

**STUDY TO SUPPORT FORMULATING  
THE INDUSTRIAL STRATEGY OF  
VIETNAM**

**FINAL REPORT**

**MARCH 2013**

**Japan International Cooperation Agency (JICA)**

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**Japan Economic Research Institute Inc.  
International Development Center of Japan Inc.**

<b>VT</b>
<b>JR</b>
<b>13-74</b>

**Socialist Republic of Vietnam**

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## Abbreviations

AFTA	ASEAN Free Trade Agreement
AP	Action Plan
ASEAN	Association of Southeast Asian Nations
CIEM	Central Institute For Economic Management
EMS	Electronics Manufacturing Service
EPE	Export Processing Enterprise
GRIPS	National Graduate Institute For Policy Studies
GDP	Gross Domestic Product
GMP	Good Manufacturing Practice
GSO	General Statistics Office
HACCP	Hazard Analysis and Critical Control
ISO	International Organization for Standardization
IT	Information Technology
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
LED	Light Emitting Diode
M & A	Merger and Acquisition
MARD	Ministry of Agriculture and Rural Development
METI	Ministry of Economy, Trade and Industry
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOIT	Ministry of Industry and Trade
MOST	Ministry of Science and Technology
MOT	Ministry of Transport
MPI	Ministry of Planning and Investment
OA	Office Automation
ODM	Original Design Manufacturer
OOG	Office of the Government
R & D	Research and Development
PR	Public Relations
SEDS	The Socio-Economic Development Strategy
SI	Supporting Industry
SME	Small and Medium Enterprises
TF	Task Force
VCCI	Vietnam Chamber of Commerce and Industry
VEAM	Vietnam Engine and Agricultural Machinery Corporation
VEIA	Vietnam Electronic Industries Association
VietGAP	Vietnam Good Manufacturing Practice
VIETRADE	Vietnam Trade Promotion Agency
VINASA	Vietnam Software and IT service Association
WG	Working Group
WTO	World Trade Organization

# **1. Background and Objective of Cooperation for the Formulation of Industrial Strategy of Vietnam and this Study**

## ***1.1 Background and Objective of Cooperation for the Formulation of Industrial Strategy***

Vietnam has achieved high growth since the mid 1990s and become a lower-middle income country in 2008. Both the Socio-Economic Development Strategy for 2010-2020 (SEDS) and the Socio-Economic Development Plan for 2010-2015 (SEDP) describe the target as: “Develop the country into a modern industrialized nation by 2020”.

However, it is widely recognized that the past achievements were driven by mostly quantitative factors (such as large inputs of cheap labor and massive investment with low productivity) rather than productive improvement and other qualitative factors.

Furthermore, Vietnam will be facing with much severer competition with complete implementation of AFTA by 2015 (except for some sensitive items). The remaining time for enhancing Vietnam’s industrial competitiveness is limited. By 2020, the international integration will become stronger and global competition will become more severe not only among ASEAN countries but also with China and other international industries. In this context, the enhancement of competitiveness of the key industries which lead Vietnam’s industrialization is indispensable.

In the past, Government of Vietnam issued Decisions and/or Master Plans in various policy subjects. However most of their targets were not achieved. In order to improve this situation, an effective approach shall be needed such as clear prioritization with the principle of selectivity and concentration with inter-ministerial collaboration. This Cooperation Project aimed to build up a pilot model of the industrialization strategy based on Vietnam-Japan Cooperation, and this model would promote its role in leading Vietnam’s industrialization by 2020.

In the early 21st century, after experiences of series of global financial crises, the extreme views denying industrial policy seem to have been diminishing and the world has come to realize again that government has an important role to play in assisting private sector development and that such policy capability must be built up if initially too weak. Since the government of Vietnam, does not have sufficient capability to do this, capability must be built up through systematic policy learning from remarkable industrial development achieved by effective industrial policies in many high-performing East Asian countries such as Japan, Taiwan, Korea, Singapore, Malaysia, and Thailand (Please refer to Professor Ohno’s paper on this subject in Appendix).

With this background, we take the position that the next stage of Vietnam’s industrialization must be assisted and guided by proactive policy of the Vietnamese government, and that policy must go beyond liberalization and international integration or general improvement in business climate. Vietnam needs a sharply focused approach to ensure policy implementation reflecting its limited time, human and financial resources.

It is for this reason that the Prime Ministers of both countries released a Joint Statement on October 31, 2011 that "the Vietnam side greatly appreciated Japan’s cooperation and assistance in the formulation and implementation of Vietnam’s Industrialization Strategy under the framework of Vietnam – Japan Cooperation toward 2020 (hereinafter referred to as “this Cooperation Project”) and affirmed that it would establish the high level committee for that cooperation chaired by a Deputy Prime Minister of Vietnam." After the Joint Statement, the Steering Committee was organized in August 2012 and the Working Group was established under the Steering Committee in November 2012 for this Cooperation Project.

Implementation mechanism of this Cooperation Project is summarized as below.

1) Steering Committee (refer to PM Decision No. 1075/QĐ-TTg, August 13, 2012, and Decision by Head of Steering Committee, No.113/QĐ-BCĐCLVNNB); It is established in August 2012 and headed by the

Chairman, the Deputy Prime Minister, Mr. Hoang Trung Hai and the Vice Chairman, the Minister of MPI Mr. Bui Quang Vinh. The Committee members are composed of 8 other relevant ministers (the Office of the Government, Foreign Affairs, Industry & Trade, Finance, Agriculture & Rural Development, Transport, Science & Technology and Information & Communication). From Japan side, Ambassador and Deputy Minister of Economy, Trade and Industry become advisors.

2) Working Group Meeting (refer to Decision by Head of Steering Committee, No. 1589/QD-BCDCLVNNB); 23 members were nominated. Dr. Ba, Director of CIEM and Professor Ohno of GRIPS, Japan are the joint chairman of Working Group Meeting which is periodically held and discussed Industrialization Strategy and Action Plans for the selected strategic industries.

The working members of both Vietnam and Japan made specific proposals with objectives below, based on the mutual agreement on the principle of selectivity and concentration of strategic industries, and public- private-academic partnership:

- (1) Determining manufacturing sector strategy towards the industrialization of Vietnam by 2020; specifically, identify the strategic industries on the principle of selectivity and concentration for establishing a pilot model for an effective industry strategy in Vietnam
- (2) Elaborating the action plans to create good practice for Vietnam in making and implementing concrete industrial policy
- (3) Materializing policy actions for industrialization upon obtaining approval by the Prime Minister

In line with the basic policy of Working Group operation mentioned above, both sides had meetings almost monthly and have completed the following works since September 2011.

First, existing studies and surveys on Vietnam's potential industries were reviewed, and existing policies and strategies of the government were checked.

Second, the criteria for selecting industries were mutually agreed. Selection of a small number of sectors for intensive support is a crucial aspect of this initiative.

Third, based on these criteria, the long list of 39 candidate industrial sectors was created by collecting ideas from both sides, Vietnamese and Japanese, with additional hearings from Vietnamese and Japanese enterprises as well as policy makers, whenever possible, before and after the selection of long list items.

Fourth, from the long list, the middle list of 12 candidate sectors was chosen. Fifth, after conducting additional studies and surveys on the middle list items, the short list of 9 sectors, consisting of 5 sectors in the first tier and 4 sectors in the second tier, was created in March 2012.

The first-tier group includes sectors that are considered most promising to become key industries by 2020: electrical and electronics; food processing; shipbuilding; environment and energy saving ; and agricultural machinery.

The second-tier group includes those with potential under certain conditions: motorcycle; textile and garment; steel; and automobiles.

The former were agreed by both Vietnamese and Japanese members of the Working Group to be highly promising while the latter were supported by one side only. The five sectors in the first-tier group were

endorsed by the first Steering Committee in August 2012. Afterwards, in March 2013, both sides agreed to add automobile and auto parts to the first tier group.

### ***1.2 The role and purposes of “Study to Support Formulating the Industrial Strategy of Vietnam” by JICA (hereinafter referred to as “this Study”)***

In order to support the discussion and activities of Working Group members of both sides mentioned above, JICA organized Study Team as follows.

In November 2011, this Study started to be carried out by nominated consulting firms (joint venture between Japan Economic Research Institute Inc. and the International Development Centre Inc.).

The purpose of this Study was to provide necessary information to discussions of Working Group members periodically with close coordination of relevant parties, and to compile related documents based on result of discussions.

In particular, following works were included:

- 1) Provide concerned information to make solutions to specific issues on this Cooperation Project.
- 2) Study related issues (such as regional development trend and Japanese enterprises’ investment trend in Vietnam) and make proposal related to the selection of strategic industries necessary to achieve Vietnamese government’s objective to become a industrialized country by 2020.
- 3) Study, analyze and compile drafts of action plans for the strategic industries.
- 4) Make proposals of supporting measures and institutional reform to realize action plans above.
- 5) Perform functions of Secretariat when Working Group holds periodic meetings.

