

National Competitiveness: Issues for Vietnam

Meeting with Prime Minister Phan Van Khai and his delegation

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This presentation draws on Michael Porter, Klaus Schwab: [The Global Competitiveness Report 2004-2005](#), Oxford University Press, 2004 and other sources. For further information on the Report and on the Institute for Strategy and Competitiveness see www.isc.hbs.edu

Topics for Discussion

- National competitiveness: essential concepts
- Competitive assessment of Vietnam
- Key issues for Vietnamese policy
- Profile of the Institute for Strategy and Competitiveness

What is Competitiveness?

- Competitiveness is determined by the **productivity** (value per unit of input) with which a nation, region, or cluster uses its human, capital, and natural resources. Productivity sets a nation's or region's standard of living (wages, returns on capital, returns on natural resources)
 - Productivity depends both on the **value** of products and services (e.g. uniqueness, quality) as well as the **efficiency** with which they are produced.
 - It is not **what** industries a nation or region competes in that matters for prosperity, but **how** firms compete in those industries
 - Productivity in a nation or region is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is secondary for national prosperity.
 - The productivity of **“local”** industries is of fundamental importance to competitiveness, not just that of traded industries
 - Devaluation and revaluation do **not** make a country more or less “competitive”



- Nations or regions compete in offering the **most productive environment** for business
- The public and private sectors should play **different but interrelated roles** in creating a productive economy

Determinants of Competitiveness

Macroeconomic, Political, Legal, and Social Context

Microeconomic Foundations

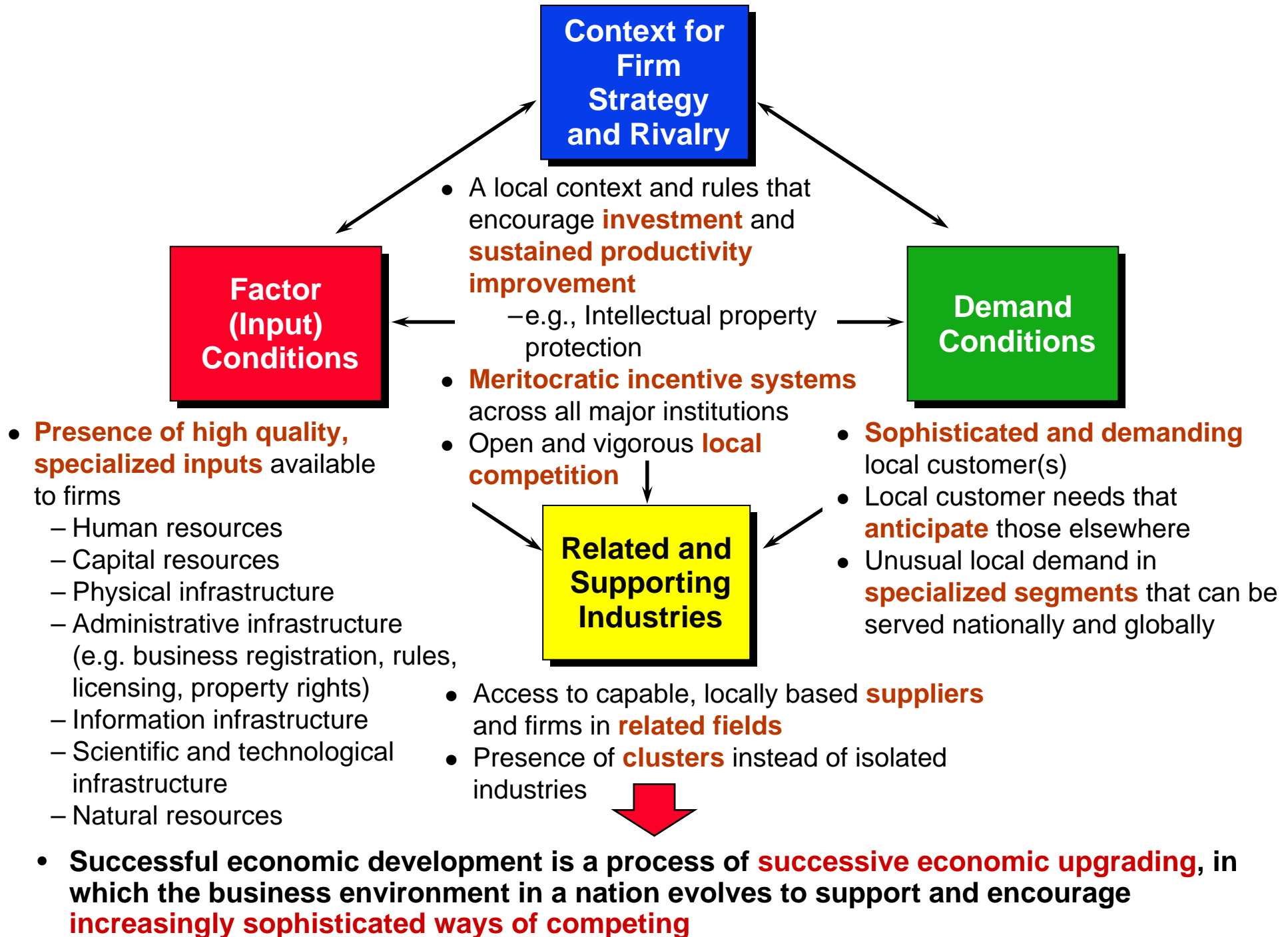
The Sophistication
of Company
Operations and
Strategy



