

Core Labour Standards Plus Project, Phase II

From Industrial Policy to Economic and Social Upgrading in Vietnam

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A large, stylized gear graphic is the central element of the cover. It is composed of several overlapping layers in shades of blue, purple, and green. The gear has a white circular center. To the right of the gear, there is a vertical rectangular area filled with a grid of small black plus signs (+).

CLS+

Core Labour Standards Plus

Linking trade and decent work in
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November 2020

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Abbreviations

GSO	General Statistics Office	VCCI	Vietnam Chamber of Commerce and Industry
FDI	foreign direct investment	VINASA	Vietnam Software and IT Service Association
FTA	free trade agreement	VNPT	Vietnam Posts and Telecommunications Corporation
GDP	gross domestic product	WTO	World Trade Organization
ICT	information and communication technology		
ILO	International Labour Organization		
MOLISA	Ministry of Labour, Invalids and Social Affairs		

All \$ are United States dollars

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Foreword

Three and a half decades ago, Vietnam embarked on a journey from a planned to a market economy with the launch of Doi Moi, or renovation reforms. This journey has been difficult, full of setbacks and successes. The industrial policies at that time and since have defined the standard of living for the Vietnamese people and are now an important part of their economic past, present and future.

This study of the Friedrich-Ebert-Stiftung Asia regional project series Core Labour Standards Plus (CLS+) builds on the findings of a first phase: that evidence indicates that market mechanisms do not necessarily lead to social upgrading, especially because buyer-driven global value chains, which dominate international trade in emerging and developing countries, are prone to trap countries like Vietnam in low-value-added tasks.

This country study—as part of the second phase of the CLS+ project—explores how Vietnam can do better: Which policies were successful in achieving social upgrading? Is economic upgrading linked to social upgrading? How does industrial policy work in the country and are there positive examples on the national, regional and sector levels? What can be learned from the successes and mistakes with respect to economic and social upgrading for other countries?

In two case studies, the authors analyse the implications of these questions: The regional case study of Binh Duong Province reflects the potential of industrial policies. Within 20 years after establishment, Binh Duong, in the south-eastern region of Vietnam, shifted from a poor, agricultural province to one of the most industrialized provinces in the country and the first to completely eradicate poverty. The successful lessons learned from the case of Binh Duong include the positive effects of increased investment in improving labour skills, engaging public–private partnership to improve infrastructure and the promotion a culture of dialogue that links economic development with social upgrading.

The sectoral case study on the information and communication technology industry comes to the conclusion that instead of sustaining the state monopoly, as in other industries, the government allowed for competition within the ICT industry in the early days by engaging state-owned and domestic private firms. This competition encouraged the fast growth of the industry and led, in this particular case, to a growing number of well-paid jobs.

The study provides tangible policy recommendations for decision-makers: One of the principle findings is that instead of granting preferential treatment to the remaining state-owned enterprises, the State should require all companies to play by market rules and compete with non-public enterprises as theses preferential treatments turn out to be counterproductive to the situation for workers on the ground. In terms of social upgrading, the economic reforms have helped create millions of jobs in the formal sector, reduce the poverty rate and increase real wages overall. However, the rate of real wage growth slowed down while the gender pay gap remains substantial. According to the authors' findings one of the main reasons is that trade unions have not been able to represent workers in genuine collective bargaining at the workplace. Thus, the wage paid to many workers is basically the minimum wage, which without overtime pay leaves them with an income that is far below a living wage.

This study underpins the essential point our partners—trade unions, civil society organizations and researchers—across Asia have made time and time again: The social aspects of industrial policies should be discussed and corresponding solutions should be integrated into those policies.

The research team of Do Quynh Chi, Nguyen Huyen Le and Hoang Xuan Diem analysed Vietnam's industrial policies and their implications for social upgrading thoroughly. We wholeheartedly thank the authors for their exceptional work to answer these questions and their analysis of Vietnam's economic development, best practices, the space for improving industrial policies and the lessons for other countries in the region.

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Chapter 1: Introduction

1.1 Research background

With the launch of Doi Moi (renovation) reforms in 1986, Vietnam embarked on a transition from a centrally planned to a market-oriented economy, from an import-substitute to export-oriented strategy and from an economy with only state-owned enterprises into a multisector economy with different forms of enterprise ownership. The economic reforms brought about important economic and social achievements: Vietnam has sustained high gross domestic product growth rates over decades and has lifted millions of people out of poverty. Yet, two decades after Doi Moi began, economic growth began to stall and Vietnam faced the risk of the middle-income trap (Ohno, 2009). Another decade later, the advantage of low-cost low-skilled labour is fading, and foreign direct investment (FDI) has not brought about the needed spillover effects. These realities have become the basis for internal debates in recent years over which economic model Vietnam should pursue.

The government develops master plans of socioeconomic development that spell out industrial policies for a period of five to ten years. As previous studies have found, the quality of these industrial policies remains poor, with industrial development mainly driven by market forces (Herr, Schweissheim and Truong, 2016; Pincus, 2015). But the market alone is not able to trigger sufficient economic upgrading (Herr, 2018; Rodrik, 2004). International free trade may help a country start industrialization, but in buyer-driven global value chains, which dominate international trade in developing countries, such countries are prone to entrapment in low-value-added tasks. Information externalities, coordination externalities and economies of scale can further prevent economic upgrading (Herr, 2018).

As the evidence from the first phase of the Friedrich-Ebert-Stiftung Asia regional project series Core Labour Standards Plus showed, the market mechanism fails to lead to social upgrading (FES Asia, 2017).

Therefore, new rules, institutions and other government interventions are needed to guarantee that economic upgrading will lead to social upgrading and sustainable development. Industrial policy thus becomes a pillar not only for economic upgrading (Ohno, 2013; Cimoli and others, 2009) but also social and ecological upgrading.

This paper is a product of the second phase of the Friedrich-Ebert-Stiftung Asia regional project. In each country covered in the project, a local research team looked at the historical development of industrial policies and evaluated the economic and social upgrading. And then they analysed in depth the sectors or regions with successful industrial policies linked to significant economic and social upgrading. These success cases then formed the basis of recommendations to policymakers and local stakeholders for better industrial policies.

In Vietnam, the research was conducted by Do Quynh Chi (Research Center for Employment Relations), Nguyen Huyen Le (Head of the Wage Division, Bureau for Wage and Industrial Relations, Ministry of Labour, Invalids and Social Affairs, Vietnam) and Hoang Xuan Diem (Central Institute for Economic Management). The Vietnam country study aimed at answering the following questions:

- How did social and economic upgrading in the country historically develop?
- Which policies were followed to achieve economic upgrading, especially industrial policy?
- Which policies were followed to achieve social upgrading? Was economic upgrading linked to social upgrading?
- How does industrial policy work in the country and are there especially positive examples on the national, regional and sector levels?
- How do policies of social upgrading work in the country and are there positive examples on the national, regional and sector levels?
- What do relevant actors (government, trade unions, employers' associations, civil society) in

the country recommend to achieve social and economic upgrading?

- What can be learned from the successes and mistakes in respect to economic and social upgrading for other countries?

1.1 Methodology

The study was based on a combination of quantitative and qualitative research methods that were employed in four stages.

Stage 1: Review the historical development of industrial policy in Vietnam.

The research team reviewed the development of the industrial policy in Vietnam since the launch of the Doi Moi reforms. The review covered previous literature as well as related government documents on industrial development policies as well as the incentives for specific industries and sectors (such as the state-owned enterprise or FDI sector). The research also included a review of relevant macroeconomic indicators.

Stage 2: Process the national databases to evaluate the economic and social upgrading.

The researchers drew on the General Statistics Office (GSO) databases on the Labour Force Survey and Enterprise Survey findings to calculate the economic and social indicators set by the project (see annex 1). The research team focused on four benchmark years—2005, 2010, 2015 and 2017—to measure the trends in economic and social upgrading.

Stage 3: Take a deep-dive study of good practices.

Based on the desk review of the industrial policies and evaluation of the economic and social upgrading, the research team conducted a deep-dive study of the industrial policies of Binh Duong Province and the information and communication technology (ICT) industry. For each case study, the research team made a quantitative evaluation of the economic and social indicators using the GSO databases. An exhaustive review of the industrial and social policies of Binh Duong Province and the ICT industry was also conducted.

Stage 4: Conduct in-depth interviews with local stakeholders.

A total of 15 interviews were conducted with relevant stakeholders regarding economic and social upgrading in Vietnam (see annex 2). The research informants included government officials, National Assembly delegates, senior economists from public think tanks, provincial officials and representatives from trade unions, business associations and non-government organizations.

1.3 Paper outline

After the introduction of the study in this first chapter, chapter 2 presents the in-depth review and analysis of the industrial policies since the launch of the Doi Moi reforms in 1986 as well as the evaluation of the level of economic and social upgrading achieved. This includes discussion on the obstacles to further economic and social upgrading, the weaknesses in the industrial policymaking process and the varying visions of the research informants for the country's industrial policy direction.

Chapters 3 and 4 zoom in on the two case studies. Chapter 3 discusses the industrial policy of Binh Duong, a small province in the southern region that transitioned from an impoverished agricultural environment to a relatively affluent industrialized state over the past 20 years. Chapter 4 looks at the ICT industry of Vietnam and analyses the government's strategy for developing this sector as well as the level of economic and social upgrading achieved. Both chapters conclude with lessons learned. Chapter 5 summarizes the research findings and offers recommendations for industrial policy direction and how to further improve economic and social upgrading in Vietnam.

Chapter 2: National industrial policy and its link with economic and social upgrading

2.1 Evolution of industrial policies in Vietnam

From the Launch of Doi Moi to World Trade Organization accession

Prior to the mid-1980s, Vietnam, constrained by a trade embargo imposed by the United States in 1964, followed an industrial strategy of emphasizing basic and heavy industries (initially metallurgy, mechanical engineering and chemicals, followed by energy, machinery, shipbuilding and transportation equipment) and selected light industries (consumption goods and agricultural equipment) behind high protective walls (Altenburg and Lutkenhorst, 2015). The whole economy contained only state-owned enterprises and cooperatives because private ownership remained illegal. Physical production targets were prioritized over efficiency, while in terms of international trading relations, the country was integrated into the Council for Mutual Economic Assistance (an economic union of Communist states that promised economic aid to its members).

In the 1980s, this economic model faced serious challenges. In the 1986–1988 period, Vietnam's exports only paid for 34–38 per cent of its imports, with the remainder financed by Soviet aid. With the end of aid and subsidies brought on by the beginning disintegration of the Soviet Union, Vietnam had to either cut back sharply on imports, thus inducing a severe recession, or find a way to expand its exports (Perkins and Vu, 2010). The Sixth Party Congress in 1986 embarked on a fundamental reform process to transform towards a “socialist-oriented market economy”.

The Doi Moi directions, which took the next five years to solidify (from 1986 to 1990), contained four pillars:

- a major shift into export-oriented industrialization, focusing on producing consumer goods (agricultural products, garments, footwear and seafood);
- reform of state-owned enterprises by decreasing subsidy levels and increasing management autonomy;
- the opening up of the economy to foreign investment (the Foreign Investment Law was promulgated in 1987); and
- legal recognition and encouragement of a domestic private sector (the Law on Private Enterprises and the Law on Companies were passed in 1990).

Two other crucial policies entailed (i) the allocation of agricultural land, which used to be owned by collectives, to farmer households and (ii) the recognition of private ownership of production assets. These policies released the production power in the agriculture and private enterprise sectors, laying the foundation for increasing the volume of exports. Vietnam thus then went from a net importer of food in the 1980s to rank among the world's top agricultural exporters.

One of the most important industrial policies in the first ten years after the launch of the Doi Moi reforms was the promulgation of the 2000 and then the 2005 Amendment of the Enterprise Law. While the 2000 Enterprise Law marked the legal recognition and formalization of private enterprises as well as the simplification of registration procedures, the 2005 Enterprise Law created a level playing field for all types of enterprises regardless of their ownership structure.

The 2005 Enterprise Law triggered a massive wave of new private businesses.¹ The ownership pattern of industrial production quickly changed from a domination of state-owned enterprises to private ownership, especially with FDI companies. In particular, from 2005 to 2015, the share of state-owned enterprises in the industrial value added dropped from 33 per cent to nearly 18.7 per cent, while that of the domestic non-state sector almost doubled, to 26.1 per cent, with FDI accounting for more than half of the total value (table 1).

¹ “Between 2000 and 2005, more than 160,000 new domestic private firms were formed during the same period, private enterprises created three million new jobs and invested VND323 trillion, which is more than the total FDI for the same period” (Perkins and Vu, 2010, pp. 20–21).

Table 1: Share of industrial value added, by ownership (real price) (%)

Types of enterprises	2005	2010	2015
State-owned enterprises	33.09	23.64	18.66
Non-state domestic enterprises	16.51	25.25	26.07
Foreign-invested enterprises	50.41	51.11	55.27

Source: Authors' tabulations based on the General Statistics Office database.

From 2001 to 2007, the government focused on streamlining its legislative procedures for investment and business establishment while preparing the legal grounds for World Trade Organization (WTO) accession (Dwight and Vu, 2010). To accede to the WTO, domestic industries would need to reduce or remove protection measures. To support state-owned enterprises without violating the WTO rules while also promoting economies of scales in industries controlled by the State, the government decided to consolidate many of them into general corporations and conglomerates (*tap doan kinh te*)². The model or ultimate goal of this exercise was based on the Japanese *keiretsu*³ (embraced by Mitsubishi, Mitsui, etc.) and the comparable Korean *chaebol*⁴ (used by Samsung, Daewoo, Kumho, etc.) (Perkins and Vu, 2010). The party-state in Vietnam emphasized the central role of the state-owned enterprise sector and, for the first time, announced the need to form state-owned general corporations in the 2001 Resolution of the Central Party Committee (2001, p. 2):

“The state economic sector plays the decisive role in holding fast the socialist orientation, stability and economic, political and social development of the country. State-owned enterprises...must constantly innovate, develop and improve efficiency, hold key positions in the economy, be an important material instrument for the State to orient and regulate the macroeconomy, be the core force, the main contributor for the state economic sector to perform the leading role in the socialist-oriented market economy, and be the main force in international economic integration.... It is necessary to form strong economic groups on the basis of state-owned corporations, operating on a variety of industries, highly specializing and holding the dominant role in the national economy.”

Yet, it was not until 2005 when the first conglomerates (“economic groups”) were formed, including the coal and mining group and the textile and garment group (both established in 2005). By 2012, 13 conglomerates had been established, including telecommunications, petrol and gas, shipbuilding, tobacco, electricity, chemicals, finance and insurance.

² Vu (2016) argued that there are four reasons the conglomerate model helped diminish partially the impacts of WTO accession on state-owned enterprises: First, the conglomerates have diversified business lines, which include banking and finance, and have created new forms of directed credit and cross-subsidies among the state-owned enterprises. Through a complex nexus of pyramidal and cross-ownership structures, these subsidies, which are in principle prohibited by the WTO, have been transformed into internal transactions and are therefore difficult to detect and/or sanction. Second, as the dominant position of these conglomerates is reinforced, the government can use industrial policies, in principle targeted at an entire industry, to deliberately support state-owned enterprises without being accused of violating the “national treatment” principle. Finally, the wave of acquisitions of commercial banks by these conglomerates after WTO accession provided the state-owned corporations with abundant sources of capital. The expectation of reform-minded policymakers that competitive pressure, particularly from foreign banks, would force banks to be more profit-oriented, thereby hardening state-owned enterprises’ budget constraints, has not yet been realized.

