postulates that informational costs can be reduced through appropriate changes in the organizational structure of the bureaucracy and in the values held by the members of the administration system and the society as a whole. At the same time, the *rent-seeking* costs can also be reduced through changes in the rule of political competition and the tools of state intervention.

Essentially, the new institutionalist theory pinpoints that the market is not the only coordination mechanism. The state, market, and other economic agents including firms and households have certain roles as important coordination devices. The supporters of the new institutionalist theory sees that the state can coordinate among these different actors to make recourse allocation decisions at costs that are less than the market mechanism through an effective property-rights system, macroeconomic stabilization, organizing society into large groups, promoting national ideologies, and coordinating complementary investment decisions. This type of state intervention is especially attractive as it is relatively cheap compared with other types of state intervention, including central planing.

The proceedings of this part will focus on industrial policy as an alternative way of state intervention. A question arises at once is that: if industrial policy is an alternative way of state intervention, which issues of the aforementioned literature on state intervention can be identified in the industrial policy debate?

### 3. Industrial policy: an overview

As analyzed in the previous part, industrial policy is an important component of the policy set in industrial countries and is believed to be the essential cornerstone in the impressive economic growth of NIEs generation I and II. Series of research by OECD in the early 1970s were first pioneer papers on industrial policy debates in English-speaking academic world. In the UK, the industrial policy became a controversial issue with the introduction of industrial policy programmes at the end of the 1970s by the Labour government. To a certain extent, the industrial policy is argued to be a possible way to halt deindustrialization. The debate on industrial policy continued in the central debate in other European countries as a response to industrial crisis in the late 1970s. However, the industrial policy debate seemed to be most hotly controversial in the US, especially in the early 1980 with various papers by *Harvard Business Review*.

#### (1) *The manufacturing and economic growth*

Industrial policy emphasizes the importance of manufacturing in economic growth. The proponents of industrial policy postulates that the US and the UK economies are deindustrializing (the sharp decline of industrial output and employment in the national economy) in the recent three decades due to the neglect of the manufacturing industries. Given the strategic importance of manufacturing, this neglect is a dangerous mistake (Cohen and Zysman, 1987). In addition, macroeconomic adjustment measures were probably not enough to promote manufacturing growth as given the characteristics of manufacturing, allocation of capital is more important than aggregate level of investment. (Reich, 1982, p. 75). The state therefore should intervene to promote industrial development, and if necessary using industrial targeting (Reich, 1982; Johnson (ed.), 1984).

However, this emphasis is controversial itself. The opponents of industrial policy argue that the advanced industrial countries have moving towards becoming post-war economies, where services are the central activities of economic performance (Bhagwati, 1988, pp. 110-14). Therefore, intervention measures by the government in favour of industries are not only necessary but also negatively affect the economy. According to Burton (1983), favouring industries would block the natural-selection mechanism of the market by hampering and even preventing the necessary reallocation of resources towards services, and hence hinders long-term economic growth.

However, this structural change towards service activities does not happen only because people want more services when they grow richer, as was proposed by the some supporters of the theory of the post-war industrial economy. The major reason for such a structural shift seems to be the relative cost-inflation of services due to their lagging productivity growth (compared with that of manufacturing), rather than a real shift towards services as income rises.

In addition, deindustrialization observed in some advanced capitalist countries is an unavoidable long-term result of differential productivity growth rates between manufacturing and services, and is not

necessarily a result of the declining competitiveness of manufacturing industries. Even successful exporters of manufacturing like Japan and Germany have experienced deindustrialization, defined as the decline of manufacturing employment and output (at current prices) in the total employment and output. In other words, deindustrialization and the declining competitiveness are two different concepts, although industrial decline can speed up deindustrialization (Rowthorn and Wells, 1987). Therefore it is not true to conclude that manufacturing sector of one economy is in trouble only because it is deindustrializing in terms of the above definition.

Finally, the fact that deindustrialization is an unavoidable tendency does not necessarily mean that a country can ignore manufacturing and rely fully on service activities. This is largely because many services are either essentially non-tradable (for instance legal services, child care, primary and secondary education, governmental services...) or have a large non-tradable component (for example transportation, distribution...) Therefore, a growing share of services in the national economy must be compensated by growth productivity in manufacturing if the country does not want to be trapped into balance-of-payments problems in the long run.<sup>4</sup>

## (2) *The concept of industrial policy*

Industrial policy, as aforementioned, is a controversial concept. The experience of Japan is a typical example of the industrial policy debate. The opponents of industrial policy argues that subsidies and governmental loans to the Japanese industries are relatively small in comparison with those in some other European countries, and industrial policy therefore is not the major reason for Japan success (Trezise, 1983). On the other hands, the proponents of industrial policy point out that the administrative guidance system makes people underestimate the success of the Japanese industrial policy. The proceedings give some viewpoints on the nature of industrial policy.

Theoretically, industrial policy has many contracting views. It can be either general or selective in nature; vertical or horizontal in emphasis; and positive or negative in impact. A general industrial policy promotes or protects the wider economy whereas a selective industrial policy supports specific sectoral winners and losers. A set of vertical policy measures targets particular industries for assistance whilst its horizontal counterpart encourages widespread functional development in areas such as education and training, research subsidies. In term of impacts, a positive industrial policy facilitates structural adjustment and fair market competition, whereas negative industrial policy discourages structural adjustment, and hinders market competition.

The broad definitions of industrial policy were proposed by Reich and Pinder. Reich (1982), the most

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<sup>4</sup> This viewpoint was proposed on the observation that agriculture rarely overpass the growth rate of about 5%. Except certain breakthroughs like the Green Revolution in India, or Khoan 100 in Viet Nam to some extents, there is almost no breakthroughs in agricultural productivity.

prominent proponent of industrial policy in the USA includes the following items in his definition of industrial policy: (i) favouring promising industries; (ii) human resource development policy; (iii) developing infrastructure; and (iv) regional policy (p. 75). Pinder (1982), a British proponent of industrial policy regards all the following in his definition of industrial policy: (i) general industrial support policy; (ii) financial incentives for investment; (iii) public investment programmes; (iv) public procurement; (v) antitrust policy; (vi) R&D supports; (vii) infant industry argument; (viii) supports for small firms; (ix) regional development policy; (x) trade protection measures (pp. 44-52).

The opponents of industrial policy also approach broad meanings of industrial policy. Corden (1980) argues that *"the best industrial policy may be to provide an adequate infrastructure, some limits on the power of monopolies and cartels, a education system that helps to generate the human capital for industrial success, indicative guidance about industrial prospects (without compulsion or subsidies), the stability and simplicity in the system of taxation, a free and flexible capital market and a steady movement towards zero sectional protection, whether direct or indirect"* (pp. 182-83). In other words, industrial policy consists of all directions, policies, and measures to influence industries (Donges, 1980). These broad understandings of industrial policy as a catch-all term are meaningful only in theoretical analysis. Such definitions of industrial policy lead to overloads when analyzing industrial policy in practice.

Johnson (1984) provides more focused definition of industrial policy by stating that industrial policy is *"a summary term for the activities of governments that are intended to develop or retrench various industries in a national economy in order to maintain global competitiveness"* (p. 7) More particularly, industrial policy includes policy measures at firm level to promote entrepreneur activities and policies at macro level to create a favourable macroeconomic environment for promoting business and achieving other policy objectives. Landesmann (1992) makes a further contribution to industrial policy background by emphasizing the particularistic, or discriminatory, nature of industrial policy. Landesmann states that industrial policy *"is designed to be specific, i.e. directed towards particular industries, firms, regions, groups in the labour markets, etc., rather than general... Implicit in industrial policy formulation and execution are therefore always trade-offs between different groups, regions, industries, etc."* (p. 245).

### (3) A general view of industrial policy in Viet Nam

As aforementioned, industrial policy is a controversial concept that is relatively new to economists in developing countries, especially in terms of theoretical debates. In such context, (i) does it exist a kind of industrial policy in Viet Nam? (ii) If yes, how can it be described?, and (iii) how has that industrial policy affected the Viet Nam economic performance, especially in the Doi moi. This part only focuses on the second question by identifying a theoretical definition of Viet Nam industrial policy. The other two question will be the subjects of the third part.



In the particular situation of Viet Nam, the concept of industrial policy has been rarely observed in mass media and even in academic research by Vietnamese economists. The term *industrialization and modernization* is another related concept that has been very often used. In principles, the terms *industrialization and modernization* includes all objectives, directions, and set of policy measures to transform Viet Nam from a backward agricultural economy into an industrialized economy. The essential components of the concept of industrialization and modernization are sectoral development, industrial development, regional policy, particularly: (i) economic structure: industry - agriculture - services; (ii) urban/rural structure; (iii) business structure between large and small and medium enterprises; (iv) structure of state-owned and non-state-owned enterprises. The set of policy measures to achieve these objectives consists of financial incentives, human resource development; R&D supports; encouraging promising industries; and other trade protection measures.

We define industrial policy of Viet Nam is a set of directions, policies, and particular measures to develop certain industries in order to transform Viet Nam into an industrialised economy by 2020.

The objectives of the Viet Nam industrial policy varies in line with different periods of time. Presently, the major objective of the Viet Nam industrial policy are as follows:

*First*, to promote international competitiveness of domestically produced products so that to exploit the comparative advantages of the economy.

*Second*, to protect the some selected domestic markets and industries before fully integrate into the regional and the world economy.

In addition, it is important to note that the aforementioned descriptions of industrial policy in the first part were inspired by experience of some advanced capitalist countries and other Asian NIEs. These definitions may not work in Viet Nam, whose economy is in the transition from a central planing economy into a market economy. After about 15 years of the Doi moi, Viet Nam has integrated into the regional and the global economy. Understanding of industrial policy must take into account these two features as follows.