The Quality of the
Microeconomic
Business
Environment

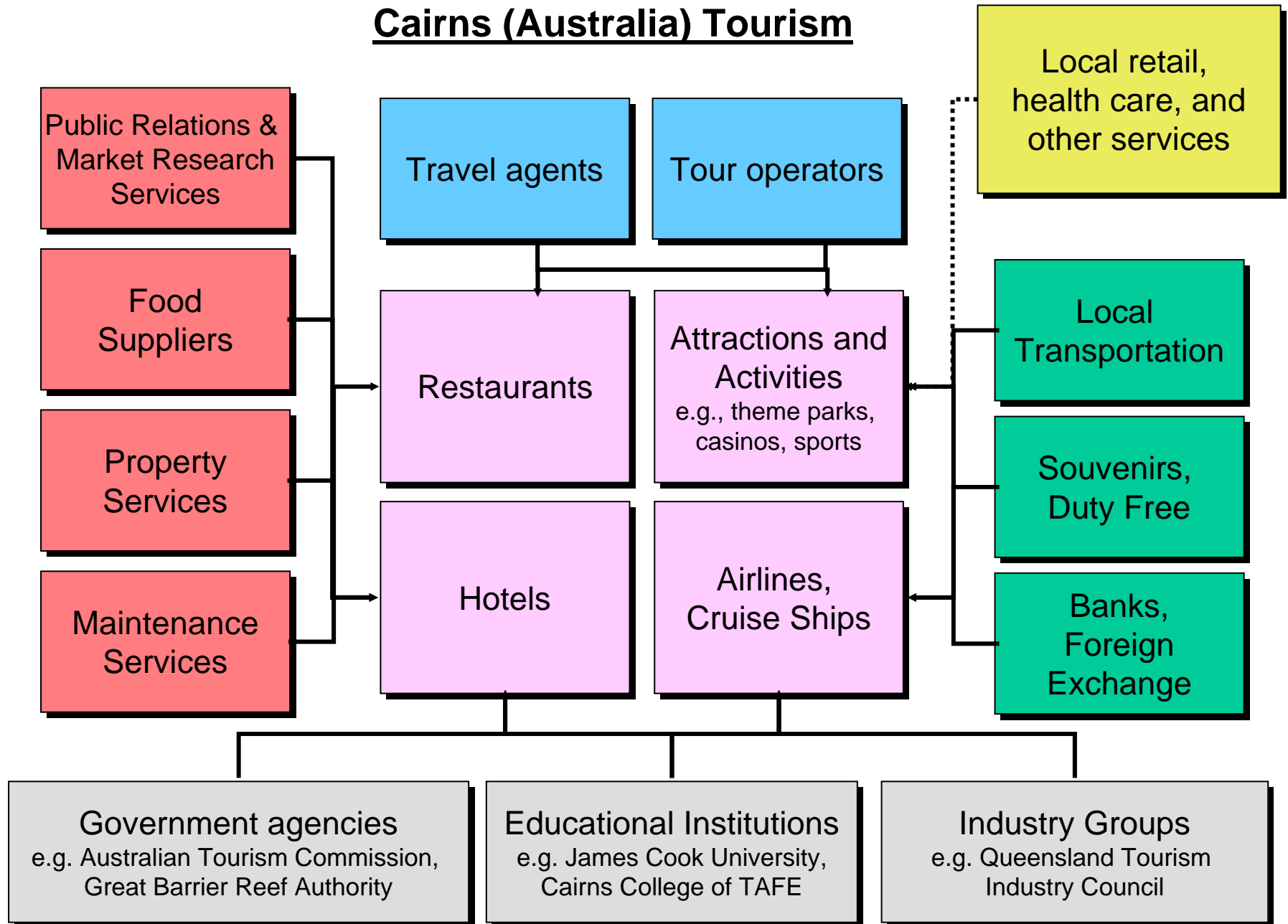
- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Only **firms** can create wealth, not government