³ *Keiretsu* refers to the Japanese business structure comprising a network of different companies, including banks, manufacturers, distributors and supply chain partners in which the businesses are linked by cross-shareholdings.

⁴ A *chaebol* is a large industrial conglomerate that is run and controlled by an owner or family in the Republic of Korea.

From 2007 to 2011: WTO accession and the fall of the state-owned conglomerate model

In 2006 and 2007, the government amended more than 60 legal documents to implement its commitments to the WTO (WTO Reference Centre, 2017). At the same time, hundreds of decrees and circulars were amended to remove trade barriers. WTO membership created pressure on Vietnam to shift from its state administrative interventions to a management style that respects the freedom of business, according to Vietnamese laws and market rules. Private sector growth exploded in 2007, with nearly 60,000 businesses established within just one year. Another major change resulting from WTO membership was the surge of FDI into the country. Vietnam attracted a mere \$10 billion of FDI in 2006, but this more than doubled, to \$21.3 billion, in 2007 and reached \$64 billion in 2008 (Vu, 2016).

As noted, along with the needed institutional reform that boosted private sector and FDI growth, the government attempted to preserve the primacy of the state-owned enterprise sector via the formation of general corporations and conglomerates, which many scholars later described as reverse state-enterprise reform (see for example, Vu, 2016, p. 16). To support the state-owned conglomerates, the government granted them extensive privileges, compared with other economic sectors, in accessing critical resources, such as land, credit, natural resources and the coveted public investment and government procurement projects.

Additionally, the state-owned enterprises were allowed to use state capital without paying dividends for a prolonged period.⁵ They were generally not subject to hard budget constraints and virtually never faced bankruptcy (Vu, 2005). The state-owned enterprises were given priority over other FDI and domestic private enterprises to disburse the majority of official development assistance projects.⁶ Their access to land was made either free or at substantially subsidized rent.

They then used the leased land as collateral for bank loans, while private businesses did not have such privilege. The expansion of these state conglomerates into the banking sector by acquiring major shares of banks also ensured that their subsidiaries could gain easy

access to bank credit (Pincus, 2015). On top of all these institutional priorities, most of the state conglomerates enjoyed a monopoly position in their industry: natural resource producers like Petro Vietnam and Vinacomin had exclusive access to mineral reserves; Vinalines, Vietnam Airlines and Vietnam Electricity Corporation operated as domestic monopolies (and Vinalines and Vietnam Electricity Corporation still do) in highly regulated markets, giving them major advantages over domestic private and foreign-invested players. The only exceptions were Viettel and Vietnam Posts and Telecommunications Corporation, the two mobile networks, which had to compete (and still do) with smaller providers. These two state-owned enterprises, uncoincidentally, have also been the best-run state conglomerates.

In other words, between 2006 and 2011, the government adopted in parallel two sets of industrial policies directed at enterprise ownership rather than specific industries. On one hand, the procedures for the establishment of private domestic and FDI enterprises were streamlined; yet, the private sector received few incentives and little support from the government and had to grapple with severe competition due to the new WTO rules. On the other hand, the government vehemently shielded the state-owned enterprise sector, especially the conglomerates, from the reform pressure of the WTO accession and fed them with abundant lucrative incentives and special treatment.

Instead of using their national resources and privileges to build up their technological prowess so as to become national champions, the state conglomerates engaged in numerous speculative ventures. As shown in figure 1, the conglomerates pursued a diversification business strategy by pouring huge investment into banking, real estate and securities. Their quick expansion was financed by cross-

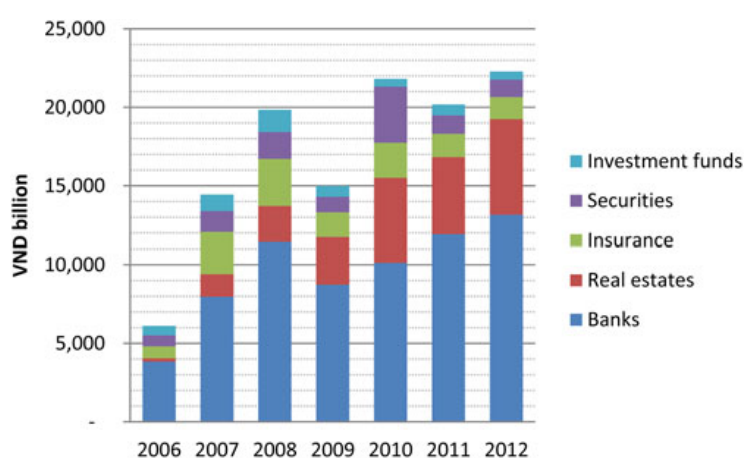
⁵ See Decree 204/ND-CP/2013 dated 5 December 2013.

⁶ According to Vu Quoc Tuan (2008), the state-owned enterprises' share in official development assistance capital disbursement in 2006 was about 70 per cent.

subsidies and preferential loans from the joint-stock banks that they partially owned. But when the global financial crisis hit Vietnam and ended the property boom in 2008, the state conglomerates collapsed like sandcastles in a rising tide. Vinashin, the shipbuilding group, crumpled

under the accumulated debt of \$4.5 billion. It was followed by Vinalines, the shipping, port operator and development group. Other conglomerates were also heavily indebted and experienced major losses in the property and finance sectors.

Figure 1: Investment into non-core businesses by state general corporations and conglomerates, 2006–2012



Source: Vu, 2016, p. 13.

By the end of 2011, state-owned enterprises accounted for more than an estimated half of the non-performing loans (Pincus, 2015). From 2006 through 2010, the state-owned enterprise sector also lagged far behind the private domestic sector in contribution to gross domestic

product (the private sector contributed 46.1 per cent while the state-owned enterprises stood at 27.8 per cent) as well as employment (the state-owned enterprises provided 23.1 per cent of formal employment, compared with the 54.8 per cent of the private sector) (table 2).

Table 2: Growth rates of performance indicators of three economic sectors, 2010 (%)

	State-owned enterprises	Private sector	FDI enterprises
Aggregate asset	121	286	169
Debt	101	296	190
Profit before tax	202	267	85
Contribution to GDP	27.8	46.1	17.9
Employment	23.1	54.8	22.0

Source: Vu, 2016; MPI, 2013.

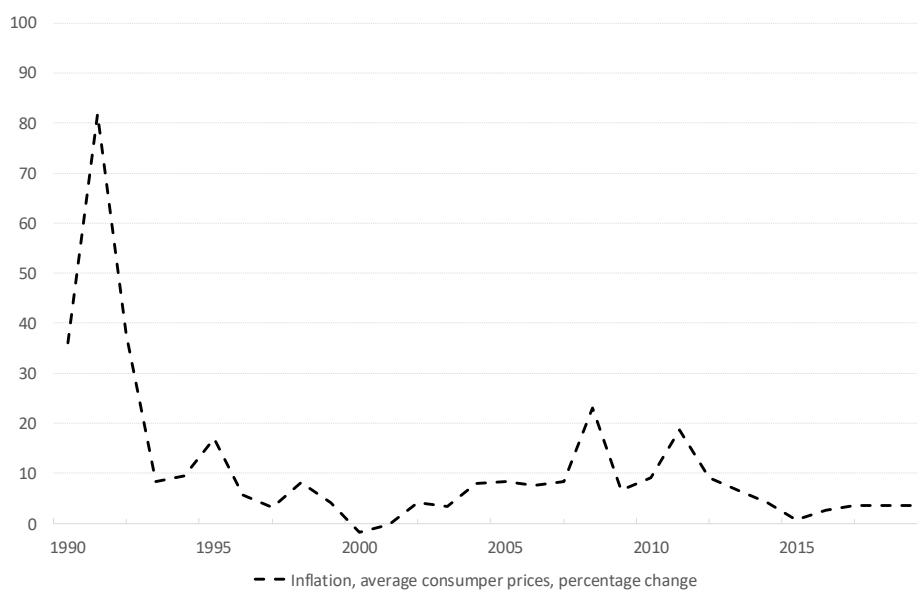
The state-owned conglomerates not only failed economically but also adversely affected the growth of the whole economy because the loss-making state-owned enterprises absorbed most of the coveted resources (Vu, 2016; Pincus, 2015). In particular, during the period of 2008–2012, the interest rates for bank credit soared from 12 per cent to 20 per cent, making it almost impossible for private domestic enterprises, most of which were small and medium-sized, to access needed loans (Fulbright Vietnam, 2013). As estimated by the VCCI chairman, nearly 60 per cent of the small and medium-sized private enterprises have never been able to access bank credit.⁷ The shortage of credit also pushed the private sector a step back in economic upgrading. For instance, many private domestic export enterprises reported that they had to refuse the more profitable free-

on-board contracts and accept assembly orders instead due to the lack of capital (Do, 2017).

From 2012 to present: Searching for a way out of the middle-income trap

As figure 2 illustrates, Vietnam faced soaring inflation rates, an economic slowdown and accumulating debts of the failing state conglomerates between 2008 and 2011. The National Assembly Congress of 2011 emphasized three central tasks to reform the economy: (i) restructuring the (public) investment pattern; (ii) restructuring the banking and financial system; and (iii) reforming the state-owned enterprise sector, with a special focus on general corporations and conglomerates.

Figure 2: Inflation, average consumer prices and percentage change, 1990–2019



Source: IMF, 2019c.

The reform of the state-owned enterprise sector started in 2012 with the withdrawal of the general corporations and conglomerates from non-core businesses. The privatization process was then accelerated. The number of state-owned enterprises wholly owned by the State reduced from 1,200 in 2012 to 500 in 2018 and is expected to reach 150 by the end of 2020, with only three conglomerates remaining. However, suspicions

⁷ See Doanh nghiệp khó vay vốn ngân hàng: Lỗi của “3 nhà”. Voice of Vietnam, 25 November 2018. Available at: <https://vov.vn/kinh-te/doanh-nghiep/doanh-nghiep-kho-vay-von-ngan-hang-loi-cua-3-nha-842915.vov>.

⁸ See Đến 2020 có thể chỉ còn ba tập đoàn nhà nước. VnEconomy, 28 May 2018. Available at: <http://vneconomy.vn/den-2020-co-the-chi-con-ba-tap-doan-nha-nuoc-20180527211447548.htm>.

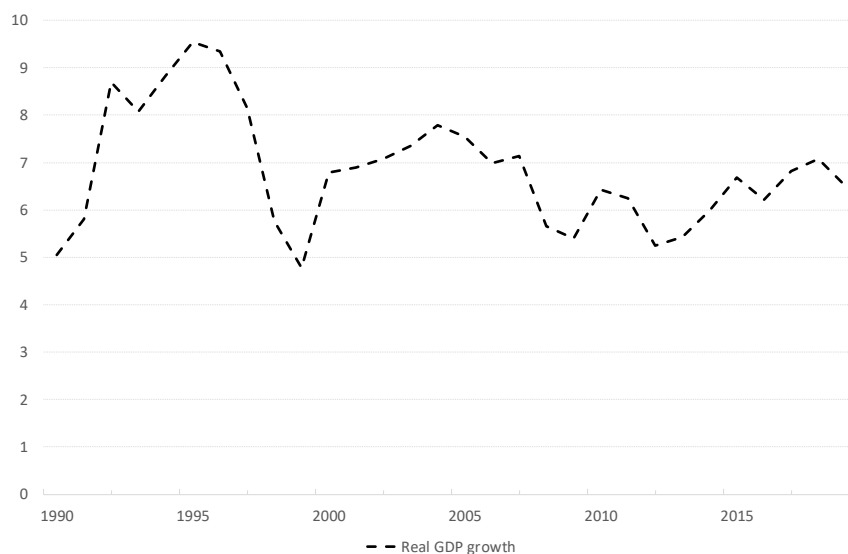
remain about the effectiveness of the reforms because only small state-owned enterprises have been equitized and only a few shares of the former ones have been sold.

The government has concentrated more on improving the business environment. The Investment Law and the Enterprise Law were revised in 2014 to create a more equal playing field for the three economic sectors. This helped to improve the business environment ranking of Vietnam by 21 places between 2015 and 2018, according to the World Bank (2018). The cost of business registration as a percentage of per capita gross national income reduced significantly, from 12.1 per cent in 2010 to 4.6 per cent in 2016.⁹ The accessibility of enterprises to bank credit also improved slightly: The proportion of

enterprises accessing bank loans increased from 21.5 per cent to 29.3 per cent between 2009 and 2015.¹⁰

Despite the government's efforts to recover the economy, Vietnam has not been able to achieve the high GDP growth rate it had in the late 1990s and early 2000s (figure 3). The FDI enterprises dominate the export sector, accounting for nearly 70 per cent of export value. The majority of Vietnam's exporting industries have stagnated at assembling for foreign brands while the supporting industries remain weak. Until there is a clear industrialization strategy to boost productivity and improve the country's position in the global production network, Vietnam will stay in the middle-income trap (Ohno, 2009).

Figure 3: Real GDP growth rate, 1990–2019



Source: IMF, 2019c.

FDI attraction policy

After the launch of the Doi Moi reforms, the government opened up for FDI, but with certain limitations. The 1987 Law on Foreign Investment required FDI investors to form either a joint venture or a business partnership with a local partner. To establish a wholly owned foreign enterprise, investors had to secure approval from the government. As a result, most of the initial foreign investment came in as joint ventures (Prema-Chandra and Tien, 2008). At

⁹ See the World Bank database, <https://data.worldbank.org/indicator/IC.REG.COST.PC.ZS?locations=VN>

(accessed 2 May 2019).

¹⁰ *ibid.*

the end of 1998, the number of joint ventures accounted for 59 per cent of total projects and 69 per cent of total registered capital.

From 1996 to 2000, the government decentralized the issuance of foreign investment licenses to provincial

authorities¹¹ and removed the limitation of ownership for FDI (table 3). This had a strong impact on the ownership structure of FDI. By 2006, joint venture projects had fallen to just 42.5 per cent of total registered foreign capital, while projects with 100 per cent foreign capital accounted for 45.5 per cent (Nguyen and others, 2006).

¹¹ Decision 233/1998/QĐ-TTg and Decree 24/2000/NĐ-CP.

Table 3: Vietnam industrial policy, 1986 to present

Period	Objectives	Priority industries	Instruments
1986–2006	Doi Moi process and industrialization in the transition towards market-oriented and open economy	1991–1995: <ul style="list-style-type: none"> ■ Heavy industry (cement, steel); ■ Natural resource-based industries (oil exploitation and mining); ■ Manufacturing sectors for domestic demand (food stuff industries) and export of manufactured labour-intensive products. 	<ul style="list-style-type: none"> ■ Protectionism for certain industries through tariff and non-tariff instruments, such as quotas, import and export duties and export subsidies. ■ Encourage private businesses and foreign-owned enterprises with Law on Foreign Investment in 1987 and Company Law in 1991.
		1996–2000: <ul style="list-style-type: none"> ■ Continuation of earlier priorities, but with greater selection; ■ Development of light export-oriented industries (textiles and garments, footwear, paper production). 	<ul style="list-style-type: none"> ■ Implementation of Public Investment Programme. ■ Equitization of state-owned enterprises and building of state economic groups to enhance the competitiveness of the enterprises in an industry. ■ Development of industrial zones and export processing zones to encourage export production.
		2001–2006: <ul style="list-style-type: none"> ■ Institutional reform in preparation for World Trade Organization (WTO) accession and formation of state-owned conglomerates in key industries; ■ Export-oriented manufacturing industries (garment, footwear, electronics, engineering and consumer products); ■ Heavy industries (petrol, metallurgy, chemical, fertilizers and construction materials); ■ High-tech industries (IT, software, telecommunications). 	<ul style="list-style-type: none"> ■ Revision of the 2000 Investment Law. ■ Formation of state-owned general corporations and conglomerates. ■ Support to small and medium-sized enterprises (credits, access to land in industrial zones, etc.). ■ Planning for the development of supporting industries, focusing on garments, footwear, electronics, automobile and engineering. ■ Decentralization in attracting foreign direct investment.