In the transition into a market economy, SOEs reform has been one of the most significant challenges encountered the government. Most of SOEs are allocated in industries. Therefore, the Viet Nam industrial policy aims at developing the national industries means that this is the policy that largely targets at reforming SOEs. The policy measures of SOEs reform includes: privatization, equitization, rent, merge, and bail-out. These are also policy measures of the Viet Nam industrial policy.

In addition, the integration of Viet Nam into ASEAN/AFTA, APEC, and the application for WTO membership have been strong evidences for the Viet Nam's commitments to liberalize the national economy. Given this integration, exports are encouraged as an engine of economic growth, among the others, and at the same time, the trade policy should be neutral to importation of goods and services. This situation imposes a strict constraint to the government in protecting its domestic markets and industries

at least in the medium- and long-run.<sup>5</sup>

## Part 2 The industrial policy of some EAST ASIAN countries and the experience for Viet Nam

The first part of this study presenting a review of the industrial policy literature and an understanding of industrial policy in Viet Nam has shown that the concept of industrial policy was occurred after the Second World War when the Japanese government conducted a range of policy measures to reconstruct its badly-destroyed economy. Similarly, the South Korea started its industrial policy after the North-South war in 1953, ending with division of Korea into the South Korea and the Socialist Republic of Korea. A little earlier, Taiwan formulated its set of industrial policy measures at the beginning of the 1950s in a range of attempts to obtain economic independence so that Taiwan would be able to state independent from the mainland China. The experience of these countries have proved that industrial policy could be a wonderful pattern of economic management when building up an economy from a low and backward background. Owing to this policy, some countries have developed into NIEs like Korea, Taiwan, and Singapore, while the others have performed even more impressively to become an advanced industrial countries like Japan, which has been long recognized as a miracle. In searching on these countries experience in conducting their industrial policies, the following points are most notably.

### 1. The industrial policy firstly aims at building up domestic industries

Starting industrialization with badly-destroyed economies, the first very questions to Japan, Korea, and Taiwan were to reconstruct their economies. Taiwan started industrialization with nationalization of medium and large firms previously owned by the Japanese colonies in sugarcane, energy, and oil refinery after 1949. Smaller firms in cements, and papers industries are privatized. This privatization mobilized savings by Taiwanese landlords, speeding up structural changes in agriculture. In addition, a range of TBs and NTBs was set up to protect import substitution industries. Financial assistance from the US was allocated by the government to subsidy importation of capital goods that were then used in import substitution firms.

After the World War II, the badly-destroyed Japanese economy was lagging behind the other capitalist countries. Some years after the war, the US diplomatic strategy against Japan was to keep the Japanese economy in a trap of low growth in order to crush any protests. The start of the cold war however induced the US administration to soon convert completely its strategy from a hostile into a friendly and supportive one in attempts to fight against the development of the Communism in Asia. The Marshall plan was especially helpful for the Japanese industries in its reconstruction. At the beginning stages, infrastructure development,

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<sup>5</sup> In its commitment to CEPT/AFTA, Viet Nam has to complete CEPT requirements by 2006. This is presently the most significant constraint on types of policy measures to promote industrial development in Viet Nam.

industries including energy, coal, steel, and ship building were the focus of efforts by the government. A very first framework of an industrial policy was also shaped in these periods. Within this framework, priority industries received various supports ranging from financial incentives to other trade measures. In addition, the importation of capital goods was strictly controlled so that the government could administratively directed capital goods in to their selected industries. Prices controls over outputs of the priority industries were also introduced.

The military defeat of the Japanese colonies in the World War II gave an end to a long period being an Japanese invaded territory of Korea. The end of the war however raised a new question to the Korean independence. The two administrative areas were established according to the agreement of the Allies. The North of Korea was managed by the former Soviet Union, the South of Korea was supported by the US. The conflict between these two great powers soon induced Korea into a civil war (1950-53). The former Soviet Union and China supported the North, while the US, through its dominant voice in the UN supported the South. The four year civil war was ended with the division of Korea into the South Korea and the Socialistic Republic of Korea in the North. This division does presently exist. The administrative system in the South Korea (Korea, hereafterin) is therefore largely shaped by the US democracy.

The temporary peace in Korea influenced its economy in three aspects (i) the land reform; (ii) the nationalism; and (iii) the US financial assistance. The slavery was abolished in 1953. Landowners were forced to remove into industries and trading. Strict controls over land allocation allowed the government to freely direct agricultural development. Various measures in favour of industries, at expense of agriculture induced a huge labour mobility from the rural into urban areas. In the 1949-62 period, there was a number of more than 5 million people moved from agricultural production in the rural areas into industrial activities in big cities.

Regarding the nationalism, as the cold war became increasingly hostile, and the awareness of the conflict between the North and the South, the government developed army forces by buying weapons and increasing quantity of army. Within a general framework aims at building up national power in response to pressures from the Socialistic part of Korea, industrial development was considered as the most important device to consolidate power in the long run. From 1953 to 1958, large private corporations, that were then called chaebols were established under supports from the central government. In the 1950s, it was experienced a rapid growth of heavy industries, including chemicals, metallurgy and light industries like garment and textile, food and foodstuff processing. Capital was strictly controlled by the government. Property allocated in hands of the individuals and organizations that were of relations with the government. The privatization of firms that were previously owned by the Japanese colonies encouraged the emerge of a class of capitalists in Korea. Moreover, the central government strictly controlled the society by military and other forces to centralize power into its hands. This political centralization prevented any opposition (*Kim vμ Koo, 1992*). The inward orientation was embodied in the concentration of Chaebols in heavy industries, especially metallurgy and chemicals. In order to promote import substitution industries the government applied a multi exchange rate,

identifying separate fixed exchange rates for exports and imports. Tax reduction and exemption were also introduced to encourage the importation of capital goods.

It is important to note that Korea largely benefited from the US-USSR conflict. The weapon competition between these two great powers brought into huge financial assistance from the US. Korea was the biggest aid recipient country of the US administration in the 1950s. From 1946 to 1978, the US aids amounted to USD 6 billion, where the aids for Africa, Latin America were USD 6.89 billion, and USD 14.8 billion, respectively. In the 1950s, the value of aids was equal to 5/6 of the total imports, accounted for 75% the total investment value into fixed capital, especially infrastructure development, and approximately 8% of GDP (Hart-Landsberg, 1993).

## **2. Successful transformation from the inward industrialization into the outward industrialization at appropriate time was essential to their industrial policies**

This is the distinct point of the East Asian countries compared with Latin American economies. The import substitution was firstly introduced in Latin America in the 1930s. Brazil was a typical example of the failure of import substitution. After the independence, the Vargas administration centralized economic activities and crushed any political opposition. Mass media were subject to complete control by the government. Strikes were strictly forbidden. Certain industries such as metallurgy, mining were selected as priorities. Industrial output growth rate was annually 11.2% in the 1933-39 period.

Under the Kubitschek presidency, emphasis was continually given to domestic industries. A range of TBs and NTBs was set up to protect these infants. The importation of goods that were domestically produced were either forbidden or administratively controlled. Exports of agricultural products were the only export item that was promoted by the government. Foreign exchange from those exports was then used to import capital goods for import substitution industries. The major objective of the Kubitschek presidency was to achieve *an economic independence through sufficient economic growth rate, poverty eradication in the rural areas, and raise in per capita income* (Kemp, 1983). At the beginning, this import substitution brought in impressive growth of some selected industries. From 1957 to 1961, industrial output increased by 62%, that of certain industries like metallurgy by 500% (Hewitt, 1992).

However, economic growth of import substitution industries at the beginning stages did not enough to sustain long-term growth. As the industrial structure was directed to metallurgy, investment into industries was inefficient. Subsidies to import substitution industries and infrastructure development programmes led to a large budget deficit. Heavy importation of capital goods and dependence on foreign intermediates resulted in fundamental balance-of-payments deficit. The import substitution was targeted to achieve economic independence. However, that also led to other kinds of economic dependence as import substitution industries heavily depended on importation of other intermediates.

In addition, industrial development was not adequate to absorb increasing labour force, leading to massive

Table 1 Policy measures to facilitate industrial development in Japan, Taiwan, and Korea