This Study is divided into 2 phases: the first phase ranged from November 2011 to March 2012, with the task to select strategic industries. The second one lasted from April 2012 to March 2013, with the task to draft action plans.

The selected strategic industries include 6 industries, namely food processing, agricultural machinery, electronics, shipbuilding, automobile & auto parts and environment and energy saving. Among them, the Japanese side was in charge of drafting the action plans for the first three industries, while the Vietnamese side was responsible for the rest.

The Japanese side Working Group members and the Study Team’s working process and members are attached in Appendix 3.

## **2. Overview of Draft Industrialization Strategy and the Selection Process of Strategic Industries**

### ***2.1 Overview of Vietnam’s industrialization strategy under the framework of Vietnam-Japan***

***Cooperation toward 2020, with Vision up to 2030 (Hereinafter referred to as Industrialization Strategy)***

The draft of industrialization strategy prepared with the initiative by CIEM (as of March 2013) includes the 6 chapters below.

- I. Necessity to formulate the strategy
- II. Current situation of Vietnam's industry
- III. Viewpoint, objective, and development orientation of the industrialization strategy
- IV. Determination of strategic industries towards 2020
- V. Some main solutions to realize the strategy
- VI. Implementation organization

Its specifically emphasized points are;

- 1) Industrialization strategy is part of Vietnam's general industrialization policy, focusing on the development of only a few strategic industries which are selected appropriately for their potential, orientation to Vietnam's development by 2020 and mutual benefit of both countries.
- 2) Industrialization strategy is a catalyst that contributes to faster development of Vietnam's industrialization process for 2020 and helps Vietnam create a number of industries which have international competitiveness. The strategy also needs to make a direct contribution to the process of economic restructuring and growth model reform in order to improve the quality, effectiveness and competitiveness of the economy.
- 3) Industrialization strategy should create the breakthrough in attracting quality FDI into Vietnam and improving the effectiveness of FDI in general and that of Japan in particular.
- 4) Industrialization strategy must be built up and carried out with the public-private-academic partnership of both countries. The key stakeholders to realize this strategy will be enterprises of both countries, especially private enterprises.
- 5) Through this joint undertaking, it is expected to create a typical model for the process of planning and implementing effective and transparent industrial policy in Vietnam in the coming time.

***2.2 Selection process of strategic industries***

Up to March 2012, at the level of working group, a short list of strategic industries was proposed according to the criteria below:

**Selection criteria**

- 1) Precondition: it must be an industry paid attention to by both countries and their enterprises.
- 2) Main criteria



- 1) Have an impact on quantity (increase in output, export growth, etc.)
- 2) Have an impact on quality (raise of productivity, technology transfer, industry structure, etc.)
- 3) Have potential to enlarge the industrial linkages (formation of domestic cluster, participation in the international supply chain, etc.)

3) Be appropriate to the policy of the Vietnamese government, comply with the laws, protect the environment, etc.

Industries selected and included in the shortlist in March 2013: 9 industries in total

Group1 (agreed by both countries)	Food processing, agricultural machinery, ship building, automobile and auto parts, electronics, environment and energy saving
Group 2 (Continuing to be discussed)	Motorbike, textile, steel

Deputy Prime Minister Mr. Hoang Trung Hai stated in January 2013 that the "Industrialization Strategy" should be completed by March 2013 and the "Action Plan" by the 3<sup>rd</sup> quarter of year 2013.

### **3. Development Orientation for Strategic Industries toward 2020 and their Action Plans for Implementation**

#### ***3.1 Basic objectives of Action Plan development for the identified Strategic Industries***

Drafting action plans for strategic industries is an indispensable step for materializing industrial policy by concerned policy makers of both central and provincial level, non government organizations and private enterprises. In order to share understanding on each action plan among stakeholders, both sides followed the standard format attached in Appendix. This format was proposed by Professor Ohno emphasizing implementability.

#### ***3.2 Development orientation of the three Strategic Industries under the guidance of the Japanese side***

The Japanese side tried to draft the following three action plans in collaboration with the Vietnamese counterpart experts by March 2013. The Vietnamese side tried to draft the rest of three strategic industry action plans. However the latter was omitted here as the discussion between the two sides are ongoing as of March 2013.

##### **(1) Agro-fisheries food processing industry**

In order to upgrade the reputation of agro-fisheries processed foods made in Vietnam as “a country who is reliable to provide safe and high-quality foods,” it is essential to establish a plan to create “champion products” which will create a typical leading product to promote the image and safety of the whole agricultural product and food processing sector. The selection of potential “champion products” is expected to be carried out collaboratively by the Working Group member from MARD and the task force members including private sector experts and enterprises of both countries.

##### **(2) Agricultural machinery industry**

In order to materialize the goals of agricultural production growth for 2020 as stated in SEDS, which includes a negative factor of the reduction of the agricultural sector workforce, it is indispensable to improve agricultural productivity. One of the most effective solutions to achieve it is to upgrade the proportion of mechanization in agriculture.

Thus, it is necessary to approach the issues in three aspects: promote active use of agricultural machineries by farmers (demand side); encourage agricultural machinery manufacturers in Vietnam to provide the appropriate products that meet the needs of farmers (supply side); and develop legal measures to sweep away illegal products that distort the market.

### (3) Electronics industry

By 2020, a large center for the new, intelligent and environment-friendly electronic manufacture will be established in Vietnam.

In order for that prospect to happen, there is a need to strengthen the research and manufacture mechanism in Vietnam, so that made-in-Vietnam electrical home-appliances can take over larger shares in growing national market after becoming a middle-income country as well as in the neighboring countries in the middle of the dynamic economic integration taking place in ASEAN. That established capacity will help Vietnam reach out to the oversea markets in the ASEAN region.

In addition, the aim to occupy a top class share in the international market of electronics products requires the establishment of at least a few Vietnamese products as globally leading products (for example, Vietnamese printers to occupy one-third of the global market).

Therefore, along with the efforts to increase value-added of products created by Vietnamese enterprises in this sector, it is vital to develop step-by-step the sectors of supporting industries, from stage of mechanical components, electrical components to electronic components. Actively attracting an anchor enterprise to act as a driving force of this industry is a prerequisite.

In addition, in order for enhancement of international competitiveness, great efforts need to be put into not only developing the “hard resources,” but also training human resources for planning, designing and developing embedded software, and concurrently making the best use of the benefits from the two electronic manufacture clusters (including software) in both North and South Vietnam.

### ***3.3 Vision, goals, and issues of the Strategic Industries***

Industry	Vision	Goals	Strategic Issues
Agro-fisheries food processing	To upgrade the reputation of agro-fisheries food processing products in Vietnam as “a country who is reliable to provide safe and high-quality foods”	(1) To identify 2-4 agro-fisheries food processing products, contributing to promote the brand images of Vietnam (2) To lessen the occurrences of Vietnamese foods being refused by imported countries because of safety issues.	(1) To create champion products : 1 – ensuring the quality and quantity of ingredients, 2 – upgrading processing level, 3 – promoting distribution scale, 4 – improving marketing and branding  (2) Sector growth: advancing the food safety

			and image of the whole food sector
Agricultural Machinery	To modernize Vietnam's agriculture, especially elevating rice productivity and thus, increasing farmers' income and concurrently promoting agricultural machinery manufacture.	<p>(1) The target agricultural production value in 2010 was 22 billion USD →43 billion USD in 2020.</p> <p>* SEDS has set the aims that agriculture contributes to 15% of GDP, and that GDP per capita is 3,000 USD. Realizing these aims requires a certain production amount (based on the present US dollar value), as follows.</p> <p>(2) The target labor efficiency in 2010 was 740 USD per capita →2,000USD per capita in 2020.</p> <p>* This is the result figure that SEDS predicts: (1) divided by agricultural population</p> <p>(3) The proportion of mechanization in agriculture (in terms of agricultural land) is from 25-30% in 2010 → 70% in 2020</p> <p>* This goal is stated in the Master Plan of agricultural production development in Vietnam (Decision No. 124/QD-TTg dated 02/05/2012 by The Prime Minister)</p>	<ul style="list-style-type: none"> <li>- Encourage farmers to utilize good quality agricultural machinery</li> <li>- Encourage manufacturers in Vietnam to provide appropriate machineries best fit to farmers in Vietnam</li> <li>- Establish appropriate market rules for staying away from illegal machineries</li> </ul>
Electronics	To establish a large center for the new, intelligent and environment-friendly electronics manufacture in	(1) To enhance the international competitiveness of electronic products	- To occupy significant shares in domestic and oversea markets and expand

	Vietnam	<p>(including software) . (there is a need to strengthen the research and manufacture mechanism in Vietnam, so that made-in-Vietnam electrical home-appliances can take over larger shares in growing national market after becoming a middle-income country as well as in the neighboring countries in the middle of the dynamic economic integration taking place in ASEAN.)</p> <p>(2) To occupy a top class share in the international market of electronics products, it is necessary to establish the prestige of at least one electronic product from Vietnam.</p> <p>(3) To increase the creation of added value from Vietnamese enterprises – personnel</p>	<p>production scale.</p> <ul style="list-style-type: none"> <li>- To develop supporting industries.</li> <li>- To train human resources in electronics and supporting industry sectors (including software)</li> <li>- To improve the logistics, such as equipment, facilities, infrastructure, etc.</li> <li>- To attract and support actively global anchor enterprises.</li> </ul>
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### ***3.4 Supporting measures related to the Strategic Industries***

In the notification dated November 7, 2012, Deputy Prime Minister Mr. Hoang Trung Hai made a request that the action plans for all Strategic Industries be completed by the end of the 3<sup>rd</sup> Quarter in 2013, and the specific supporting measures for realization of action plans be proposed.