Period	Objectives	Priority industries	Instruments
2006–2011	Industrialization in post-WTO entry period and economic restructuring issues	<ul style="list-style-type: none"> ■ Engineering (automobile, shipbuilding, machinery, agricultural machinery); ■ IT and telecommunications equipment; ■ new technology (alternative energy, software, digital content). 	<ul style="list-style-type: none"> ■ Promotion of technology transfer via foreign investment. ■ Continued export production of manufactured products. ■ Promulgation of the Investment Law and the Enterprise Law in compliance with WTO commitments. ■ Removal of non-tariff restrictions, application of export tax rate at 0 per cent continued for most export products to motivate exports.
2012–2020	Economic restructuring in pursuit of a new economic growth model, prioritizing high-tech industries	<ul style="list-style-type: none"> ■ ICT; ■ agricultural machinery; ■ agro- and aqua-food processing; ■ shipbuilding; ■ environment and energy efficiency; ■ automobile and parts production. 	<ul style="list-style-type: none"> ■ Reform of the state-owned enterprise sector (speed up equitization). ■ Reform of the banking and finance sector. ■ Encouragement of domestic market growth. ■ Revision of the Enterprise Law and Investment Law to improve business environment for non-state sectors.

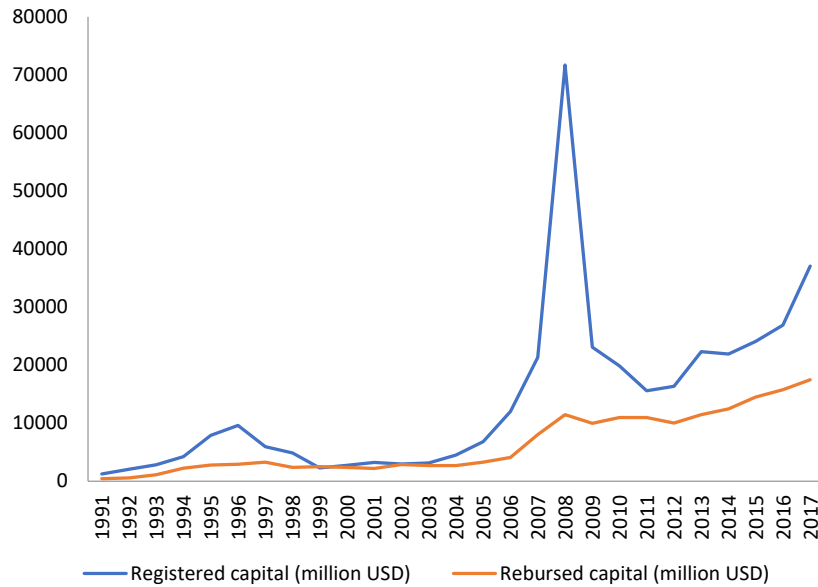
Source: Vu, 2016; MPI, 2013.

Later in the 2000s, the government allowed for “fence-breaking”¹² initiatives by provinces to attract FDI. This fence-breaking means that a provincial government can choose to offer incentives that are better than the national limits to encourage FDI. The provincial fence-breaking started in 2001 and quickly spread across many provinces. By 2014, half of the provinces had adopted some fence-breaking incentives for FDI attraction (Vu, Le and Vo, 2007). Although the decentralization of FDI attraction pushed up the amount of such investments, it also created competition between provinces in offering concessions to foreign investors, which benefited the FDI sector at the expense of the domestic companies.

Due to these various initiatives, Vietnam has successfully achieved a constantly growing inflow of FDI (figure 3). By February 2019, Vietnam had attracted a total of \$345 billion of registered FDI.¹³

¹² “Fence-breaking” (*xerao*) is a metaphor often used to refer to the initiatives by regional governments to go beyond the boundary of existing legislation and policies to pilot new policy measures. The fence-breaking tradition started in the 1980s by Ho Chi Minh City, which laid the foundation for the design of Doi Moi. The fence-breaking initiatives are generally tolerated by the central government, which often secretly approves them in a search for solutions to policy issues.

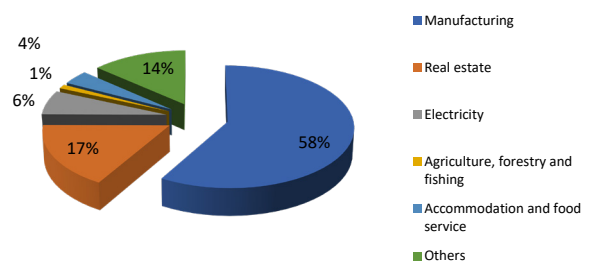
¹³ See Gần 345 tỷ \$ vốn ngoại đổ vào Việt Nam, VnEconomy, 5 March 2019. Available at: [http://vneconomy.vn/gan-345-ty-\\$-von-ngoai-do-vao-viet-nam-20190305150555565.htm](http://vneconomy.vn/gan-345-ty-$-von-ngoai-do-vao-viet-nam-20190305150555565.htm).

Figure 4: FDI inflow to Vietnam, 1991–2017

Source: General Statistics Office public database.

The biggest investors are mainly East Asian countries, with the Republic of Korea topping the list, followed by Japan, Singapore and Taiwan. The manufacturing industry has attracted nearly 60 per cent of the total FDI (figure 4). The FDI sector has a dominate role in the Vietnamese economy, accounting for 70.7 per cent of export value and almost 60 per cent of import value.¹⁴

And yet, the flow of FDI has not created the needed tax returns and spillover effects for the provinces because most of them were not well prepared to make the most use of the foreign investment (Vu, Le and Vo, 2007). In an evaluation of the impacts of FDI over the past 30 years, the Ministry of Planning and Investment found weak horizontal and vertical spillover effects of the FDI on the domestic sector (MPI, 2018). Particularly, imported technologies only ranked at the medium or medium-advanced levels, when compared with other countries in the region, and only 6 per cent of the FDI projects used advanced technologies. The majority of technology transfer contracts registered centred on the transfer of technological process and know-how (at 73 per cent), technical assistance (at 77 per cent), training (at 71 per cent), while technology transfer contracts that

Figure 5: Accumulated registered FDI, by industry, as of 31 December 2017

Source: General Statistics Office public database.

¹⁴ *ibid.*

Table 4: Primary income balance, 2016–2018 (million US\$)

	Investment income (receipts)	Investment income (payments)	Net investment income
2016	130	2.478	-2.348
2018	501	5.413	-4.912

Source: SBV, 2019

involved the transfer of industrial property accounted for an insignificant proportion (at 13 per cent) (MPI, 2018).

Also, based on the statistics of the State Bank of Vietnam, it appears that the primary income balance has suffered from an increasing deficit, from around \$2.4 million to a negative \$4.9 million between 2016 and 2018 (table 4). It seems that the transfer of profits from FDI, which dominate the primary income balance, have increased at a remarkable rate.

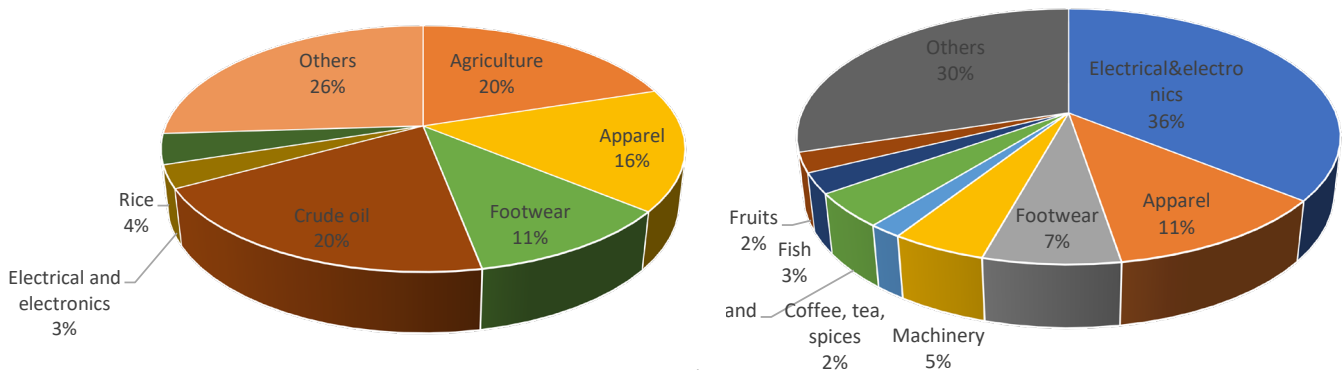
Sector-specific industrial policy

Since the launch of the Doi Moi reforms, the government has carried out two parallel trajectories of industrial policies: one that focuses on enterprise ownership and the other on specific industries. As explained in the previous section, Doi Moi opened up the emergence of non-state sectors in the early 1990s, and ever since, the government has made efforts to facilitate the growth of the private domestic and foreign-invested enterprises. At the same time, the State still spared the bulk of its resources for the state-owned sector, especially during the 2006–2012 period, with the formation of state conglomerates. Although the government reversed the state conglomerate model, accelerated the state-owned enterprise equitization and created a more favourable environment for the non-state sectors, state-owned enterprises continue to enjoy considerable benefits compared to the private domestic sector (Pincus, 2015).

In parallel with the ownership-oriented policy, the government also specified priority industries that would enjoy special incentives to motivate growth over the three development phases (table 3). The incentives include preferential access to credit from the banks and special state funds, concessional rent of land in industrial zones, reduction or exemption of corporate income tax

and, in some cases, the reduction of import tariffs for components and materials.

The group of priority industries experienced a gradual shift from an emphasis on heavy industries and natural resources in the early 1990s to export-oriented manufacturing industries after WTO accession and is now shifting towards high-tech, supporting industries and agricultural products. The shift of priority from heavy industries to manufacturing industries, coupled with the booming of the non-state economic sectors, have brought about a major change in the export structure of the country. While the export structure was still dominated by crude oil and agricultural products in 2002, the manufacturing industries, such as electronics, garments and footwear, grew to account for half of the export value in 2015 (figure 6). However, the success in export growth of most prioritized industries is attributed to the expansion of assembling and the FDI sector, which accounted for 70 per cent of the total export value in 2016 (Do, 2017). Most of the champion export industries have long failed to develop backward and forward links with the other domestic sectors (Herr, Schweissheim and Truong, 2016; Ohno, 2009). For instance, in 2016, 95 per cent of the garment enterprises only engaged in cut-make-trim, and in electronics, the average rate of local content was less than 35 per cent, with local suppliers engaged in the periphery of the global value chains (Do, 2017).

Figure 6: Changing structure of export products, 2002 and 2015

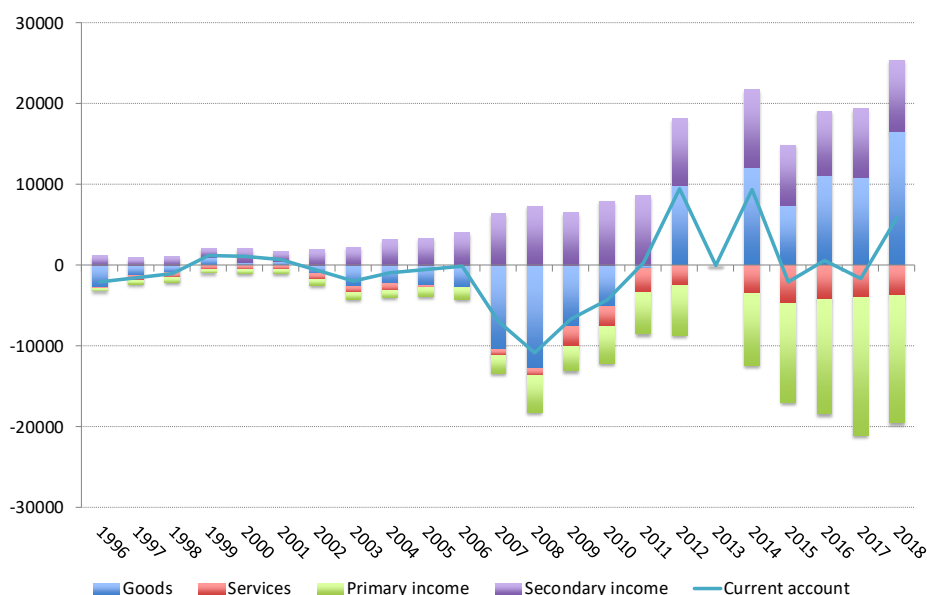
Source: Authors' compilation based on statistics of Vietnam Custom Office.

Another reason for the limited success of the sector-specific industrial policies is the adverse impacts of the ownership-sector policy on, most of the time, the private domestic companies. The private domestic companies did not get fair access to low-cost bank credit, land and coveted public procurement projects as the state-owned enterprises do due to the government's favourable treatment of state corporations. But yet, their FDI competitors, which have more advantages in terms of resources, technology and connection to global value chains, now enjoy much better incentives from the local authorities. Unlike in China, the FDI companies are not under any institutional pressure to transfer technology to the domestic sector nor to increase the local content. According to a survey by the Vietnam Chamber of Commerce and Industry (VCCI), 38 per cent of private domestic companies claimed in 2017 that the government's favourable treatment of the state-owned enterprises had created obstacles to their development. And 42 per cent of the private domestic companies believed that their provincial government prioritized attracting FDI over supporting domestic companies (Le, 2018). As a result, the private domestic sector remains small in both capital and labour force size despite the growing number of companies.

According to the VCCI (2015), the private domestic sector accounted for 93.7 per cent of small and medium-sized enterprises, with the smallest average labour force size and capital size compared to the state-owned enterprise and FDI sectors. These constraints have hampered the private domestic companies in general and those in the priority industries in particular to make use of the state incentives and to upgrade economically (Perkins and Vu, 2010).

Impact on the balance of payments

Figure 7 depicts the current account balance and its subaccounts for the years 1996 until 2018. For most of the period up to and including 2010, Vietnam recorded a current account deficit, with deficits in the goods, services and primary income accounts, and only a positive balance in secondary income, which largely reflects remittances. As of 2012, however, surpluses were recorded in the goods account, some of them considerable, but these hardly compensated for the deficits in the primary income balance, which also rose sharply. Thus, Vietnam recorded current account deficits in 2015 and 2017. The deficit in the balance of primary income has attributed to the repatriation of profits by multinational enterprises.

Figure 7: Current account balance and current accounts subaccounts, 1996–2018 (millions US\$)

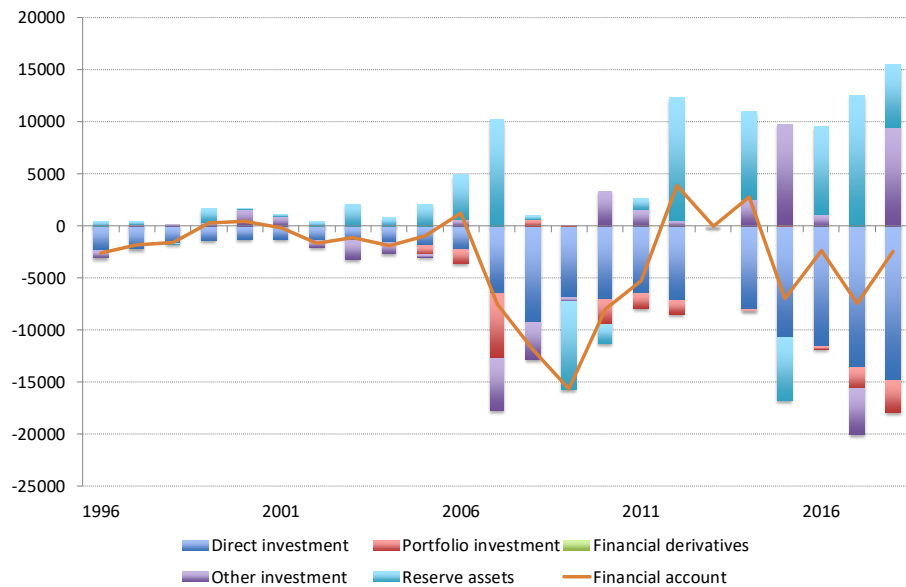
Source: IMF, 2019b.