Japan	South Korea	Taiwan
<b>Reconstruction after the war (1946-48)</b>		
Quotas on imports of raw materials/WB loans/price controls		
<b>Restructuring industries</b>  (the first half of the 1950s) Import subsidization on machinery, equipments/loans of the Japanese Bank for Development /tax reduction and exemption	<b>After the civil war</b>  (the 1950s) Facilitating import substitution industries/subsidies though quotas/doubled exchange rates/tax reduction and exemption for imports of machinery, equipment, and raw materials	<b>Import substitution industrialization</b>  (the first half of the 1950s) Restructuring key industries (sugar, cement, fertilizer...)/encouraging textile and garment though quantitative constraints
<b>Facilitating industrial development</b>  (the second half of the 1950s) Tax protection for textile and garment, refinery, electrics, electronics/selective fiscal and monetary policies (bank loans, allowances, tax reduction and exemption/encouraging adoption of new technologies		<b>Transition into export promotion</b>  (the second half of the 1950s) Fostering key industries/encouraging textile and garment, and agricultural processing.
<b>High growth</b>  (the 1960s) Developing an open economy/cooperation between the state and the private sector /readjustment of investment structure/increasing cooperation among industries/implementing sectoral development programmes (special policy measures to encourage electrics, and machinery manufacturing)	<b>Return-orientation into export promotion</b>  (the 1960s) Economic growth priority/attracting foreign investment (mainly though borrowing/encouraging export processing /tax exemption/developing key industries though the state intervention and R&D subsidies	<b>Export promotion</b>  (the 1960s) Attracting foreign investment (both borrowing and FDI/developing the private sector/Establishing EPZs/tax reduction and exemption/facilitating trade companies
<b>Stable growth</b>  (from the 1970s) Vision plans/market mechanisms/developing hi-tech, and knowledge-based industries	<b>Export promotion for heavy industries, chemical industries</b>  (the 1970s) Strategic plans for heavy and chemical industries/controlled financing/low interest loans for heavy and chemical industries to develop export manufacturings/developing the private sector	<b>Export promotion for heavy industries, chemical industries</b>  (the 1970s) 10 official development plans for SOEs in steel, petroleum, and ship construction/Social investment fund
	<b>Liberalization of heavy and chemical industries</b>  (the 1980s) Economic liberalization/privatization of some selected public enterprises/deregulating foreign capital flows/encouraging SMEs	<b>Encouraging hi-tech industries</b>  (the 1980s) Formulating strategic industries/tax reduction and exemption for electrics, and machinery manufacturing /low interest loans/developing automobile industry

unemployment. According to Schelling (1992) this massive unemployment was the combined result of (i) encouraging capital intensive industries; (ii) labour mobility from the rural into urban areas induced by income gap. Nationalization of a large number of enterprises in the early 1960s worsened economic growth. Economic difficulties led to a military coup in 1964.

The experience of Brazil has shown that sustaining an inward-oriented industrialization for a long period of time was an essential reason leading to the failure of import substitution strategy. The import substitution strategy was theoretically appropriate for industrialization of backward economies. The central and the most difficulty was that the government failed in removing encouraging measures applied for import substitution industries at appropriate times. Like Brazil and India, Japan and other NIEs also aimed at building up priority industries at the beginning of their industrialization. However, Japan and other NIEs were successful in transforming from an inward-oriented into an outward-oriented industrialization in the second half of the 1950s (for Japan and Taiwan) and in the early of the 1960s (for Korea).

Table 2 Export promotion policy measures in Japan, South Korea, and Taiwan

Japan	South Korea	Taiwan
<b>Restructuring industries</b> (the first half of the 1950s) Financing, credit subsidies for export manufacturing/Japanese Bank for Export and Import/tax reduction and exemption/export insurance/JETRO	<b>After the civil war</b> (the 1950s) Export promotion implementing at the same time of import substitution/export encouraging fund/trade financing, and other subsidies	<b>Import substitution industrialization</b> (the first half of the 1950s) Developing key SOEs/US aid/quota protection/double exchange rates/two-level price system
<b>Encouraging industrial development</b> (the later half of the 1950s) Ship exports/low interest loans		<b>Transition into export promotion industrialization</b> (the later half of the 1950s) Exports of rice, sugar, and agricultural processing products exports/exchange rate regime reform toward export promotion
<b>High growth</b> (the 1960s) Economic deregulation, international competitiveness improvements/low interest loans/foreign market development /reforming JETRO	<b>Return-orientation into export promotion</b> (the 1960s) Encouraging the private sector in export manufacturing/direct financing and subsidies/low interest loans/tax reduction and exemption/encouraging exports of light industries/founding KOTRA	<b>Export promotion</b> (the 1960s) Special loans/export credit/EPZs/encouraging trade companies/tax reduction and exemption/enacting of the law on investment/attracting foreign investment
	<b>High growth of export industries</b> (the 1970s) Low interest loans/EPZs/devaluation/Korean Bank for Export and Import/VAT	<b>Growth of export industries</b> (the 1970s) SOE reforms/export insurance/mid and long term loans of the Taiwanese Bank for Export and Import
	<b>Trade dispute settlement</b> (the 1980s) Voluntary export constraints/switching investment into the United States/deregulating market distortions	

During the second half of the 1950s, Japan experienced several technological changes. A framework of an industrial policy was proposed to expand existing enterprises, restructure declining industries, and encourage new industries. The objective of the industrial policy was dual: import substitution and export promotion. On one hand, priority industries including composite textile, oil refinery, machinery and spare parts, electrics benefited from diversified encouraging measures, especially financial incentives (tax reduction and exemption; low interest loans), subsidies for importation of technologies, and exemption of antitrust. On the other hands, the Japanese government actively implemented institutional reforms in favour of exports. At that time, the MITI played a central role in running a coordination mechanism among private associations to promote exports.

In 1960 the Japanese government announced a plan aimed at trade liberalization, transforming from protection into free trade, with removal of foreign exchange controls Japan joined OECD and started foreign investment liberalization in 1964. Up to 1967, international capital flows were free. In the presence of vigorous trade liberalization, the objective of the industrial policy was to compensate industries that were affected by trade reforms. Instead of vertical policy measures used to protect domestic industries, the Japanese government introduced a set of horizontal measures. These measures were aimed at encouraging horizontal development of all industries basically by infrastructure development, education and training, promotion of inter-industries cooperation, cooperation between the state and business community. At the same time, certain vertical measures were still being used in limited industries such as automobile and oil refinery, that were considered of strategic importance. However, these vertical measures were not as effective as in the previous periods. The Japanese industrial policy was characterized by the old saying that *the government is not a father, but a brother of the business community*. As a result, the Japanese industries experienced a miracle growth under a liberalized economic system.

The shift from an inward-oriented industrialization into an outward-oriented strategy in Korea was about a decade later than in Japan. In the early of 1960, while the Japanese government introduced a set of horizontal measures to influence industrial development, the Korean military government kept using vertical measures as major policy tools of the Korean industrial policy.

After the military coup in 1961, the Park Chung Hy administration heavily centralized economic activities by nationalizing the banking system, and intensive use of administrative measures to intervene into industrial development. Due to the complete state control over banking activities, the Korean government directly allocated scarce credits to industries that were considered as priorities. At the beginning of the 1970s, increasing wages induced the government to ration credits for export-oriented heavy industries. Chemicals, ship building, and steel industries captured most of those credits at that time (Amsden, 1989). The percentage of heavy industrial output increased from 14% of the total exports in 1974 to 60% in 1984 (Hart-Landsberg, 1993). In addition, the Korean government continued to ration credits to chaebols. This administrative allocation of credit strongly encouraged expansion of chaebols, especially in the priority heavy industries. From 1972 to

1979, the percentage of firms under possession of chaebols increased from 7.5% of the total number of enterprises to 25.4%. The growth rate of chaebols was annually 44.7% whereas the GDP growth rate was 10.2%

Furthermore, the government tightened controls over foreign debt by enacting the Foreign Debt Management Law in 1962. Any illegal transfers of more than USD1 million were subject to at least 10 year in the jail or even dead penalty. The Economic Planning Board of the government directly manage foreign debt of the private sector. EPB decided who were able to have access to foreign borrowing in international financial market. Moreover, foreign investment was also strictly controlled. The percentage of the Korean partners in foreign-invested projects were constantly increased. Although some measures toward foreign investment liberalization was introduced after 1972, it was not until the early 1980s that wholly foreign-invested projects were allowed.

In order to promote exports, the Korean government devaluated Won for several times. In 1960, Won was devaluated by 50%. Further devaluation of Won in 1963 and also in the 1971-72 period were significantly improved the Korean international competitiveness of industrial products. According to the World Bank, this was one of the most significant achievement of the Korean government towards steadily removing protection measures by export promotion (World Bank, 1993).

Information exchange between the state and business community was also encouraged as important component of the Korean industrial policy. KOTRA was established to promote exports. KOTRA activities were significantly expanded in the 1970s. At the late of the 1970s, the Korean government steadily substituted their vertical measures by other horizontal measures to intervene into industrial development. At the early 1980, the major intervention pattern of the Korean government into industrial development was the state control over financial institutions to finance export manufacturing.

In the case of Taiwan, export promotion was put into the play in the late of 1950s. Various trade liberalization measures were introduced since 1958. The multi exchange rate system was replaced by a single exchange rate policy. Foreign investment was actively attracted at the beginning of the 1960s. Export manufacturing was selected as the priority. Export-oriented industries were subject to various financial incentives, including tax reduction and exemption, especially preferential credits.

The most significant of the Taiwanese industrial policy was the active role of export processing zones (EPZ). EPZ was first introduced in the Netherlands, Taiwan was however considered as the most successful story of EPZs. Unlimited efforts to infrastructure development programmes, tax reduction and exemption measures, simple administrative procedures of EPZs were brought into booming growth of garment and textile, food and foodstuff processing, other light industries, electronics, and spare parts industries. Taiwan itself could be considered as a huge EPZ. The distinct feature between the Taiwanese and Korean industrialization was their different priority towards business scales of the private sectors. While Korean chaebols that were of very large scale in a diversified industries were encouraged in Korea, the Taiwanese



government mostly facilitated the development of private SMEs. In addition to this large number of SMEs, some corporations of large scale in carefully selected industries were also developed.

In the early 1970s, the Taiwanese government continued to encourage export-oriented industries. Ten large investment projects aimed at infrastructure development were introduced in 1973. This was apparently an evidence of a horizontal measures in the Taiwanese industrial policy. Exported-oriented heavy industries such as steel, chemicals, ship building were then developed by intensive investment from the state. This emphasis was resulted in economic difficulties in the late of 1970s due to the second oil price shock in 1979.

