

# The 2010 Vietnam Competitiveness Report

Professor Michael E. Porter  
*Harvard Business School*

*Vietnam Competitiveness Report Launch*  
*Hanoi, Vietnam*  
*November 30, 2010*



# The Vietnam Competitiveness Report

## Objectives

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

## Partners



# The 2010 Vietnam Competitiveness Report

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

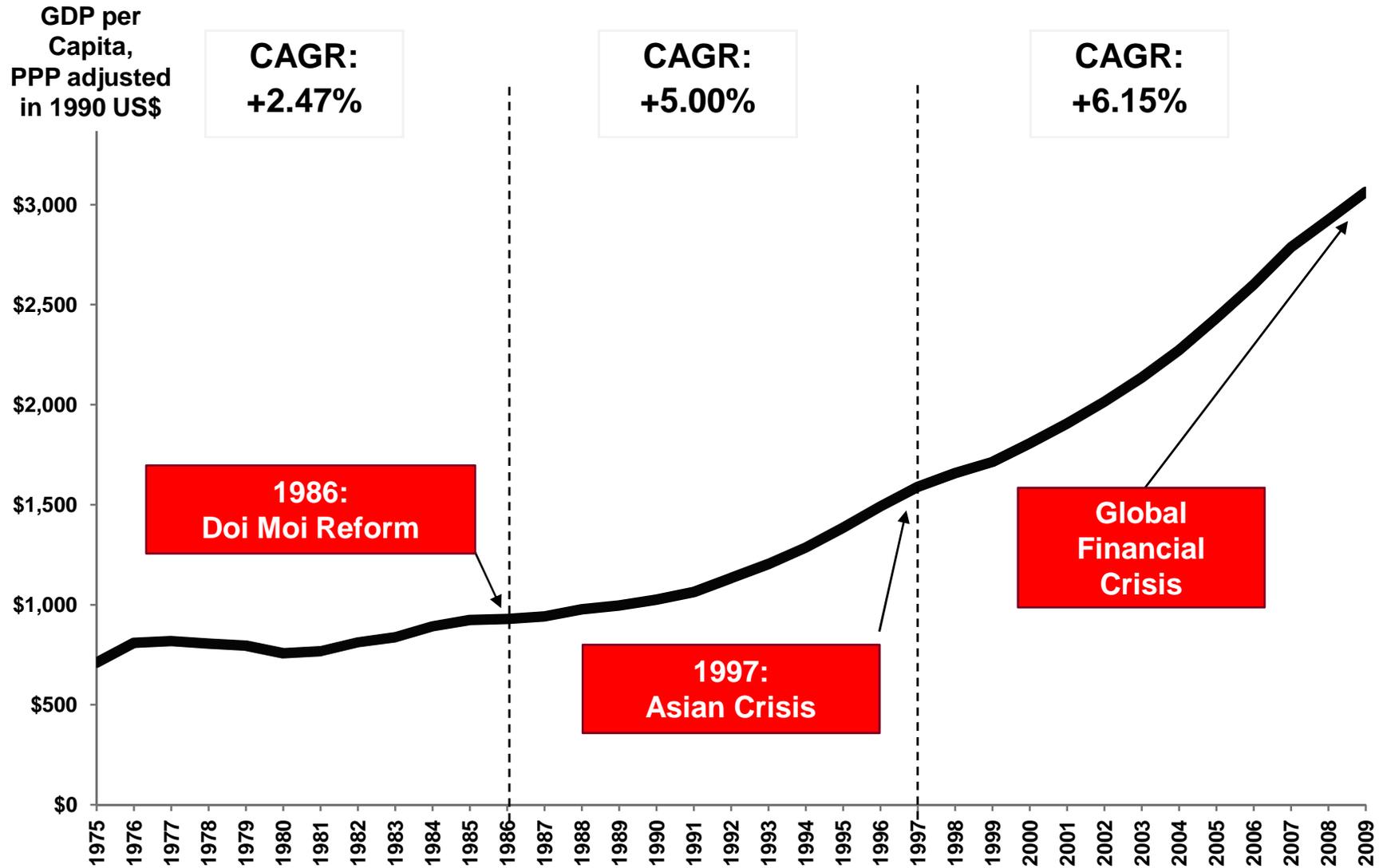


# Vietnam's Position in 2010

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



# Vietnam's Long-Term Prosperity Growth 1975 - 2009



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

# Vietnam's Position in 2010

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**BUT**

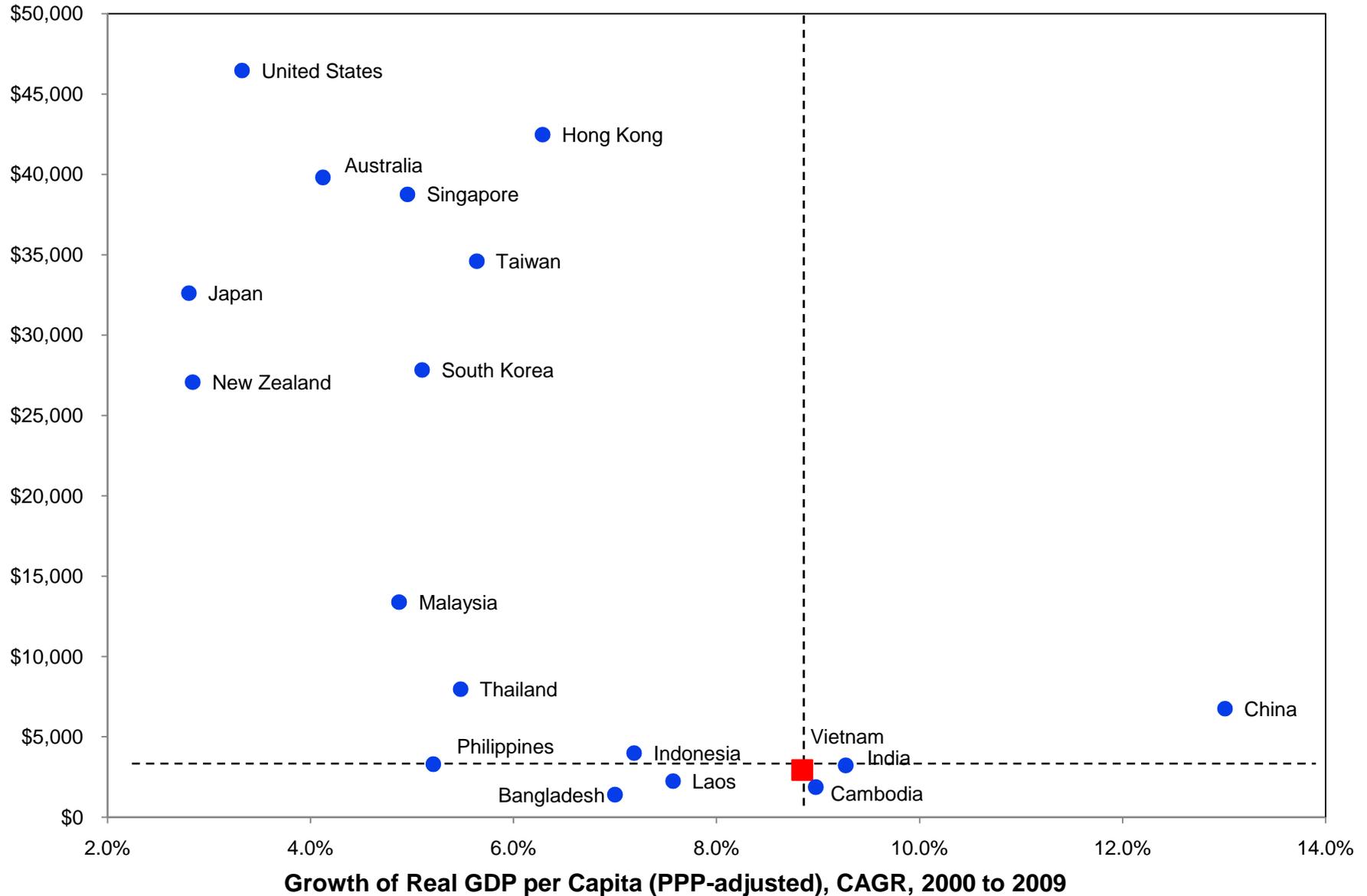
- Still **low level** of prosperity and productivity
- Growing concerns about the economic **sustainability of Vietnam's current development model**



# Prosperity Performance

## Selected Countries, 1999 to 2009

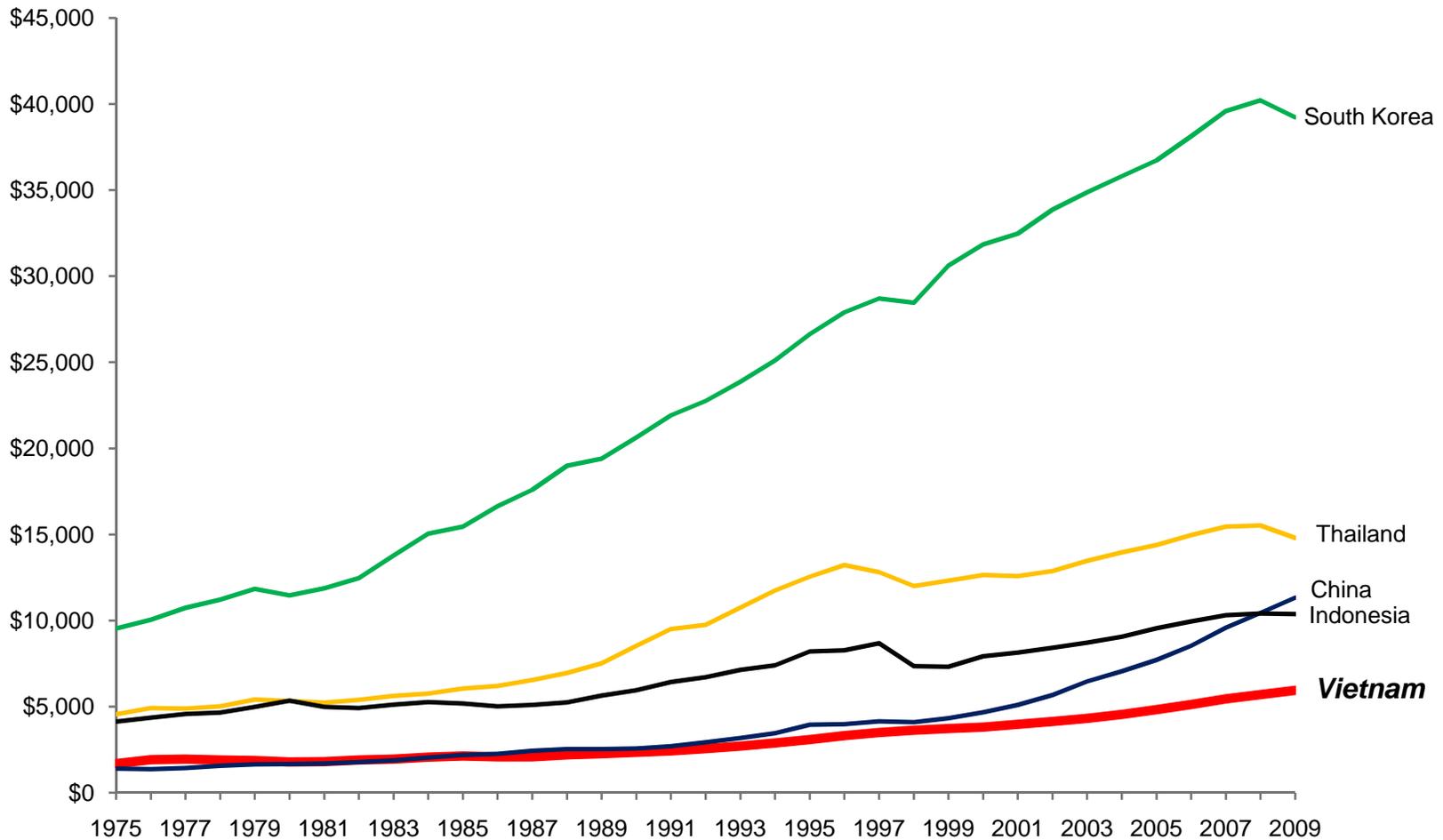
PPP-adjusted GDP per  
Capita, 2009 (\$USD)



Source: EIU (2010), authors calculations

# Vietnam's Labor Productivity

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



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

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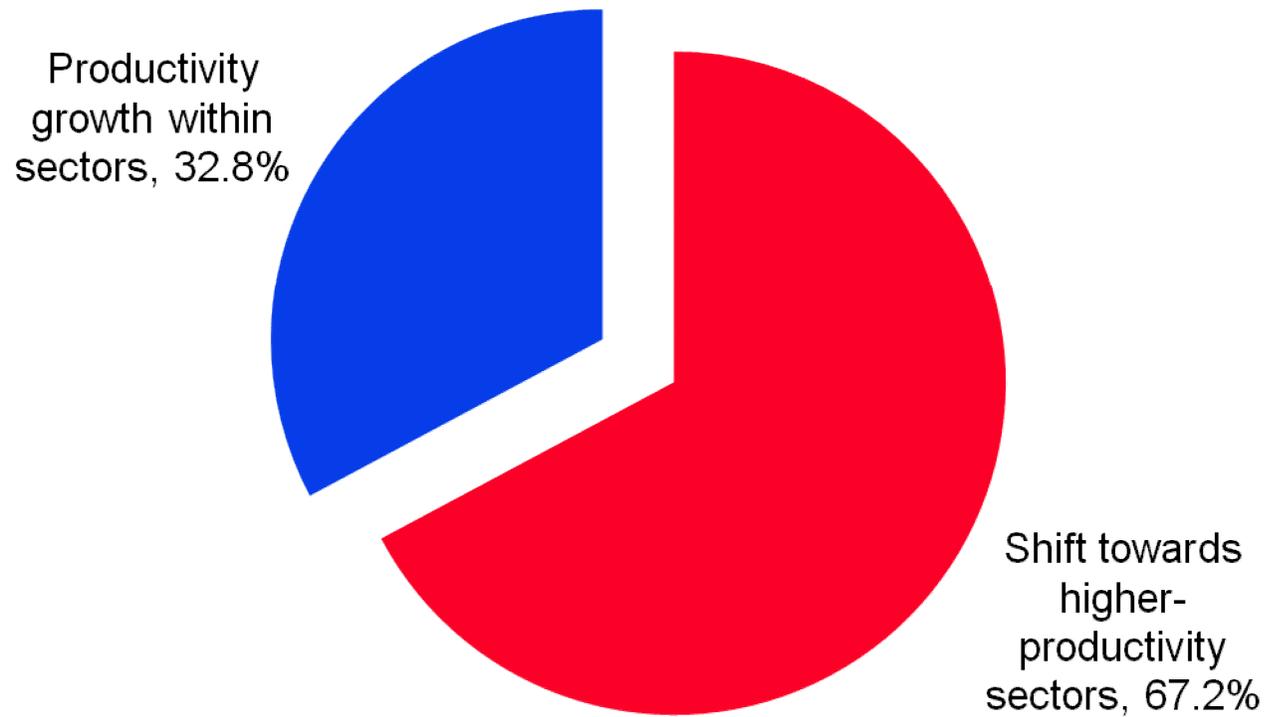
# Vietnam's Current Development Model

