Connecting local enterprises to Global Market: Vietnam

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Outline

• The openness of the economy
• Where to connect
• The dominant player in connecting
• Recent moves
• Policy instruments
The openness of Vietnam economy

Share of exports and imports to GDP

- **Exports of goods and services (% of GDP)**
- **Imports of goods and services (% of GDP)**
Capacity of native firms

domestic demand for domestic products/domestic demand
Native firms loses momentum: growth rate of export

-40  -20  0  20  40  60  80
Jan-08  Mar-08  Jul-08  Nov-08  Jan-09  Mar-09  May-09  Jul-09  Sep-09  Nov-09  Jan-10  Mar-10  May-10  Jul-10  Sep-10  Nov-10  Jan-11  Mar-11  May-11  Jul-11  Sep-11  Nov-11  Jan-12  Mar-12  May-12  Jul-12  Sep-12  Nov-12  Jan-13  Mar-13  May-13  Jul-13  Sep-13

Native firm export  non-oil FIEs Export
Native firms loose momentum

Share of exports: native and FIEs

Native firms vs FIE non-oil export share
Investment share in GDP
Issues

• Local firms are well connected to global markets in terms of exports and imports
• However, the foreign invested firms surpassed native firms in exports and imports
• Range of export products by native firms is narrow: garment, footwear, Seafood, wood, rice and other agricultural products
• Other high tech field dominated by FIEs: electronics, mobile phone, transport equipment,
Consequences

• Low local contents in exports
  – China and Thailand: 50-60%
  – Vietnam 27.8%

• Low Value added
  – Garment 35-40%
  – Footwear 30%
  – Electronic products 30% but mostly supplied by FIEs in Vietnam

• Weak linkage between native enterprises and FIEs
Cause: Supporting industries?

- Unclear policy to promote supporting industries → missing economy of scale
- Lack of targeted policy to connect local enterprises with FIEs in Vietnam
- Models of vertical and horizontal linkages have not been formed to improve the competitiveness of national products
Recent moves

• A trend of FIEs moving out of China to ASEAN countries including Vietnam
• Some very high-tech TNCs are moving their factories from abroad to Vietnam: Intel, Nokia (Microsoft), Samsung, LG, Foxconn, ...
• Huge projects oil refinery factories are building: Dung Quất (3 bil $, Russia and VN), Nghi Sơn (9 bil. $ Kuwait, Japan and VN), Long Sơn (4.5 bil.$), Nhơn Hội (22 bil. $, Saudi Arabia, Japan, Thailand), Vũng Rô (3.18 bil, UK)
• New cooperation protocols
  – TPP
  – Vietnam - EU FTA
  – Vietnam – Russia- Belarus
Recent moves

• Three breakthroughs
  – Human capital; institutions; infrastructure
• Prioritizing on TNC in attracting FDI
• Supporting industry
  – Establish a fund for the development of industry
  – Amended the policy for priority development of supporting industry
  – Provinces are now more concerned on development of SI
  – FIEs, especially TNCs are now looking for local suppliers for their production chain
  – Native firms are more active to be suppliers for TNC
Policy instruments

• Macroeconomic stability, sound competition environments, three bottle-necks
• Development industrial clusters
• Attracting high-tech TNCs
• TPP
• Supporting firms in adapting new technology to meet FIEs requirements