### **Part 3 the practice of the Viet Nam industrial policy**

#### **1. The Viet Nam industrial policy in the 1954-1989 period**

##### *(1) An overview of the Viet Nam industrial policy in the 1954-1989 period*

###### *1.1. The Viet Nam industrial policy in the 1954 -1957*

Three months after the birth of the Socialist Republic of Viet Nam in September 1945, the national independence defence started against the French colonies. The Geneva Treaty in 1954 established peace in the North and the division of the country into the North and the South of Viet Nam. Since then, the Viet Nam industrial policy was completely different in the North and the South of Viet Nam.

The Northern Viet Nam was developed into a central planing economy under helps of the other socialist countries leading by the former Soviet Union. On the other hands, the Southern Viet Nam was directed under the US influences. A kind of war-serving economy was steadily established since 1960. In other words, there were two kind of types of industrial development in the North and the South of Viet Nam in this period.

The industrial development in the 1954-57 was characterised by ownership transformation though nationalizing properties previously owned by the French colonies and also the Vietnamese private entrepreneurs. The effective nationalization and collectivization in this period resulted in the three major following types of ownership (i) state-owned enterprises; (ii) collectives; and (iii) mixed ownership between the state and the private.

In effect, industrial development in this beginning stage focussed on establishing domestic industries dominant by the state ownership. Nationalization and collectivization were the two main type of industrial development. There was almost no new investment into industries.

###### *1.2. The 1958-1960 period*

The first three year reconstruction plan led to very first foundations for industries. This plan aimed at (i) transforming the type of ownership of previously-established enterprises into the state control; (ii) receiving assistance from the other socialist countries to build up economic independence; (iii)

centralizing control over industrial development.

### *1.3. The 1960-1965 period*

This period marked the very first significant steps of industrial development. Under assistance from the other socialist countries, some important industries were basically built, especially heavy industries. This was the period of import substitution which aimed at developing heavy industries in order to obtain ambitious economic independence. Industrial development at that time was characterised by (i) prompt development of industries with building and operation of a large number of heavy industrial enterprises like metal manufacturing, mining, energy, and mechanical manufacturing; (ii) industrial development without concentration and diversification of technologies from different sources; (iii) industrial development was however not be able to meet requirements of economic reconstruction under ambitious objectives; (iv) centralization of state control over industries

### *1.4. The 1965-1975 period*

In response to the national independence defence, the US colonies heavily bombed the North in attempts to make an end to the communist force led by Ho Chi Minh. The newly-established enterprises were the targets of bombing by B52 and other mass killing weapons. Some enterprises were removed into secure areas in the Northern mountainous provinces, but most of factories were closed. Industries were directed towards defence to provide foods, weapons, and other material for the war. The stamping distribution system was introduced in response to economic difficulties, especially to scarcity of consumer goods.

### *1.5. The 1976-1989 period*

The completely destroyed industries in the North was a little part of expense that Viet Nam had to pay for its independence in 1975. The liberalization of the country from colonies gave an important question of industrial development in both the North and the South of Viet Nam. During the war, industries in the North were developed under the central planing model, whereas industries in the South were built under the US assistance, and hence the free market mechanism with priority on services and consumer goods.

Upon this question, there were two viewpoints as (i) continuing to develop industries in the South without no significant changes; or alternatively, (ii) transforming industries in the South in one uniform development strategy set up by the industrial development in the North. Given the political will at this time, transformation of the types of ownership was essential component of the revolution. The second alternative was therefore put into the fact with almost no protests.

As a result, industrial development in this period, like in the 1954-1960, was characterised by centralization of industries in all part of the countries so that to make the state ownership the dominant actors in economic reconstruction after the war. This period revealed (i) private small enterprises and households were alive as dynamic economic force, under strong discrimination; (ii) nationalization

and collectivisation were simply administratively forced, and therefore led to decline in both productivity and efficiency; (iii) economic co-operation with the other SEV countries brought into favourable conditions and a lot of financial and technical assistance for industrial development in the very first time after the national liberalization.

However, at the late of 1970s, the other socialist countries had shown weaknesses due to the central planing mechanisms. Less assistance from the other SEV countries made difficulties for Viet Nam. Investment into heavy industries in the 1960s were proved to be a waste of the most scarce resource for economic reconstruction after the war. As a matter of fact, the end of wars often give opportunities for high economic growth. This observation was unfortunately not true in the case of Viet Nam.

Economic difficulties in the 1980s put Viet Nam into the question of reforming or collapse. The 6th Party's National Congress in 1986 made a very cornerstone in the history of Viet Nam as a country. This was the end of the central planing model as the dominant system regulating economic life and other activities. The transition into a market mechanism with the socialist orientation was recognized as the ultimate strategy of the new Viet Nam in the Doi moi process. Official recognition of a multi-sectoral economy under market mechanism gave a new life to the Viet Nam industries.

*(2) The general comments on industrial development in the 1954-1989 period.*

Industrial development of Viet Nam in this period was characterised by the following points:

*First*, industrial development aimed at import substitution in attempts to build up economic independence. This was unfortunate that industrial enterprises that were diversified, underdeveloped, and mis-invested were not be able to provide this economic independence. Industrial development at that time was largely promoted by foreign assistance from the other socialist countries.

*Second*, the close door policy to the non-socialist world prevented technological diffusion and international capital movements.

*Third*, the centralization of the state control over industries as well as the other economic activities resulted in a strongly biased and discriminatory economic system in favour of the state-owned enterprises. The autonomy of enterprises were so limited that many SOEs are presently slowly-moving.

*Fourth*, as industrial development was isolated from consumption, industrial development was essentially passive and far from the demand of the society as a whole.

**2. The industrial development and industrial policy in the 1990-2000 period**

*(1) The industrial production in the 1990 -2000 period*

*1.1. The situation of industrial structure*

*a, The sectoral structure of industrial development*

There were some industries that received encouraging measures from the government including oil exploitation, energy, coal mining, steel, and chemicals. These industries were reorganized by

the general corporation 91 model, protected by trade barriers, and were subject to credit allocation. Foreign direct investment is also attracted into these industries by encouraging incentives. In addition, certain light industries that are export-led were promoted such as footwear, textile and garment, agricultural and aquacultural processing. These export industries have impressively grown up to be major export items of Viet Nam in this period. At the same time, there were newly-established industries like electronics, automobile, motorbike, electrical components were developed. These industries seemed to be most attractive to FDI.

This industrial development has brought into a new sectional structure in industries. This significant change is represented in table 3.

Table 3 Sectional distribution of GDO contribution (percentage)

Industries	1990	1995	2000 (estimated)
Energy	11.0	18.8	19
Electric	7.5	6.3	6.3
Food Manufacturing	32.6	31	31.2
Construction materials	7.1	10.2	10.3
Other industries	41.8	33.7	33.2

Source: MPI at Conference on the development strategy of Vietnam in the 21st century

- The decline of mining in GDP contribution was largely due to rapid increase of the other manufacturing. Among the others, mining, oil exploitation has been of the most importance in terms of GDP contribution. The promising prospect of oil exploitation and refinery would favour some related industries such as fertilisers, chemicals, electricity and gas.
- Manufacturing that are of the most important position in industrial development include:
  - Agricultural, aquacultural, and forestry processing industries had the highest GDP contribution. In addition, rice, coffee, tea were also important export items of this group. Given significant GDP percentage, these industries produced however crude or semi-processed export items. A remarkable percentage of output was exported into intermediate markets for further processing. Only about 30% of agricultural exports were processed.
  - The labour intensive industries like footwear, garment and textile, food and foodstuff processing accounted for about 40% of industrial output. These industries have been attractive to foreign investors as well as the domestic private sector. These industries have been widely commanded for their job creation and their largest export value.
  - Skilled labours were attracted into the newly-established industries like electronics, automobile... These industries have been however isolated with the other related industries such as component production, and not able to integrate into the regional processing network.

- Energy and water supplies were the priority of the government investment in recent years. Although these industries accounted for only 6% of industrial GDP contribution, the expansion of energy and water supplies network has played a significant role in encouraging industrial development throughout the country.

*b, The regional structure of industrial development*

**Table 4 Regional industrial structure (%)**

<b>Regions</b>	<b>1990</b>	<b>1995</b>	<b>2000 (est.)</b>
Region 1 : 13 provinces in Central North	5.0	4.34	3.83
Region 2 : 15 provinces in Red River Delta and Central North.	20.79	22.26	23.25
Region 3 : 10 provinces along the coast in the Central Viet Nam.	7.32	5.96	5.91
Region 4 : 3 provinces in the Central Highland.	0.51	0.63	0.58
Region 5 : 8 provinces in Eastern South	43.31	49.82	50.65
Region 6 : 12 provinces in Cuu long River Delta.	15.58	5.15	5.49
Other regions	7.4	5.15	5.49

*Source: the MPI*

There has been a significant imbalance in terms of regional development, especially among the four regions: the Northern mountainous, the 10 coastal provinces in the Central, the Highlands, and the Mekong River Delta provinces. Encouraging economic activities in these regions is the major content of poverty eradication. A range of financial incentives and assistance has been given to these areas. The underdeveloped infrastructure system, low literacy however preventing these regions from rapid economic growth. In contrast with poor industrial performance in these regions, region 2 and 5 that accounted for about 70% of industrial output have most significant contributed into industrial development. This rapid industrial growth led to further imbalance in regional development.

*c, The ownership structure*

As aforementioned, changes in types of ownership was the most typical feature of industrial development before 1989. This was also true in the 1990-2000 period. The SOEs reforms were probably the most important policy measures towards industrial development in this period. The establishment of the general corporations according to Decision 90 and 91 of the PM on 07 March 1994 restructured SOEs operating in industries from a number of 2,782 SOEs in 1991 down to 2,010 in 1996. The number of collectives was also sharply reduced from 32,034 in 1988 to 5,723 in 1992 and 1,729 in 1995.