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



# Structural Change and Vietnamese Growth

## Decomposing Vietnamese Labor Productivity Growth, 2000 - 2008



Source: General Statistics Office, Vietnam; ACI calculations

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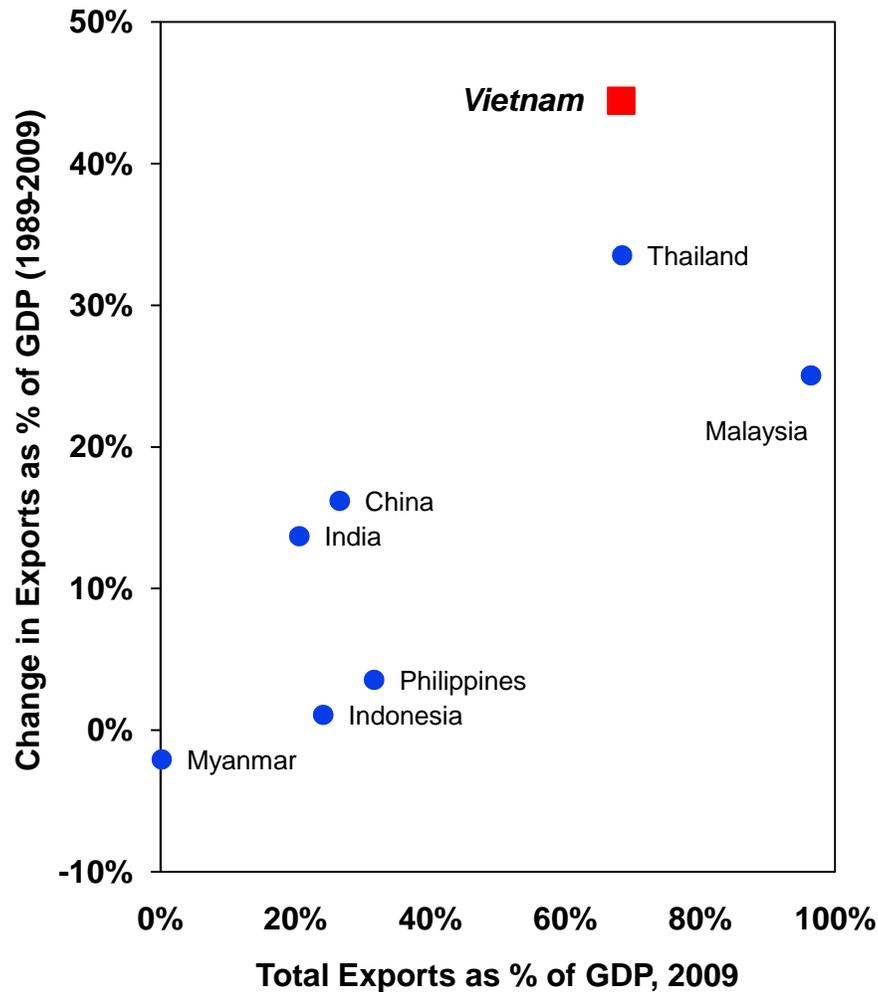
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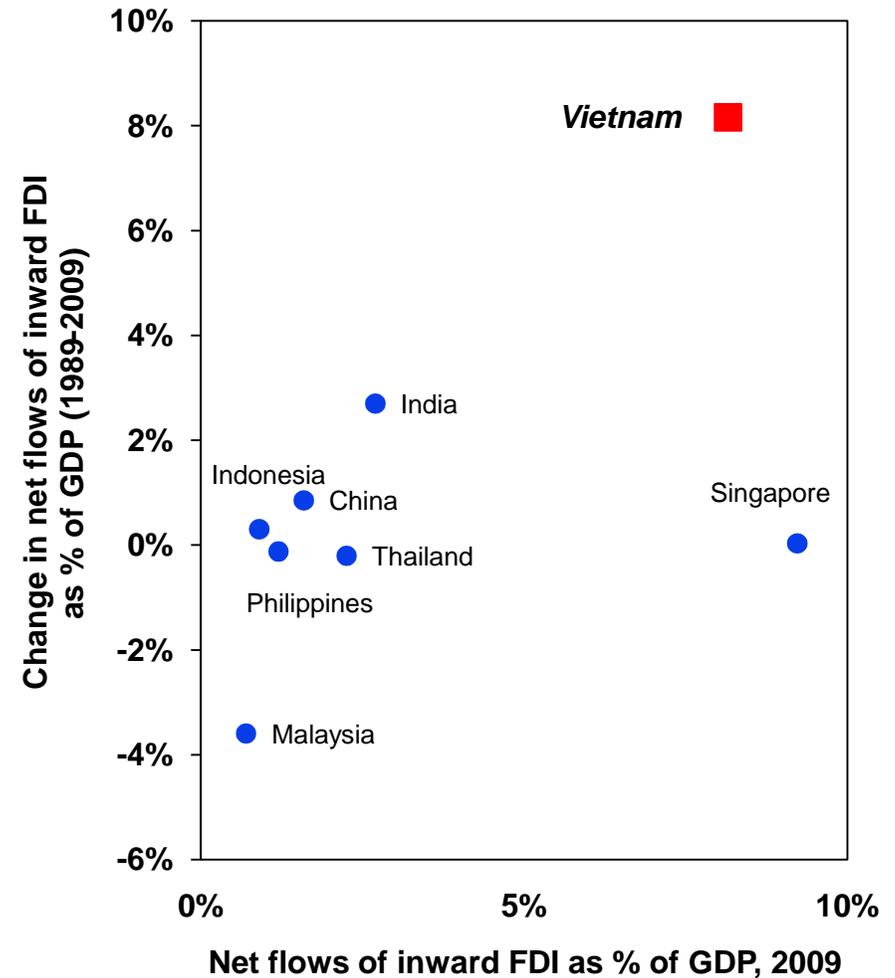


# Drivers of Structural Change: Economic Openness

## Openness to Trade



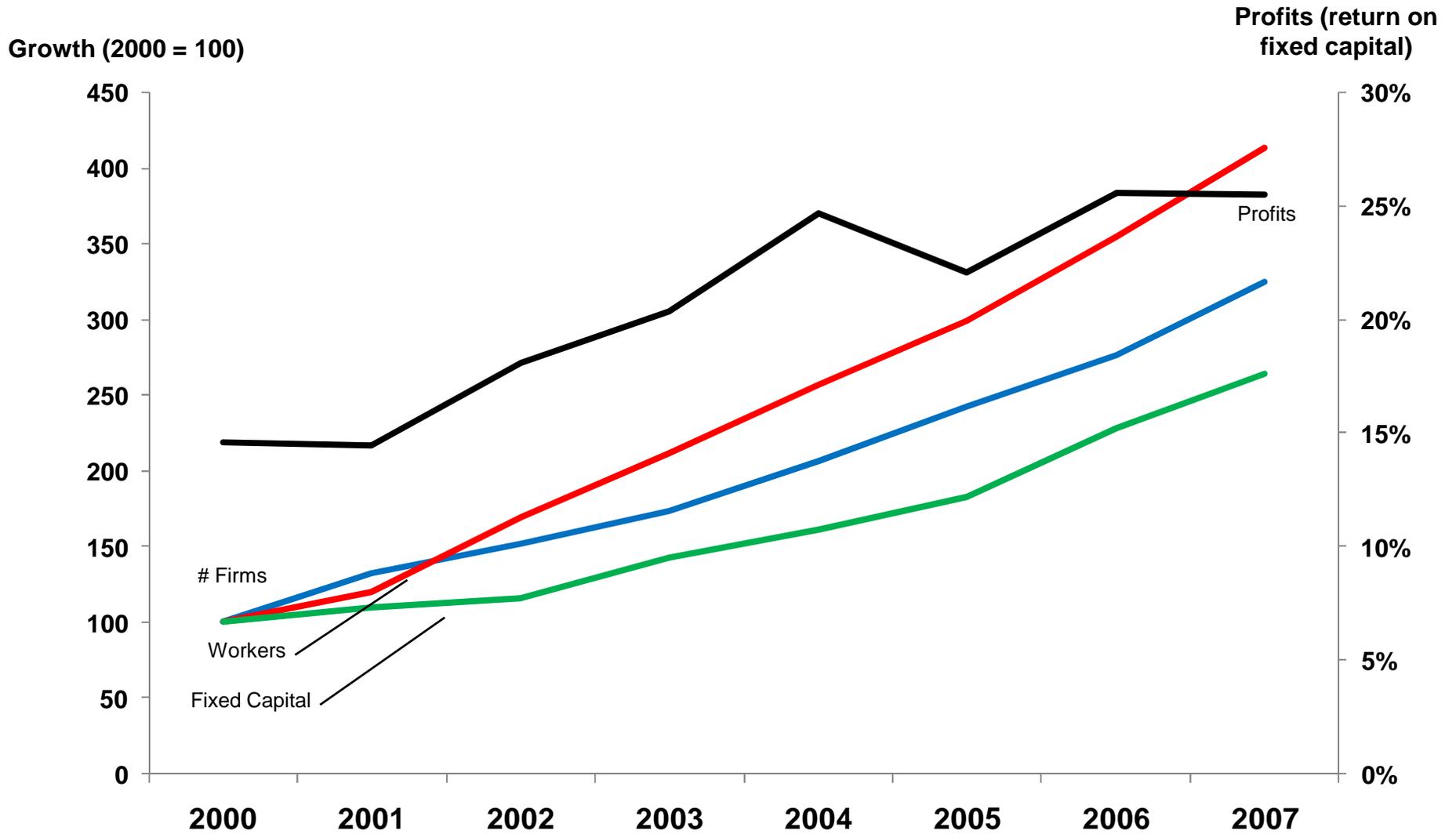
## Openness to Investment



Source: EIU (2010)

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# The Growth of the FDI Sector



Source: Data from General Statistics Office, Vietnam.

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# Vietnam's Current Development Model

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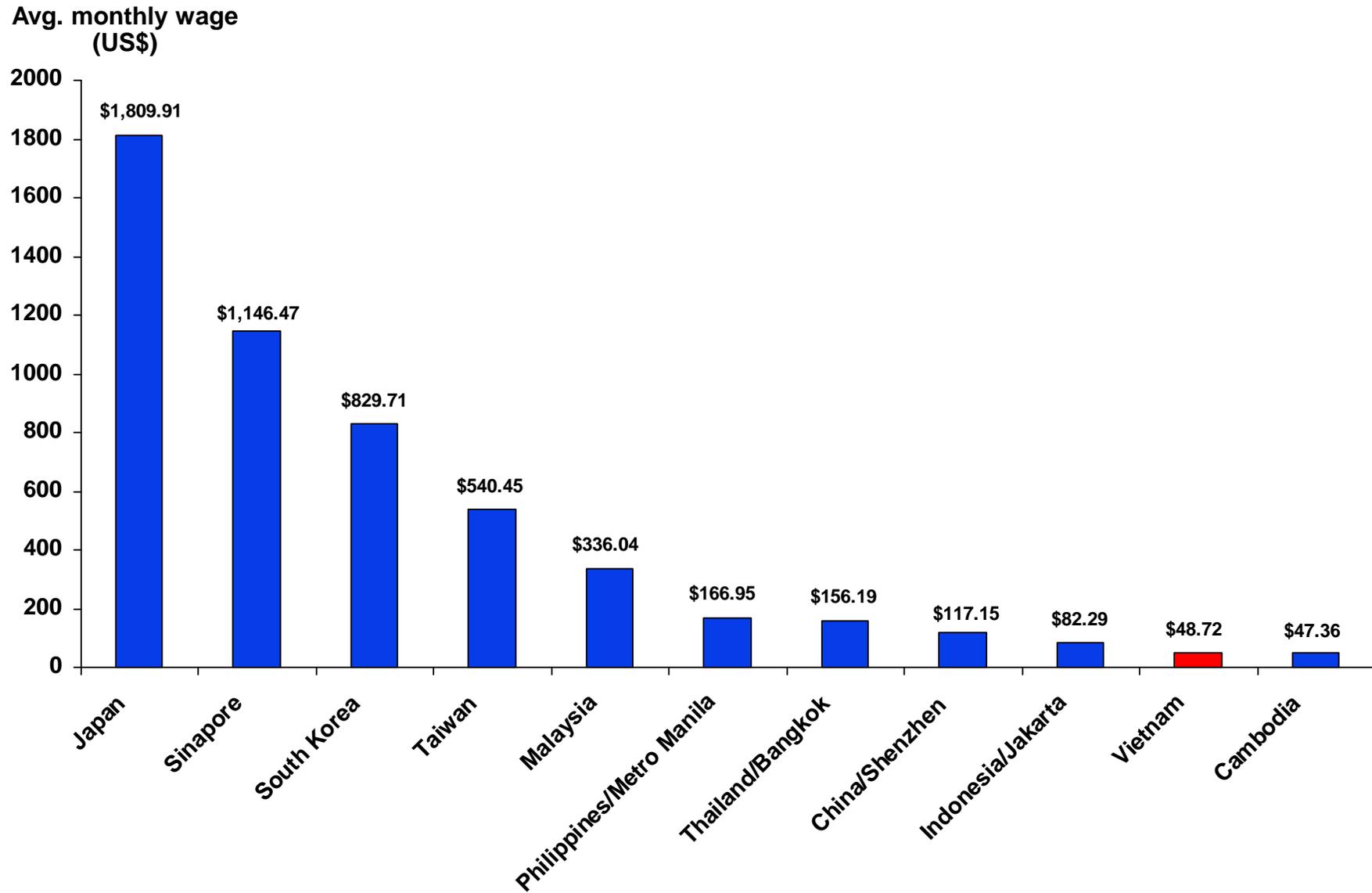


- Value added and productivity in Vietnam **remains low**, especially in manufacturing
- FDI and exports create jobs, but have not raised prosperity levels beyond the **low wages** in manufacturing
- There is little evidence of **positive spill-overs** from FDI to the rest of the Vietnamese economy in terms of improving productivity and technology