Productivity and the Business Environment



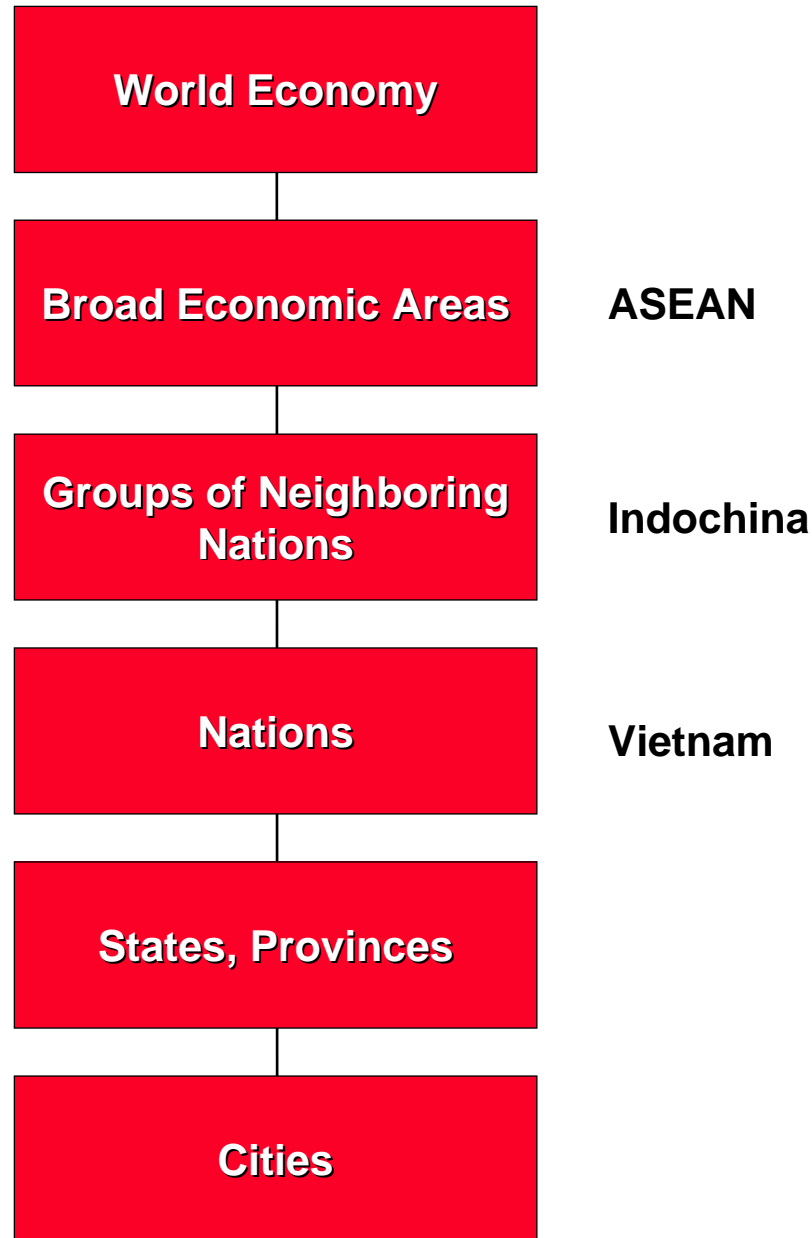
Clusters and Competitiveness

Cairns (Australia) Tourism



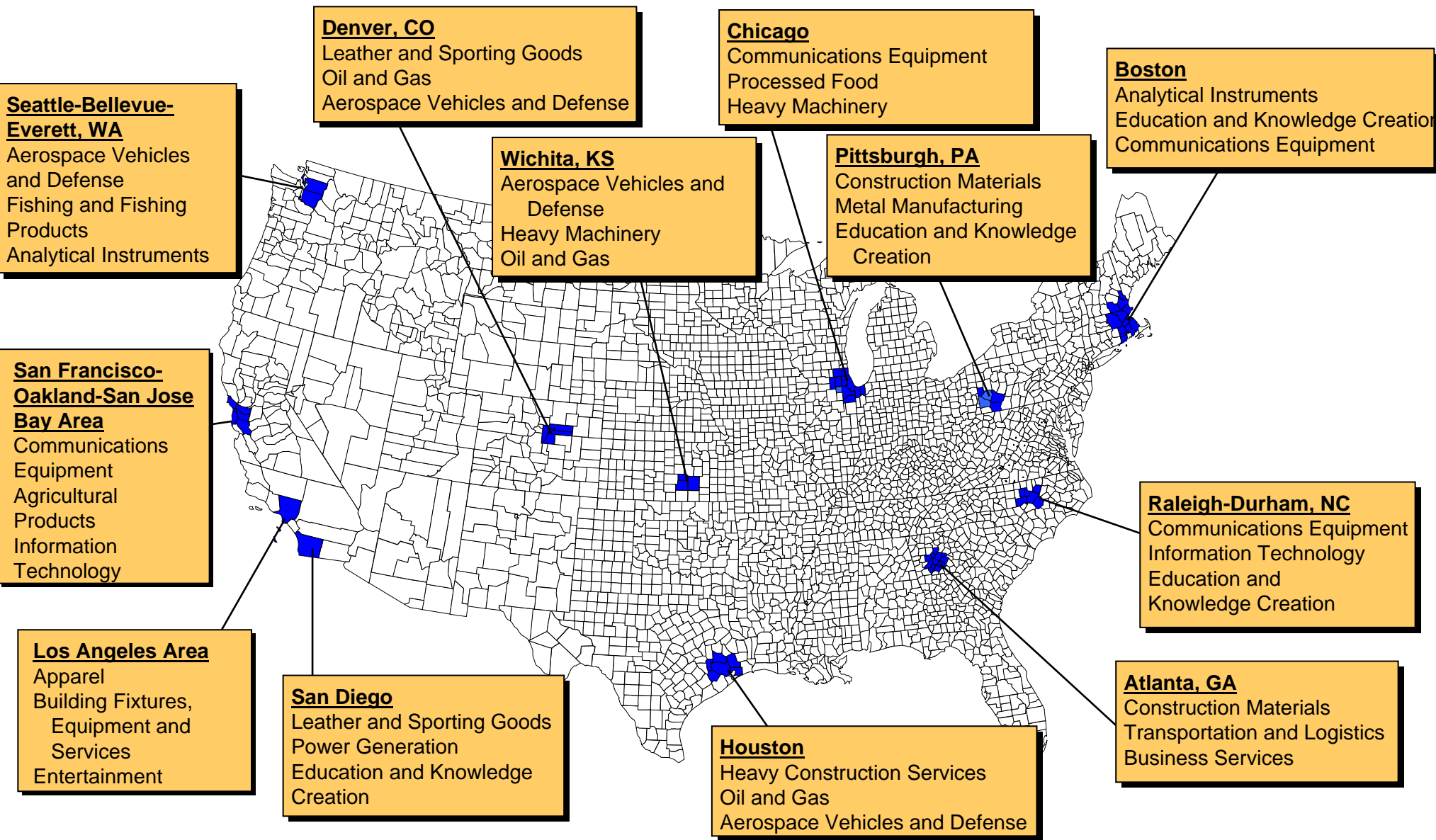
Influences on Competitiveness

Multiple Geographic Levels



Specialization of Regional Economies

Select U.S. Geographic Areas



Note: Clusters listed are the three highest ranking clusters in terms of share of national employment

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Stages Of Competitive Development



Input Cost

- *Macro, political, and legal stability*
- *Efficient basic infrastructure*
- *Lowering the regulatory costs of doing business*

Efficiency

- *Local competition*
- *Market openness*
- *Incentives and rules encouraging productivity*
- *Cluster development*