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Figure 8: Financial account balance and financial accounts subaccounts, 1996–2018 (millions US\$)

Source: IMF, 2019b.

2.2 Economic upgrading

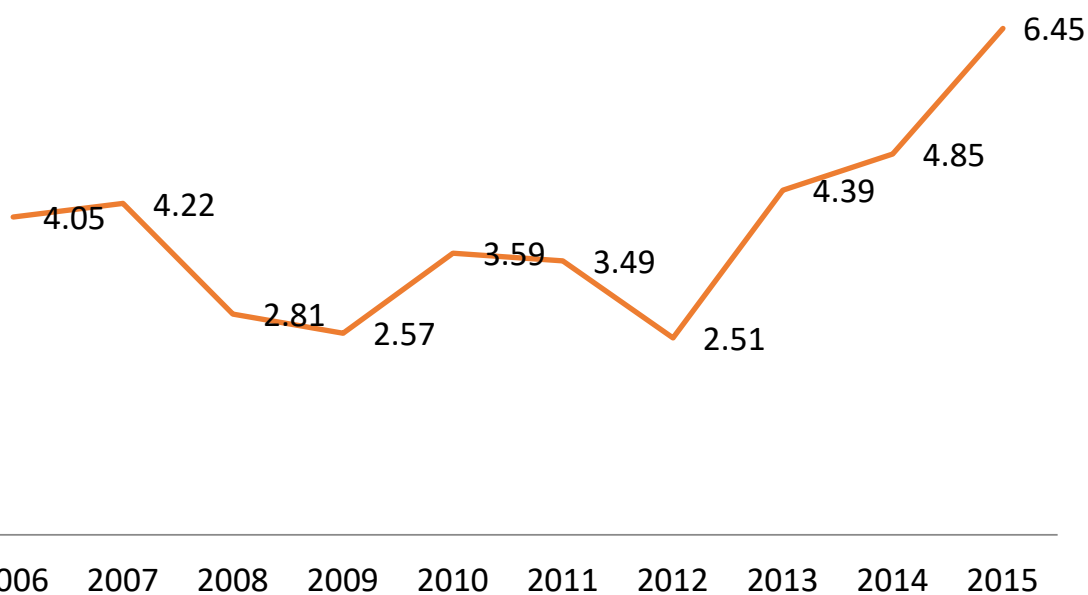
Right after the launch of the Doi Moi reforms in 1986, the economy started a long period of high growth: The average GDP growth rate between 1991 and 1995 was nearly 8.2 per cent. But between 1996 and 2002, the GDP slowed to 6.9 per cent annual growth due to the Asian financial crisis but came back to 7.5 per cent annual growth in 2001–2005 (Dinh, 2005). Between 2005 and 2010, due to the impacts of the global economic downturn and domestic economic difficulties, the economy slowed to an average growth rate of 5.3 per cent, although still faster than any other Asian country except for China (McKinsey, 2012). The economy slightly recovered to an average growth rate of 6.3 per cent between 2011 and 2018, which still lagged behind the targeted rate of 7–8 per cent per year as planned (VASS, 2019).

In the first two decades after the Doi Moi reforms launched, the growth of Vietnam's productivity was mainly attributed to the fast expansion of its labour pool, which shifted from agriculture to the more productive industries and services—a path typical for a developing economy. Vietnam also benefited from the rise of

domestic and foreign investment due to the opening up of the economy. As shown in figure 10, labour and capital contributed more than 80 per cent of productivity growth between 2002 and 2012. The total factor productivity, which measures economic efficiency and technology growth, had a modest role in productivity growth during this period. Particularly, in the economic slowdown of 2008–2009, total factor productivity fell below zero.

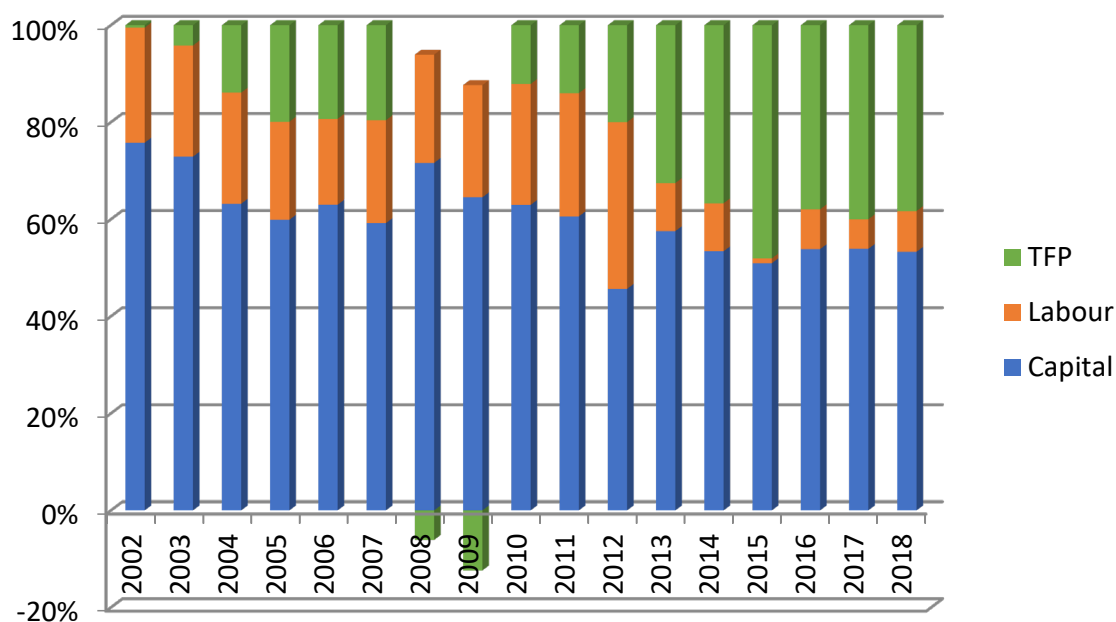
After 2012, when Vietnam adopted a new economic development direction by reforming the state-owned enterprise sector as well as the financial and banking systems by creating a more level playing field for all economic sectors, the productivity growth rate achieved notable improvement, from 2.5 per cent annual growth in 2012 to 6.5 per cent in 2015 (figure 9). The contribution of total factor productivity in productivity also doubled, from 20 per cent to 48 per cent (figure 10). As explained by the Vietnam National Productivity Institute, the total factor productivity contribution grew thanks to such improvements as market growth, better business environment, economic restructuring, technological innovation and the quality of labour (VNPI, 2015).

Figure 9: National productivity growth rate, 2006–2015 (%)

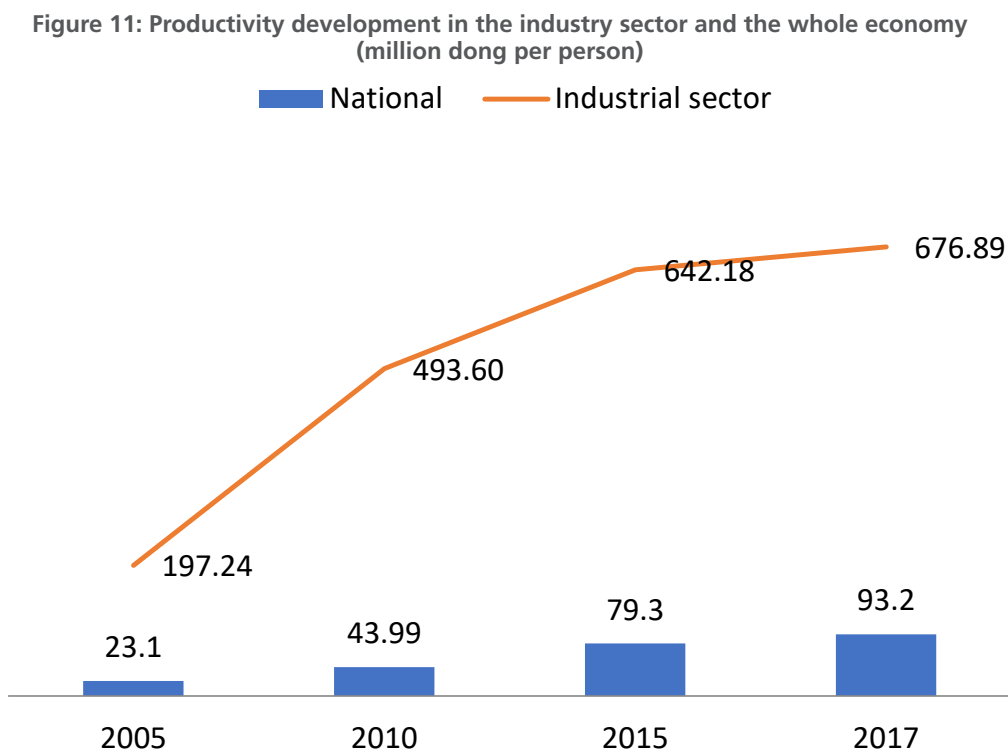


Note: *Productivity=GDP and total number of employees.
Source: VNPI, 2015.

Figure 10: Contribution to productivity growth, by labour, capital and total factor productivity, 2002–2018



Source: Authors' compilation based on VASS, 2019 and VNPI, 2015.



Source: Authors' calculations based on the General Statistics Office Enterprise Surveys and VNPI, 2015.

Productivity in the industrial sector has been significantly higher than the national figure (figure 11). The industrial productivity has also grown at a much faster pace than the national one. For instance, the industrial productivity increased by two and a half times in five years between 2005 and 2010 but slowed in the ensuing five years.

The industrial sector has also achieved high growth of value added (table 5). The net value added per person increased by five and a half times in the 12 years between 2005 and 2017, while the gross value added grew by more than seven times.

Although Vietnam has achieved remarkable growth in productivity and value added, especially in the industrial sector, the domestic enterprises have not increased their contributions in value creation. Between 2010 and 2015, the value of the production volume minus imported inputs per enterprise dropped by more than three times, from more than 26 million dong to only around 7 million dong per enterprise per year (table 6). In a similar trend, the export volume minus imported inputs calculated per enterprise and per person employed also experienced considerable reductions in the same period. These trends illustrate the growing dependence of the industry sector on imported materials, parts and machinery.

Table 5: Real gross and net value added of the industrial sector (dong)

	2005	2010	2015	2017
Gross value added	320 878 636	1 508 020 928	2 119 728 846	2 269 106 596
Net value added (per person)	45.76	145.00	230.29	252.61

Source: Authors' calculations based on the General Statistics Office Enterprise Survey database.

Table 6: Integration into world markets (nominal values; million dong per enterprise per year)

	2010	2015
Production volume minus imported inputs (per enterprise)	26 493.00	7 203.69
Export volume minus imported inputs (per enterprise)	58 922.14	20 563.01
Export volume minus imported inputs (per person)	1 754.02	732.77

Note: The statistics for these indicators were only available for 2010–2015.

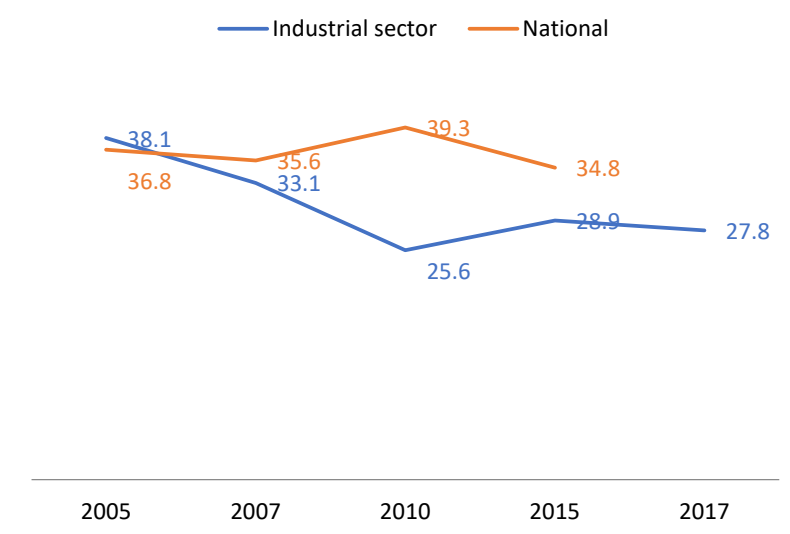
Source: Authors' calculations based on the General Statistics Office Enterprise Survey database.

Vietnam's biggest export-oriented industries, such as garments, footwear and electronics, have long been trapped in the low-value-added assembling stage in the global value chain due to the lack of supporting industries (Nguyen, 2010). Although these industries have achieved process upgrading through investment in automation and management to increase economic efficiency, there has been limited success in product, functional and sector upgrading. For instance, 65 per cent of garment enterprises are producing on cut-make-trim contracts, and only 5 per cent have reached the original design manufacturing stage. The Ministry of Trade and Industry estimated that of the \$3 billion output of the electronics industry and the \$2 billion in exports, the local industry

only added 5 per cent to the total value (MPI, 2018). Of the 5 per cent at original design manufacturing stage, most takes the form of cheap labour or low value-added service, such as packaging.

2.3 Social upgrading

While other Asian countries are faced with increasing income disparity, Vietnam has managed to keep its Gini coefficient relatively low. The national Gini coefficient has reduced slightly, from 36.8 to 34.8 between 2005 and 2017, although the figure for the industrial sector has reduced significantly, from 38.1 to 27.8 in the same period (figure 12).

Figure 12: Gini coefficient of Vietnam and the industrial sector, 2005–2017

Source: The Gini coefficients of the industrial sector are authors' calculations based on the General Statistics Office database; the national Gini coefficients are based on World Bank public data.

Table 7: Distribution of income groups, 2012 and 2016 (%)

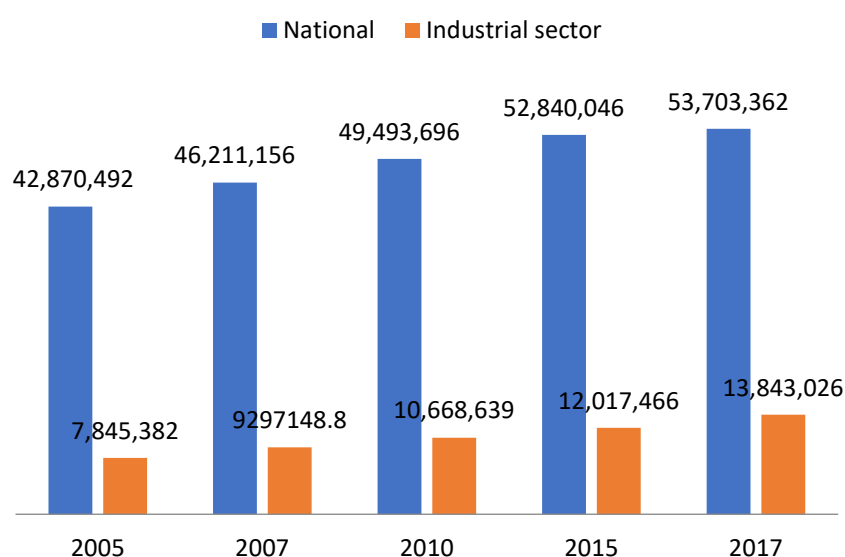
Income groups	2012	2016
Extreme poverty (less than \$1.9/day)	3.1	2.0
Poor households (\$1.9–\$3.1/day)	10.0	5.9
Near poor (\$3.1–\$5.5/day)	30.0	21.8
Decent income (\$5.5–\$15/day)	49.0	57.0
Middle-income (more than \$15/day)	7.9	13.3

Source: VASS, 2019.