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

# Relative Wages: Selected Countries

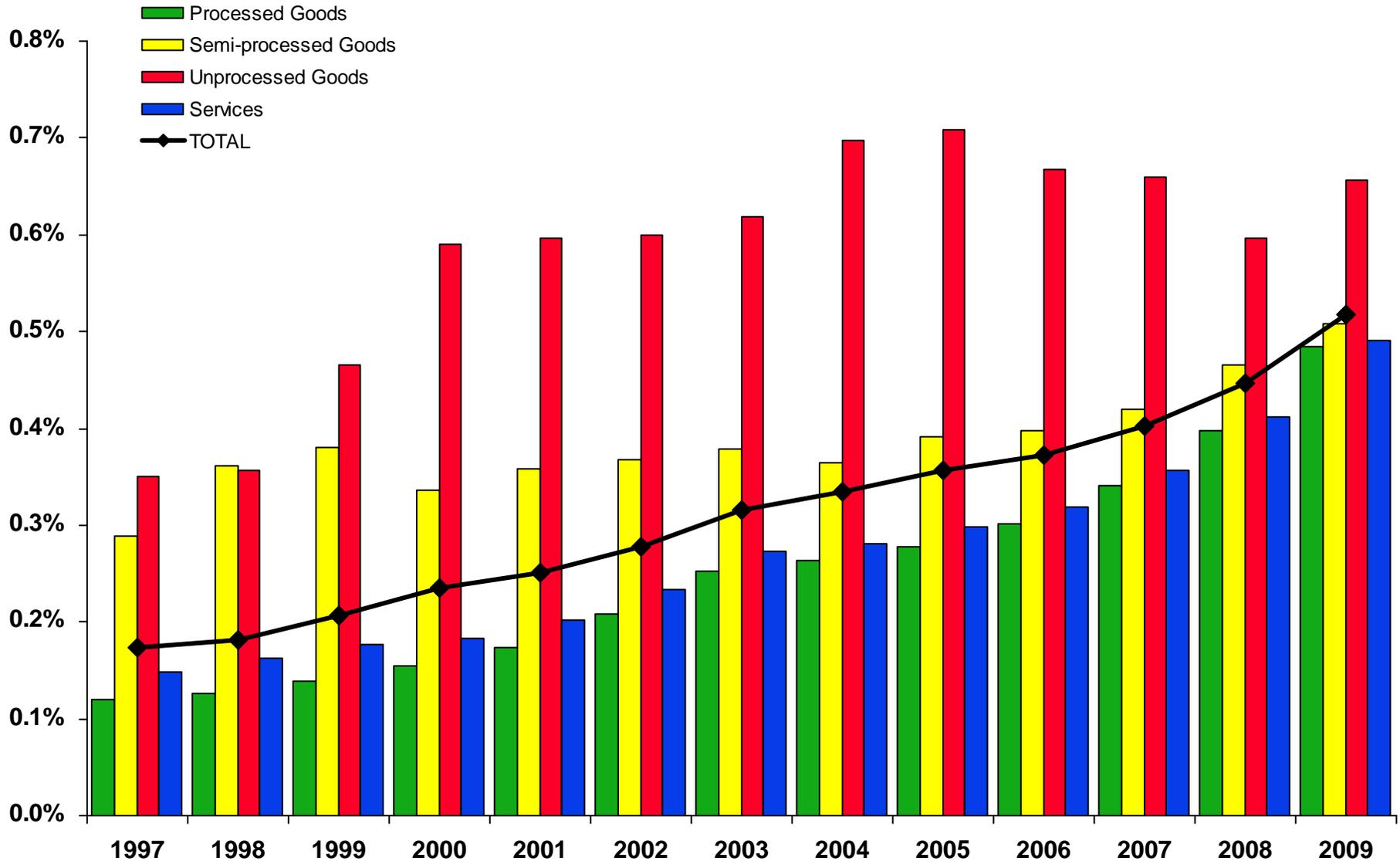


Source: Philippines Department of Labor and Employment (2010)

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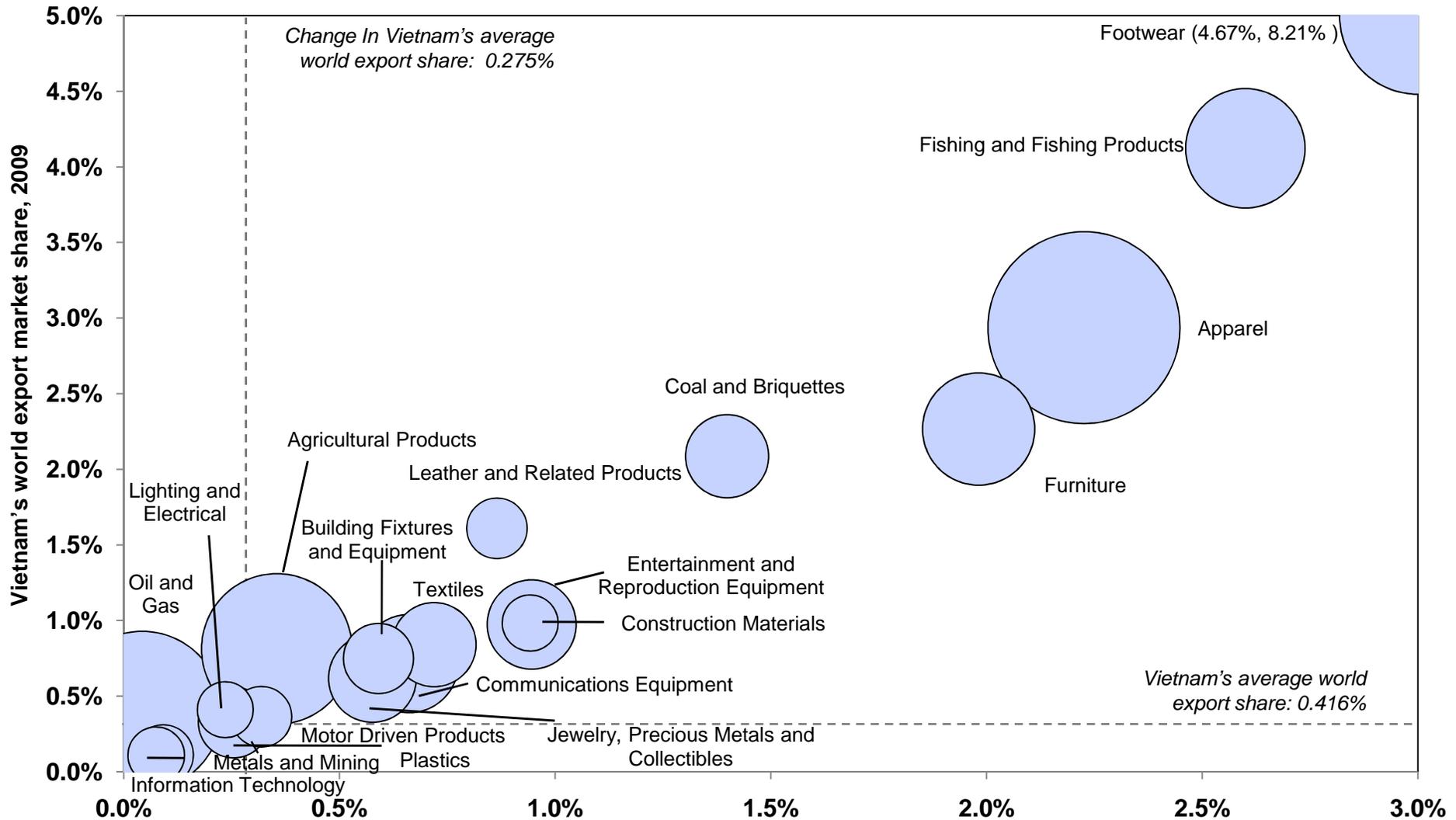
# Vietnam's Exports By Type of Industry

World Export Market Share (current USD)

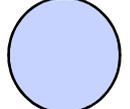


Source: UNComTrade, WTO (2010)  
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# Vietnam's Cluster Export Portfolio 1997 - 2009



Change in Vietnam's world export market share, 1997 - 2009

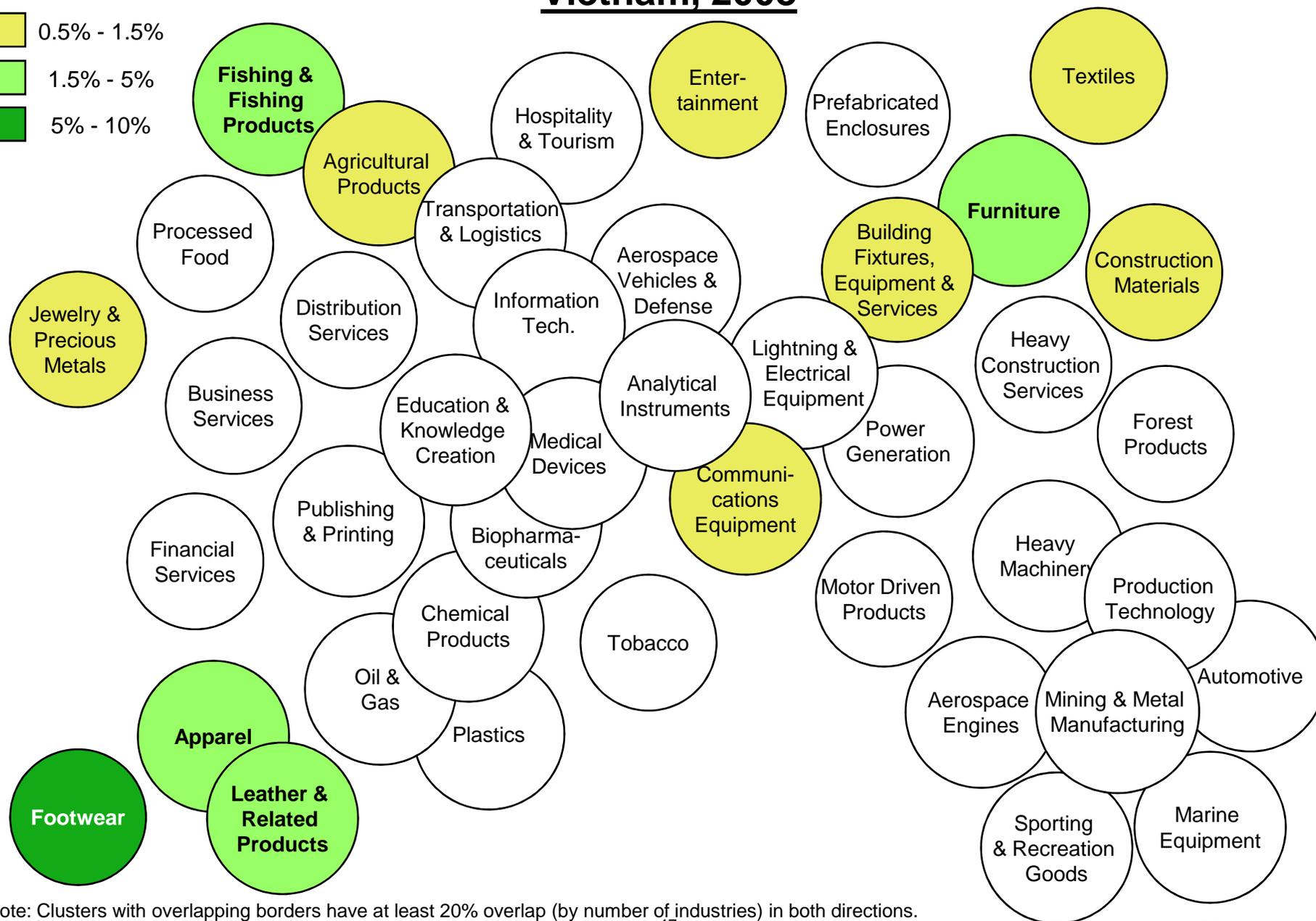
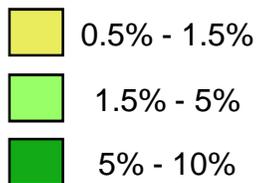
Exports of US \$2 Billion = 

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

# Share of World Exports by Cluster

## Vietnam, 2008

World Market Share



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

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# The External Environment in 2010

## Opportunities

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

## Threats

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

# Vietnam's Current Development Model

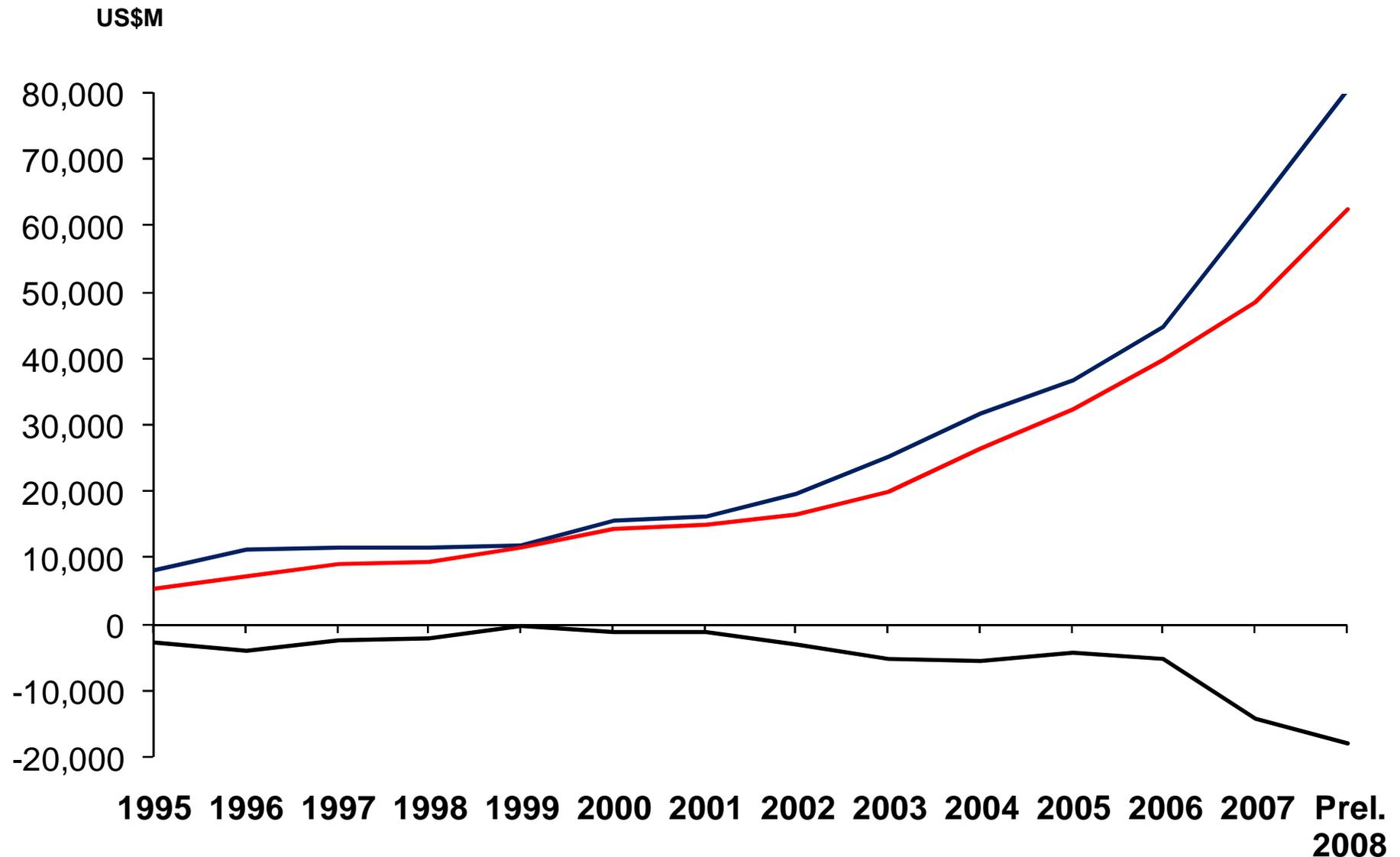
## Emerging Weaknesses

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



# Vietnam's Balance of Trade

## 1995 – 2008



Source: Data from General Statistics Office, Vietnam.