The supporting measures include administrative reform, incentives of taxes, customs, subsidy and investment credit, etc. according to the agreed action plan of each strategic industry.

## **4. Remaining Issues to be addressed from April 2013 onward**

It is expected that the Industry Strategy will be approved by the Prime Minister after March 2013, and the Action Plans for strategic industries will be approved by September 2013. The next stages can be divided into two as below:

- Finalization of the Action Plans for strategic industries.

- Implementation and monitoring of the Industrial Strategy and the Action Plans.

Remaining issues to be addressed for the Cooperation Project starting from April 2013 are as follows.

(1) General issues to be addressed particularly at Steering Committee level

Considering severe time constraints for formulating strategies and action plans for achieving concrete results by 2020, relevant leaders of Vietnam and Japan shall share understanding on the following key factors of success.

- 1) The Vietnam's high level leaders of the Cooperation Project is expected to take strong initiative and ownership based on sharing recognition on proper countermeasures against ongoing intensified international competition of manufacturing sector toward deeper international integration and on ever growing significance of the Cooperation Project in this context.
- 2) The government of Vietnam will take a sharply focused policy actions for implementation by prioritized resource mobilization with inter-ministerial collaboration considering limited time and human and financial resources.
- 3) The various Stakeholders of Japanese side will have close collaboration for achieving objectives of the Cooperation Project between those in Vietnam and Japan.

(2) Specific issues to be addressed at Working Group level

As the Cooperation Project is getting into final stage of formulating action plans for the selected strategic industries from April 2013, following specific issues shall be addressed at Working Group level in time for submission deadline of September 2013.

- 1) The leading ministry with full mandate and capability for drafting and implementing each action plan will be designated. If plural stakeholders were designated, the division of duties among relevant ministries/organizations will be clarified, and at the same time, inter-ministerial collaboration will be ensured in the decision.
- 2) Substantive involvement of stakeholders, especially business enterprises and concerned ministries/local governments will be ensured from drafting stage as they are expected to implement action plans.
- 3) Each action plan will be drafted by the relevant regular members composed of the above 1) and 2), designated by the chairman of the Steering Committee.
- 4) For cross-sector issues, such as financial resource mobilization, human resource development and infrastructure development shall be discussed by regular members and experts designated by the Chairman of the Steering Committee.
- 5) It is expected for Working Group Members to secure necessary operation budget for drafting and elaborating action plans as Chapter 5 of PM Decision 1075/QD-TTg stipulated operation costs for members of Steering Committee and Working Group will be financed by National Budget.
- 6) For stakeholders of Japanese side as a whole, it is expected to work close communication among

government-private enterprises-researcher in Vietnam and between ones in Vietnam and Japan in order to prepare for active involvement of Japan side for implementing action plans.

7) After completion of all action plans, both sides shall explain to investors and other stakeholders about comprehensive supporting measures for the selected strategic industries with the regional development potentials of each sector. Please refer to an example of “Strategic Industry Map with Supporting Measures” in Appendix 8.

## **Appendix**

1. Outline of Vietnam's Industrialization Strategy under the framework of Vietnam – Japan Cooperation toward 2020, with Vision up to 2030
  
2. Discussion on Industrial Policy (Excerpts from Professor Ohno's Paper dated August 30, 2012)
  
3. Japanese Side Working Organization
  - 3.1 Working Group Members
  - 3.2 Working Process and Members of JICA Consultant Team for the Study to Support Formulating the Industrial Strategy of Vietnam
  
4. Selection Criteria on Strategic Industries
  
5. Industrial Linkages
  
6. Expected Role and Linkages of the Selected Strategic Industries in Vietnam Industrialization Strategy
  
7. Proposed Components of Action Plan
  
8. Strategic Industry Map with Supporting Measures

# **1. Outline of Vietnam's Industrialization Strategy within the Framework of Vietnam-Japan Cooperation toward 2020, with vision up to 2030 (Hereinafter Industrialization Strategy)**

The draft of industrialization strategy with the initiative by CIEM (as of March 12, 2013) includes the 6 chapters below.

## **I. Necessity to formulate the strategy**

## **II. Current situation of Vietnam's industry**

## **III. Viewpoint, objective, and development orientation of the industrialization strategy**

## **IV. Determination of strategic industries towards 2020**

## **V. Some main solutions to realize the strategy**

## **VI. Implementation organization**

## **Appendix: Including documents as a base for selecting potential industries.**

➤ Summary: Main content of Chapters I to IV in the industrialization strategy is as follows:

### **I. Necessity to formulate the strategy**

(1) The economic transition and integration process were successful, but many weak points in the growth model have been exposed more and more clearly.

(2) The industry has developed extensively, but weak competitiveness of the domestic industry is causing an obstruction to the industrialization process.

(3) Successful experience of some Asian countries raised the awareness of the importance of the industrial policy and role of the government in industrial development.

(4) Revolutionary change in the method of formulating the industrial policy.

(5) Origin, objective of and initiative in Japan's assistance in formulating Vietnam's industrialization strategy within the framework of Vietnam-Japan Cooperation for 2020, towards 2030.

(6) Objectives for development by 2020 in the 2011-2020 Socio-Economic Development Strategy emphasize the development of Vietnam to a modern-oriented industrialized country.

### **II. Current situation of Vietnam's industrial development**

(1) The industry greatly contributes to the GDP growth, but mainly due to the manufacturing and processing industries creating low added value.



(2) Manufacturing and processing industries make an increasing contribution to export, but main income is gained from raw products, preliminary treatment and processing, and assembly.

(3) Manufacturing and processing industries make up a high percentage of the whole industrial output value and export which mainly comes from final product industries, while midstream and upstream industries requiring large capital remain underdeveloped.

(4) FDI makes a great contribution to the growth of manufacturing industry, but it is essentially attracted to the downstream industries, in the industries that Vietnam still has comparative advantages and benefits from the trend to supply chain transition in the region.

(5) In the industrial structure of Vietnam, there is a lack of energy saving and environmental protection industry.

### **III. Overview, objective and development orientation of the industrialization strategy**

(1) Outline of Vietnam's industrialization strategy within the framework of the Vietnam-Japan Cooperation

1) Industrialization strategy is part of Vietnam's general industrialization policy, focusing on the development of a few industries which are selected appropriately for their potential and orientation to Vietnam's development by 2020. The industrialization strategy is an important content in the bilateral framework of industry assistance provided by Japan to Vietnam. Accordingly, different from common industrialization programs of Vietnam, the industrialization strategy has the scope of direct impact. Selected industries are included in the general industrial development orientation and are cared by both countries, creating a positive pervasive impact on the development of other industries and the industrialization process of Vietnam.

2) Industrialization strategy is a catalytic substance that contributes to faster development of Vietnam's industrialization process for 2020 and helps to create a number of industries which have international competitiveness. The strategy also needs to make a direct contribution to the process of economic restructuring and growth model reform in order to improve the quality, effectiveness and competitiveness of the economy.

3) Industrialization strategy places much emphasis on the performance of specific actions for 2020.

4) Industrialization strategy should create the breakthrough in attracting quality FDI and improving the effectiveness of FDI in general and that of Japan into Vietnam in particular. In which, it emphasizes the establishment and consolidation of the association between Japanese enterprises and domestic enterprises, with much importance on measures taken to promote the technology transfer from Japanese enterprises.

5) Industrialization strategy must be built up and carried out with the cooperation of three parties: enterprise sector, government, and academics world of both countries. The party that mainly realizes this strategy is the enterprise, especially attracting the participation of private enterprises is important.

6) Material and energy industries (upstream industries) are indispensable in the long-term development towards 2030. The focus is on the reinforcement of associations among downstream and midstream production sectors, accordingly enhancing the international competitiveness of the whole industry while creating positive contributions for the economic development.

For implementation of the industrialization strategy towards 2030, it is necessary to formulate the strategy and action plan towards 2020 and to focus on the development of several given downstream and midstream industries.