Thanks to the economic reforms, Vietnam has made a remarkable reduction in household poverty. In 2002, the poverty rate according to the World Bank standard was 29 per cent and the extreme poverty rate was nearly 10.9 per cent (table 7) (World Bank, 2012). Within a decade, the poverty rate had reduced to 10 per cent and the extreme poverty rate to 3.1 per cent. By 2016, the poverty rate had dropped to 5.9 per cent, while at the same time the country experienced strong growth of the decent-income and middle-income populations. More than half of the households in the country had an average income ranging from \$5.5 to \$15 per day and 13.3 per cent had income of more than \$15 per day.

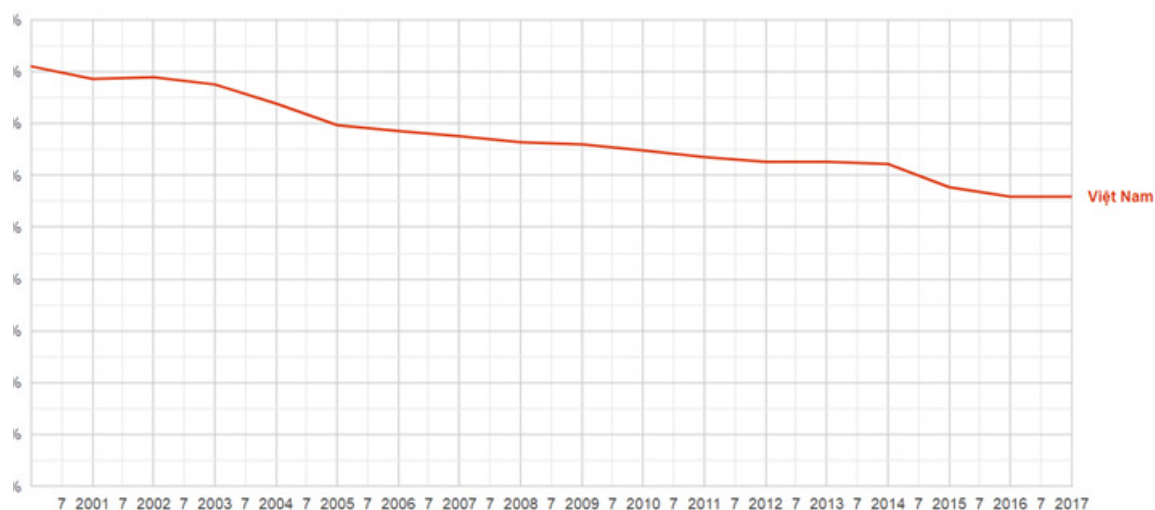
Economic growth has also had positive impacts on employment creation, especially in the industrial sector. Employment in this sector has increased at a much faster rate than the national figure. Between 2005 and 2017, while total employment¹⁵ increased by 25.2 per cent, the number of jobs in the industrial sector nearly doubled (figure 13).

Along with the constant rise of employment quantity, the quality of employment has experienced significant achievements. The proportion of precarious jobs reduced from more than 80 per cent in 2000 to 55 per cent in 2017 (figure 14).

Figure 13: Employment creation, 2005–2017

Source: Authors' calculations based on General Statistics Office database.

¹⁵ Total employment includes all types of jobs, both in the formal and informal sectors, while the jobs in the industrial sector are only counted among registered enterprises.

Figure 14: Proportion of precarious employment, 2000–2017

Note: Precarious employment as defined by the World Bank includes household workers and the self-employed who are not paid.

Source: World Bank Open Data, <https://data.worldbank.org/country/Viet Nam>

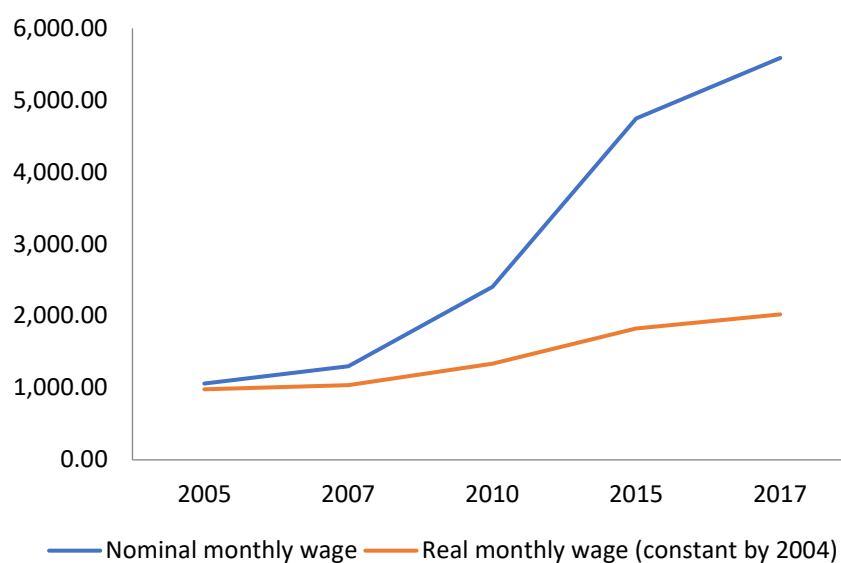
In Vietnam, the rank-and-file workers in the manufacturing industries are paid the minimum wage. There are four regional minimum wages, with Region 1 having the most developed provinces and cities while Region 4 covers rural areas. The regional minimum wages have increased constantly since 2005, thanks to which nominal wages in the industrial sector also grew, at an average rate of 14.8 per cent per year between 2005 and 2017 (figure 15). Real wages also experienced growth, although at a slower pace, at 6.2 per cent per year in the same period.

Collective bargaining has not become a common practice in Vietnam. Wage negotiations, if any, take place within the National Wage Council between employers' organizations and the Vietnam General Confederation of Labour to adjust the regional minimum wages. At the enterprise level, real collective bargaining rarely occurs. According to a Friedrich-Ebert-Stiftung study (2015), only 15 per cent of the country's registered collective bargaining agreements resulted from real negotiations (FES Vietnam, 2015). Wages at the enterprise level are normally adjusted when the regional minimum wages are fixed, often without consultation with workers or enterprise unions.

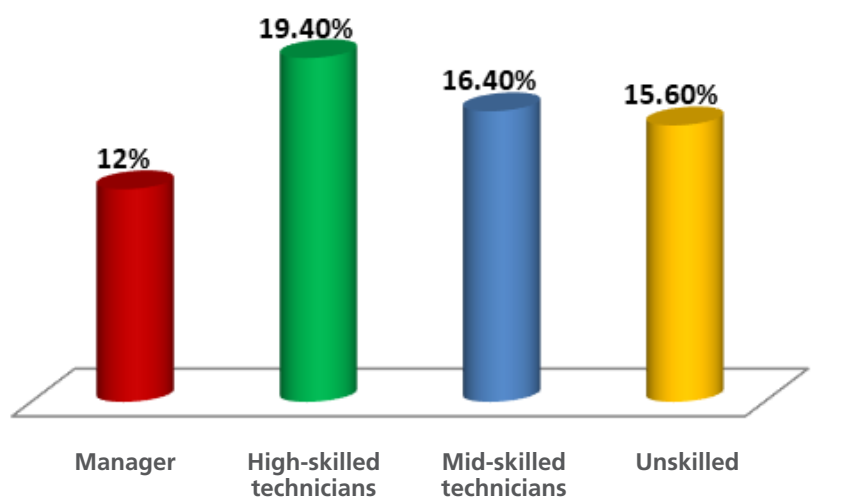
Despite the increase of minimum wages, the compensation for workers, especially the low-skilled rank and file, lags far behind the living wage. Without overtime pay, workers in the garment and footwear industries earn 25 per cent less than the living wage (FLA, 2019). In electronics, the average wage paid to workers for regular working hours is merely half of the living wage (Do, 2017).

Like many Asian countries, Vietnam contends with a constant gender-based pay gap. In fact, the gender pay gap exists in all job positions, ranging from 12 per cent among managers to nearly 20 per cent among high-skilled technicians (figure 16). On average, Vietnamese women are earning 10.7 per cent less than men, or around 3 million dong less per year, which is about one month's income (GSO, 2018). And yet, compared with other countries in Asia, the gender pay gap in Vietnam is relatively low.

According to the Global Gender Index 2017, the gender pay gap for East Asia and the Pacific is 32 per cent. A study by the International Labour Organization in 2016 covering 11 garment-exporting countries in Asia found that Vietnam ranked among the top three countries with the smallest gender pay gap (Huynh, 2017).

Figure 15: Nominal and real average monthly wage in the industry sector, 2005–2017 (2004 prices)

Source: Authors' calculations based on General Statistics Office Labour Force Surveys 2000 to 2017.

Figure 16: Gender pay gap, by job position, 2016

Note: The gender pay gap here is the average difference between the remuneration for men and women who are working. In all categories, the pay for women is less than that for men.

Source: General Statistics Office, 2017.

Still, the magnitude of the gender pay gap has remained constant despite women having closed the gap in education levels and is explained in part by women working in low-paid occupations (Chowdhury and others, 2018). According to a 2016 survey by the General Statistics Office, women accounted for only 26.1 per cent of managerial positions but made up 52.1 per cent of the rank-and-file labour force and 66.6 per cent of home workers (GSO, 2017).

2.4 Vietnam's industrial policies: What worked, what did not and why?

Vietnam has achieved important progress in economic upgrading and social upgrading thanks to the industrial policies adopted under the Doi Moi reforms. However, the economic and social upgrading has slowed in the past decade. The main industries remain stagnated in the first stage of industrialization, which is assembly under foreign guidance (Ohno, 2009). Without the broad and fast productivity growth based on domestic sources and limited technology transfer from the FDI sector, the domestic private sector has been struggling to upgrade economically. In terms of social upgrading, after the major progress in first decade of the Doi Moi reforms, the improvement in real wages, skills and working conditions have also slowed.

So far, the most successful industrial policies have been the reduction of institutional barriers for all enterprises to grow, no matter which type of ownership they have. The best examples are the Enterprise Law and the Investment Law, promulgated first in the early 2000s, which unleashed a boon in the private sector and brought about high growth for the country. However, the policies focused on only one ownership-based economic sector, such as the initiatives for the state-owned enterprises, have not been successful due to their creating an uneven playing field while diverting the bulk of national resources to the less efficient sector. Actually, the advantages granted to the state-owned enterprises have had negative impact on the productivity growth of the economy after WTO accession. A recent study suggested that the productivity gains from trade five years after WTO entry would have been 66 per cent higher if the state-owned enterprises had been replaced by private firms (Baccini and Malesky, 2019).

Another important reason is the adverse impact of the FDI-attracting policy on the domestic sector. Although the foreign-invested enterprises dominate the export industries, the spillover effect, in terms of technology, upskilling and productivity between the FDI sector and the domestic sector is weaker than the spillover effect among the domestic companies, especially between the bigger ones and smaller ones in the same industry (VCCI, 2015). As a WTO member, Vietnam now has limited choices for incentives, if any, to support domestic enterprises against foreign ones. This means that the domestic enterprises, most of which are small and medium-sized, must compete with FDI companies and their advantages in terms of capital, technology and markets.

Another important reason that hampers the effectiveness of Vietnam's industrial policies is the way they are forged (Herr, Schweissheim and Truong, 2016; Ohno, 2009):

The lack of involvement of the private sector and poor interministerial coordination render approved policies ineffective and even unimplementable.

The policymaking process is closed within the government, with little involvement of other stakeholders. Within each ministry, an order to draft a master plan is handed down to a drafting team, which typically consists of a middle-ranking official supported by a few experts in the ministry. The master plan is drafted internally by the team members and submitted to the minister or the vice-minister in charge for internal review. Then it is circulated among relevant ministries for comment (which is rarely substantive), followed by submission to the prime minister for final approval. The private sector must devise its own ways to voice opinions about the draft strategies, either by seeking meetings with the relevant ministries or the government leaders or via business–government forums, such as the Vietnam Business Forum. Still, in these occasions, the private sector can only make general comments about the strategy that has already been drafted.

Lack of coordination between the central and local governments.

Because the Doi Moi policy was developed based on the “fence-breaking” experiments of several provincial

governments, including Vinh Phu and Ho Chi Minh City, the economic transition so far has been characterized by decentralization of state power (Dang, 2009). The provincial governments have been given more authority in many aspects, including tax collection, investment licensing and infrastructure development. The wealthier provinces have grown into powerful players in economic decision-making and increased their bargaining power with the central government (Malesky, 2008). This has created adverse impacts on the implementation of industrial policy. In some cases, provinces have resisted the national policy out of fear of losing privileges, public investment, infrastructure or other support that would go to other provinces (Pincus, 2015). The fragmentation of the central–local relationship has also resulted in growing disparity in infrastructure development between the richer and poorer provinces and the location of certain industries in unfavourable locations (Herr, Schweissheim and Truong, 2016).

2.5 Diverging views of economic and social upgrading

Although all the research informants consulted for this research agreed that Vietnam should not continue to compete based on low-cost low-skill manufacturing industries, they also acknowledged that the transition will be costly and difficult. As Vo Tri Thanh, Senior Economist with the Central Institute of Economic Management, the think tank of the Ministry of Planning and Investment, pointed out:

“Dependence on FDI for industrial development can bring about initial success, but Vietnam is basically working for the foreign employers. Vietnam has always relied on low cost, but this should not be used as the comparative advantage for too long.... It is difficult for provinces like Binh Duong or even the whole economy to escape the old model [of low cost, low skill] because the cost of transition is high. That is not to say that no one can be certain that the new model will be more successful than the old one.”

Nguyen Duc Kien, Vice Chairman of the Economic Committee of the National Assembly, believes that it is

time the State minimizes its intervention and allows the private sector to grow:

“Prior to 2015, the State had been driving the industrial development with the state-owned enterprises and state budget. After 2015, the State had limited intervention and allowed for the private sector to lead the way. The growth of many big private corporations has shined optimism into this approach.”

The fact that Vietnam’s policymaking space is constrained by the WTO rules and the country is a latecomer in the development of global supply chains means that its need to develop niche markets and industries for economic upgrading. As Nguyen Duc Kien also pointed out:

“How can Vietnam compete in the current global supply chains? Impossible because other competitors will not allow Vietnam to. So, the Vietnamese businesses have to develop niche markets, like the markets related to green growth and environmental protection.”

The shortage of technology transfer from the FDI sector and the limited spending on research and development were cited during the research interviews as obstacles to economic upgrading. Senior economist Vo Tri Thanh also noted:

“Vietnam needs to support R&D and education and be smart in attracting foreign investors that are willing to transfer technology. The space for making industrial policy has [become] limited due to Vietnam’s international commitments, but Vietnam can offer incentives for foreign investors that can transfer technology.”