This period also experienced rapid development of the non-state sector, including the Vietnamese private, foreign-invested, and other mixed owned enterprises. The number of private enterprises increased from 770 in 1990 to 959 in 1991 and to 5,152 in 1995. Up to 1996, there was a number of

about 8,000 private enterprises, and over 200 joint stock companies.

This ownership changes resulted in remarkable adjustment of industrial output contribution, characterised by constant decline of the percentage of the SOE industrial output in the total industrial output. Whereas the growth rate of industrial output of the non-state sectors increased from - 4.33%, - 0.7% in 1989, 1990, respectively to 7.48% in 1991 and 16.88% in 1995. The annual growth rate of collectives - 28.79%, while that of the private enterprises and household industrial production grew at 47.8%, and 12.13%, respectively.

In the 1990-2000 period, the foreign-invested enterprises grew at 22.28% annually. The industrial output of this area increased from about 10% in 1990 up to 31.82% in 1998. The estimated percentage was 35.85% in 2000, making a reduction of domestic industrial output from 90% in 1990 downwards to about 64% in 2000.

**Table 5 Economic sectional industrial structure (percentage)**

<b>Economic sector</b>	<b>1990</b>	<b>1995</b>	<b>1998</b>	<b>2000</b>
Stated company	58.8	50.29	46.18	43.72
Non-stated company	31.13	24.62	22.00	20.42
Foreign investment	9.99	25.09	31.82	35.85

Source: the MPI

### 1.2. The structural change towards export manufacturing in industrial development

Before 1992, the main export items were crude oil, garment and textile that valued about USD 750 million. In 1998, the export value was fourfold up to USD 4,500 million. The foreign-invested enterprises contributed about 21% of the total exports in 1998.

**Table 6 Main export items in the 1992-2000 period (million USD)**

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Crude oil	806	844	867	1033	1346	1432	1250	1675	2000
Garment	221	335	554	847	1150	1349	1350	1500	1800
Footwear	16.8	68	115	280	530	965	960	1100	1500
Electrics	0	0	0	20	100	450	480	650	750
Coal	62	52	75	89	114	110	100	100	100

Source: the GSO and the Ministry of Trade

Export processing zones, and industrial zones and/or parks were introduced to attract resources, especially from MNCs to promote export manufacturing. Up to 1998 there was a number of 67 EPZs and IZs have been approved by the government. In this number, 38 EPZs and IZs are located in the

South, 13 in the North, 7 in the Central of Viet Nam. However, only 16 EPZs and IZs were invested to develop new infrastructure system, notably traffic, water and energy supplies, telecommunication, and 35 in the total of 67 EPZs and IZs have received foreign-invested projects. It is also important to note that only 21.7% of the total surface in these EPZs and IZs are now being rented. Although these figures do not show an impressive contribution of EPZs and IZs as means of attracting foreign capital, these areas are presently in use of over 100 thousand of workers, and accounts for about 11% of the total export revenue.

(2) *Assessment of industrial development and industrial policy of Viet Nam in the 1999-2000 period*

2.1 *A general assessment of the Viet Nam industries*

a. *Backward technologies, that are under-utilized, generating low productivity*

The average level of technological development is about 20 or 30 year out of date. Approximately 70% of technologies are of backward or average levels. In comparison with the other developing countries, the technological development is a little lower than the average level. According to some specialists, the speed of technological upgrading by domestic enterprises is about 7-8% annually. On the other hands, FDI has not yet significantly contributed to the process of technological transfer. Domestic R&D expense for basic and applied studies are extremely low compared with the other advanced industrial countries. There has been apparently lack of skilled workers and professional managers.

In addition to technological backwardness, the state of under-utilization of capacity due to the lackage of material inputs or output markets was another problem in industrial development. Although a various range of measure aimed at SOEs reforms have been introduced, the state-owned sector was still of low efficiency. About 30% of SOEs are loosing. Mining and other labour-intensive industries have played a dominant role in economic growth.

As a result, the ratio of value added by industrial production was relatively low (estimated about 20%). Energy consumption in industrial production is 1.2 or 1.5 times higher than that of the other neighbouring countries. In comparison with the Philippines, whose productivity is the lowest in ASEAN-6, its productivity is still 3 or 4 times higher than that of Viet Nam. Low productivity, backward technologies obviously brought into low quality of industrial products, and therefore low international competitiveness.

b. *Compared with the other neighbours the competitiveness of industrial products are low, even in the domestic markets*

In terms of competitiveness, industrial products were classified into three categories. The *first group* includes industries that are of relatively strong competitiveness. These industries were footwear, non-iron materials, and other non-standard equipment's. These industries are however essentially

labour-intensive. Taking advantages of the Viet Nam comparative advantages, production capacity of these industries have been rapidly increased due to FDI flows and other investment sources by the domestic private investors. *The second group* is of average competitiveness. This group consists of most presently important industries of Viet Nam such as garment and textile, electronics, paper and ceramic products, hardware and software production, beverage, milk and vegetable oil production, ores mining. The protection pressure often comes from this group. Finally, the group of low competitiveness which consists of mainly steel industries.

Due to this relatively low competitiveness of industrial products, domestic producers have encountered the danger of losing markets even in their own country. The period from 1990 to 1995 was backed by a switch of private savings into consumption. The second half of the 1990s was however not backed by such switch. Although trade protection measures have been only steadily removed as Viet Nam further integrates into the regional and global economy, imported products have been good alternatives for both intermediate and final consumption of industrial products due to low quality, and poor marketing efforts by domestic producers. In addition, smuggled goods, especially from China, Laos, and Cambodia due to poor market management and customs have brought into extremely difficulties for domestic producers of the same products. Mass importation of Chinese motorbikes, both legal and illegal in the late of 2000 was a very good example of smuggling.

c. *Heavy dependence on importation of inputs while domestically-produced materials are not fully exploited.*

Rapid growth of the foreign-invested enterprises and some new hi-tech industries led to heavy dependence on the importation of intermediate materials for production in the domestic market. In most foreign-invested enterprises, this importation is often over-invoiced in attempts to tax reduction or even evasion. This dependence on imports of intermediate goods was largely due to the underdeveloped materials industries. This again shows the isolation of industries producing final products from the industries that provide intermediate inputs.

While industries are heavily depends on foreign intermediates, natural resources have been inefficiently exploited. The exports of raw material or semi-processed materials resulted in both low value added and exhaustion of natural resource reserves.

## 2.2. *Assessment of the Viet Nam industrial policy*

### a. *The industrial structure policy*

#### • *The sectional structure*

The survey conducted by authors of this research aimed at questioning senior officials at policy making authorities. 97,2% of surveyed specialists supposed that the current industrial sectoral structure was in imbalance. On one hand, there was a diversified industrial structure



with almost industries that one can observed in any other countries. There is however none industries that are of strong competitiveness, even in the domestic and neighbouring markets, say nothing of other international markets. On the other hands, the past emphasis on heavy industry has shown inefficient, and a waste of resources. This was absolutely a misleading strategy that have significantly influenced the ability of industries to restructure.

- *The scale structure*

Small and medium scales are mostly observed in Viet Nam industries. There is a small number of large scale enterprises. However, this limited number has been struggling in restructuring towards improvements of efficiency. More than 90% of industrial enterprises are of small and medium sizes. The transform of ownership has resulted in very rapid establishment of a large number of private enterprises, both domestic and foreign. As a matter of fact, most of domestic private enterprises are of small scale. In addition to this number, there are millions of households that have involved in industrial production by providing components, spare parts, or other non-standard products. This kind of industrial activities is especially popular in the rural areas, where other large enterprises located in the hubs cannot reach, at least in terms of profitability. The survey has revealed that 97.2% of the surveyed specialists supposed that there would be stronger encouraging policy measures to promote the growth of private small and medium enterprises. 69.4% of them further argued that small and medium enterprises that operates in the rural and/or mountainous areas should received special treatments. This would be an important factor to restructure the currently imbalance industrial structure, especially among areas thought the countries. This would also release pressure of labour mobility into cities that have been a problem of recent urbanization.

- *The structure of ownership*

The official recognition of the existence and long-term development of the private sector by the Constitution 1992 was the ultimate foundation for the development of private enterprises in industries. Their impressive performance in the Doi moi process provide strong evidence for the effectiveness of this strategy. This also induce further supports to the private sector so that all enterprises regardless of the types of ownership are able to compete in a level playfield. In the survey, 85.7% of the surveyed specialists argued that there should be more encouraging policy measure towards private sector development. Whereas only 14.3% considered the possibility of constraining the private sector in favour of SOEs as a reasonable strategy.

- *The institutional structure of industrial enterprises*

The centralization of industrial development in the past periods continues to influence the institutional structure of industrial enterprises. Most of enterprises are organized in relative isolation with the other related enterprises. This was justified by independence of business planning. This

inward orientation of industrial enterprises in terms of institutional structure has prevented enterprises from specializing into their most effective businesses.

The responses of the surveyed specialists are however diversified. 43.3% supposed that there was very little possibility for effective performance of inward-oriented enterprises, whereas 33.3% argued that a fairly good possibility exists for impressive performance. The remaining 23.3% supported this type of institutional structure.

In fact, the current institutional structures of 90, 91 general corporations were probably characterized by this inward orientation. This orientation is only likely to exist due to the presence of monopolies of these corporations in their business fields. This type of institutional structure would encounter difficulties as these corporations would soon restructure to adjust to integration of Viet Nam into the regional and the world economy. Over 90% of the surveyed specialists agreed that the establishment of the 90, 91 general corporations have been of poor performance. This finding raises interesting question for future development of these corporations.