At the same time, in the short term, it is necessary to successfully complete large projects which are implemented in the fields of upstream industries.

## (2) Objectives of the industrialization strategy

### 1) Overall objectives

- Industrialization strategy is part of the general industry development policy of Vietnam.
- Industrialization strategy is carried out through the overall Vietnam-Japan bilateral industry assistance framework, with the consultation mechanism among the government, enterprise, and academic in order to quickly promote Vietnam's industrialization process by 2020 and towards 2030.
- Therefore, priority is given to the collective development of several strategic industries which have the potential, competitiveness and pervasion to other industries.
- Create a typical model for the process of planning and implementing industrial policy in the coming time.

### 2) Specific objectives

- Scientifically select 6 potential industries of Vietnam, which are of enterprises' interest of both countries, for investment to develop in a selective and collective manner to become strategic industries that help speed up the Vietnam's industrialization process in the period till 2020.
- 3) Formulate the specific action plan for each selected industry; concentrate on some strategic sub-sectors/ products; consider the implementation of pilot project in each sub-sector if necessary.
  - 4) Both sides cooperate to attract Japan's quality FDI for selected and relevant industries.
  - 5) Greatly mobilize the active participation of all government, enterprise, and academics in both Vietnam and Japan in the whole process of formulation, implementation and effective evaluation of the industrialization strategy, thereby enhancing Vietnam's capacity for planning industrial policy.

### (3) General orientation on the development of Strategy's industries

- Continue to formulate and accomplish the legal framework and construct, and announce necessary, encouraging and preferential policies.
- Strengthen the capacity of manufacturing-processing and R&D capacity to raise the added value of the product.
- Develop the supporting industry for selected strategic industries.
- Plan again strategic areas which need developing, giving priority to the development of infrastructure in those areas.

- Enhance the training of human resources for key industries.
- Intensify the cooperation between the government and private sector to create Vietnamese brands for main products.
- Promote the international cooperation to make use of external resources.

#### **IV. Determination of strategic industries towards 2020**

(1) Criteria on the selection of strategic industries (shown in 2-2 and Appendix 4)

(2) Selection result of strategic industries (shown in 2-2 and Appendix 4)

(3) Position of strategic industries in the industrialization strategy

1) The Socio-Economic Development Strategy for the 2011~2020 period proposes an objective to raise the rate of the industry and service sectors. To achieve this objective, the precondition is to modernize and to improve the productivity of agriculture, which currently makes up a high rate in GDP and the number of laborers; take full advantage of the geographical position and preeminent climatic condition, as well as the plentiful natural resources of Vietnam to enhance the productivity and added value. As a result, it is imperative to connect the agriculture with industry; especially much emphasis is placed on the role of the food processing industry and agricultural machinery sector towards the development process.

2) By 2020, the international integration will become stronger and global competition will become more severe among not only ASEAN countries but also international industries. In this context, the enhancement of competitiveness of the key industries which lead Vietnam's industrialization is indispensable and very meaningful. Ship building, with its geographical advantage in Vietnam, automobile and auto parts, and electronics, with the potential of export and domestic demand growth, all have great potential in the global supply chain if there is any reasonable development policy.

3) Among actions for 2020, any industry related to environment and energy saving will focus especially on overcoming environmental issues, energy saving and improving people's lives, laying the foundation for the sustainable economic development.

4) For the long term viewpoint for 2030, the development of the petrochemical industry, steel, electricity, material and energy, like gas (upstream industry), is integral. It is necessary to successfully complete large projects approved in these fields. The focus is on strengthening the association between downstream and midstream production sectors and upstream ones, accordingly enhancing the international competitiveness of the whole industry and creating a positive spiral for the economic development.

(4) Development orientation for strategic industries

1) Agro-fisheries food processing industry

- To realize the potential of this industry, it is necessary to attach much importance to basic issues like "food safety" and "increase in added value". There should be sequential impact on all phases from material procurement, production, distribution to marketing.
- Enhance food safety standards; strengthen inspection activity to improve the quality of the food

processing industry. Measures to utilize foreign enterprises' experience of investment, technology and quality control in this process are very significant.

- Create some champion products, as Vietnamese brand products with high quality and safety, which can get a foothold in the international market. At first, it is necessary to raise the added value and create the brand for traditional agricultural, aquatic and sea products of Vietnam.

- Make a plan and carry out the plan effectively to construct the safe agricultural, aquatic and sea materials production area. This ensures the supply of good quality materials for the food processing industry.

## 2) Agricultural machinery industry

- The first is to focus on the rice production field, promote the agricultural mechanization so as to improve the labor productivity of the agriculture and increase the income of the farmers.

- Formulate the policy on supporting the farmers to buy agricultural machines, and strengthen agricultural machinery producer's ability to meet the demand of farmers. Issue and execute stricter regulations against illegally-imported machines which are circulating in the market.

- Consider and support existing agricultural machinery production enterprises in improving the production method and marketing so as to enhance the competitiveness of domestic products.

## 3) Ship building industry

- Raise the productivity and improve the quality to reach the international standard by sub-sectors like ship building, ship repair, ship design and relevant supporting industries (machinery engineering, engine, workshop, etc.)

- Promote the restructuring of and enhance the quality of ship building factories (concentrate at high level), and improve the business environment so that state-owned, private and foreign enterprises all promote their ability in the development of the ship building industry.

- Promote to restructure Vinashin. Restructure members of several state-owned corporations to reduce the number of enterprises through M&A of foreign or domestic private enterprises.

- Quickly improve the quality of human resources in relevant sub-sectors like ship building, ship repair, ship design and associated supporting industries.

## 4) Electronics industry

- Enlarge the production capacity of main foreign enterprises in the field of final product manufacturing and that of foreign and domestic ones specializing in producing machine parts, electrical devices, and electronic components. This is to create "the good circle" where relevant sectors can support each other for development, thereby raising the added value and competitiveness.

- Concentrate on the development of midstream industries using high technology for the purpose of supplying components and parts to main foreign enterprises which are operating in the field of electronic assembly in Vietnam.
- Take actions to form the electronics industry cluster for agglomeration and greater sophistication of private enterprises.

#### 5) Environment and energy saving industry

- Vietnam enhances the supply of resources and considers the support mechanism for the purpose of attracting FDI and ODA from Japan and other countries to develop some environmental treatment and energy saving sub-sectors such as generation of clean energy and water treatment in order to contribute to the sustainable development of Vietnam.
- Raise the enterprises' and people's awareness of environmental protection and energy saving, and strictly and fully abide by relevant regulations and sanctions to ensure the implementation of the mapped-out policy.
- Restructure a number of other industries by reducing some sectors which consume great volumes of electricity, and enhance the ratio of the energy saving industries with the goal to use electricity in an efficient and effective manner.

#### 6) Automobile and auto parts industry

- Necessary conditions agreed by the Japanese side that this industry include the following 3 conditions:
  - a) Develop auto parts and domestic eco-car market as a package.
  - b) Both the Ministry of Industry and Trade and the Ministries of Finance and Transport will work together to develop a domestic eco-car market.
  - c) Have discussions based on the reality that automotive enterprises will produce in Thailand and export to Vietnam for cost benefits and that it will no longer be possible to assemble cars in Vietnam if tariff within ASEAN region will be equal to 0 in 2018.

## **2. Discussion on Industrial Policy (Excerpts from Professor Ohno's Paper dated August 2012)**

### **(1) Global debate in industrial policy and our positioning**

In the last several decades, global debate on industrial policy has gyrated from one extreme to another, from strong belief in government capability in leading industrialization in the 1950s and 60s to the denial of such capability and promotion of minimal government in the 1980s and 90s. In the early 21st century, these extreme views seem to have receded and the world has come to embrace a more balanced view that government has an important role to play in assisting private sector development and that such policy capability must be built up if initially too weak. Industrial policy has been resurrected as a legitimate topic for policy discussion in international and regional organizations. Meanwhile, East Asia has been relatively untouched by the shifting industrial arguments in the West and for long practiced industrial policies in a pragmatic and consistent way producing remarkable results in a number of countries—such as Japan, Taiwan, Korea, Singapore, Malaysia, and Thailand. At present, a large number of non-East Asian developing countries also seriously want to learn industrial policy (for example, Brazil, Botswana, El Salvador, Ethiopia, Rwanda, Tunisia, and Zambia). Furthermore, the number of prominent economists and international organizations that support industrial policy fully or conditionally is also increasing .

As a result, the old and naive debate over whether or not industrial policy should be conducted is now replaced by a more sophisticated and pragmatic debate on exactly how industrial policy should be conducted for effective results. Hausmann, Rodrik and Valesco (2006) propose Growth Diagnostics to identify a few most binding constraints for growth, whereas Lin (2010) advises developing countries to follow his “six steps” to realize structural shifts. Lin and Chang (2009) debate whether industrial policy should follow existing comparative advantages or create new ones while fully agreeing that active government is needed for industrialization.