To extend the export markets for Vietnamese goods and services, the government has entered into trade agreements with trading partners. By the time of writing, Vietnam had signed two important free trade agreements (FTAs): the Comprehensive and Progressive Trans-Pacific Partnership and the Europe–Vietnam Free Trade Agreement. As part of the conditions to join these agreements, Vietnam must ratify the remaining International Labour Organization (ILO) core conventions.

According to a Ministry of Labour, Invalids and Social Affairs official, the pressure from the two FTAs is regarded as the key motivation for labour legislation reform. The National Assembly of Vietnam voted to ratify the ILO Right to Organise and Collective Bargaining Convention, 1948 (No. 98) and the ILO Forced Labour Convention, 1930 (No. 29) in 2019 and 2020, respectively. Vietnam is also committed to ratifying the ILO Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) by 2023. Additionally, the revised Labour Code passed by the National Assembly in 2019 includes provisions on the worker representative organizations that are outside of the Vietnam General Confederation of Labour system.

The research informants had contrasting views about the impacts of the FTAs on the labour regime. On one hand, the reform-minded labour administrators, unionists from the regional and grass-roots levels and civil society organizations praised the changes as improvement of the labour rights for workers and the needed push for the Vietnam General Confederation of Labour to reform. As one of the provincial unionists explained:

“Although we work in [the Vietnam General Confederation of Labour], we have long waited for these changes. The trade union has been so slow to reform. It needs competition to move forward.”

A representative of a labour NGO added:

“We hope that these important changes will allow workers to set up their genuine representative organizations, which can protect their rights and interests.”

On the other hand, several informants characterized the changes as a trade-off to get the FTAs passed by the trading partners. One senior economist, requesting to be anonymous, said:

“The ratification of ILO conventions is a trade-off to get the [Europe–Vietnam Free Trade Agreement] passed. Just look around! No ASEAN country has complied fully

with these international labour standards. So, this is a sacrifice for Vietnam to get other benefits.”

Some of the informants also believe that the existing legislative framework for labour rights is complete and that problems, if any, arise from weak enforcement and employers' violations. Explained one informant during the research interview:

“The labour legislation is comprehensive. All standards have been provided for. Violations are due to the employers' fault, especially when the employers are subcontractors who are pressured in terms of costs by the buyers. The weak enforcement by the trade unions, labour administration and labour inspection is also one of the causes. We should also admit that the workers who shift from farming to industrial production have not got good discipline and mindset.”

The difference in the perspectives on the relationship between economic development and social upgrading exists not only between governmental officials and civil society organizations but also among state agencies. Such segregation in perspectives may obstruct the link between economic upgrading and social upgrading. As indicated by the case of Binh Duong Province (discussed in the next chapter), the social aspects should be integrated into the economic development strategies to accelerate the process while minimizing the social consequences.

Chapter 3: A regional case study: Industrial policies of Binh Duong Province

3.1 Overview of Binh Duong

Binh Duong is a small province in the south-eastern region of Vietnam, immediately to the north of Ho Chi Minh city. In 1976, after the war with the United States, Binh Duong merged with Binh Long and Phuoc Long into a new province named Song Be. But then Binh Duong was re-established as a province in 1997 after Song Be was divided into two provinces (Binh Duong and Binh Phuoc).

Binh Duong is centrally located in a landlocked position in the south-eastern region: sharing the southern border with Ho Chi Minh City, the eastern border with Dong Nai and the northern border with Binh Phuoc. The province's area (at 2,690 sq km) is slightly larger than Ho Chi Minh City, but the population was only 2 million people in 2017, or roughly 20 per cent of Ho Chi Minh City's population (Binh Duong People's Committee, 2019).

Within 20 years after establishment, Binh Duong shifted from a poor, agricultural province to one of the most industrialized provinces in the country and the first to completely eradicate poverty (table 8). This chapter analyses the reasons for Binh Duong's economic success and how it has influenced social upgrading for its residents



Source: "Location of Binh Duong within Vietnam", by TUBS, licensed under [CC BY-SA 3.0](https://creativecommons.org/licenses/by-sa/3.0/)

Table 8: Binh Duong's economic indicators, 2000–2015

	2000	2003	2005	2008	2010	2013	2015	
Share of industry (without construction) (%)	57.9	62.8	64.8	61.4	56.7	-	63	
Share of services (%)	20.1	17.8	15.4	27.3	30.6	-	27.3	
Share of agriculture (%)	16.8	12.2	9.6	6.6	5.4	-	2.7	
GDP per capita (US\$)	549	661	849	1 221	1 617	-	-	
Average growth rate (%)	2000–2010			2005–2010		2011–2015		
	14.7			14		13		
Poverty rate* (%)	1997	2008		2012		2014		2016
	12.2	0.4		0.1		0.0		0.0

Note: * = The government's poverty line for 2011–2015 was calculated by monthly average income per capita of households, which was updated by inflation as follows: 400,000 dong for rural areas and 500,000 dong for urban areas in 2010; 570,000 dong and 710,000 dong in 2013; 605,000 dong and 750,000 dong in 2014; 615,000 dong and 760,000 dong in 2015 and 630,000 dong and 780,000 dong in 2016. Source: Binh Duong Statistical Book.

With a labour force of more than 1 million, of which 85 per cent are migrant workers, Binh Duong now accommodates 2,800 FDI projects (table 9). Binh Duong has 29 industrial zones that entail 550 companies with 228,000 workers. Binh Duong is a big hub of the export-oriented manufacturing industries, with more than 900 wood-processing companies (among them, 400 companies with more than 50 workers), nearly 450

garment companies (including 200 companies with more than 50 workers), 170 footwear factories and nearly 100 electronics companies. The large-sized FDI companies are mainly located inside the industrial zones, while the smaller FDI and domestic companies, which account for the vast majority of enterprises in Binh Duong, are outside the industrial zones.

Table 9: Overview of the Binh Duong economy, 2017

Enterprises	25 000
FDI enterprises	2 800
Labour force	1 099 548
Migrants as share of labour force	85%
Female workers as share of labour force	55%
Industrial zones	29
Enterprises in industrial zones	1 000
Labour force industrial zones	228 000

Source: Data provided by Binh Duong Federation of Labour, March 2017.

3.2 Binh Duong's industrial policies

In the late 1980s, Binh Duong, as a part of Song Be Province, was a poor, agricultural region. The industry sector, consisting only of pottery and lacquer, accounted for 13 per cent of the total provincial GDP.¹⁶ The first breakthrough in Binh Duong's industrial policies occurred in 1995 when, encouraged by the open-door policy of the central government, the province established the first industrial zone, Song Than, to attract FDI. The number of industrial zones increased quickly. At the time of provincial separation in 1997, Binh Duong had 13 industrial zones. The provincial government decided to focus on the industrial sector as the core of its development. Over the past 20 years, Binh Duong has adopted the following industrial policies.

1. Land clearing: To shift from agriculture to industry, the key challenge is to clear the agricultural land for industrial infrastructure development. The common practice in other provinces has been paying low and rigid cash-based compensation to the inhabitants, which has caused widespread public anger and

resistance (Kerkvliet, 2014). The local inhabitants who are forced to give up their land at prices much lower than the market value either refuse to evacuate or file complaints to upper-level government, which has resulted in serious delays of the land-clearing programmes. To prevent such resistance, Binh Duong offered the soon-to-be land-lost people a choice of either accepting the cash compensation or an equivalent slot of land (with a house built by the government) in a new residential area. The second choice provided residents with accommodation immediately after they lost their land and somehow made up for the gap between the compensation rate, which is fixed by the central government, and the market price. Binh Duong also budgeted to provide free vocational training to the farmers and their families

¹⁶ Song Be Department of Industry reports (1986–1991), annual reports (1985–1990) and Direction for Tasks in the Upcoming Years (1986–1991).

who lost their land and livelihoods in agriculture. The land-lost people also received financial support of 10,000 dong per person per day during the training period and free job-matching services. Between 2004 and 2008, 7,035 land-lost people received vocational training, with a successful post-training employment rate of 80.3 per cent (Phan, 2015). Thanks to this initiative, Binh Duong smoothly cleared the needed land for establishing the industrial parks, roads and other infrastructure for industrial development.

2. Offering a comprehensive industrial zone model of production, service and residence:

Instead of building industrial zones that only feature production facilities (as other provinces did), Binh Duong, with the support from the Singaporean government, piloted the Vietnam–Singapore Industrial Park, which continue to offer integrated services of industrial facilities, vocational schools, services (such as shopping areas and public administration for the industrial park) and a residential area for employees of the companies located there. These integrated industrial parks have been popular with investors because they provide fast, on-the-spot services within one campus. That workers are provided with accommodation inside the industrial zones also increased their commitment to their job. By 2018, Binh Duong had 29 industrial zones and an average occupation rate of 73.8 per cent (Binh Duong People's Committee, 2018a).

3. Developing the infrastructure, especially the road system, by public–private partnership projects:

Poor infrastructure is one of the biggest obstacles that often deter investors from provinces outside of Ho Chi Minh City and Hanoi. Smaller provinces often rely on the state budget or official development aid funding allocated by the central government to develop expensive infrastructure projects, which are usually slow and piecemeal. Not long after its provincial separation, Binh Duong opted for a creative measure to quickly develop its road system: It was the first province to embrace the build-operate-transfer model in which the province invited the private sector to invest in building new roads, either on their own budget or jointly with the provincial budget. The private company was allowed

to collect tolls from the new roads for a limited number of years before transferring them to the provincial authority. The build-operate-transfer model enabled Binh Duong to develop the best road system among the southern provinces, and the province now has connected its most important industrial hubs to the national highways, airports and ports with six-lane roads (Fulbright Vietnam, 2016). Binh Duong's road system has become one of the main attractions for investment.

4. Streamlining the administrative procedures:

Binh Duong offers one-stop administrative support to investors that, when compared with other provinces, has significantly shortened the time spent on administrative procedures for enterprises.¹⁷ The top leaders of the provincial government meet with enterprise managers on the first and fifteenth days of each month. The enterprise managers can raise any question with the provincial leaders and get prompt replies. Based on the responses from the business community, the province continues reforming its administrative system. Consequently, Binh Duong has ranked among the top-ten provinces in the competitiveness index, as rated annually by the business community.¹⁸

5. Improving labour quality: Improving labour quality was essential to the success of Binh Duong's industrial policy. Binh Duong encouraged both public and private businesses to establish vocational training schools by offering land access and quick registration procedures. By 2016, Binh Duong had 41 vocational schools, of which 21 were privately owned. The vocational schools are located inside the industrial parks so that they can easily approach the companies on changing skill needs and provide tailored training services to the specific businesses. The partnership between the vocational schools and the business

¹⁷ This model has been replicated in other provinces.

¹⁸ Binh Duong ranked number 1 and 2 in the Provincial Competitiveness Index ranking during the 2005–2009 period and safely stayed in the top 10 in recent years (Fulbright Vietnam, 2016).

community has been close, resulting in a diversity of training courses that meet the enterprises' needs. Binh Duong also grants scholarships to students from technical colleges and universities in Ho Chi Minh City on the condition that they will teach in vocational schools in Binh Duong after graduation. In 2016, the programme had 1,000 students. To train high-skilled labour, Binh Duong partnered with universities in Ho Chi Minh City to set up five universities in the province. The quality of labour in Binh Duong has improved remarkably.

While trained workers accounted for only 19.2 per cent of the national labour force in 2016, in Binh Duong it was 73.5 per cent, with 24.2 per cent having tertiary education and 49.3 per cent graduating from a vocational school (VCCI, 2016).

6. Attraction of migrant labour by offering equal access to social services:

As the industrial zones mushroomed in Binh Duong, the province needed an ongoing large supply of labour from other provinces. Because Binh Duong then had to compete with Ho Chi Minh City and Dong Nai in attracting migrant workers, the province offered unprecedented benefits: One, low-cost accommodation for migrant workers was integrated into the industrial parks. Two, the province budgeted \$50,000 per year to support migrants with free bus service to transfer them to and from Binh Duong, subsidize the training costs of newly recruited workers for enterprises and pay employment service centres to go to other provinces to find workers. Three, while in other provinces the household registration system¹⁹ results in discrimination against rural migrants in accessing basic social services, such as housing, health care and education, Binh Duong makes sure that migrant workers and their families experience no such discrimination. The migrants and their children enjoy access to public education and health care equally with the local residents (Fulbright Vietnam, 2016). And four, upon realizing that migrant workers must return to their hometown after a few years because they would not afford housing in Binh Duong, the provincial government engaged the private sector to pioneer low-cost housing projects. With the price ranging from \$5,000 to \$10,000

for one apartment, the projects have now enabled migrant workers to resettle in the province.²⁰

In the first decade after the provincial separation, Binh Duong attracted investment, especially FDI, to the manufacturing industries and services it hoped to establish. The provincial government shifted the traditional industries of food processing, mining and construction materials to the northern part, which is closer to the material sources, and set up the new industrial zones for light industries in the southern part. So far, the industries with the biggest contribution to the provincial GDP include garments, footwear, wood processing and electronics (Binh Duong People's Committee, 2018a).

In 2006, Binh Duong started to become more selective of the investment into the industrial sector. The province prioritizes supporting industries and high-tech industries, such as food processing, pharmaceutical manufacturing, electronics and precision engineering while discouraging polluting and/or labour-intensive, low-tech businesses. The garment assembling factories, for example, have been gradually moved out of Binh Duong to the less-developed neighbouring provinces, such as Tay Ninh, Long An and Tien Giang. Of the 600 textile and garment FDI companies in Binh Duong by 2018, 460 of them were producing yarn and textiles, which are of much higher value added and less labour-intensive.²¹

3.3 Economic and social upgrading

Binh Duong has achieved considerable success in its economic and social development as well as productivity growth. In 2017, it reached a productivity level of 761 million dong per person per year, which was 8.1 times higher than the national productivity level. The productivity growth rate has been constant over the years, although it began slowing in 2015 (table 10). The gross value added

¹⁹ For further information on the household registration system, see World Bank, 2014.

²⁰ See <https://cafeland.vn/tin-tuc/binh-duong-phat-trien-nha-o-xa-hoi-cho-nguoi-lao-dong-nguoi-thu-nhap-thap-73477.html>.

²¹ See <http://thoibaonganhang.vn/doanh-nghiep-det-may-ngoai-van-chon-viet-nam-61850.html>.

of Binh Duong increased by tenfold in 12 years (2005–2017), while the net value added per person nearly quadrupled. However, the its export industries remain

highly dependent on imported materials and parts. This downward trend is exacerbated by the increasing price of imported materials and parts.²²

Table 10: Indicators to measure economic upgrading in Binh Duong Province, 2005–2017

Indicators	2005	2010	2015	2017
Productivity (million dong/person/year)	251.97	579.32	727.19	761.01
Gross value added (million dong/year)	20 204 821	74 231 969	171 416 462	202 649 173
Net value added per person (million dong/year)	51.26	146.65	203.58	217.38
Production value minus imports (million dong/enterprise/year)	N/A	35 374.81	1 195.32	N/A
Export minus import per employee (million dong/year)	N/A	612.80	-581.62	N/A

Source: Authors' calculations based on the General Statistics Office Enterprise Surveys.

Following the classification of upgrading by Humphrey and others (2002), Binh Duong achieved economic upgrading at the enterprise level, although the achievement was slow and limited to the bigger companies.

There has been significant progress in **process upgrading** in manufacturing enterprises, mainly thanks to the increasing level of automation over the past five years. A partial replacement of low-skilled workers by machines occurred in the garment, footwear, wood-processing and food-processing factories. The wood-processing factories, for instance, reported a 30-per cent decrease in headcount for each production line. Still, the industrial output of Binh Duong increased annually by 9 per cent on average between 2015 and 2017 (Binh Duong People's Committee, 2017).