*b. The selection of products in industrial development*

Due to the ambition of building up economic independence, heavy industries were encouraged for a long period of time. Heavy industries therefore absorbed most of investment into industrial development. Given the scarcity of resources after the war, this misleading investment strategy led to unaquodate attention to light industries. Consumer goods which are of strategic importance to a poor agricultural economy was almost forgot. Heavy industries were considered to produce import substitution. 91.7% supposed that the emphasis on heavy industries was completely misleading. While 86.1% argued that mineral mining were over-encouraged by various investment projects.

*c. The subjects of industrial development*

85.3% argued that the government should play a leading role in industrial development . Investors ranked at the second. It suggests that the government should take its very important role in planing and managing industrial development.

The planing role of the government should not overlap the role by enterprises in doing their own businesses. The development of industries themselves depends on enterprises operating in the play. The fact of industrial development has shown that non-SOEs and the foreign-invested enterprises have experienced higher growth rates, created more employment than those of SOEs. Measures to encourage non-SOEs should be included in building up an industrial policy for Viet Nam in the near future.

*d. The selection of trade partners*

The close door policy before the Doi moi brought into heavy dependence on the former socialist countries in terms of international economic relations. This trade discrimination was implemented as one policy, among with the others aimed at economic interdependence. It was however

deconstructive for industrialization of the economy at that time.

The open door policy led a long-term foundation for developing bilateral and multilateral trade relations with all countries in the rest of the world. This has opened huge opportunities for industrial development. The survey pointed out that 94.3% of the correspondents support multilateral trade relations, especially with (in a order of increasing importance) the USA, Japan, and EU, China, ASEAN, Western Europe, and Korea.

e. *Policy measures to promote industrial development*

Without effective policy measures, the industrial policy would play in vacuum, and therefore were of no uses. 14 policy measures proposed in the survey were considered as important and appropriate, especially financial incentives (credit, taxes), education and training, information provision, technological development (technology transfer, R&D expenses) quality management, wage policy, and administrative reform. These policy measures have existed in one form or the others. However, the overall impact of these on industrial development has still limited. The following gives some brief comments on these measures.

- *Capital mobilization and credit policy.*

Capital requirements for industrial development are financed by both domestic and foreign sources. Before the Doi moi, investment was mostly financed by the budget. Presently, financing industrial development comes from the budget, private domestic savings, and foreign investment flows. Among these sources, private savings are considered as a very important resources that have been under-mobilized. Most of private investment recently have focussed on trading and services, but industries. Encouraging private investment into industries stays as a challenge to the building up of an industrial policy for Viet Nam.

- *The technological development policy*

The transition into a market economy has induced Viet Nam to integrate into the regional and global economy. The development of international co-operation has brought into opportunities to upgrade domestic technological capacity. However, FDI flows and other kinds of economic co-operation themselves are not necessarily accompanied by modern technologies and technological transfers, which are essential to upgrade local technological capacity. Experience of the other NIEs have shown that countries are only likely to take advantages of FDI in building up their technological development if they have a comprehensive strategy to exploit their dynamic comparative advantages and their endowment of factors. The technological development of Viet Nam has recently revealed remarkable shortcomings. First of all, there has been diversified range of technological development. The real situation of technologies in industrial enterprises is chaotic. In addition to technologies that are completely outdate, there are also technologies of average and modern levels. This diversified range of technological development suggest that there has

been no master plan towards technological development in industrial development. Moreover, information on technological progresses is not available for most of the public. This lack of information was one of the main reason leading to the fact of over-invoicing technologies in most of foreign-invested enterprises. It has also make obstacles for domestic investors to select suitable technologies.

- *Education and training of the labour force*

In principles, education and training have been long considered as the highest national priority. This viewpoint have been emphasised in the official documentation, speeches by the Party and the government. However, this priority has not been really realized.

On average, the rate of literacy is commandly high. This is one of the most impressive achievements of the Doi moi after amore than 15 years. However, there has been structural imbalances in overall output of education and training. The most significant imbalance was considered as the lack of skilled workers and the distribution of highly educated people in big cities.

There is also a big need to retrain a large numbers of state officials, business managers. Presently, most of the senior state official and senior business managers in SOEs got their education in the former Soviet Union and other socialist countries. Many of them were grown during the war. Their most experiences were acquired from the central planing mechanism, and from the war. Retraining this number should be considered as an important content of administrative reforms in the coming years.

- *The tariff policy*

The tariff system has been developed since the early 1990s. After two stage of taxation reforms, there have been remarkable achievements. The integration into CEPT/AFTA was marked by the Inclusion List that consists of 1661, the Temporary Exclusion List including 1317 items... attempts to steadily removed TBs and the other NTBs have resulted in relatively liberalized trade policy. At present, 30% of the total tariff items are of zero tariff rate, about 50% of 0-5% rates. However, there has been certain shortcomings. *First*, protection has been emphasized. In the absence of a clear identification of which industries should be protected, trade protection measures have been executed without specializing in any particular industries. *In addition*, the Preferential Tariff Rates List that has been in effective since 01 January 1999 consists of 6247 items of goods that are subject to 8-digit HS and 13 tariff rates. This list was considered as relatively complicated and diverged. *Third*, there has been discriminatory tariff rates defined by the Special Sales Taxes and the Value Added Tax Laws. This discrimination was justified by promoting some particular industries that are considered to be the future *national champions*. However, there is lack of information on these industries are considered as priorities. *Finally*, business community always

find confused when obey taxes due to the lack and incompleteness of under-law instructions.

## Part IV The Policy recommendation to shape a Viet Nam industrial policy in the 2001-2020

### 1. The context of Viet Nam Industrial Policy

Industrialization differs from country to country. The United Kingdom encountered difficulties of the first-mover. The former Soviet Union industrialized under hostile arm conflicts. The recent NIEs have implemented export-led growth strategy under certain conditions of the Cold War.

As the law of history, such conditions never coincide. In such context, building a Viet Nam industrial policy requires careful considerations of the current conditions specific to the economy under the transition. Most significantly, there are three following issues.

*First*, the industrialization of Viet Nam has been taken place in a very fast changing technological revolution leading to the knowledge-based world economy in the next century. This gives opportunities for Viet Nam to adapt for an impressive taking-off. It however raises challenges, especially the danger of lagging behind the others, if such technological progress has not been exploited.

*Second*, global integration of regions and the world economy has brought opportunities for nations to take advantages of international capital mobility, foreign trade, and technology transfer. Countries have participated more actively in international competition to attract resources for economic growth. Opportunities however do not outweigh challenges. Growth and prosperity of Viet Nam depends on its global integration.

*Third*, Viet Nam has industrialized at the time when its economy is basically characterized by agricultural production. The Party General Secretary in his speech at the working meeting with the National Economics University on 6th September 2000 emphasized this issues as a central message in building an industrial policy for Viet Nam.

Since the 3th Party's National Congress, Viet Nam has considered industrialization and modernization as the central task of the transition. At the first stages, heavy industries were set up into the priority. This misdirection was corrected at the 6th Party's National Congress by redirecting investment priority into the three economic programmes: (i) agriculture production; (ii) consumer goods production; (iii) and export promotion. The 8th Party's National Congress emphasizes industrialization and modernization of agriculture and rural areas.

In the more than 40 year industrialization and modernization, some important industries have been built. Various reforms in the Doi moi has consolidated the industrial competitiveness. In such context, Viet Nam has speed up its industrialization and modernization with a relatively vigorous base. This is also a difference of the Viet Nam's present industrialization and modernization compared with industrialization processes in the other countries in the 19th and 20th centuries.

However, it is the fact that the process of industrialization and modernization in Viet Nam has been in relatively poor performance. Starting with an agricultural-based economy, about 76% of the population is presently living in rural areas and presently making agricultural production at substitute level. This means that Viet Nam is basically an agricultural economy. In terms of development, Viet Nam is still one of the poorest developing countries.

## **2. The Model of Viet Nam Industrial Policy: to develop Viet Nam into an industrialized economy by 2020.**

*(1) The major objective of the Viet Nam industrial policy is to transform the country into an industrialized economy by 2020.*

The objective of transforming Viet Nam into an industrialized economy by the year 2020 was set up at the 8th Party's National Congress. The coming 9th Party's National Congress will firmly confirm this objective. The rise in industrial output and employment in the national economy is an essential condition in order to achieve this ambitious objective. According to most general standards, a country is said to be an industrial economy if industrial production accounts for more than 60% of the total value added. This percentage of the middle-income is from 40 to 60%, whereas that of the newly-industrialized and agricultural economies are from 20 to 40% and less than 20%, respectively. In addition to industrial production contribution, other indexes measuring social development such as HDI, GDI are also take in into account.

Presently, the industrial production in Viet Nam has contributed a relatively small percentage of the total value added. Industrial output and employment in the national economy are relatively low in comparison with the other South East Asian countries. The sectoral output contribution among industries - agriculture - services was 34.49% - 25.43% - 40.08% in 1999. The sectoral employment was 12.5% - 67% - 20.5% in the same year. Being an industrialized country by 2020 requires a significant rise of the industrial GDP contribution up to at least 45%.

*(2) The major principles of the model of Viet Nam industrial policy in the next 20 years.*

Increasing industrial output and employment to achieve the objective seems to be very challenging for Viet Nam, especially as the economy has encountered with unfavorable conditions in its main export markets after the financial crisis in 1997. The Viet Nam industrial policy must therefore be able to mobilize resources for further transition into a market economy in all regions in the country, especially changing the autarky countryside into commodity production; enhancing brain content in products, both traditional and new in all sectors; picking some winners to build sun-rise industries to make breakthroughs in national economic growth.