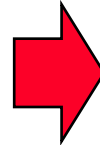
Unique Value

- *Advanced skills*
- *Advanced infrastructure*
- *Incentives and rules encouraging innovation*
- *Cluster upgrading*

Shifting Responsibilities for Economic Development

Old Model

- **Government** drives economic development through policy decisions and incentives



New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and institutions for collaboration

- Competitiveness must become a **bottoms-up process** in which citizens take responsibility
- **Every** community and cluster can take steps to enhance competitiveness

Vietnamese Competitiveness Accomplishments

- Strong **GDP growth** record; economic growth has been resilient during the Asian Crisis and SARS
- The poverty rate has fallen from 58% to 29% from 1992 to 2002
- Solid labor productivity **growth**
- Strong export **growth**
- Strong **FDI** inflows

Vietnamese Competitiveness Issues

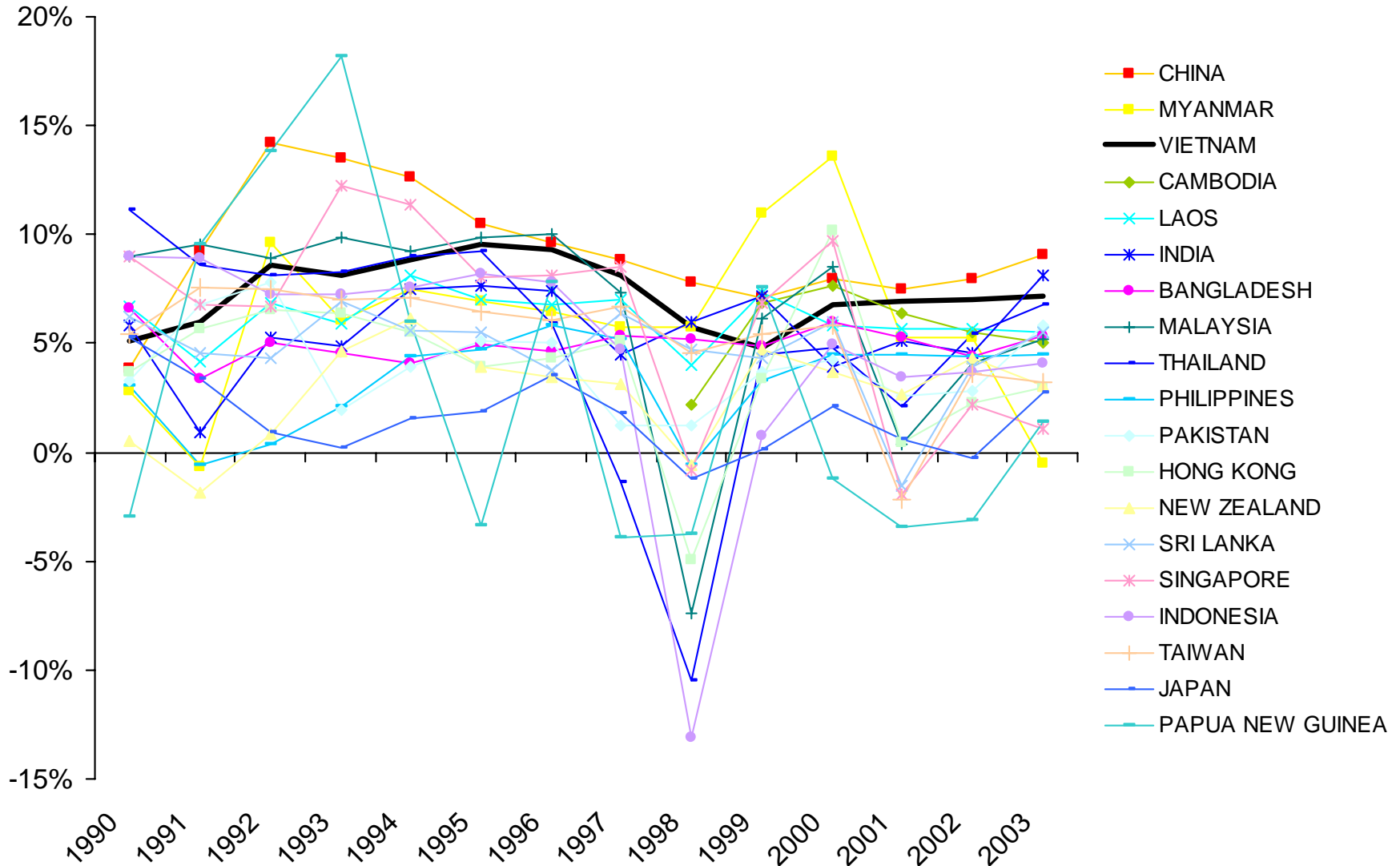
- Prosperity remains at a low **level**
- **Labor productivity** remains *very low*
- Vietnam's **business environment** remains very weak
 - Fall in the GCR business competitiveness ranking in 2004
 - Key **weaknesses** include corruption, physical infrastructure, skill base, financial markets, technology, cluster depth and the nature of competitive advantages