Progress in **functional upgrading**, though limited, has been reported in some of the main industries of Binh Duong. According to a survey by ILO Vietnam in 2017, around 30 per cent of the exporting furniture companies had created their own product designs instead of simply producing only international buyers' designs (ILO Vietnam, 2017). The garment companies also shifted into free on board and original design types of manufacturing contracts. According to the Binh Duong Association of Garment and Textile, by the end of 2018, only 30 per cent of garment companies were working on cut-

make-trim contracts, while 60 per cent worked on free-on-board contracts and 10 per cent on original design manufacturing ones.²³

In terms of **product upgrading**, Binh Duong prioritized investment in supporting industries, especially textiles, leather processing, chemical, engineering and electronic components. As seen in table 11, although the production output of these supporting industries has grown fast since 2010, the forward link with domestic manufacturers has mainly been established in textiles. The supporting industries for footwear and electronics tend to focus on the export market, while the domestic manufacturers still rely on imported materials and components (Do, 2017).

²² According to the annual surveys by Binh Duong Department of Planning and Investment, the price of materials in garment, footwear and electronics increased by 5–10 per cent per year between 2013 and 2018 (Binh Duong DPI, 2019).

²³ See "Binh Duong textile and garment industry: Efforts to expand export markets," Bao Binh Duong, 30 October 2018. Available at: <http://baobinhduong.vn/nganh-det-may-binh-duong-no-luc-mo-rong-thi-truong-xuat-khau-a190490.html>.

Table 11: Supporting industries for garments, footwear and electronics production in Binh Duong (billion dong)

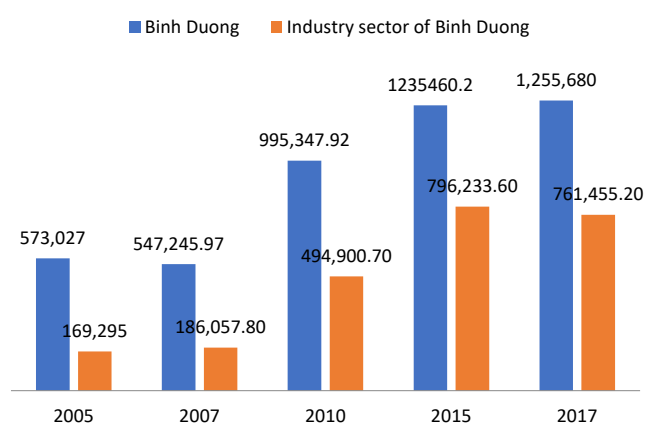
	2010	2012	2015	Share of domestic market in 2015 (%)
Textiles	21 232	32 294	47 817	48.0
Supporting industries for footwear	16 231	20 248	39 697	19.0
Supporting industries for electronics	13 978	35 156	79 871	1.7

Source: Do, 2018.

As discussed earlier, the industrial policies adopted by Binh Duong after it was re-established as a province incorporated a sustainable social perspective. The land-clearing initiative, for instance, was designed in such a way that the land-lost (relocated) inhabitants were provided with alternative livelihoods through a flexible compensation package and free vocational training. The migrant workers have received equal access to health care and education as the local people and enjoy the opportunity to resettle in the province through low-cost housing projects.

The economic success resulted in a fast growth of employment in the province. The provincial employment more than doubled in the 12 years between 2005 and 2017, with an average annual growth rate of 18 per cent (figure 17). The real wages (in 2004 prices), which grew at an average of 4.3 per cent per year, are significantly higher than the national real wages (figure 18). But the Binh Duong experience has not been all rosy. Due to the

high concentration of labour-intensive manufacturing enterprises in the province, Binh Duong has been one of the most strike-hit provinces.²⁴ Binh Duong accounts for more than 30 per cent of the national strike incidence (figure 19). The pressure from wildcat strikes has made Binh Duong's trade unions and labour administration active in finding solutions. In 2006, Binh Duong was among the first province to set up a strike task force to deal with wildcat strikes. The provincial federation of labour also promoted collective bargaining at the enterprise and sector levels. The collective bargaining coverage in 2016 was 52.3 per cent. As well, the Binh Duong Federation of Labour has been active in pushing for multi-employer bargaining, especially among companies of the same industry and in the same area. For instance, a sector-based bargaining agreement of 14 garment companies was signed in 2014. In 2019, another collective bargaining agreement of 16 wood-processing companies (in Tan Uyen and Di An districts) was concluded (ILO Vietnam, 2017).

Figure 17: Growth of employment in Binh Duong and its industrial sector, 2005–2017

Source: Authors' calculations based on General Statistics Office data for 2000–2017.

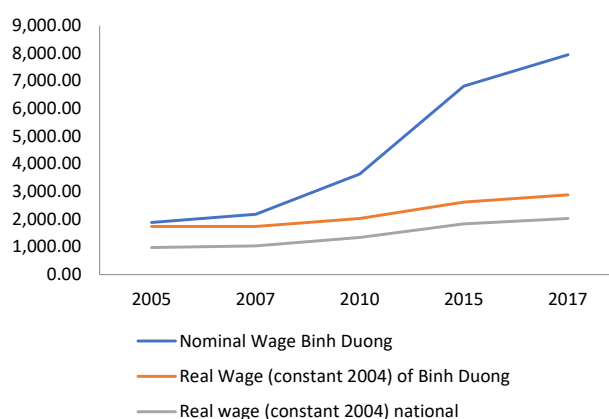
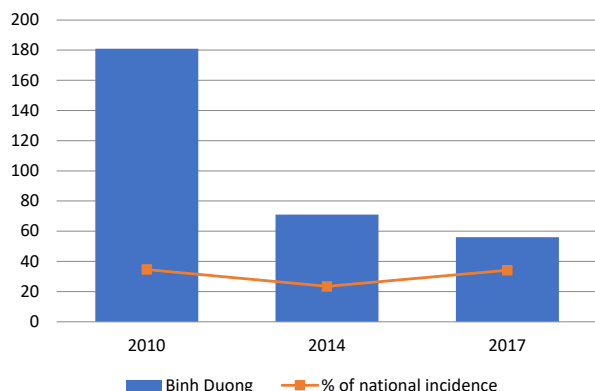
Figure 18: Real wage in Binh Duong versus the national real wage, 2005–2017

Figure 18: Real wage in Binh Duong versus the national real wage, 2005–2017



Source: VGCL strike statistics.

The Binh Duong government has also promoted social dialogue at the enterprise and provincial levels. Enterprises are encouraged by the local authority to organize quarterly dialogues with workers. In 2017, 1,800 dialogues were organized by 1,200 enterprises (ILO Vietnam, 2017). The provincial leaders also meet with workers' representatives four times a year to address questions ranging from social insurance, accommodation for workers, employment security and labour contracts to environmental pollution and healthcare services (ILO Vietnam, 2017).

Because the vast majority of enterprises in Binh Duong are small and medium-sized and located outside of the industrial zones, labour issues, such as workplace accidents and fire safety (especially among the wood-processing firms), remain constant challenges to the provincial administration.

3.4 Lessons learned from Binh Duong

The decentralization of provinces from the central government after the launch of the Doi Moi reforms in the late 1980s may have hampered the effectiveness of the national industrial policies, but it also enabled provinces like Binh Duong to “break the fence” in searching for their own solutions. Over the past decades, Binh Duong has developed a **cluster policy** that integrates social policies into its industrial development policies. The lessons learned from the case of Binh Duong include:

Invest in improving labour skills. While other provinces have tended to embrace the low-cost low-skilled labour force as their advantage in attracting investment, Binh Duong started early to invest in upskilling workers by setting up vocational training schools and technical universities. Particularly, Binh Duong offered favourable conditions, such as low-cost land access and fast-track registration, to encourage private enterprises to join in vocational training. The vocational training schools are also placed close by the companies to facilitate their partnership.

Apply a sustainable approach to social issues. Upon recognition that social problems may become obstacles to economic development, Binh Duong found sustainable measures in supporting disadvantaged groups. Because land-lost (relocated) people were offered alternative accommodation and free vocational training, the land-clearing programme was implemented quickly and smoothly. The fact that migrant workers have equal access to education, health care and housing as the local residents had helped attract the needed labour to the province and reduce the labour turnover rate.

Engage public-private partnership to improve infrastructure. A good infrastructure system is key to industrial development. However, because the state budget was limited, Binh Duong mobilized private investment to quickly develop an advanced road and industrial park system. Its build-operate-transfer model for road and bridge construction has since been replicated around the country.

Promote a culture of dialogue. Binh Duong is also the first province to conduct regular dialogues with the business community and workers. These dialogues not only enable the provincial authority to quickly gain feedback on their policies but also to improve confidence in local government among investors and workers.

²⁴ All strikes in Vietnam, including Binh Duong Province, have been wildcat strikes, which were not organized by formal unions nor did they follow legal procedures.

Chapter 4: A sector case study: The information and communication technology industry

4.1 Overview of the ICT industry in Vietnam

The ICT industry in Vietnam incorporates the following subsectors:

- ICT hardware, such as computers, tablets, phones and components;
- ICT-related services, including the ICT services (software and enterprise computing); and ICT-enabled services,²⁵ business process outsourcing and digital content development.

The ICT hardware industry has experienced fast growth in production output, export value and the labour force over the past decade, with the domination of giant multinational companies, such as Samsung, LG, Microsoft and Foxconn. However, the ICT hardware firms in Vietnam participate in the low-value-added part of the global value chain by simply assembling the imported parts and components into final goods for export. In fact, 81 per cent of imports in the ICT hardware industry

are in intermediate electronic components, such as integrated circuits and light-emitting diodes (LEDs). The local content in ICT hardware exports is 36 per cent, much lower than in other ASEAN countries (Sturgen and Zylberberg, 2016). Previous studies found no evidence of significant economic or social upgrading in the ICT hardware industry (Do, 2017; Sturgen and Zylberberg, 2016). As a positive example, this case study focuses on ICT-related services.

The number of ICT-related service companies grew rapidly over the past decade, but most of the companies were small and medium-sized. ICT-related services account for only a small portion of the total revenue of the ICT industry, at only about 13 per cent in 2015. The software section more than doubled in revenue, and its labour force increased by 13 per cent between 2010 and 2015 (table 12). The development of digital content, however, experienced a downward trend in both revenue and labour force in the same period.

Table 11: Supporting industries for garments, footwear and electronics production in Binh Duong (billion dong)

	2010	2012	2015
Number of enterprises			
Total ICT	6 543	13 560	21 658
Hardware	1 273	2 431	2 980
Software development	2 958	7 246	6 143
Digital content development	2 312	3 883	2 339
Revenue (US\$ million)			
Total ICT	7 629	25 458	60 715
Hardware	5 631	23 015	53 023
Software development	1 064	1 208	2 602
Digital content	934	1 235	638
Labour force			
Total ICT	250 300	352 742	721 584
Hardware	127 500	208 680	533 003
Software development	71 800	80 820	81 373
Digital content	50 900	63 242	44 320

Source: MIC, 2016.

There are four types of ICT services and ICT-enabled service companies in Vietnam:

Type 1: Locally owned IT services companies producing for the local market

This type includes a few medium- to large-sized IT services companies that are state owned or formerly state owned, with residual connections to government (such as FPT Group and CMC Telecom). These firms generally sell customized solutions based on global platform software from firms like Microsoft and SAP.

Type 2: Local small and medium-sized exporters

Small- to medium-sized locally owned software development firms producing for export, several with connections to overseas Vietnamese (such as TMA Solutions and KMS Technology).

Type 3: Global IT service firms

Multinational IT services and system integration firms, the only firms qualified for large systems, often with onsite consultants for support, customization and maintenance (such as IBM). Some of these firms also sell customized solutions based on global platform software. The main clients are other multinational companies operating in Vietnam (such as banks).

Type 4: MNE exporters

A few branches of multinational companies provide software development and ICT-enabled services (digital content and business process outsourcing) for export (such as Harvey Nash and Robert Bosch). Some of this work is for external clients, and some is for parent companies (captive operations).

4.2 Evolution of the policies for the ICT industry

The reform of the telecommunications industry was included in the Doi Moi process of the early 1990s. In 1993, the separation of commercial functions from regulatory functions within the Department General of Posts and Telecommunications established the Vietnam Posts and Telecommunications Corporation (VNPT), the national state-owned company in charge of the development of the telecommunications industry (Vu, 2014). With the 1990 Private Enterprise Law, private enterprises were limited in operating in the post and

telecommunication industry. However, unlike in other industries, the monopoly of state-owned corporations in the ICT industry was not sustained for too long.

In 1997, Vietnam started to connect to the Internet. The party-state quickly regarded the ICT industry as an important means for the economy to catch up. At the core of the government's strategy and policy initiatives to leverage ICT for economic development was the Politburo's Directive No. 58, On Accelerating the Use and Development of Information Technology for Industrialization and Modernization, announced in October 2000 (Politburo of Vietnam, 2000). The directive called for Vietnam to achieve parity with the advanced ICT levels in the region by 2010 by seeking three objectives: (i) ICT will be widely used across sectors and become one of the most important factors in promoting socioeconomic development and ensuring national security. (ii) The information network shall be developed for full nationwide coverage, with large bandwidth, high speed and quality and low user costs. And Internet penetration should reach the world average rate. (iii) The ICT industry shall become a spearheading economic sector with a high growth rate and increasing contribution to the country's economic growth.

To boost the growth of the ICT industry, the government opted for a pro-competition strategy by gradually lessening the monopoly of the state-owned VNPT. Back in 2000, only three years after Vietnam connected to the Internet, the government granted Viettel, a young company owned by the military, a license to provide voiceover Internet protocol services. This ground-breaking decision opened up the market for newcomers to compete with the VNPT monopoly. Consequently, the entry of new companies and increasing competition in the market brought down access prices and broadened coverage. The mobile phone penetration rate,²⁶ for instance, made a dramatic take-off after 2005, increasing from 0.98 per cent in 2000 to 11.3 per cent in 2005 to 147.7 per cent in 2012. At the same

²⁵ There is no harmonized and internationally agreed upon definition of what constitutes ICT-enabled services, nor does the Vietnamese government collect systematic data on this segment of the ICT sector. As a result, available data on ICT services in Vietnam vary by source.

time, the penetration of the Internet grew rapidly, from 0.25 per cent in 2000 to 12.7 per cent in 2005 to 39.5 per cent in 2012 (Vu, 2014).

In the master plan for the ICT industry development until 2020, issued in 2012, the government directed the equitization of the state-owned ICT companies and opened up the market for non-public enterprises “to facilitate a healthy competitive playing field” (Government of Vietnam, 2012). The master plan for the ICT industry development until 2020 was drafted by a joint panel of government officials and a group of top ICT businesses in the country, headed by the chairman of FPT, the biggest private Vietnamese ICT company. The Vietnam Software and IT Service Association, called the VINASA think tank group,²⁷ has since consistently been engaged in the drafting of resolutions on ICT by the Party Central Committee and the prime minister.

In addition to the two state-owned corporations, VNPT and Viettel, there were more than 80 companies providing telecommunications and Internet services by 2013, most of which were private companies. Although VNPT has remained a major player, other companies have rapidly expanded their market share. While the xDSL²⁸ market was dominated by three companies in 2013—VNPT (at 60.7 per cent), FPT (at 30 per cent) and Viettel (at 8 per cent), the leased-line market²⁹ was more fragmented. In the emerging 3G mobile broadband market of 2016, VNPT, with 64 per cent market share, was rivalled by Viettel, with its 36 per cent (MIC, 2016). The *Global Information Technology Report* gives Vietnam a high mark on Internet and telephony competition. On a scale of 0–2 (best), Vietnam’s score on this measure was 2 for 2012 and 1.87 for 2013 and 2014 (WEF, 2016).