The major thrust of current industrial policy debates can be summarized as follows. Free market is not necessarily efficient, stable or growth-enhancing as it is prone to short-termism, speculation and bubbles, lack of trust, violation of laws and regulations, and lack of overall planning and coordination . Economic development must be driven by the private sector but government has to assist and guide the private sector to attain this goal. Since a developing country government does not usually have sufficient capability to do this, capability must be built up through policy learning. The two great risks associated with industrial policy are “political capture” (decisions are influenced by political lobbying of powerful groups) and “policy mistakes” (selection of wrong industries for support, or criticism against “picking the winner”) (Krueger, 1997). In addition, the current policy scope for latecomers has become somewhat smaller compared with the past as a result of bans and restrictions on tariff protection and other discriminatory trade practices under WTO and other trade agreements. Government must be fully aware of these risks and constraints and adopt measures to minimize their negative effects. However, this does not invalidate the feasibility of industrial policy; on the contrary, today's developing countries are encouraged to do policy learning more seriously and systematically so it can effectively conduct policies in a new global context (Cimoli, Dosi and Stiglitz, 2009).

With this background, we take the position that the next stage of Vietnam's industrialization must be assisted and guided by proactive policy of the Vietnamese government, and that policy must go beyond liberalization and integration or general improvement in business climate. We would like to see selective and intensive support of a few potential sectors so that they will become main pillars of Vietnamese industry by 2020. However, the current policy capability of the government is insufficient for this task, and it must therefore be strengthened in its content, organization and implementation procedure. In order to achieve industrialization by 2020, the current approach of including too many sectors and issues and

setting too many goals without implementation details must be replaced by a sharply focused approach reflecting limited human and financial resources which can ensure implementation. This policy learning must be done in the context of actual policy making, in an OJT way, not as theoretical studies detached from actual policy actions. We believe that the above is the common policy method in industrialization adopted by many high-performing economies in East Asia. The Japanese government and businesses are willing to cooperate with the Vietnamese government toward this objective.

## **(2) Renovation in policy methodology**

The most important thing about industrial policy is that approved policy is actually implemented. Any policy, however sophisticated and well-written, remains just paper if business enterprises are unwilling or unable to implement it. Implementability of Vietnam's industrial policy must be greatly enhanced. For this, policy content, organization and implementation procedure must be upgraded.

A comparative study of high-performing East Asian economies reveals five necessary ingredients that produce good industrial policy: (i) clear vision from the top leader; (ii) consensus building process; (iii) documentation process; (iv) substantive involvement of stakeholders, especially business enterprises and concerned ministries and agencies; and (v) designation of a leading organization with full mandate and capability (Figure 1) .

At present, Vietnam generally lacks all of these ingredients. They must be strengthened in order for industrial policy to be successfully formulated and implemented. Our current initiative, Vietnam Industrialization Strategy, attempts to improve in these areas. While full enhancement is hardly possible due to limited time and human and financial resources , we will discuss and draft action plans for each selected industrial sector in such a way that these five ingredients are installed as much as possible, even partially and incompletely. More specifically, we will adopt the following methods to improve policy quality despite severe time constraint.

- (i) To concentrate discussion on core issues only, we will use a condensed policy action template with minimum requirements (situation analysis, vision, objectives, strategic issues, action plan matrix).
- (ii) Data collection and analysis as well as surveys on the business sector (both Vietnamese and Japanese firms) are conducted as much as reasonably possible by JICA, CIEM, and Japanese consultants under short time limits.
- (iii) Since September 2011, monthly meetings are held by the Working Group, inviting relevant ministries as members to contribute concrete ideas and proposals. Japanese government organizations and business associations are also involved for the same purpose.
- (iv) A high level committee, which is chaired by HE DPM Mr. Hoang Trung Hai and includes relevant ministries as members, was organized in August 2012 to supervise and approve the works prepared by the Working Group. The Japanese side (METI, Ambassador, etc.) is invited as advisor-cum-observer to this committee.

We hope that, through this process, stakeholder involvement and inter-ministerial coordination will be significantly improved and implementability of approved policy will be enhanced. We recommend that Vietnam's existing policy making procedure be revised, if and when necessary, to improve the quality and implementability of agreed action plans.

### 3. Japanese Side Working Organization

#### 3.1 Japanese Side Working Group Members

No.	Full name	Position	Organization
1	Mr. Yasuaki Tanizaki	Ambassador	Embassy of Japan
2	Prof. Kenichi Ohno	Professor	National Graduate Institute for Policy Studies
3	Mr. Hirofumi Miyake	Counselor	Embassy of Japan
4	Mr. Hiroshi Aimoto	Director, Trade Policy Bureau	Ministry of Economy, Trade and Industry
5	*Mr. Takahiro Shimomura	Second Secretary	Embassy of Japan
6	Mr. Atsuki Tomoyose	Second Secretary	Embassy of Japan
7	*Mr. Hirotsugu Terado	Advisor for Economic Affairs	Embassy of Japan
8	Mr. Toyoharu Kobayashi	Deputy Director, Asia and Pacific Division	Ministry of Economy, Trade and Industry (METI)
9	Mr. Hiroyuki Uemura	Senior Deputy Director, Asia and Pacific Division	Ministry of Economy, Trade and Industry (METI)
10	Mr. Noriyuki Yonemura	Chairman, Intellectual Collaboration Group to Promote Market-Oriented Economies	Japan Economic Foundation
11	Mr. Hirokazu Yamaoka	Chief Representative	JETRO Hanoi
12	Mr. Hirotaka Yasuzumi	Chief Representative	JETRO HCMC
13	Mr. Nobuhiro Watanabe	Deputy Chief Representative	JETRO Hanoi
14	Mr. Akihiro Nagamori	Deputy Managing Director	JETRO HCMC
15	Mr. Motonori Tsuno	Chief Representative	JICA Vietnam
16	*Mr. Naomichi Murooka	Representative	JICA Vietnam
17	*Mr. Takayuki Hayashida	Senior Project Formulation Advisor	JICA Vietnam
18	*Ms. Phan Thi Viet Hoa	Program Officer	JICA Vietnam
19	Mr. Yoshifumi Tsujio	Senior Investment Advisor	JICA Vietnam
20	Mr. Mitsuhito Takada	JICA Expert	Foreign Investment Agency
21	Mr. Susumu Sugatani	JICA Expert	Ministry of Agriculture and Rural Development
22	Mr. Hiroshi Nakaniwa	JICA Expert , National Agro-Forestry-Fisheries Quality Assurance Dept.	Ministry of Agriculture and Rural Development
23	Mr. Norio Ishizaki	Chief Advisor, Directorate for Standards, Metrology and Quality	Ministry of Science and Technology
24	Mr. Miki Miyamoto	JICA Expert	Agency for Enterprise Development
25	Mr. Kyoshiro Ichikawa	WT4 Group Leader	Vietnam Japan Joint Initiative
26	Mr. Satoshi Suzuki	General Director	Kubota Vietnam Co., Ltd.
27	Mr. Takeo Matsubara	Manager, Strategic Management Group	Yanmar Co., Ltd.
28	Mr. Hideki Ueda	Manager, HCMC Office	Yanmar Asia Singapore Corp. Pte. Ltd.
29	Mr. Yoshihisa Maruta	President	Toyota Motor Vietnam Co., Ltd.
30	Mr. Tatsuya Kijimoto	Marketing Group Director	Toyota Motor Vietnam Co., Ltd.
31	Ms. Nguyen Nhu Phuong	Government Affairs Department, Corporate Planning Division	Toyota Motor Vietnam Co., Ltd.