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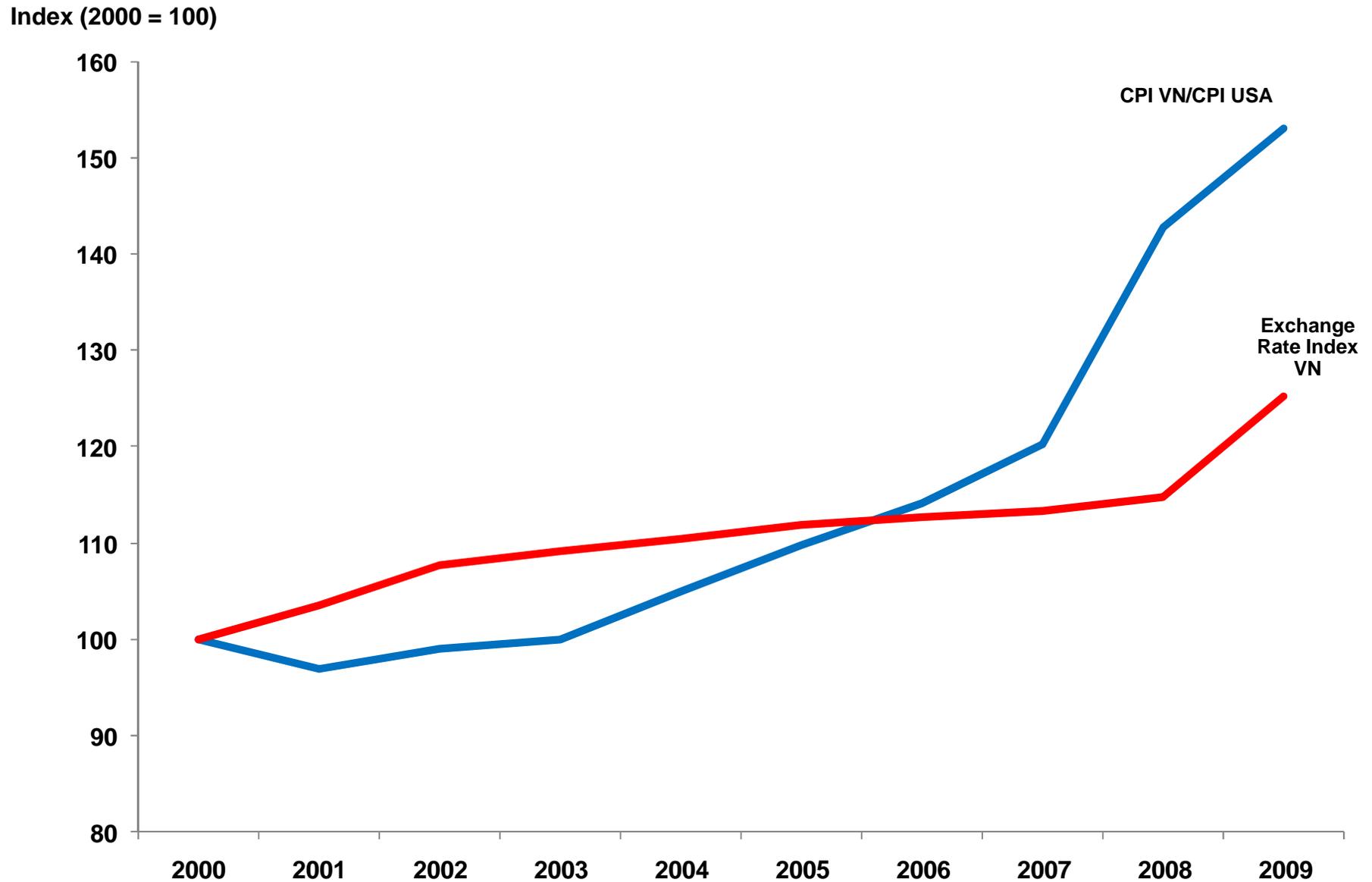
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# Vietnam's Current Development Model

## Emerging Weaknesses

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

# Vietnam's Currency Valuation



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

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# Vietnam's Current Development Model

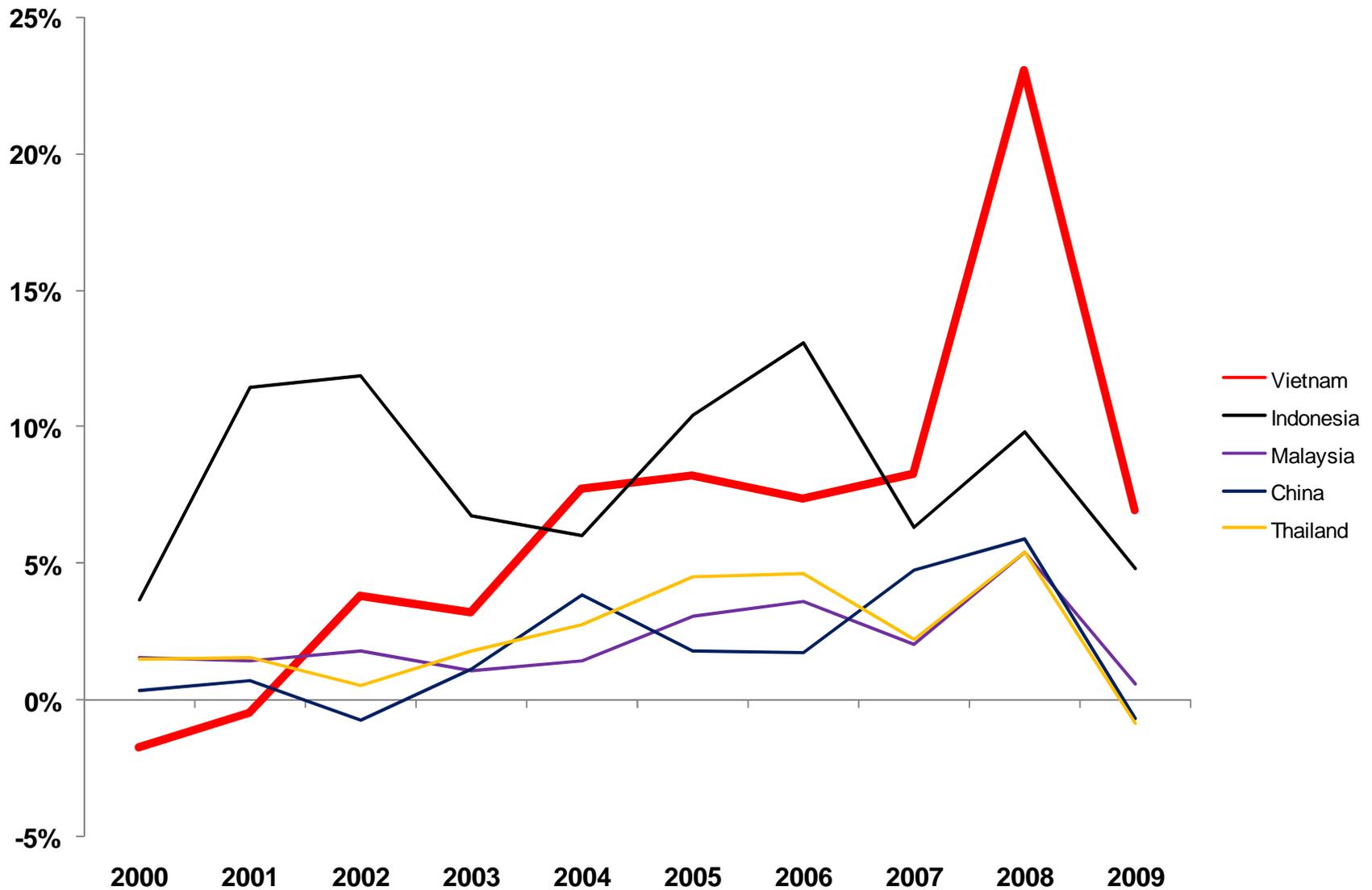
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- Significant **capital inflows** fuel domestic demand growth and inflation
- **Expansionary fiscal and monetary policies** worsen inflation, rather than control it

# Rate of Inflation

## Selected Countries, 2000 - 2009

% change in CPI



Source: EIU 2010

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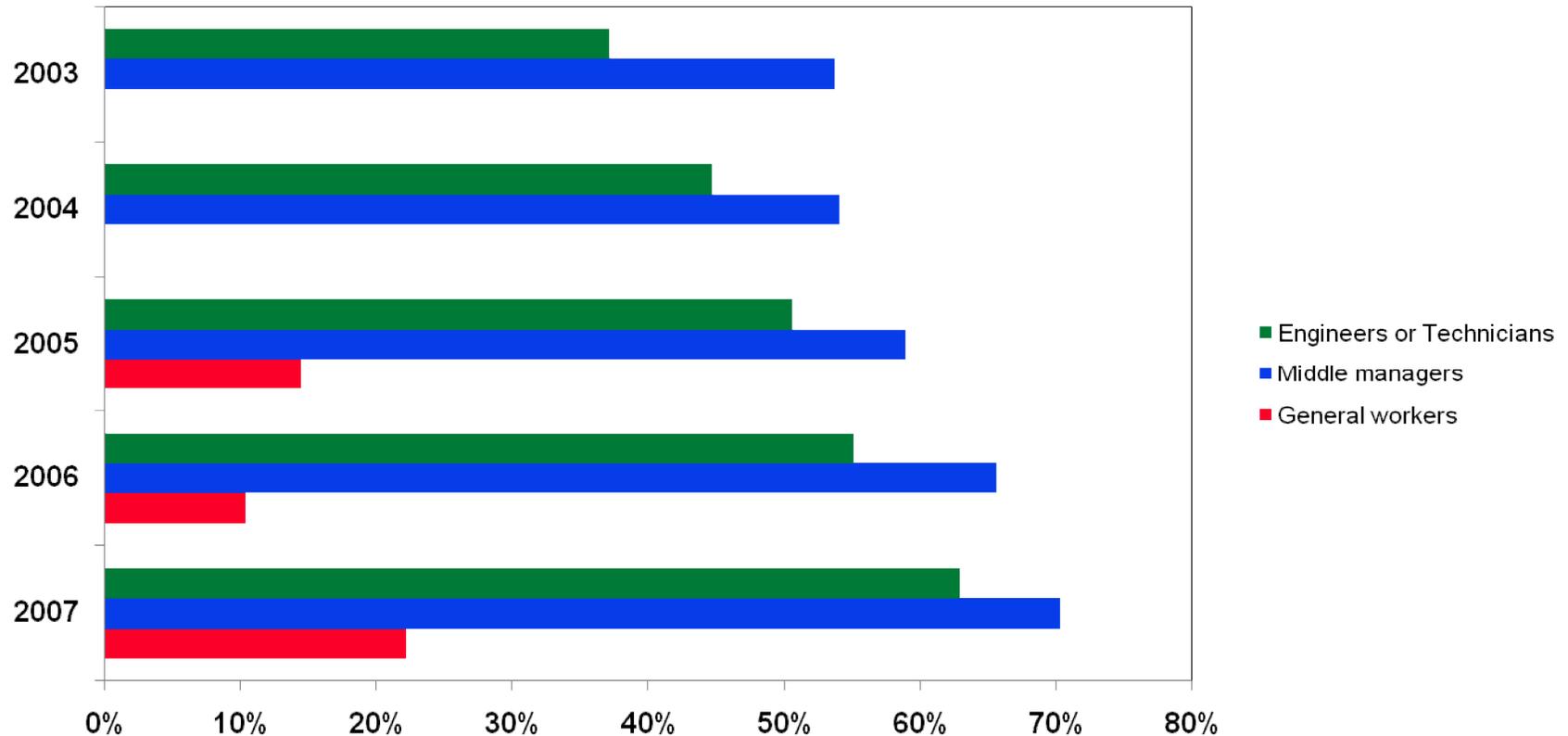
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- **Falling ratio of GDP growth to investment** increases the need **for capital inflows** to maintain the growth rate
- Demand growth is outstripping the existing **microeconomic capacity** in terms of skills and infrastructure

# Ease of Worker Recruitment

Percentage of Firms that report Difficulty in Recruiting



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



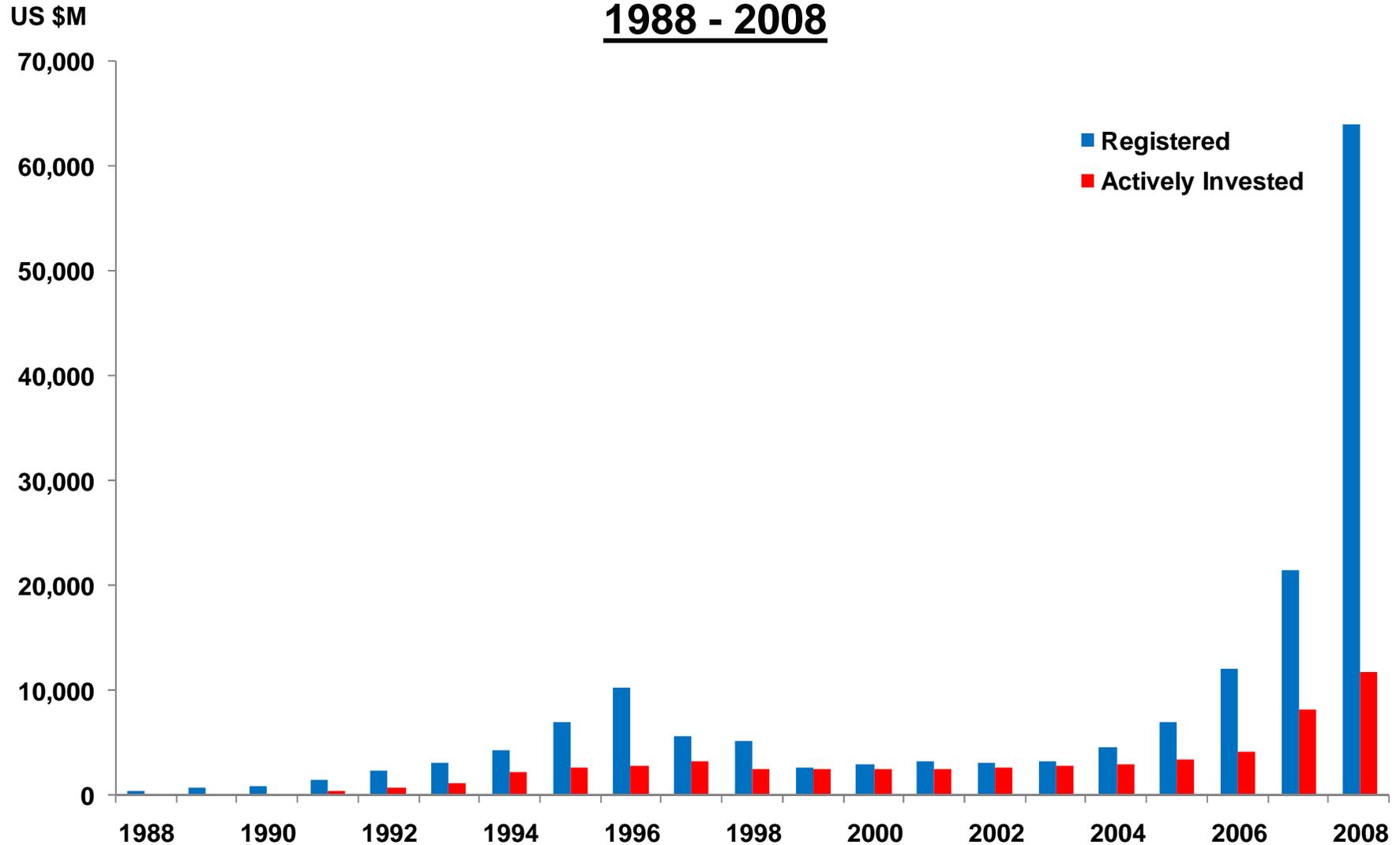
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- The **gap** between announced and implemented FDI is rising