4.3 Economic and social upgrading

Economic upgrading

According to our calculations, the ICT industry (excluding ICT hardware) has achieved remarkable progress in economic upgrading—better than the average improvement of the industrial sector. As shown in table 13, the ICT industry tripled productivity in 2017 from its 2005 level, to 755.27 million dong per person per year, or 11.6 per cent higher than the productivity of the whole industrial sector. The net value added of the ICT

industry in 2017 almost doubled that of the industrial sector. Particularly, against the growing trend of reliance on imported materials and components in ICT hardware and other manufacturing industries, the ICT industry has tended to increase its export surplus and the domestic value added as a share of exports of products and services. Total production minus imports doubled between 2010 and 2015, while exports minus imports per person made a remarkable step forward, from a negative 423.27 million dong to 295.09 million dong per person per year in the same period.

At the enterprise level, product and functional upgrading have also been observed among the domestic software enterprises. FPT, the formerly state-owned software corporation, is a prime example. It expanded its export markets to 17 countries, including Japan, the United States, Germany, France, Australia and Singapore. Initially, the firm was doing basic coding and testing in Vietnam. Over time, it captured higher-value segments of the global value chain, namely software engineering and architecture.

Another leading domestic Vietnamese ICT services firm is TMA Solutions, a private firm started by six engineers in 1997. Moving from its original product of telecommunication software, TMA now focuses on developing TMA-branded products to commercialize overseas. One product they have been working on with a partner in Australia is a software solution to reduce human genome mapping time from several days to about 40 minutes.

²⁶ Percentage of adults owning a mobile phone.

²⁷ See www.vinasa.org.vn/Default.aspx?sname=vinasa&sid=4&pageid=3075.

²⁸ xDSL is a technology that enables ordinary voice-grade copper telephone wires.

²⁹ A leased line is a private bidirectional or symmetric telecommunications circuit between two or more locations provided according to a commercial contract. Each side of the line is permanently connected and dedicated to the other. Leased lines can be used for telephone, Internet or other data communication services.

Table 13: Economic upgrading indicators for the ICT Industry (exclusive of ICT hardware)

Indicators	2005	2010	2015	2017
Productivity (million dong in constant prices/person/year)	257.82	438.25	689.77	755.27
Net value added in constant prices (million dong/person/year)	167.85	265.02	433.10	477.80
Gross value added (million dong in constant prices/year)	111 363	50 776 181	186 030 971	241 196 109
Total production minus import (million dong in constant prices in constant prices/enterprise/year)	NA	12 867.66	24 807.36	NA

Source: Authors' calculations based on the General Statistics Office Enterprise Surveys 2005, 2010, 2015 and 2017.

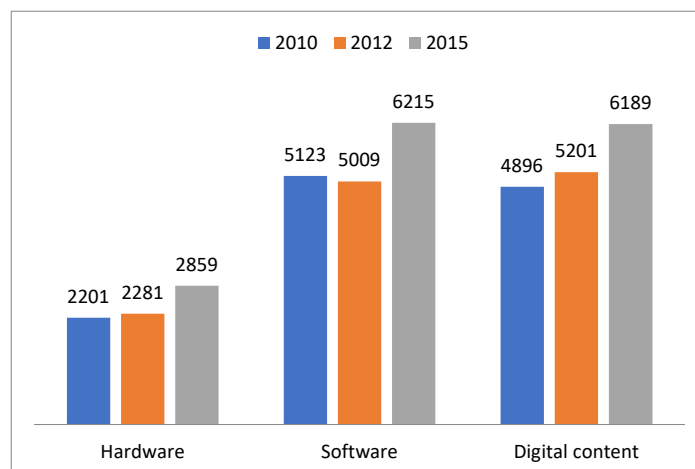
While software outsourcing remains the main line of business and source of revenue for FPT, TMA and other software companies in Vietnam, they have tried, with limited success, to develop proprietary products. It is evident that upgrading from software outsourcing to own-product development is difficult due to the lack of Vietnamese management, sales and marketing professionals capable of creating sufficient confidence to convince potential customers and investors (Sturgen and Zylberberg, 2016).

In IT services, domestic enterprises tend to adapt products from the global platform leaders to serve the domestic needs. Local firms, such as FPT, Joint Stock Company for Telecoms and Informatics, the HiPT Group Joint Stock

Company and CMC Software Solution, provide a wide range of products, from tailored enterprise resource planning solutions to call centre services. These firms typically adapt products from IBM, Microsoft, Oracle and SAP to meet the specific needs of their Vietnamese customers.

Social upgrading

The ICT industry has produced a growing number of well-paid jobs for engineers and technicians. The employees in software and digital content companies were paid more than \$6,000 per year on average in 2015, which is still significantly lower than their peers in other ASEAN countries but three times higher than workers' wages in the hardware industry (figure 20).

Figure 20: Average annual salary of ICT employees, 2010, 2012 and 2015 (US\$ per year)

Source: MIC, 2016.

The Gini coefficient in the ICT industry has been relatively low over the past decade, reducing from 37 in 2005 to 30 in 2017.³⁰

Although low labour costs have been an advantage of Vietnam's ICT industry, the growing shortage of skilled labour in this industry is expected to drive up the salaries. Every year, there are about 40,000 students with ICT-related majors graduating from Vietnamese universities and colleges. Without a substantial increase in the rate, Vietnam is facing an increasingly serious shortage of ICT-skilled labour. As estimated by the Ministry of Information and Communication, Vietnam will have a total of 600,000 graduates with ICT skills in 2020, while the demand for them is estimated to reach 1 million by that time (MIC, 2016).

4.4 Lessons learned

- Instead of sustaining the state monopoly as in other industries, the government allowed for competition within the ICT industry in the early days by engaging state-owned and domestic private firms. The competition encouraged fast growth of the industry.
- Also in the early stage of development, the government prioritized domestic companies in public procurement projects, which gave them an advantage over FDI companies.
- The processing of policymaking in the ICT industry has enjoyed close engagement of the private sector via VINASA, the business association of software companies. VINASA has had a crucial role in aligning policies with the needs for growth of the industry.

³⁰ Gini coefficients are authors' calculation based on GSO data.

Chapter 5: Future of economic and social upgrading and policy recommendations

5.1 Summary of findings

Since the launch of the Doi Moi reforms in the late 1980s, Vietnam has achieved considerable progress in economic and social upgrading, especially between 1995 and 2006. This study embarked on an in-depth analysis of what has worked and what has not with the industrial policies at the national, regional and sector levels, emerging with the following findings.

- The policies that prioritize one ownership sector over the others are not effective in driving economic upgrading, even for the favoured sector. An example is the preferential treatment of the state-owned enterprise sector from 2007 to 2012, which not only failed to result in the growth of the sector but seriously affected the development of the private sector and the whole economy.
 - Instead of granting preferential treatment to the remaining state-owned enterprises, the State should require those enterprises to play by market rules and compete with non-public enterprises. VNPT and Viettel are good examples of strengthening state-owned enterprise performance by placing them in competition with non-public enterprises.
 - The policies that improve the business environment for all sectors, regardless of their ownership, have been most instrumental in promoting healthy competition and economic upgrading. The Enterprise Law and the efforts to improve the business environment by the government so far, for instance, have been key in unleashing the growth of the economy, especially FDI and private domestic enterprises.
 - There is a high possibility that economic upgrading results in social upgrading if the social aspects are integrated into an industrial policy. The case of Binh Duong Province proves that the cluster policy that takes into account social development can bring out bigger and more sustainable economic (and social) gains than those that do not.
 - Vietnam is facing serious challenges to its further economic upgrading. Its industries are stagnating in the assembly section of the global value chain.
- While process upgrading has occurred in a number of enterprises, only a few companies have been able to move on to functional and product upgrading. The export sector is dominated by the FDI enterprises, but the spillover effect of the FDI sector into the domestic sector remains limited.
- In terms of social upgrading, the economic reforms helped create millions of jobs in the formal sector, reduce the poverty rate and increase real wages overall. However, the rate of real wage growth is now slowing while the gender pay gap stays the same. The trade unions have not been able to represent workers in genuine collective bargaining at the workplace, and the wages paid to workers are basically the minimum wage, which is far below a living wage.
 - One of the reasons for the weakness of the national industrial policy is the lack of participation of the private sector in the policymaking process. The case of the ICT industry has shown that when the private sector, represented here by the ICT business association VINASA, takes an active role in developing the policy and legislative framework for the industry, the impacts on the industry's economic upgrading will be much more positive.
 - There remains divergence in the views of the local stakeholders about the link between economic and social upgrading, especially in terms of guaranteeing basic labour rights for workers. For instance, while many stakeholders welcome the recent changes in labour legislation and the ratification of ILO core conventions, other stakeholders believe that committing to granting more rights to workers under free trade agreements is a trade-off or sacrifice by Vietnam for economic benefits. Also, the violations of labour rights, if any, are caused by the employers, the enforcement authority and the workers themselves rather than any weakness in the institutional arrangements. This difference in the perspectives of social upgrading may prevent the positive impacts of economic growth on social development.

The way forward for the industrial policy of Vietnam remains unclear. The current government has been vocal about economic upgrading so as to move beyond the middle-income trap. The government continues to attract FDI, most of which goes into the manufacturing industry, but the government also stresses elimination of discrimination against the private domestic sector and development of high-tech, high value-added supporting industries. The rise of quite a few billion dollars' worth of domestic private corporations, such as Vin Group and FLC (real estate, automobile, logistics), VietJet (low-cost airline), Hoa Phat (steel), among others, gives hope for the growth of the private sector. Still, the economy continues to rely heavily on the FDI sector, especially in the export industries. At least in the near future, Vietnam needs to rely on the exports of manufacturing products, such as phones, apparel, shoes, furniture and agricultural products, while seeking ways to move up the value ladder.

5.2 Recommendations

The good practices found in the research led to the following recommendations for making industrial policies more effective in supporting economic upgrading and for linking between economic and social upgrading.

The way industrial policies are developed should be changed.

- The private sector and industry specialists should be engaged closely and from the early stage of industrial policy development.
- The social aspects of industrial policies should be discussed, and corresponding solutions should be integrated into the policies.
- A government task force in charge of industrial development (such as the Central Committee for Economic Development) should be given authority to coordinate across ministries as well as between the national and provincial governments to ensure that industrial policies are developed and carried out effectively.
- Cluster policies, similar to what was applied in Binh Duong, have proven to be a good way to boost regional industrial development while piloting new policy initiatives before being replicated nationwide.

- With the shift of the global supply chains from China, which intensified with the onset of the COVID-19 pandemic, Vietnam is in a good position to be more selective with FDI. Instead of focusing on attracting as much FDI as possible, Vietnam should instead prioritize the FDI that focuses on high-tech, high value-added production.
- Instead of prioritizing state-owned and foreign-invested enterprises, the government should treat all companies fairly. The state-owned enterprises, for instance, should be placed in fair competition with non-public ones, and the FDI companies should not receive preferential treatment at the expense of the domestic private sector.

Stakeholders should dialogue to reach agreement on the link between economic and social upgrading.

- The success of Binh Duong Province proves that social upgrading is an integral part of economic upgrading rather than a trade-off or an obstacle. Therefore, regular dialogue between economic and social stakeholders should be conducted to avoid disagreement on the perspectives of the link between economic upgrading and social upgrading.
- Good practices for incorporating social aspects into industrial policies should be shared widely for discussion and replication.
- Social stakeholders should be engaged in the debates on industrial policies to ensure that the social aspects are identified and addressed properly.

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Annex 1: Economic and social indicators

Economic indicators

Productivity development (production volume divided by hours or persons)

Net value creation for industrial analysis at the sector level:

- gross value added (sectoral GDP minus intermediate goods);
- net value added per person (or hour).

Integration in world markets (especially for sectors):

- production volume minus imported inputs, the sum of this divided by hours or persons;
- export volume minus imported inputs, the sum of this divided by hours or persons).

Types of upgrading:

- product upgrading—producing products of higher quality;
- process upgrading—improving the production of a task by better technology or better organization, intensification of work as a negative development;
- functional upgrading—taking over other and more demanding tasks in the global value chain, taking over tasks that need higher qualifications;
- Intersector upgrading in existing productions—extending the position to new sectors by using the skills acquired in the previous sector.

Were new industries created?

Social indicators

Macroeconomic indicators:

- Development of income inequality (GINI coefficients, wage dispersion, wealth distribution at national and regional level depending on the analysis)
- Employment creation for the regional or national level, but not for industries (it should be taken into account that lower employment can be the effect of economic upgrading)
- Increasing real wages and /or shorter working time
- Poverty reduction—World Bank poverty measure, national poverty measures

ILO core labour standards:

- Freedom of association—union density, types of trade unions (yellow trade unions, independent interest representation, politically disunited trade unions, proximity to state parties) and form of resistance of workers.
- Right to collective bargaining.
- Level of wage bargaining, coverage of wage bargaining, extension mechanisms or pattern bargaining, vertical and horizontal coordination of wage development, role of minimum wages.
- Elimination of all forms of forced or compulsory labour.
- Abolition of child labour.
- Elimination of discrimination in respect to minorities, migrants, etc. (gender will be discussed separately).
- Other factors like (sub)contracting, temporary or permanent work, home work, social protection, etc. can be added if important to understand the situation and development.

Policies to improve gender equality:

- gender pay gap;
- skill development of women;
- education system.

Annex 2: Informants interviewed

1. Nguyen Duc Kien, Vice Chairman, Economic Committee, National Assembly
2. Dang Nhu Loi, Former Vice Chairman, Social Affairs Committee, National Assembly
3. Vo Tri Thanh, Senior Economist, Central Institute of Economic Management, Ministry of Planning and Investment
4. Nguyen Van Binh, Deputy Director, Legal Affairs Department, Ministry of Labour, Invalids and Social Affairs
5. Le Dinh Quang, Deputy Director, Industrial Relations Department, Vietnam General Confederation of Labour
6. Nguyen Thu Lan, Deputy Director, Institute of Workers and Unions, Vietnam General Confederation of Labour
7. Phan Thi Quynh Hoa, CEO, MK Technology
8. Vu Ngoc Ha, Director, Legal Center for Workers, Dong Nai Federation of Labour
9. Truong Thi Bich Hanh, Chairwoman, Binh Duong Federation of Labour
10. Nguyen Thi Ninh, Head of Employers' Bureau, Vietnam Chamber of Commerce and Industry Ho Chi Minh city
11. Dau Anh Tuan, Director of Legal Department, Vietnam Chamber of Commerce and Industry
12. Van Thu Ha, Head of Labour Rights Programme, Oxfam Vietnam,
13. Nguyen Thu Giang, Director, Light Vietnam
14. Le Van Binh, Director, ECUE
15. Nguyen Quynh Trang, Marketing Manager, IBM Vietnam

About the author:

Do Quynh Chi is the co-founder and director of the Research Centre for Employment Relations (ERC), an independent research institute in Vietnam. She has a doctorate degree in industrial relations from the University of Sydney and her current research is focused on labour relations in manufacturing industries, rural migration, labour law and global supply chains.

Hoang Xuan Diem is a researcher at the Central Institute for Economic Management, Vietnam. Her main research areas are agricultural economics, development economics, and small and medium enterprises.

Nguyen Huyen Le is the Head of the Wage Division, Bureau for Wage and Industrial Relations, Ministry of Labour, Invalids and Social Affairs, Vietnam. She has experience of over 20 years doing research on wage-related issues. In addition she serves as a technical member of the National Wage Council”.


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