32	Mr. Tomohito Maruno	Director, AM Sales Division	Honda Vietnam Co., Ltd.
33	Mr. Hirohiko Sekiya	Leader, JICA Study Team	JICA Study Team
34	Mr. Shigeki Kawahara	Sub-leader, Regional Analysis Expert	JICA Study Team
35	Mr. Yoshiyuki Oba	Member, JICA Study Team	JICA Study Team
36	Mr. Masatoshi Toda	Agricultural machinery expert	JICA Study Team
37	Mr. Norio Fukushima	Environment/Energy Saving Expert	JICA Study Team
38	Mr. Chosaku Toda	Electronics Industry Expert	JICA Study Team
39	Mr. Masayoshi Shinomiya	Industry Expert	JICA Study Team
40	Ms. Emi Harada	Project Coordinator	JICA Study Team
41	Ms. Miho Murashima	Research Assistant	GRIPS
42	Ms. Phan Thu Ha	Project Assistant	JICA Study Team

\* shows leading members of the Secretariat Office of this Cooperation Project

### 3.2 Working Process and Members of JICA Consultant Team for the Study to Support Formulating the Industrial Strategy of Vietnam

#### (1) Working Process

Activity	Schedule																		
	2011.10	2011.11	2011.12	2012.1	2012.2	2012.3	2012.4	2012.5	2012.6	2012.7	2012.8	2012.9	2012.10	2012.11	2012.12	2013.1	2013.2	2013.3	
1-1 Study of research policy, Development of research plan and preparation of Inception Report	■																		
1-2 Reviews on supporting measures to industries by Vietnamese government, the extraction of issues to be considered in supporting development of Industrialization Strategy		■																	
1-3 Literature research on the prospects relating to overseas expansion of Japanese companies and interviews with Japanese and Vietnamese companies		■	■																
1-4 Literature research and analysis on the current industrial policy and present industrial competitiveness in surrounding Asian countries such as Thailand, Malaysia and Indonesia		■	■																
1-5 Analysis on competitiveness of each industry in Vietnam		■	■																
1-6 Recommendations of the selection and grounds on priority industries(draft), strategic industries (draft) and priority regions (draft) based on the 1-1~1-5			■	■	■														
1-7 Summary from 1-1 to 1-6 and preparation of the Progress Report				■															
2-1 Visualization of the capacity gaps based on the comparison with other Asia countries on the prior industries						■	■	■	■	■	■	■	■	■	■	■	■	■	■
2-2 Consideration of measures (draft) needed to fill the capacity gaps								■	■	■	■	■	■	■	■	■	■	■	■
2-3 Consideration of the implementation system and framework for implementation of measures (draft) including monitoring mechanism												■	■	■	■	■	■	■	■
2-4 Summary of 1-1~2-4 and preparation of the Draft Final Report													■	■	■	■	■	■	■
2-5 Reflection of comments and preparation of the Final Report																			■
Inception Report	○																		
Progress Report				○															
Draft Final Report														○					
Final Report																			○

#### (2) List of JICA Consultant Team Members

No.	Name	Assignment
1	Mr. Hirohiko SEKIYA	Team Leader/ Industrial Policy/ Industry Comparison/Industry Analysis (Environment & Energy Saving)(Food Processing/ Others)
2	Mr. Yoshiyuki OBA	Survey on trends of Japanese Investment in Vietnam Industry Comparison/ Industry Analysis (Food Processing)
3	Mr. Shigeki KAWAHARA	Regional Development/ Industrial Development
4	Mr. Masayoshi SHINOMIYA	Industry Comparison/ Industry Analysis 1
5	Mr. Naoya TAKEBE	Industry Comparison/ Industry Analysis 2
6	Mr. Masatoshi TODA	Industry Comparison/ Industry Analysis (Agriculture Machinery)
7	Mr. Chousaku TODA	Industry Comparison/ Industry Analysis (Electronics)
8	Mr. Norio FUKUSHIMA	Industry Comparison/ Industry Analysis (Environment & Energy Saving)
9	Ms. Emi HARADA	Project Coordinator
10	Ms. Phan Thu Ha	Project Assistant
11	Mr. Nguyen Thanh Ha	Local Consultant

#### 4. Selection Criteria on Strategic Industries

(1) Precondition: it must be an industry cared by both countries and confirmation can be made.

(2) Main criteria

- 1) Have an impact on quantity (increase in output, export growth, etc.)
- 2) Have an impact on quality (raise of productivity, technology transfer, industry structure, etc.)
- 3) Have potential to enlarge the association (formation of domestic cluster, participation in the international supply chain, etc.)

(3) Be appropriate to the policy of the Vietnamese government, comply with the laws, protect the environment, etc.

Industries selected and included in the shortlist in March 2013: 9 industries in total

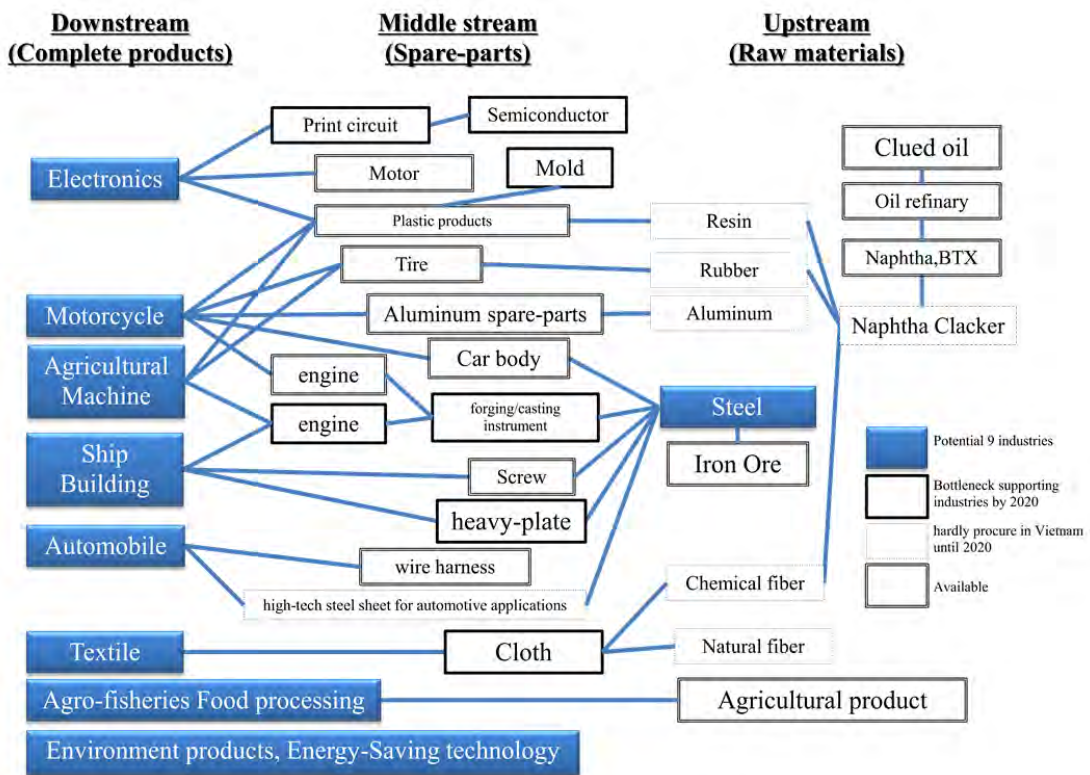
Group1 (agreed by both countries)	Food processing, agricultural machinery, ship building, automobile and auto parts, electronics, environment and energy saving
Group 2 (Continuing to be discussed)	Motorbike, textile, steel

On 14 August 2012, the 1<sup>st</sup> meeting of the Steering committee was held. After the discussion with Mr. Edano, Minister of Economy, Trade and Industry of Japan and members of the Japanese side, both sides agreed to choose 5 industries in group 1. Afterwards, the Deputy Prime Minister Mr. Hoang Trung Hai requested to add auto parts industry, and the Ministry of Information and Communication and the Ministry of Science and Technology requested to add the software industry.

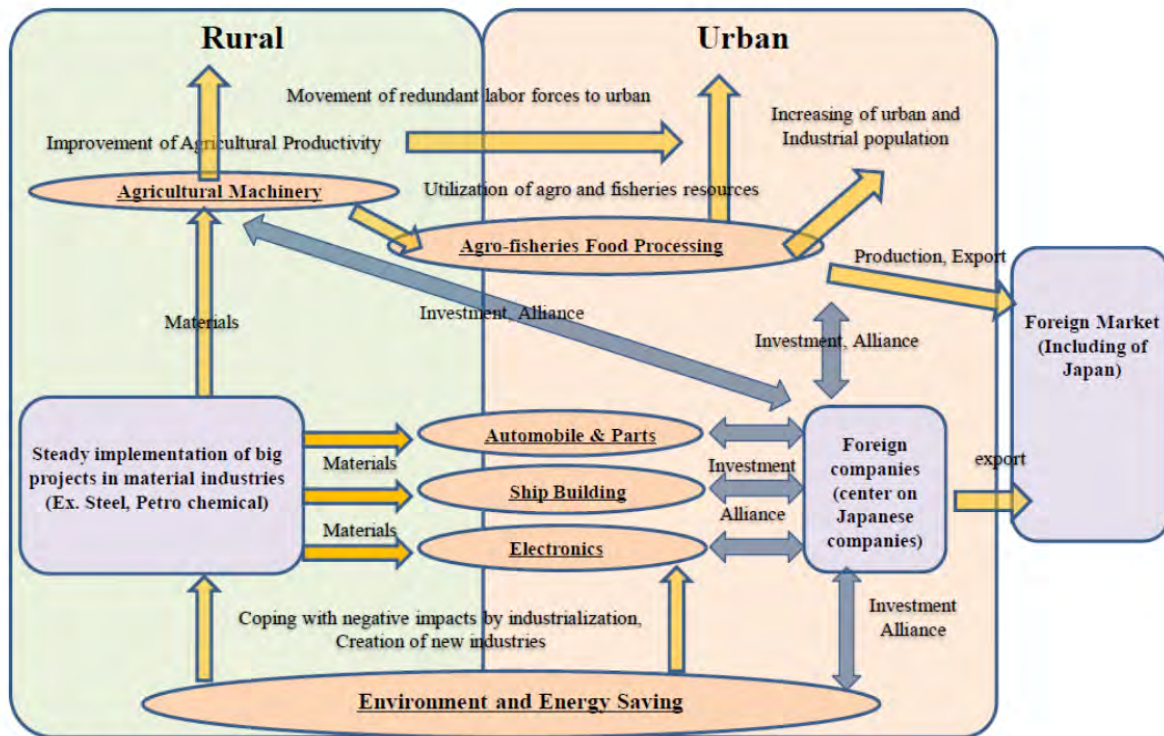
On 07 January 2013, at the 2<sup>nd</sup> meeting of the Steering committee, the Deputy Prime Minister Mr. Hoang Trung Hai agreed to bring the whole automotive industry, and not just the auto parts industry, to become an object for development. After the discussion, both countries consented to add the automobile and auto parts industry to the list of strategic industries in March 2013.