# Foreign Direct Investment in Vietnam

## 1988 - 2008



Source: General Statistics Office, Vietnam

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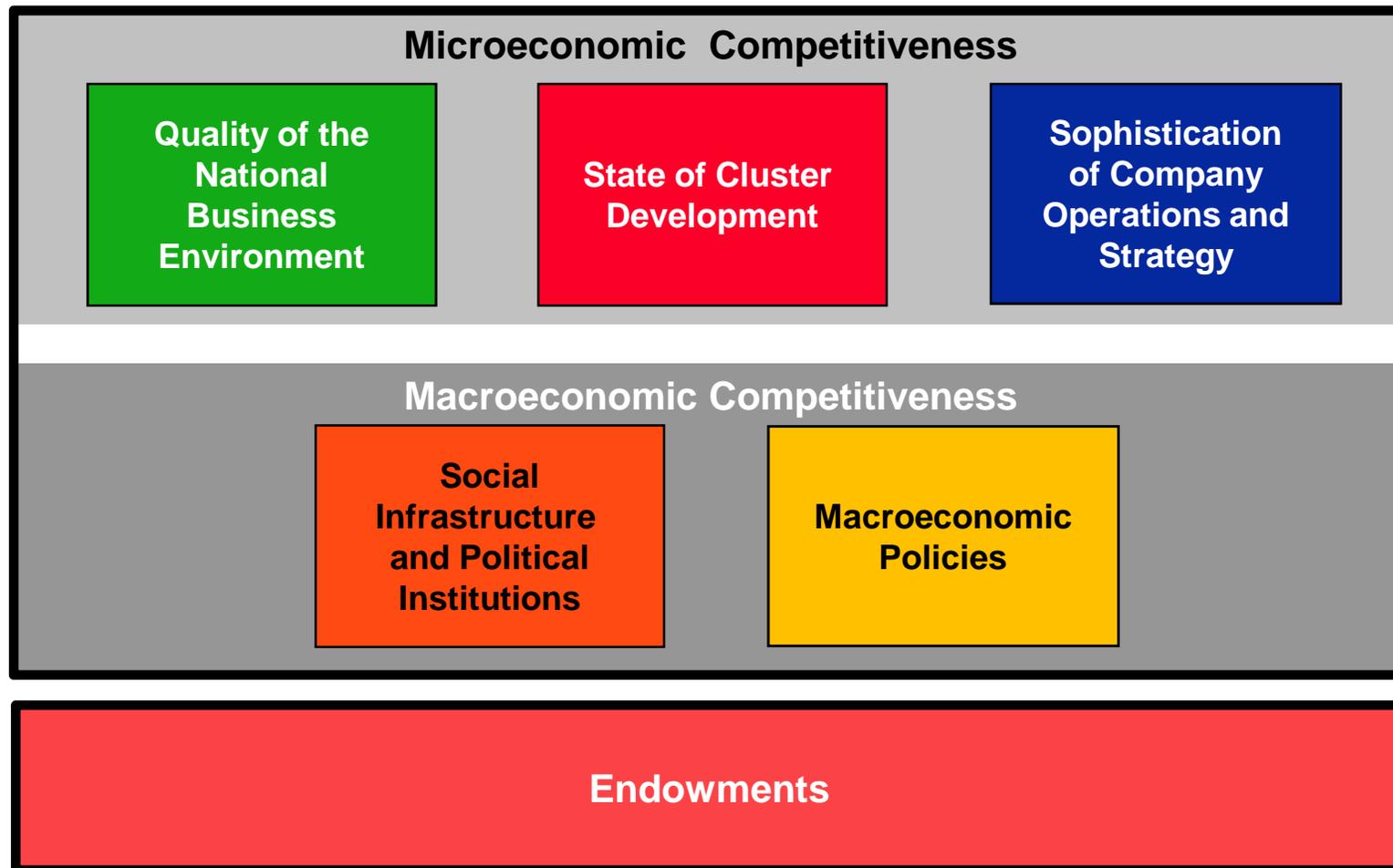
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# Determinants of Competitiveness



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

# Macroeconomic Competitiveness

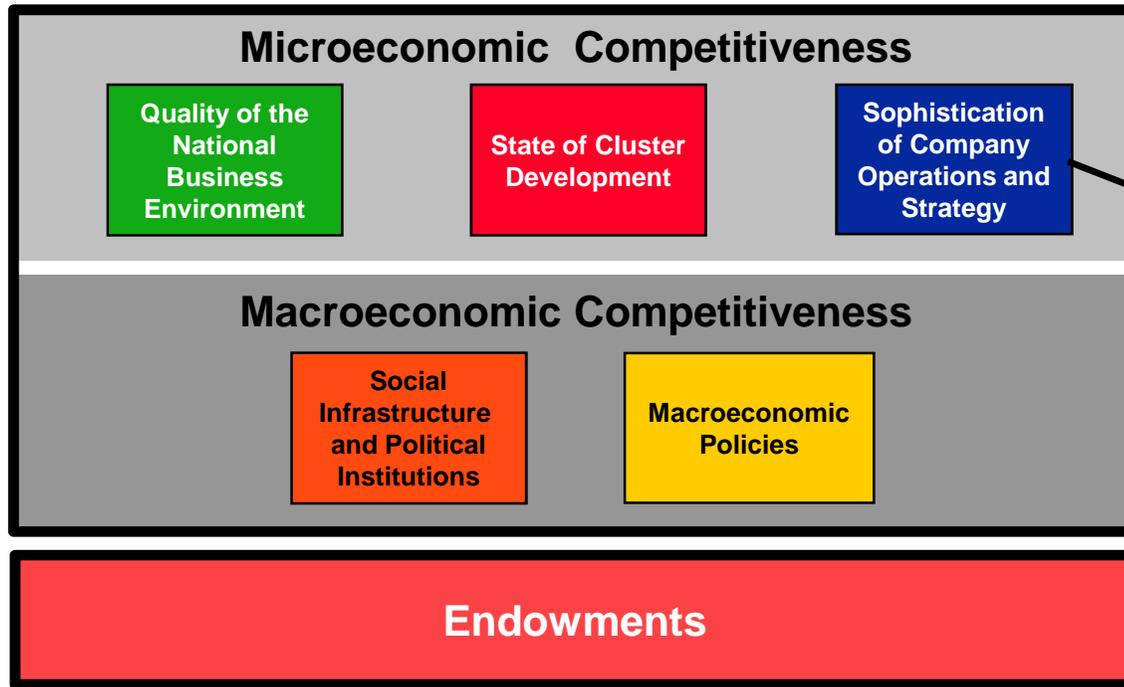
## Social Infrastructure and Political Institutions

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

## Macroeconomic Policies

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

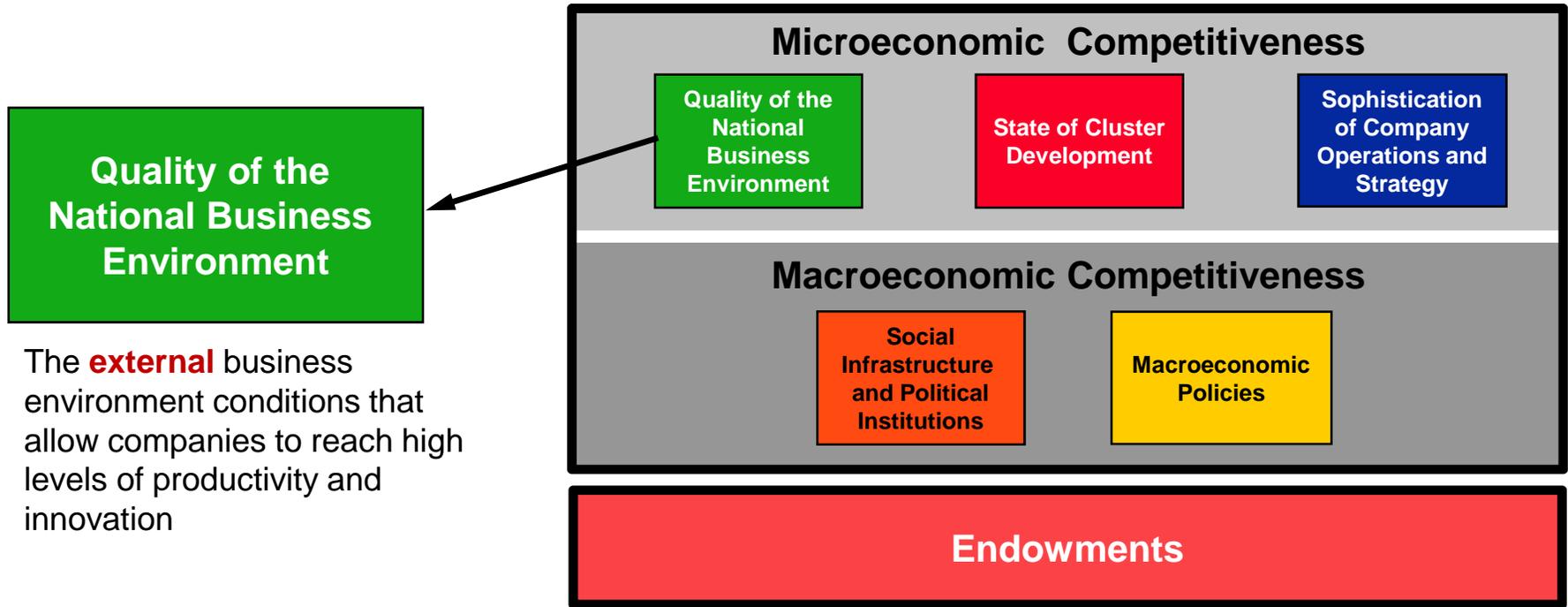
# Determinants of Competitiveness



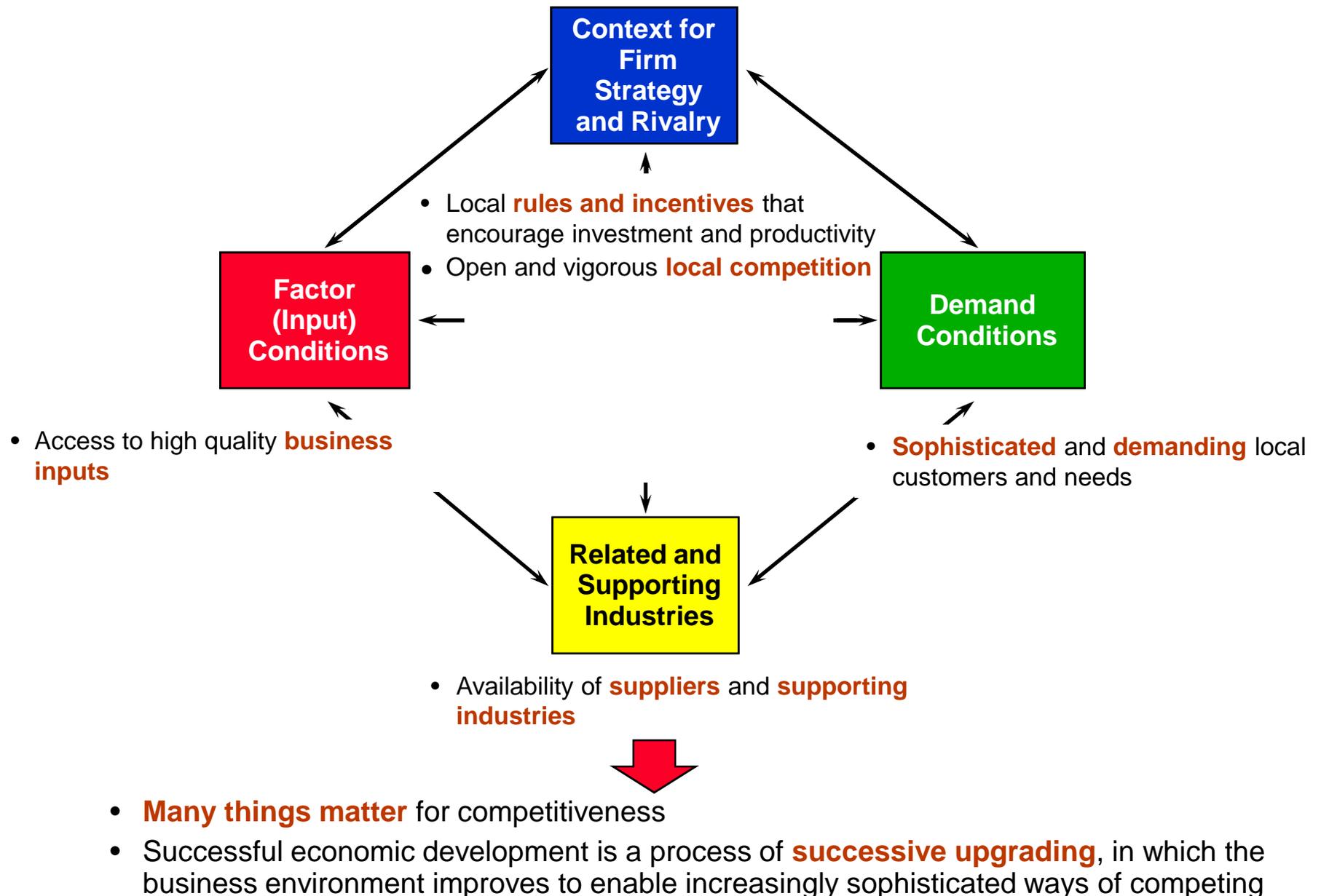
**Sophistication of Company Operations and Strategy**