*2.1 Enhancing brain content in products, both traditional and new in all sectors; picking some winners to build sun-rise industries to make breakthroughs in national economic growth*

Industrial countries developed their light industries at the first steps of their capital accumulation about three centuries ago. The case of former Soviet Union made some differences. In the situation of hostile arm conflicts, heavy industries were necessary for Soviet Union to protect its independence. In addition, the former Soviet union is a large country with abundance of basic natural recourse necessitates for its industrialization toward heavy industries. A half century later, NIEs have industrialized their economies firstly by attracting foreign investment and export production. In effect, under certain circumstances, each country has its own industrialization priority.

In order to be an industrialize economy in 2020, Viet Nam must increases the current per capita income up to 25-26 times. This objective seems to be an illusion if Viet Nam fails to get away from its industrialization policy in the recent 40 years. Under such context, becoming an industrialized economy requires a real revolution in production. This revolution will success if Viet Nam can enhance brain content in all products. This in turn requires adoption and adaptation of technological progress in all sectors, and at the same time activities to pick some winners to build some sun-rise industries.

*2.2 Mobilizing resources for further transition into a market economy in all regions in the country, especially changing the autarky countryside into commodity production.*

Economic development is a dynamic process, which can be shortened but overstepped. The transition into a market economy takes steps from a natural production into commodity production towards market economy. Building market capitalism took some hundred years in the Western industrial countries. Viet Nam aims at becoming an industrial economy in 2020 is a mind of shortening its industrialization.

After more or less 15 year transformation, Viet Nam is basically a backward agriculture-based economy with incomplete markets. Poverty has been observed in most of rural and mountainous areas. The first step of Viet Nam industrial policy is therefore to further transform into a market economy throughout regions, and to encourage commodity production instead of small natural agricultural husbandry.

Recent experience of countries like India, Thailand, and the Philippines has shown that industrialization without adequate attention to rural development cannot be sustainable. While industries are growing fast in cities, the rural areas are still lagging behind with poverty, and backwardness. In contrast, the experience of Taiwan gives a strong evidence that industrialization should be conducted in both urban and rural areas.

In Viet Nam, sectional GDP contribution has been changed recently. The proportion of industry-agriculture-services changed from 27.35% - 40.17% - 32.48% in 1985 to 39.49% - 25.43% - 40.08% in 1999. This positive change is however a simple change in value. There is no significant change in

sectoral labour distribution. Up to date, about 76% of population is living in rural areas. It is clearly a extremely difficulty for Viet Nam in its industrialization process.

The transformation of rural areas from subsistence level into commodity production will be a very difficult task. Industrialization of rural areas took hundred years in the other first movers. In order for Viet Nam to complete this industrialization so that to become an industrialized economy in 2020, there are six most significant issues:

*First*, industrialization of rural areas requires adoption of biological technologies. New progresses in bio-tech should be applied into the particular context of Viet Nam so that to make a significant rise in agricultural productivity;

*Second*, converting small-farm subsistence production into commodity production is another task of rural transformation.

*Third*, traditional cultivation structures needs to be updated towards high-yielding seeds and plants. Paddy rice cultivation is currently the major mode of agricultural production. Although the impressive economic growth in the early 1990s was largely due to exports of rice and crude oil, rice exports cannot (and/or should not) be a locomotive for export promotion. Converting cultivation structures is the basic measures to higher agricultural productivity.

*Fourth*, the government should directly intervene in industrializing rural areas by mainly infrastructure development, especially the irrigation system, labour training programmes;

*Firth*, processing crude agricultural products is essential to put more value added on the final agricultural commodities. The first industrial revolution in the UK was characterized by building enterprises in the rural areas and taking lands from the poor farmers. This direct invasion of industrial production over the rural areas moved rural labours into industries, speeding up the process of urbanization. This story shows how industries can change traditional agricultural production. Developing factories to process crude agricultural products is therefore required to encourage productivity growth.

*Sixth*, the expansion of output markets for agricultural products, both domestic and foreign, provides incentives for the expansion of agricultural production. It is unfortunately the fact that the prices of some fruits and other products that are of high yields recently have been fluctuating due to uncertain output markets. The task of marketing agricultural products into foreign markets is very weak while there is apparently constraints to domestic consumption due to the limited domestic markets.

### (3) *The direction of the Viet Nam's industrial structure*

#### 3.1 *The sectoral industrial structure*

The proposed structure of industries have the following characteristics. *First*, regarding mining and exploitation, oil extraction and refinery should be set up to the priority. *Second*, manufacturing must



be considered as the most important activities in industrial production, especially manufacturing exports. Developing manufacturing requires (i) investment into factor-endowment industries, that are presently labour-intensive; (ii) R&D supports for manufacturing, especially of agricultural, aquacultural, and forestry products; (iii) investment into the regional processing, assembling network. *Third*, energy and water supplies are industries that provides important inputs to most industries. A set of policy measures should be introduced to attract investment capital from available sources. *Finally*, as importation of intermediate goods for domestic production has been the major import item, developing industries that provide inputs to manufacturing is believed to be a good way to avoid the balance-of-payments problem.

### 3.2 *The regional development*

If it is to increase industrial production in the national economy as a whole, it is necessary to increase industrial production in the Northern mountainous provinces, 10 coastal provinces of the Central, the Highland provinces, and the Mekong River Delta provinces, among with other industrial center of the countries like Hanoi, and Ho Chi Minh city.

Investment requirements are financed by both the budget and savings in the public. The government investment should be focused on infrastructure development, especially providing energy and water supplies. Whereas private investments should be directed towards labour-intensive processing local output of non-industrial products.

### 3.3 *The scale structure*

It is the fact that about 90% of enterprises are currently SMEs. This figure suggests that Viet Nam should give favourable measures to SMEs in all industries. Given the downsizing tendency in other industrialized countries, most notably in South Korea, SME development supports seems to be a right direction. These supports include (i) founding organizations to promote SME development; (ii) technical and financial assistance for SMEs, especially for the newly-established SMEs; (iii) providing constancy services for establishment of SMEs.

### 3.4 *The sectoral structure*

The impressive performance in the 1990s was largely due to the transition into a multi-sectoral economy, with official recognition of the existence and long-run development of the private sector, among with the others. The prospect in the next decade depends partly on whether it is possible to make level playfield for sectors to fairly compete with each others. SOEs investment should be focused on industries that are of strategic importance of significant contribution into the national economy, notably hi-tech industries and R&D. Whereas the private sector, both domestic and foreign, should exploit attractive profitability in all business activities, even in hi-tech industries, if it is possible.

#### (4) *The directions of market and industrial product developments*

##### 4.1 *The sequencing of industrial product lines*

Based on the current situation of the Viet Nam industry, the sequencing of industrial product lines is proposed as follows. *First*, investment priority should be directed towards the labour-intensive industries such as processing of agricultural, aquacultural, and forestry products. At the same time, other light industries to serve daily consumption of the people like pharmaceuticals, consumer goods are also put into the first step of the industrial product development. *Second*, transforming downstream industries into upstream industries with large financial investment is then needed to essentially industrialize the industrial production. *Finally*, upgrading updating technologies are required to enhance brain and technological contents of all products.

##### 4.2 *The market development*

In terms of foreign markets, bilateral and multilateral trade relations with the USA, Japan, Eastern Europe, China, ASEAN, East Asia, and Western Europe help expand output markets for industrial products. Further, a wise and flexible negotiation strategy in WTO membership assessment is required to obtain markets accesses to these markets.

In addition, the domestic market for industrial products should be also developed in line with the two directions. It is firstly necessary to provide products for the *blank* markets, where there are non-satisfied needs backed by purchasing power. *Secondly*, providing consumer goods for people living in the mountainous, rural areas, and islands helps expand the domestic markets and also improve living standards in such areas of the country.

##### 4.3 *Improvements of international competitiveness*

The international competitiveness of the Viet Nam industrial production is currently low, compared with those of the other neighbouring countries, say nothing of the advanced capitalist countries. Besides garment and textiles, other non-iron materials that are some exceptions almost other industrial products are presently of low competitiveness. This challenge becomes more significant when Viet Nam fully integrates into ASEAN/AFTA and get the WTO membership. Trade liberalization requires the authorities to remove tariffs and other NTBs on international commodity flows. Under such situation, increasing the international competitiveness of the Viet Nam industrial products has been the central question, determining the future prospect of the national economy.

At the macro level, free access to foreign market encouraged by the government plays an important role in putting domestic enterprises at competition advantage compared with their foreign counterparts. Getting free access to international market also means having update market information on product lines, new favourites towards design, appearance, quality of industrial products. Free access to foreign markets also means the freeing foreign trade business right for all enterprises regardless types of ownership.

At the micro level, enterprises themselves are required to reform their organizational structures, improve management skills, upgrading technologies to increase the quality of products so that they would soon be able to compete with their neighbouring counterparts in international markets.

(5) *The role of the government in industrial development*

Economic liberalization does not necessarily conflict with enhancing the State intervention into a market economy. Recent economic development of different zones in the 20th century has proved that state intervention is probably a pillar of economic growth. The case of South Korea, Singapore, and other NIEs have revealed that strong and effective states are essential for long-term economic development. The development prospect of Viet Nam depends on the policy orientation of the State under the leadership of the Party. What matters is how the State should interfere into the economy? The answer to this question is to build capacity for strategy formulation, adjust the economic role of the State sector towards market mechanisms.

Formulation of a right development strategy is critical to long-term development. In the 15th -17th the Netherlands took advantages of its long coastal border with particularly favourable geographical location, mercantile ship fleets were encouraged to fast grow. This brought prosperity to the whole nation. The United Kingdom then put technological progress into its early industrialization to complete the earliest market capital accumulation. India and the Philippines in the 60s and 70s failed to take off due to their inappropriate development strategies.