In addition, at the meeting of the Working Group held on 20 December 2012, the chairman of the Vietnamese side, Dr. Ba, Director of CIEM, shared his opinion that the software industry does not qualify to be added to this cooperation project since the main focus of this cooperation is manufacturing sector.

## 5. Industrial Linkages



## 6. Expected Role and Linkages of the Selected Strategic Industries in Vietnam Industrialization Strategy



## **7. Proposed Guideline for Drafting an Action Plan for Each Sector**

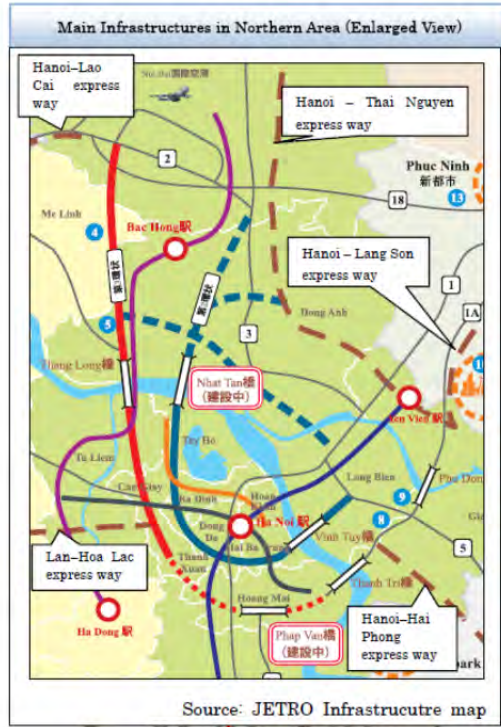
The existing format of Vietnam's industrial master plans should not be used because it lacks implementability.

Instead, the development plan for each sector should contain the following:

- (1) Situation review of world, region, and Vietnam (background)
- (2) Vision and targets for 2020 (Including some numerical targets)
- (3) Four to five strategic issues where policy effort must be concentrated to achieve vision and targets; for each issue, study must be conducted or commissioned.
- (4) Action plan – a matrix of concrete action for both Vietnamese and Japanese side (What, who, by when, and performance criteria)
- (5) Monitoring mechanism – common for all sectors and actions

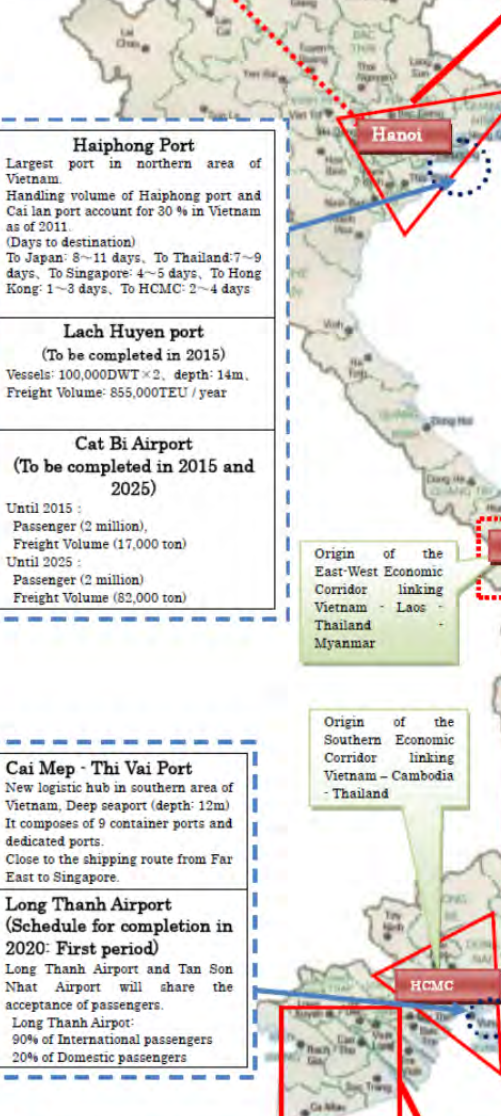
8. Strategic Industry Map with Supporting Measure (as of March 2013)

Target Area	Type	Name	Construction Period	Progress
Hanoi	Road	Hanoi 2 <sup>nd</sup> Ring Road	2011 - 2013	Under construction
Hanoi	Road	Hanoi 1 <sup>st</sup> Ring Road (Ha Dong - Phu Xuyen - Thanh Xuan - Tay Ho - Tu Lam)	2011 - 2013	Under construction
Hai Phong	Road	Hai Phong - Lang Son Expressway	2009 - 2014 (Phase 1)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 2)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 3)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 4)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 5)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 6)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 7)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 8)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 9)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 10)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 11)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 12)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 13)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 14)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 15)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 16)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 17)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 18)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 19)	Under construction
Hanoi - Lang Son	Road	Hanoi - Lang Son Expressway	2011 - 2013 (Phase 20)	Under construction



Machinery	Press mold, casting, welding machinery, measuring instruments, bearings, agricultural machinery, etc.
Electronic & IC equipment	Transistors, integrated circuits, electronic circuit board, semiconductor, insulator, magnetic parts, electronic assembly products, etc.
Automotive parts assembly	Engine parts, lubrication system, cooling system, fuel supply system, related products with chassis & body & door, suspension, wheel relationship, transmission, electrical equipment, plastic parts, rubber products, etc.
High Tech Industries	High quality plastic parts, high precision plastic molds, high precision special bolts & nuts & screws, electronic components of electronic circuit board for solar power & home appliance & computer & audio, parts for renewable energy generation, etc.

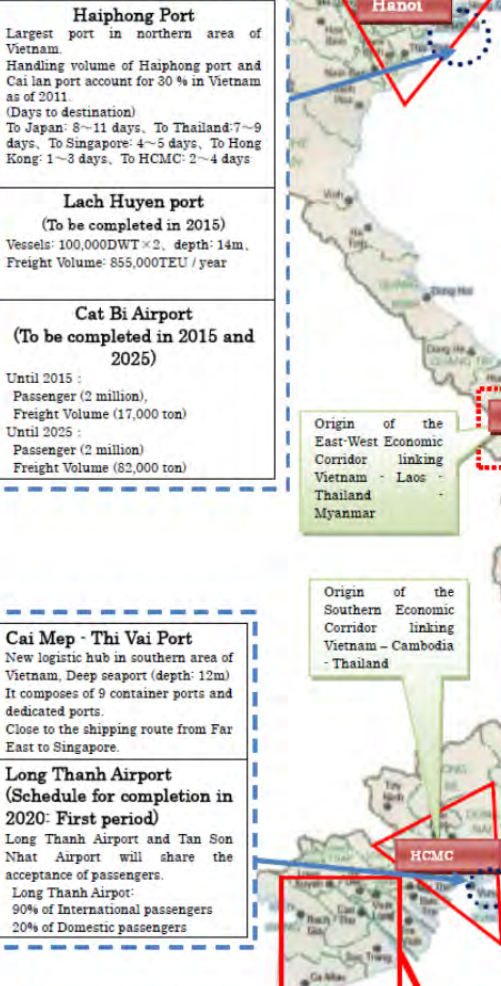
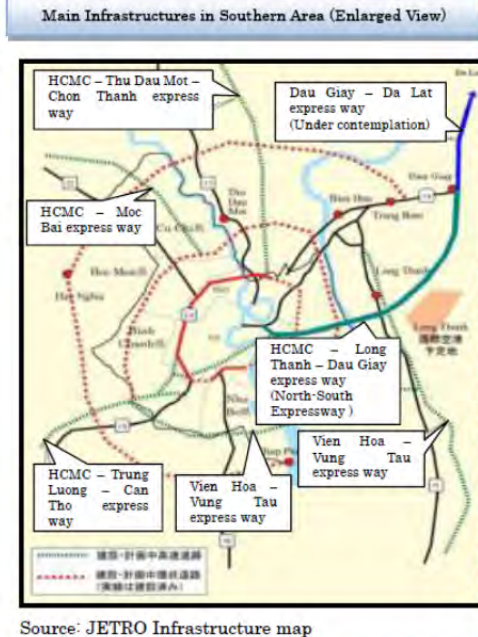
Target Area	Type	Name	Construction Period	Progress
Da Nang	Port	Da Nang Port Upgrade	2011 - 2015	Under construction
Da Nang	Port	Da Nang Port Upgrade	2011 - 2015	Under construction
Da Nang	Port	Da Nang Port Upgrade	2011 - 2015	Under construction