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

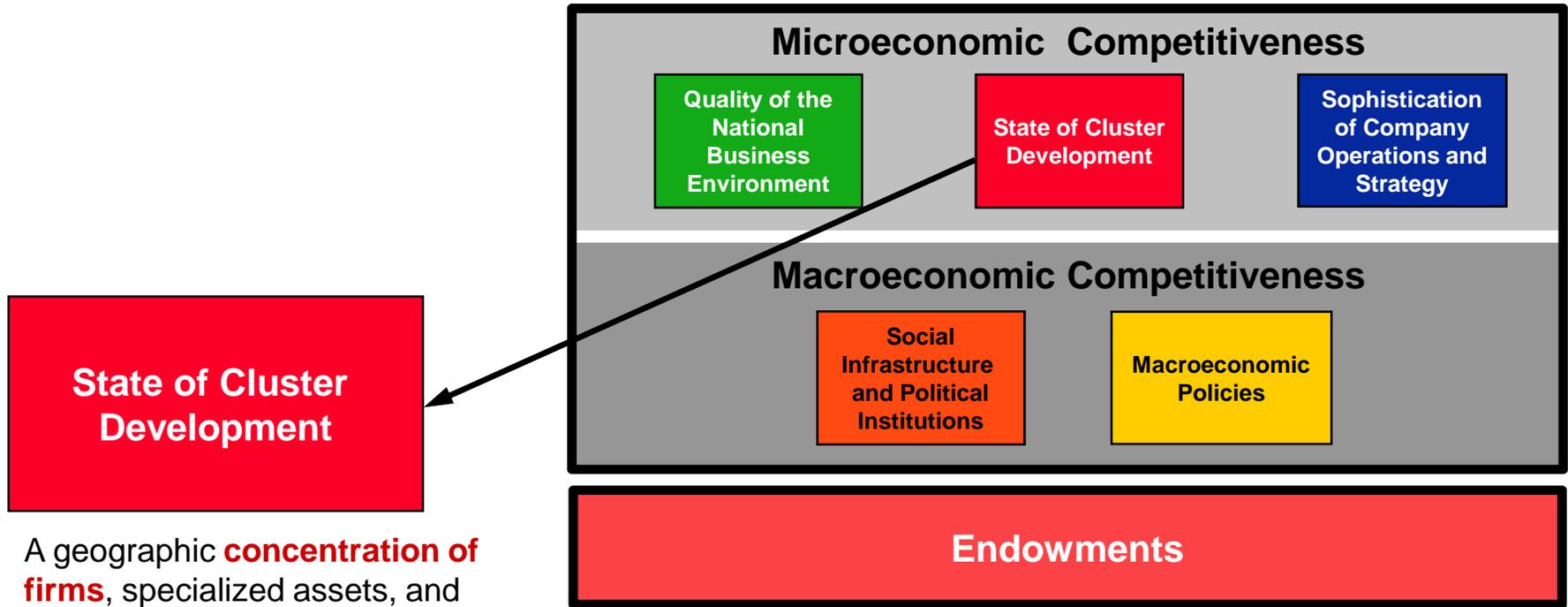
# Determinants of Competitiveness



# Quality of the National Business Environment

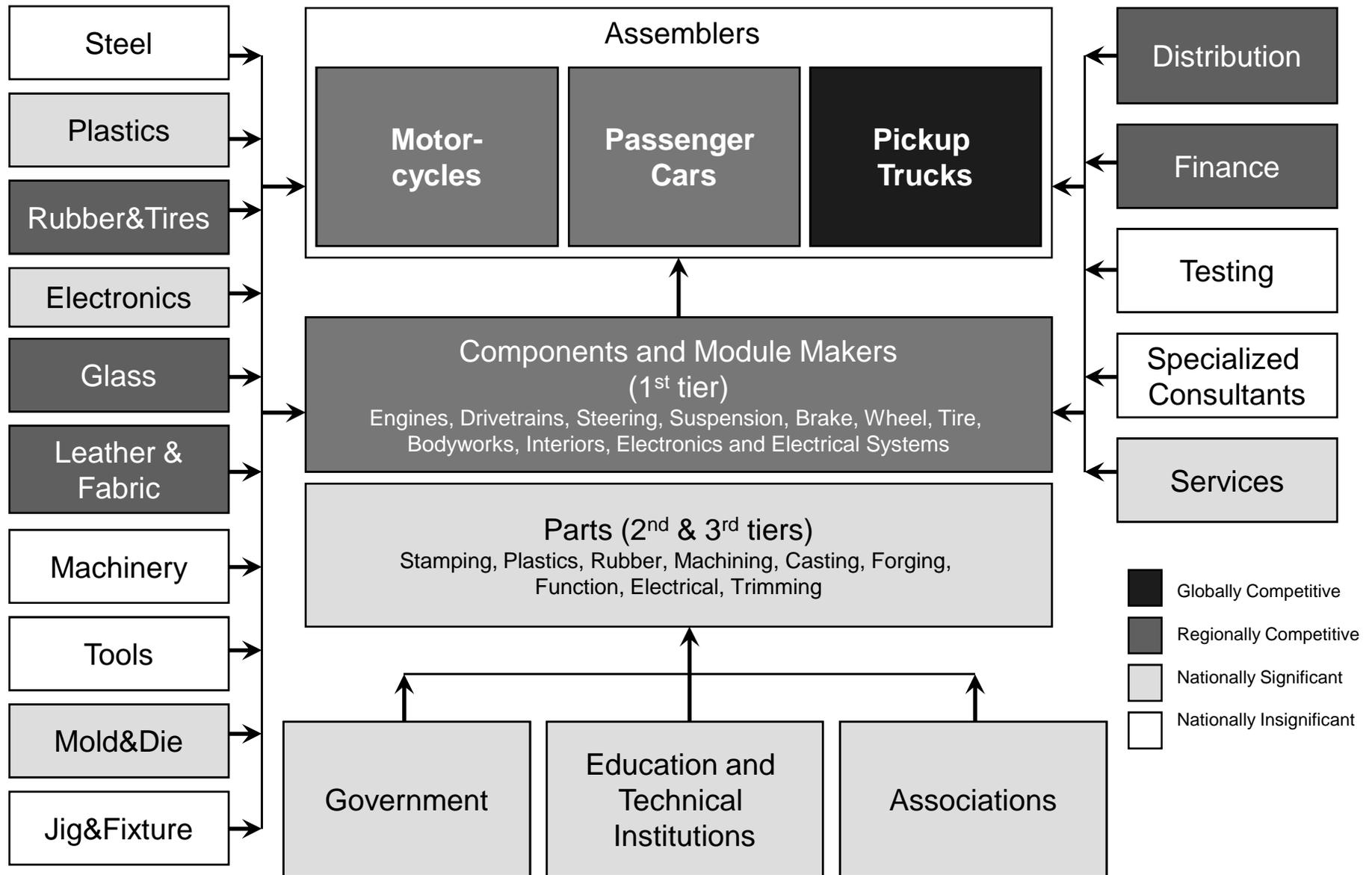


# Determinants of Competitiveness



- A geographic **concentration of firms**, specialized assets, and institutions in particular fields.

# The Thai Automotive Cluster: The Activity Dimension



Source: Sasin-team analysis, 2003 study

# Clusters and Competitiveness

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



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

# Stages of National Competitive Development

## Shifting Policy Imperatives



### Low Cost Inputs

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

### Productivity

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

### Unique Value

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

Source: Porter, Michael E., *The Competitive Advantage of Nations*, Macmillan Press, 1990

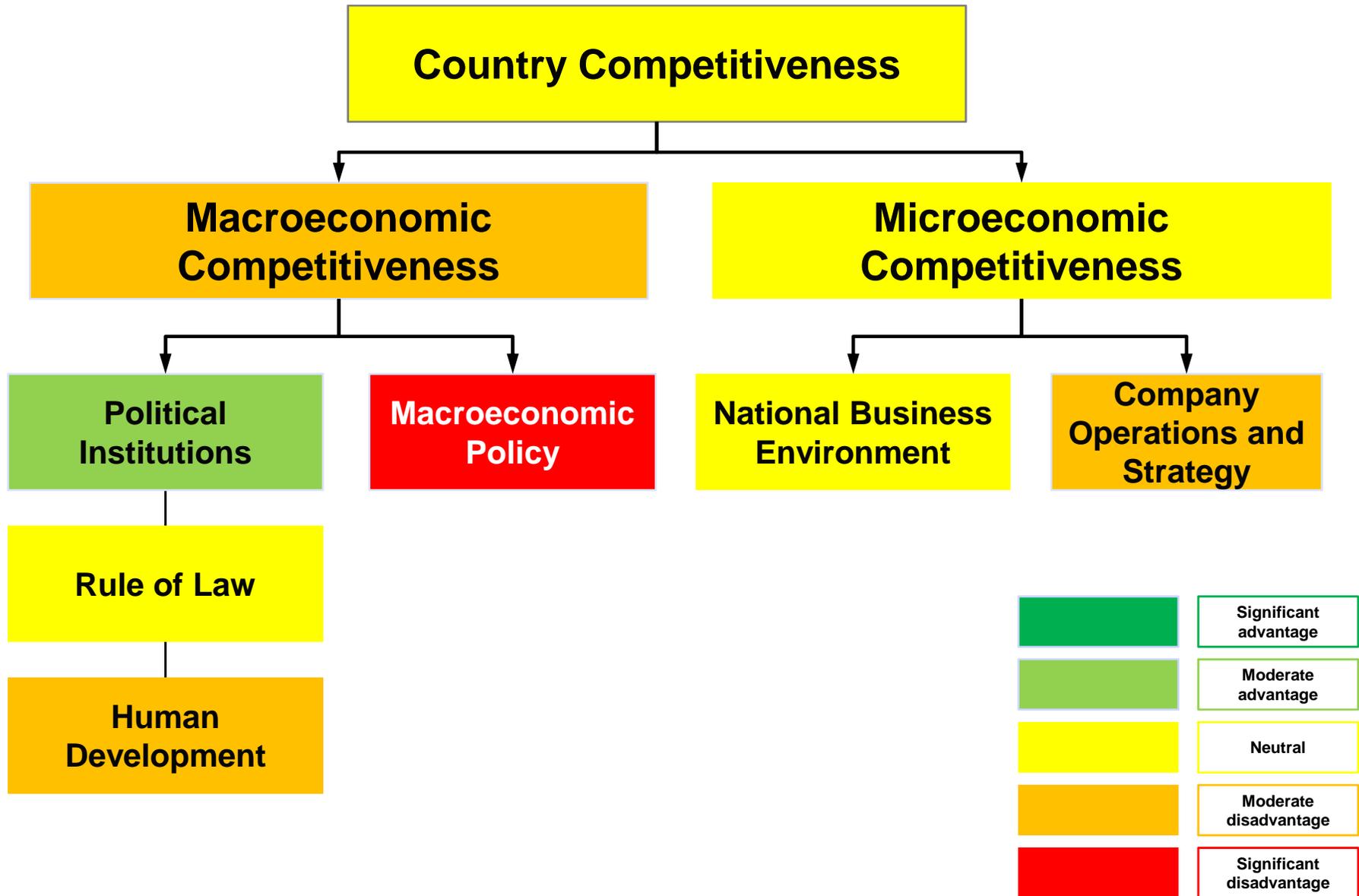
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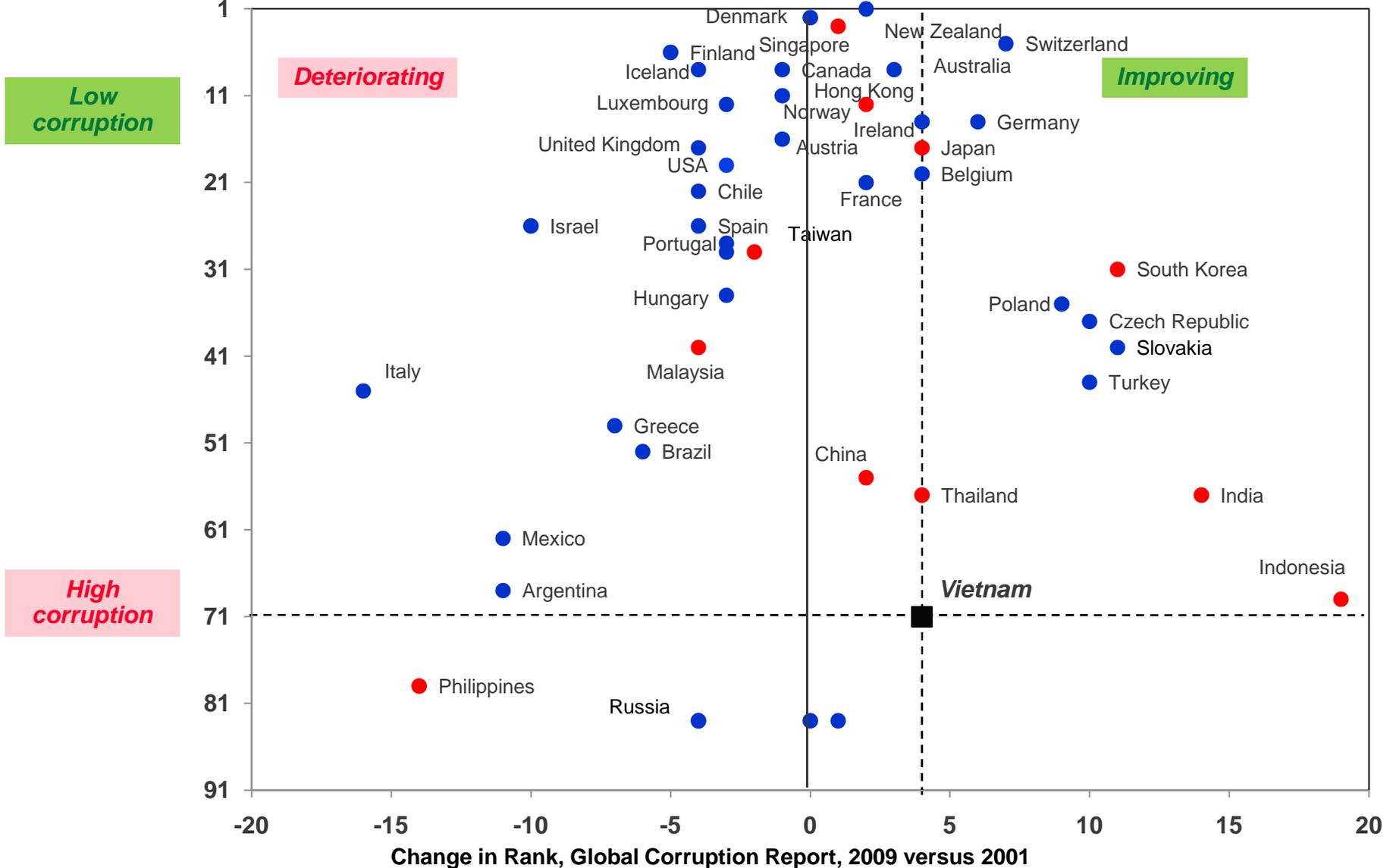
# Vietnam's Competitiveness Profile