In order to become an industrialized economy in 2020, it is critical for Viet Nam to have an appropriate industrialization strategy. As aforementioned, Viet Nam is currently an agriculture-based economy with backward technology and about 76% of the population living in the rural areas. If it is to industrialize the economy into an industrialized country in the next 20 years under the context of globalization and the tendency toward a knowledge-based world economy, Viet Nam should further transform the whole economy into a market economy in general, and especially rural areas in particular. Enhancing brain content of all product, selecting some sun-rise industries to make great leap in economic growth is required in this 20 year industrialization. Policies measures are build so that to strengthen the quality of human resource, further invest into research and technological adaptation to develop capital- and knowledge-intensive industries. Resources necessary for such revolution should be mobilized both from domestic and foreign sources, in which domestic sources should be the long-term and major source of capital. This industrialization also requires further integration into the world economy and an adjustment of the economic roe of the State sector.

After more than 15 year Doi moi, the State intervention can still be characterized as a combination of an command economy and a newly-established mechanism. This combination makes the mechanisms for resources allocation non-transparent, and sometime conflicting.

*A better legal environment is essential to create favourable climate for individuals to invest their energy and savings into productive activities.* The most significant problem regarding the current legal environment is low enforcement of legal regulations. Inducing enforcement of the legal rules is necessary to manage economic activities under market mechanism.

In addition, the State should take the role as an information provider to the wide public. Providing information to the public should also be reinforced by providing access to modern technologies and selling markets.

With regarding to industrialize rural areas, factor mobility should be liberalized. The State should also take the role of building infrastructure facilities such as rural traffic, irrigation system.

*The role of the State will be executed through macroeconomic policies, especially monetary and financial policy measures.* Both theoretically and practically, there is no doubts on whether the State should interfere into the economy. Debate on state intervention focuses on how and when the state should take its power. Most commonly, the state is responsible for macroeconomic management and providing public goods.

In the specific context of Viet Nam, probably the most significant weakness of macroeconomic management is the problem of public expenditure, and income policy. Financial reform has been step-by-step implemented since 1989 with interest liberalization and restructure of banking sector. As further steps, state budget allocation should be reformed so that budget distribution for education, research, and public administration should keep increasing. The productive sectors are open to the wide public, both domestic and foreign.

*The State macroeconomic management is not executed by its own mind but by market mechanism.* The Government is not the grandfather of enterprises, it is the brother of business sectors. The State therefore creates favourable conditions for business community to grow. In doing so, the state-owned sector needs further reforms. The recent establishment of stock exchanges may be a new motive for speeding up the process of SOEs equalization. In reforming SOEs, it is important to note that the Party has confirmed and emphasized the essential role on the SOEs in the national economy.

In addition, further steps in completing the legal framework is desirable. The business community needs to be informed the State priority and policies in developing economic zones, industries, and other policies which affect directly and indirectly to their activities.

Strengthening administration reform may be the first and most effective policy to avoid non-market pricing decision of the State. Corruption and red tape need to be limited and eradicated within the administrative system. Public servants should to be paid reasonably. Further training and re-training of public officials are also required.

### **3. Recommendations for Viet Nam industrial policy**

Given the current situation of the Viet Nam industries, building up an industrial policy for Viet Nam to

transform the country into an industrialized economy by 2020 is a revolution in terms of economic growth. The following part gives some recommended policy options.

*(1) Enhancing the quality of human resource*

As industrialization requires enhancing brain content of all products, enhancing quality of human resource is put up to the highest priority. Adaptation of high technologies is impossible with a low-skilled labour force. The labour cost account recently for only 10% manufacturing cost of cheap products, while it accounts for 80-90% of the high-tech output. About of the American labour force is working in knowledge-intensive industries. According to specialists, in the recent US growth rate of 3.2%, technology contributes 1.4%, labour for 1%, and capital for 0.8%. In Viet Nam. Some foreign observer suggest that 1% increase in labour force leads to 0.62% GDP growth rate, while 1% raise in capital adds only 0.28%. These figures make a very strong sense for Viet Nam as a agriculture-based economy with backward technology and abundance of labour.

In order to enhance the quality of labour force, in the next coming years, the four following groups and issues should be set up as targets: professional specialists, entrepreneurs working at all economic sectors; skilled workers; and education background of the whole population.

The number of skilled workers who can match requirement of adapting new technologies is relatively low in comparison with the number of educated management staff. These workers are those who directly operates assemblies, technologies in industrial production. However, the chain of vocational, professional studies schools is still underdeveloped with limited number of school and backward experiment equipment. Further investment into such schools is therefore called for resource mobilization from both the budget and private savings. In addition, a strong business community with talented entrepreneurs is also a condition for such industrial revolution. One Bill Gate in the USA has created more output and employment than many other developing countries. The task of training business managers and also specialists who acquire professional knowledge is one of the most important objective of the education system in the coming years.

*(2) Investment for research and adaptation of modern technology to produce knowledge-intensive products.*

In the last 30 years, the volume of scientific and technological knowledge invented it more than that invented in the last two minilleums. According to some forecast, that volume will develop more 4-5 times than the current level. If the 20th century can be considered as the era of physics and chemistry, the 21th century is the age of biology with booming progress of high-tech industries such as information, telecommunication, new materials, bio-tech. The total output in the recent 30 years is equal to that of 270 previous years. In the next some ten years, the total output will great leap. In such context, investment for research and adaptation of technologies to produce knowledge-based products can be a breakthrough

for an impressive taking-off.

The task of research and adaptation of technologies needs capital. The experience of post-war Japan was a supportive evidence that a suitable strategy might overcome capital shortage in research and technological adaptation. With the famous slogan of *Western Technologies, Japanese Spirit*, Japan imported latest technologies at that time for its economic reconstruction after the war. The revenue from such first technological adaptation allowed the country to invest more for research and technological invention. The Japanese miracle has put Japan in the first ranking economic power with modern technological capacity. In the specific situation of Viet Nam, the following steps should be put in the strategy:

*First*, sequencing of technological development, there is no doubt that Viet Nam has to import modern technologies. These technologies will take advantages of skilled labour force to increase the national competitiveness. This will lead a stronger foundation for further investment in research and technological adaptation.

*Second*, the selection of technology, biology should be developed in agriculture, new materials should be developed in industries, and software, telecommunication in services.

*Third*, the scale of technological adaptation, it is believed that *small is beautiful*.

*Fourth*, the issues of propaganda, the state mass media should make great efforts to build a wall-to-wall campaign for technological adaptation.

Such policy orientation create essences for Viet Nam to become an industrialized economy in 2020. Without these, Viet Nam might turn out to be a huge manufacturing workshop producing low-value semi-products. The danger of lagging behind the other is therefore unavoidable.

- (3) *The capital for industrial development in Viet Nam is mobilized both internally and externally, of which domestic savings is considered the most important. Government investment should focus on infrastructure, education and training, research and development. Other areas are open to private investment.*

Capital accumulation is essential for long-term economic development. Countries follows different paths of capital accumulation. Viet Nam is now in the beginning stage of such task. From which sources can capital to be mobilized for Viet Nam industrialization?

*First of all, the capital for industrial development in Viet Nam is mobilized both internally and externally, of which domestic savings is considered the most important.* Public savings play an extremely important role in capital mobilization. Encouraging measures, feasible output solutions are critical for mobilizing public savings into productive activities. The fact of La Phu town, Ha Tay province where people self-organized their activities in groups to create jobs for more than 4000 farmers with annual turnover of 40 billion VND. The model of La Phu should be multiplied to the large rural areas of Viet Nam.

*In addition* to domestic capital, foreign investment should be attracted as another major source of capital. The strong commitment of Viet Nam to its open-door policy and impressive achievements have been appreciated by the world donor community. The increasing ODA and other kinds of technical assistance in the recent year is a clear evidence for foreign supports to Viet Nam Doi moi. Foreign direct investment contributes the majority in the total foreign capital flowing to Viet Nam in the past 15 years. Apart from large capital volume, FDI has brought into better technologies and management skills, which have made significant contribution to local technological capacity development. In attracting foreign direct investment, a more appropriate legal environment is required to create a favourable investment climate.

*Finally, investment priority (or where and how investment capital is directed?) is more important than the volume of capital in some certain extents.* Inefficiency of the state investment into heavy industries in the 1960s and 1970s has shown that misallocating limited resources into industries was not only ineffective but also obstruct later reorientation of investment policy. In terms of investment priority, the public financing should be focused on key industries that are considered as of the strategic importance to the national economy, and on infrastructure development. While all other areas should be open for the private financing.

#### (4) *The tariff policy*

The taxation system has been into a comprehensive reforms. There have been a wide range of changes towards a more simple and constructive system in the recent two steps of the reform. The full integration into AFTA by 2006 and the WTO membership application imposes strict constraints on further tariff reform measures.

*In principles,* the tariff reform in the next coming years must be conducted in line with (four following points) (i) transparency; (ii) non-discrimination; (iii) favouring export promotion; and (iv) encouraging fair competition.

*More particularly,* the tariff reform must aims at steadily removing protection by various TBs and NTBs applied for several industries. This is an unavoidable tendency when facing trade liberalization. Given the low international competitiveness of the Viet Nam industrial product in foreign markets, it is however not a painless adjustment. This task requires direct intervention with strong political commitment at highest policy-making levels. Otherwise, domestic industries would never grow up as there is no incentive to refuse benefits from protection. *In addition,* a reduction of the number of the tariff rates, accompanied by an extent of objects that are subject to tariff are then necessary.