Industry agglomeration and main companies	● Electronic : Cannon, Panasonic, Brother industries, Kyoceramita, Samsung, Nokia, Foxcon, & many others ● Automobile and parts : Toyota, Honda etc.
Current Supporting Measures (e.g.)	● Dinh Vu - Cat Hai Special Economic Zone (Tax benefit) - Corporate Income Tax (CIT)-4 years exemption, next 9 years 5%, next 2 years 10%, since then 25% - Export Import Tax: Exemption of Import tax for the following 1. Import products for fixed assets 2. Materials and semi finished products (Not produced in Vietnam, maximum terms: 5 years) 3. Goods that are used directly in the activities of scientific research and technological development - Personal Income Tax (PIT)-50% tax reduction (workers who work in this SEZ) ● Hoa Lac Hi Tec Park (Tax holiday) - CIT: 4 years exemption, next 9 years 5%, next 2 years 10%, since then 25% - Export Import Tax: Exemption of Import tax for the following 1. Import products for fixed assets 2. Materials and semi finished products (Not produced in Vietnam, maximum terms: 5 years) 3. Goods that are used directly in the activities of scientific research and technological development - VAT Exemption: Equipment, machineries, dedicated vehicles (not produced in Vietnam)
Proposed Supporting Measures for Strategic Industries (e.g.)	● Electronics - Incentives such as CIT reduction/exemption, PIT 50%, Import duties exemption equivalent to SEZ. - Establishment of training school for advance practical skills such as technical high school, vocational high school, college and graduate school. - More incentives for establishment or attraction of "R&D center" by private company, "Incubation Center" "Soft-Service-Contents Developing Center" in collaboration with private enterprises & universities - Support for development of supporting industries and establishment of Supply Chain (incl. Infrastructures).

Target Area	Type	Name	Construction Period	Progress
HCMC	Port	HCMC - Long Thanh International Airport	2011 - 2020	Under construction
HCMC	Port	HCMC - Long Thanh International Airport	2011 - 2020	Under construction

Industry agglomeration and main companies	● Automobile and parts: Truong Hai, Hyundai, VINA MAZDA, Mabuchi-Motor etc.
Current Supporting Measures (e.g.)	● Chu Lai Special Economic zone (Tax Benefit) - CIT: 4 years exemption, next 9 years 5%, next 2 years 10%, since then 25% - Export Import Tax: Exemption of Import tax for the following 1. Import products for fixed assets 2. Materials and semi finished products (Not produced in Vietnam, maximum terms: 5 years) - VAT & Special Sales Tax: Exemption
Proposed Supporting Measures for Strategic Industries (e.g.)	● Electronics and software - Incentives such as CIT reduction/exemption, PIT 50%, Import duties exemption equivalent to SEZ. - More incentives for the establishment or attraction of "R&D center" by private company, "Incubation Center" "Soft-Service-Contents Developing Center" in collaboration with private enterprises & universities - Establishment of training school for advance practical skills such as technical high school, vocational high school, college, graduate school.



Industrial agglomeration	● Agricultural food processing industry - Cashew nut, pepper (production volume) 1 <sup>st</sup> in the world - Coffee (production volume): 2 <sup>nd</sup> in the world - Production base of highland vegetable & flowers and ornamental plants
Current Supporting Measures (e.g.)	● Lam Dong and Dak Lak are classified as "Areas with specially difficult economic and social conditions" - CIT - 4 years' exemption, next 9 years: 50% reduction, next 15 years 10% - Import & Export Tax - 5 years tax exemption from the beginning of the operation in case of imported materials and parts (not produced in Vietnam)
Proposed Supporting Measures for Strategic Industries (e.g.)	● Agricultural food processing industry - Selection of Champion products - Support for planning stage, securing high quality raw materials, improving bottlenecks on production, distribution & sales and food safety. (e.g.) Support for introduction of facilities such as refrigeration equipment, purification equipment, warehouse (temperature and humidity control), testing equipments, etc.

Creation of Champion products: Development of standards for selection, selection of promising products and development of AP for each selected product. <Issues and Action (e.g.)> 1. To ensure quantitative and qualitative raw materials: quality deterioration after fish catch, countermeasures against residual pesticides, thorough operational Viet GAP 2. To enhance the degree of processing: Support for introduction of facilities such as refrigeration equipment, purification equipment, warehouse (temperature and humidity control) and testing equipment, etc. 3. To upgrade distribution: Refrigerated warehouses at ports, Refrigerated logistics, Speeding up customs procedures 4. To improve marketing and branding: needs survey of the target countries Improvement & enhancement of food safety standards Strengthening domestic inspection such as education of farmers, ensuring traceability and tightening the final inspection Modernization of food processing machineries: Support to investors by long-term & low-interest rate loans
AP for Agricultural Machinery (e.g.) (Nationwide)

Acquisition of higher share in domestic & foreign markets seeking economy of scale and industrial structure enhancement [Supporting systems for supporting industries] Enhancement of supporting systems by review of tax systems, financial measures and rationalization of administrative procedures. [Expansion of infrastructure and incentives for attracting supporting industries] - Entry into the domestic market by export licensed company in Vietnam to strengthen domestic supply chain - Attraction of foreign supporting industries and support of management and technical assistance for foreign and Vietnamese supporting industry companies - Support large anchor companies to assist supporting industry - the establishment of one stop service office in both Vietnam and Japan [Strengthening human resource development] - Establishment of training school for advance practical skills such as technical high school, vocational high school, college and graduate school. - Introduction of Skill Certification System [Support for attraction of anchor enterprises and enhancing industrial structure] - More incentive for attraction of anchor enterprises and their agglomeration. - Support for cluster formulation by strengthening incentives for establishing & attracting "R&D center" "Incubation Center" "Soft-Service-Contents Developing Center" in collaboration with private enterprises and universities
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Industry agglomeration and main companies	● Electronic: Panasonic, INTEL, NIDEC and many others ● Automobile and parts: Suzuki etc. ● Agricultural Machinery: Kubota, SVEAM etc.
Current Supporting Measures (e.g.)	● Saigon High Tech Park - CIT: 4 years exemption, next 9 years 5%, next 2 years 10%, since then 25% - Export Import Tax: Exemption of Import tax for the following 1. Import goods for fixed assets, 2. Building materials for fixed assets (not produced in Vietnam) 3. Semi finished goods and import parts for finished goods
Proposed Supporting Measures for Strategic Industries (e.g.)	● Agricultural Machinery: Incentives to encourage farmers to utilize good quality agricultural machineries and manufactures in Vietnam to provide good quality machineries. ● Electronics - Incentives such as CIT reduction/exemption, PIT 50%, import duties exemption equivalent to SEZ. - Establishment of training school for advance practical skills such as technical high school, vocational high school, college and graduate school. - More incentives for establishment or attraction of "R&D center" by private company, "Incubation Center" "Soft-Service-Contents Developing Center" in collaboration with private enterprises and universities. - Support for development of supporting industries and establishment of Supply Chain (incl. Infrastructures).
Mekong Delta Area	Industrial agglomeration and main companies ● Seafood products: Worldwide production area on shrimp, cat fish etc.
Current Supporting Measures (e.g.)	● Dinh Anh Special Economic Zone (Tra Vinh) - CIT: 4 years exemption, next 9 years 5%, next 2 years 10%, since then 25% - Import & Export Tax: Exemption of Import tax for the following 1. Import Products for Fixed Assets, 2. Maximum 5 years - Materials, parts and semi finished goods (not produced in Vietnam) - PIT - 50% Tax Reduction (workers who work in this SEZ) ● Nam Can Special Economic Zone (Ca Mau): Approval - March 2012, completion - 2030
Proposed Supporting Measures for Strategic Industries (e.g.)	● Agro-fisheries food processing industry - Selection of Champion products - Support for planning stage, ensuring raw materials, improving bottlenecks on production, distribution & sales and food safety. (e.g.) Support for promoting the introduction of facilities such as refrigeration equipment, purification equipment, warehouse (temperature and humidity control), testing equipment, etc.

\* AP (Action Plan) shows mainly on strategic issues and proposed supporting measures (e.g.) for 3 strategic industries as of March 2013 for which Japanese side was in charge of drafting. APs are to be officially approved by September 2013.