## Position Relative to Current Prosperity



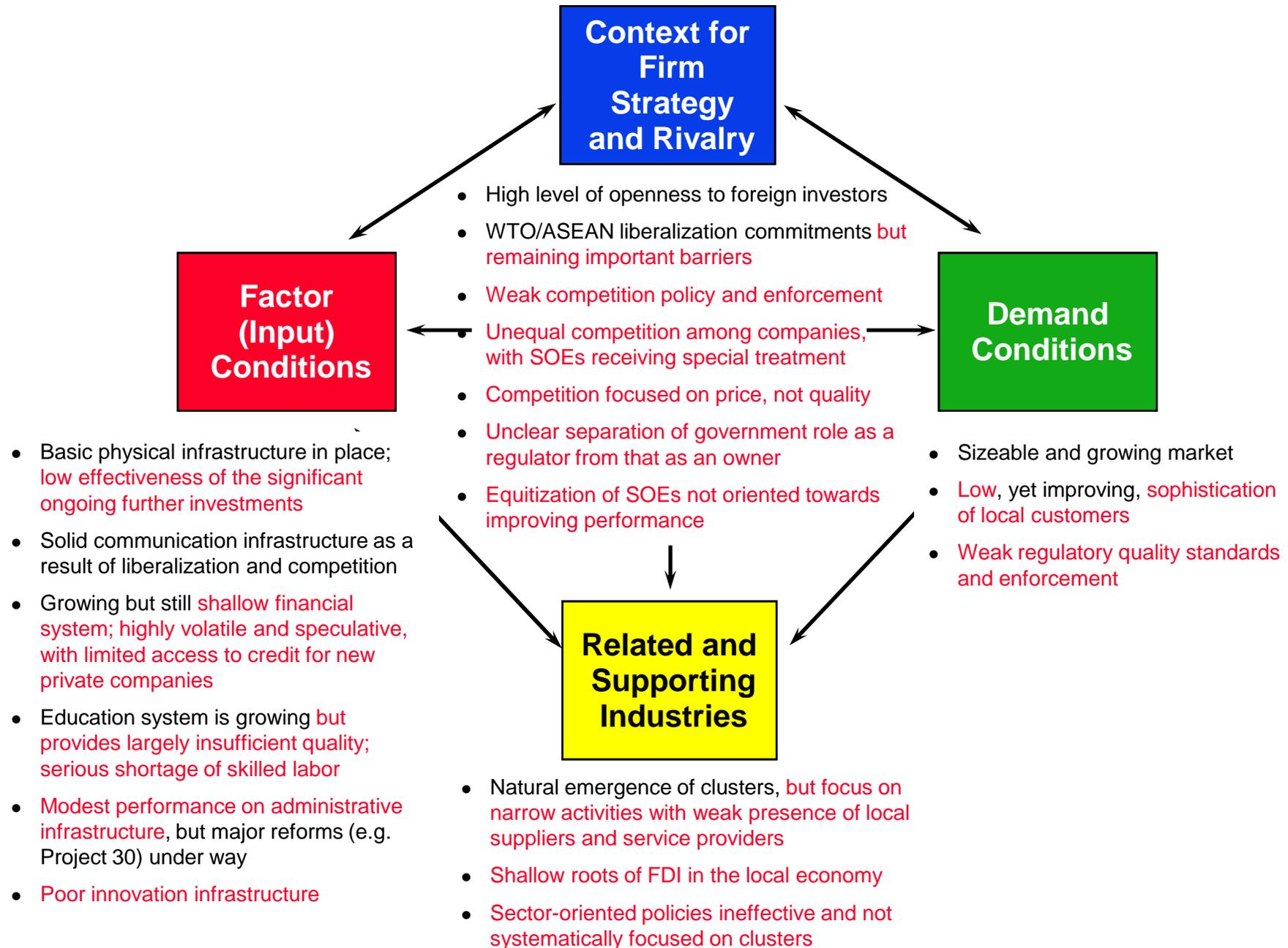
# Corruption Perception Index, 2009

Rank in Global  
Corruption Index,  
2009



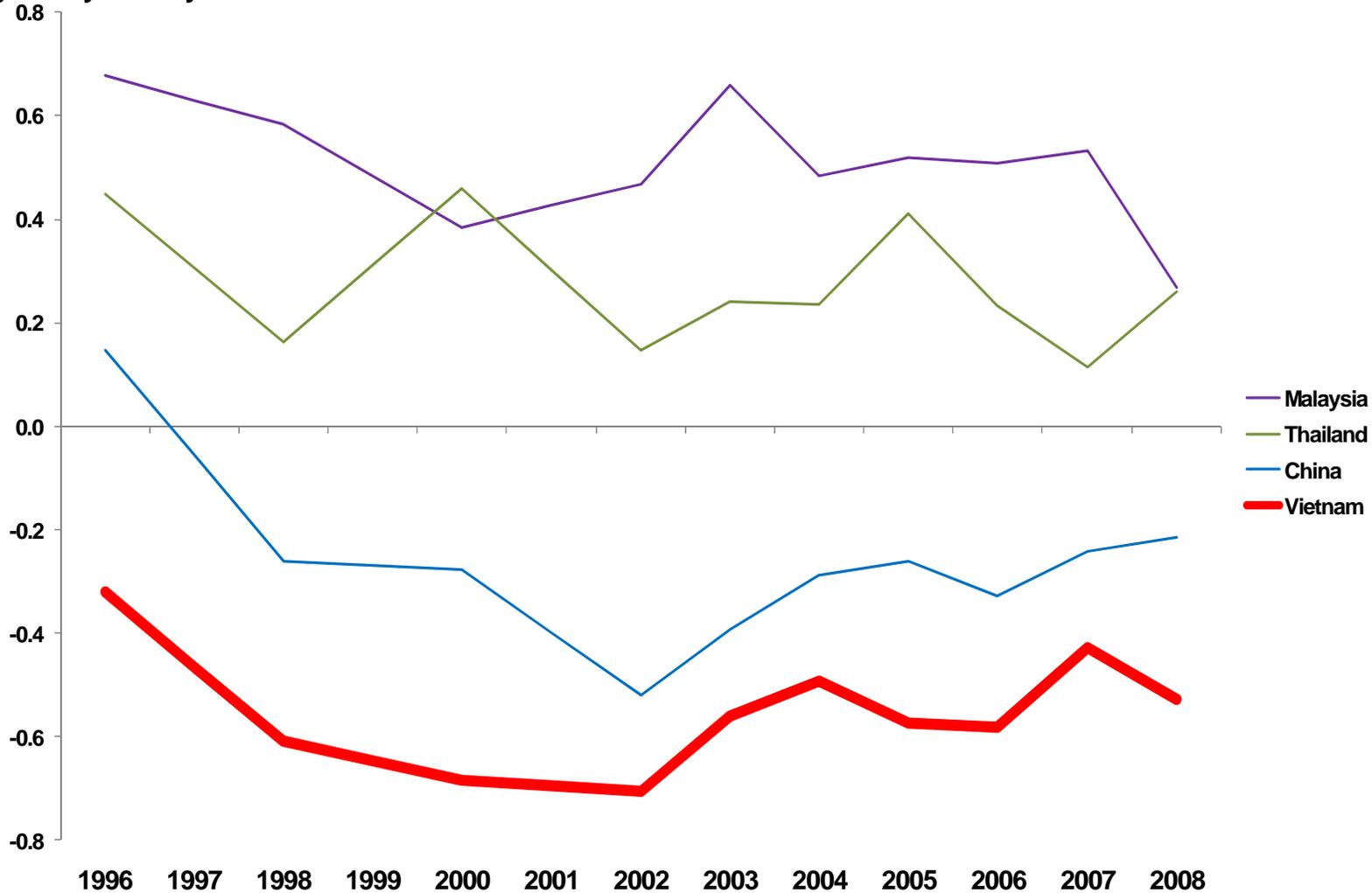
Note: Ranks only countries available in both years (91 countries total)  
Source: Global Corruption Report, 2009

# Vietnam's National Business Environment



# Regulatory Quality: Selected Countries

Composite Measure of Regulatory Quality



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

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# Sophistication of Vietnamese Companies

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

# Vietnam's Competitiveness in 2010: Summary

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



- Vietnam needs a **strategy** to develop a new development model, build on distinctive competitive advantages that can sustain growth in a changing global market environment

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# Towards a New Strategy: Three Guiding Principles

## ***A new orientation towards **competitiveness*****

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

## ***A structural transformation in the role of the **private sector*****

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

## ***A new role for **government*****

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

# Vietnam's Competitiveness Agenda

## Strategic Action Priorities

*Address emerging challenges*

*Prepare the next stage of development*

**Manage the growing macroeconomic imbalances**

**Address emerging bottlenecks in key input factors**

**Create the foundations for higher productivity**

**Secure current growth**

**Enable future growth**

# Manage Macroeconomic Imbalances

## Key Action Proposals

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

# Address Microeconomic Bottlenecks

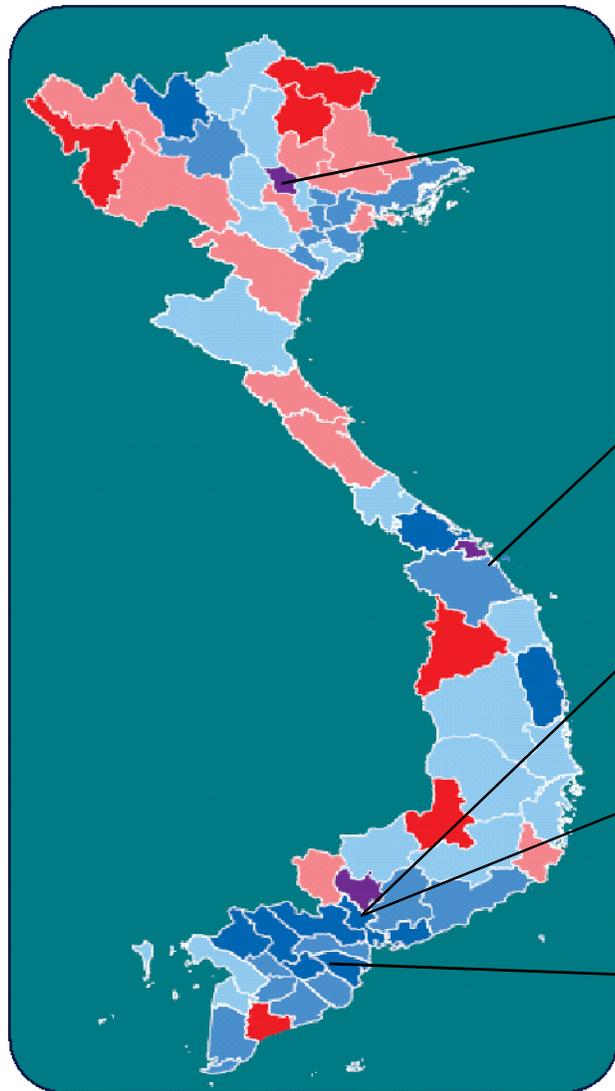
## Key Action Proposals

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

### Outlines of a new approach

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

# Possible Cluster Initiatives



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

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

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

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

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

# Create Foundations for Higher Productivity

## Key Action Proposals: Policies

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

# Create Foundations for Higher Productivity

## Key Action Proposals: Policies (continued)

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

# Create Foundations for Higher Productivity

## Key Action Proposals: Policies (continued)

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

# The Role of Government in Cluster Initiatives

## Government should

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

## Government may

- Initiate/ Convene
- Co-Finance

## Government should not

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

# Industrial Policy versus Cluster-Based Policy

## Industrial Policy

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



**Distort and impede competition**

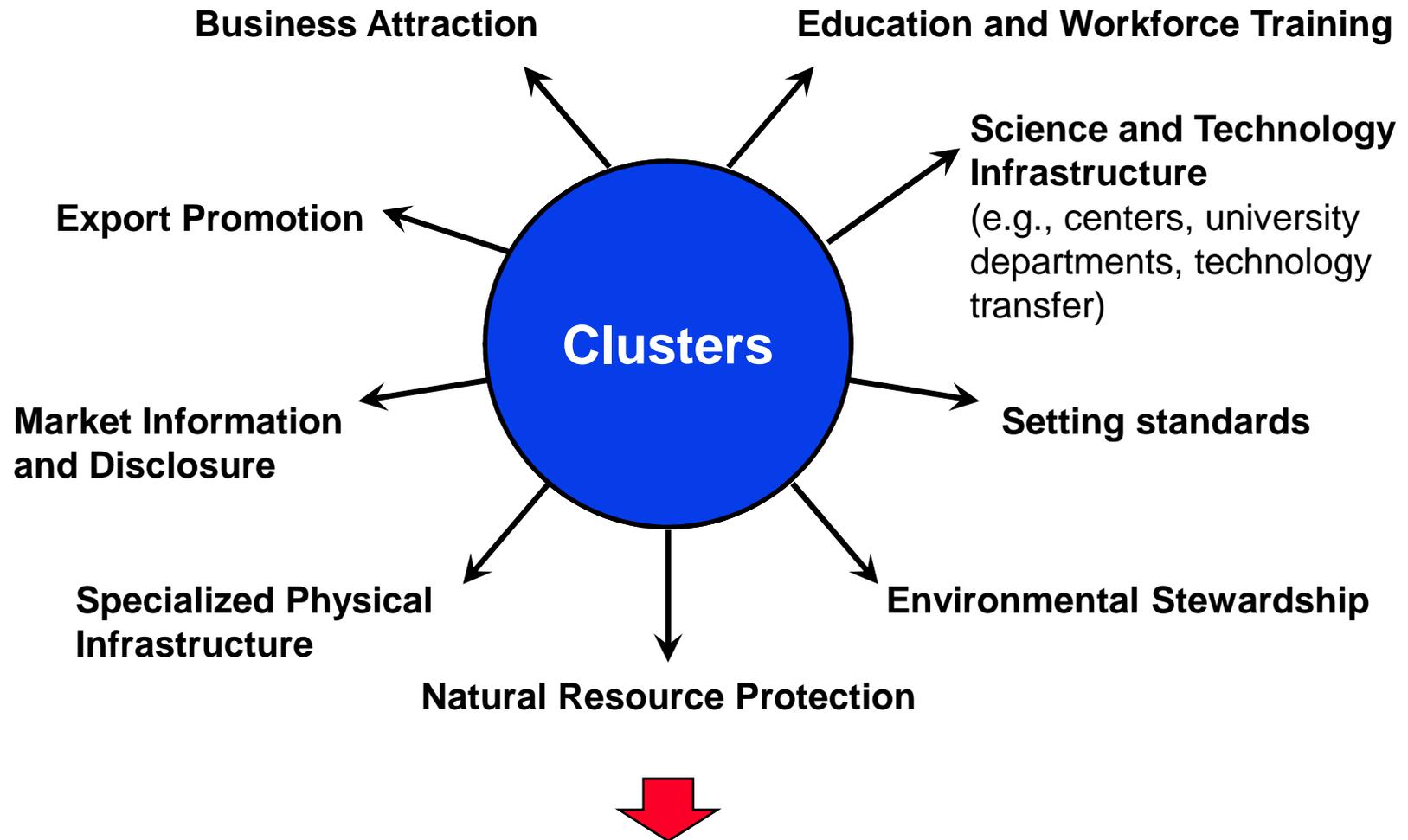
## Cluster-Based Policy

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



**Enhance and upgrade competition**

# Organize Public Policy around Clusters



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

# Clusters, Growth, and Diversification



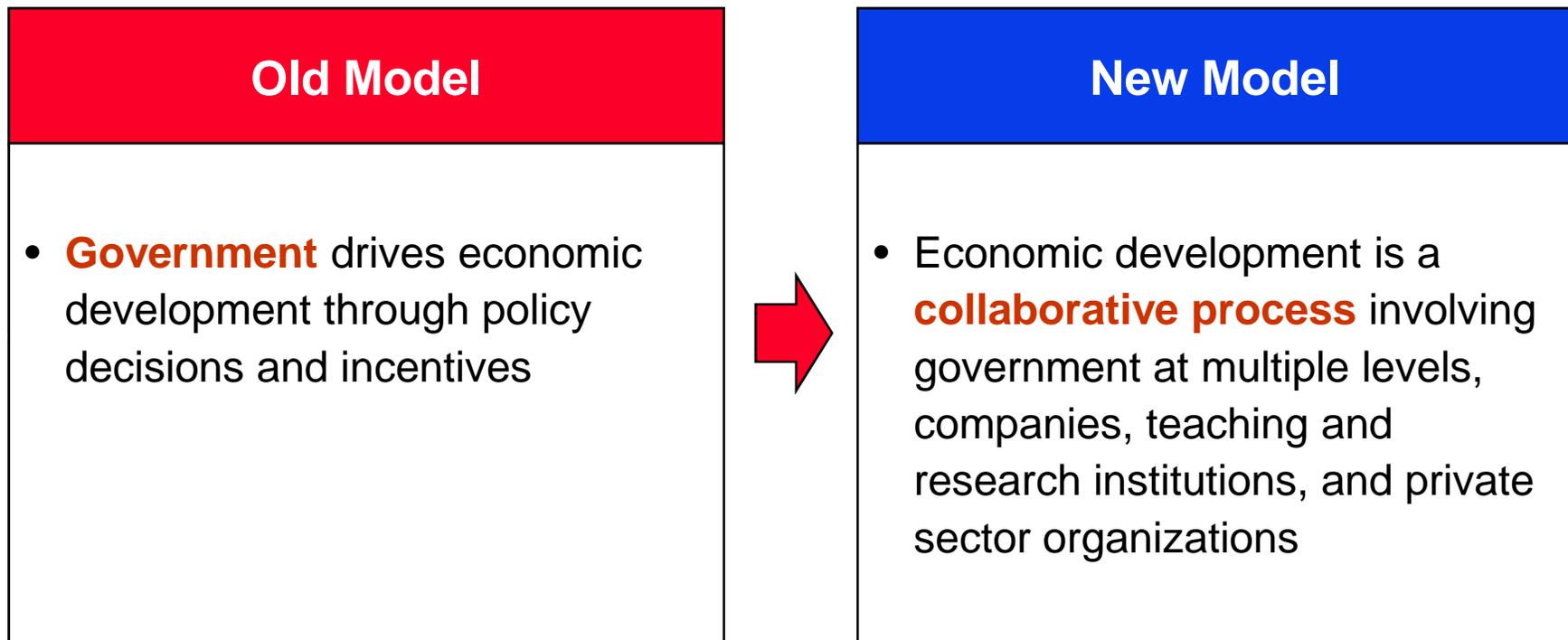
# Create Foundations for Higher Productivity

## Key Action Proposals: Architecture

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

# The Process of Economic Development

## Shifting Roles and Responsibilities



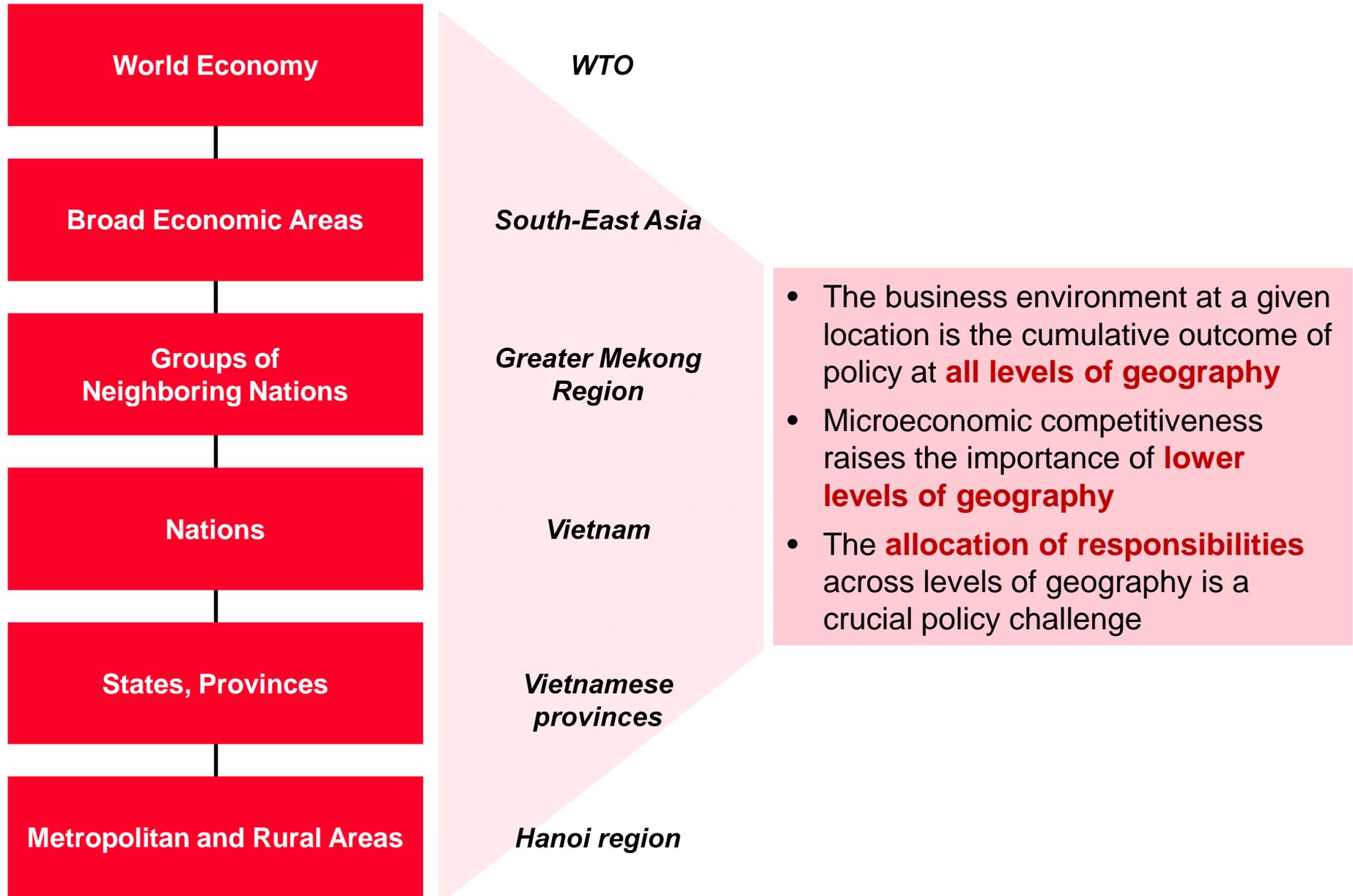
- Competitiveness is the result of both **top-down** and **bottom-up processes** in which many individuals, companies, and institutions take relevant decisions

# Create Foundations for Higher Productivity

## Key Action Proposals: Architecture (continued)

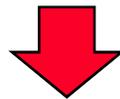
- Regional government
  - Launch funding competition for development of **regional economic development strategies**
  - Develop a **knowledge and skill infrastructure** for regional development
  - Review the current structure of **authority delegation** between the central and regional governments

# Policy Levels Influencing Competitiveness



# Regions and Competitiveness

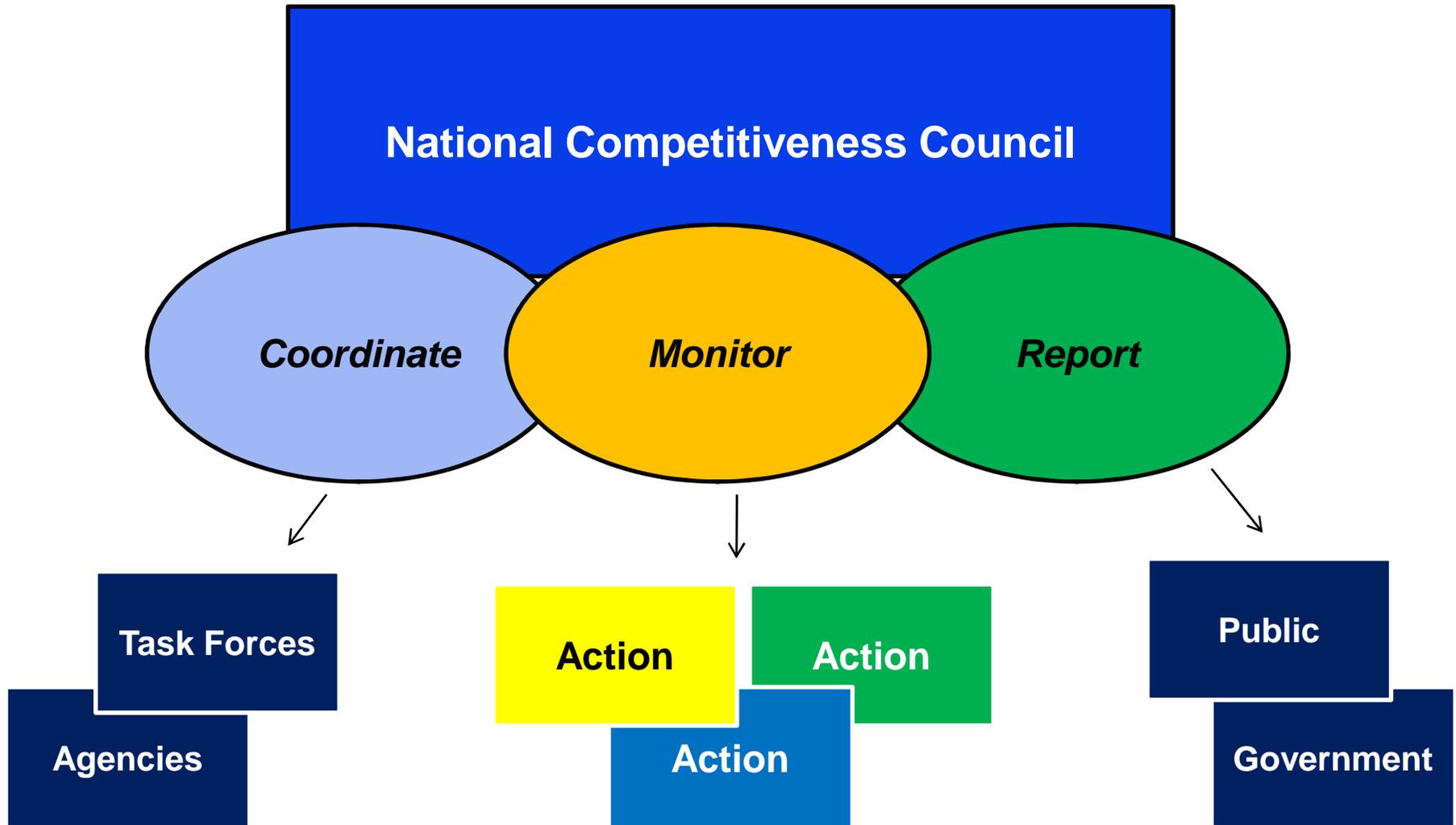
- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Region's **specialize** in different sets of clusters
- **Cluster strength** directly impacts regional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



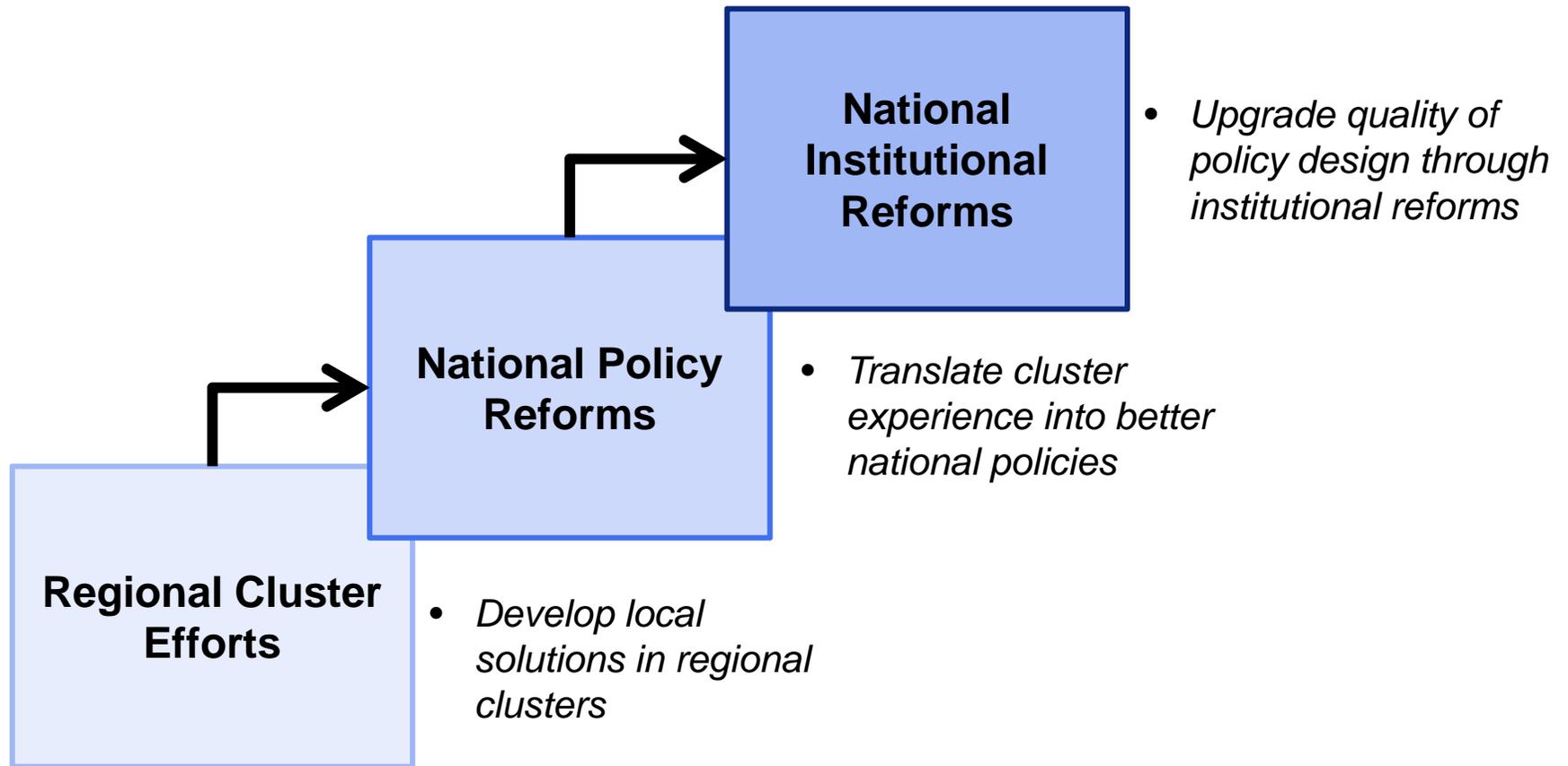
- **Decentralization** is important to foster regional specialization, internal competition, and greater government accountability
- Effective decentralization requires clarity on roles and responsibilities, and sufficient administrative **capacity at local and regional level**

# Implementation Model

## Creating a National Competitiveness Council



# Implementation Model



- For *microeconomic upgrading*, a **bottom-up approach with gradually increasing scope** is more likely to engage all relevant constituencies than traditional top-down efforts
- For *macroeconomic upgrading*, the national control over policies allows for a more traditional approach

# Creating a National Economic Strategy for Vietnam

## National Value Proposition

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

## Developing Unique Strengths

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

## Achieving and Maintaining Parity with Peers

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

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

# Role of a National Value Proposition

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

# Towards A Value Proposition for Vietnam

## What is **Unique** about Vietnam?

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

## What does Vietnam aim to **offer**?

- Access to a growing market and region
- Manufacturing base to compliment MNCs Chinese operations
- Integration into/access to ASEAN-wide cluster networks (electronics, automotive, ..)
- Strong clusters in areas like footwear, apparel, coffee, and seafood products
- ...

# Vietnam's Competitiveness Challenge: From Ambition to Action