Comparative Economic Performance

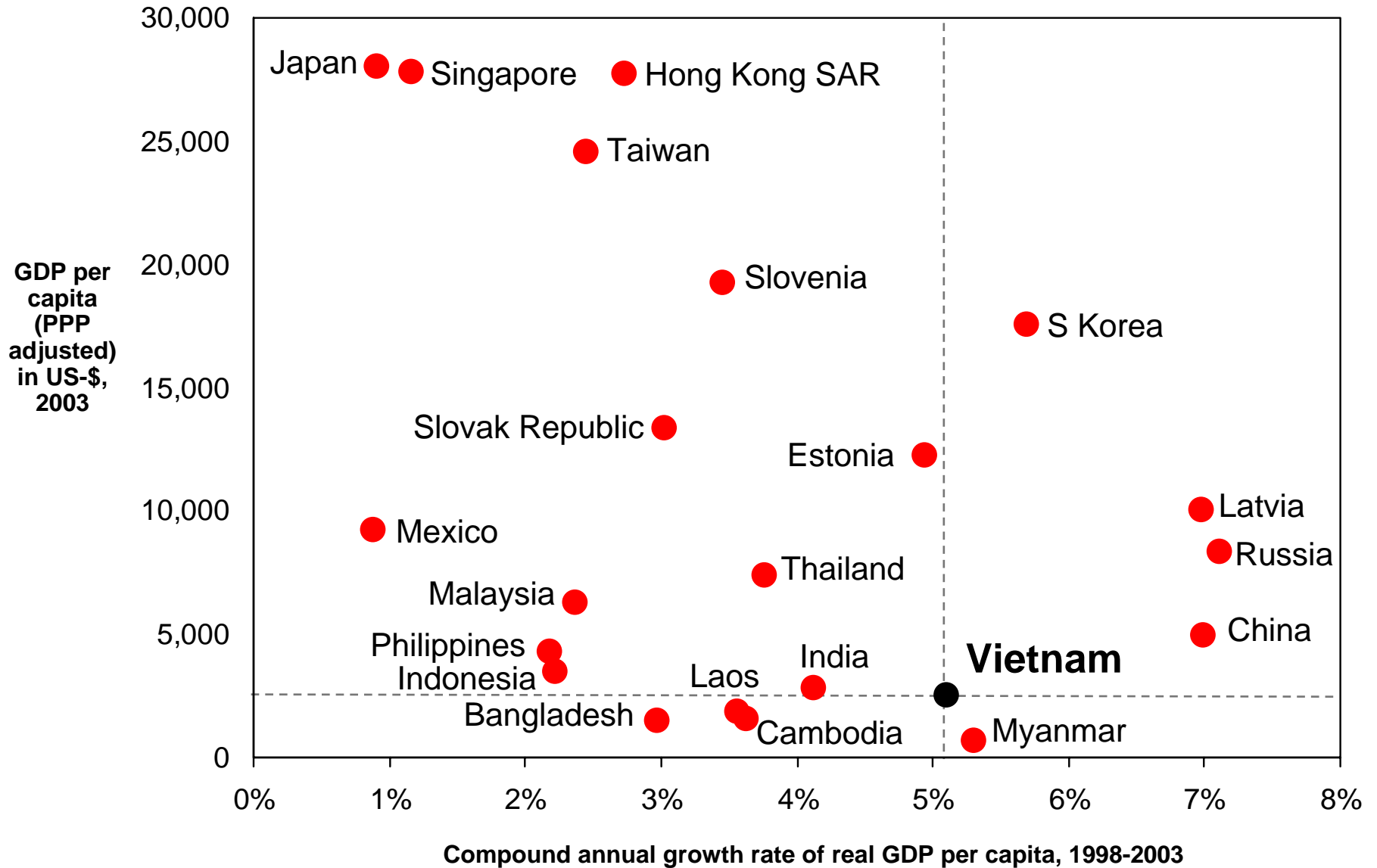
Real GDP Growth Rates

Annual growth rate
of real GDP

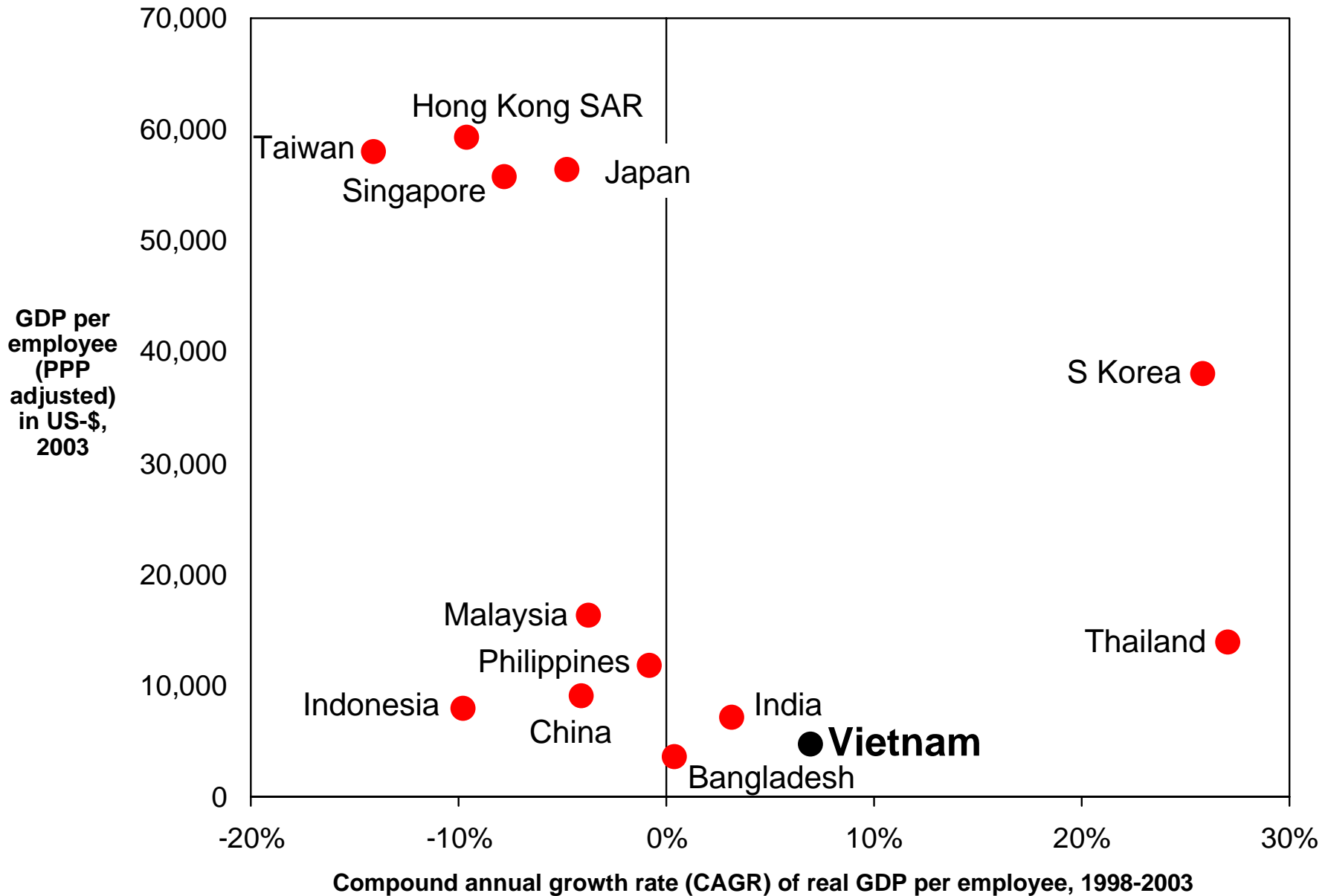
Countries sorted by 1998-
2003 annual real GDP
growth rate (CAGR)



Comparative Economic Performance



Comparative Labor Productivity Performance

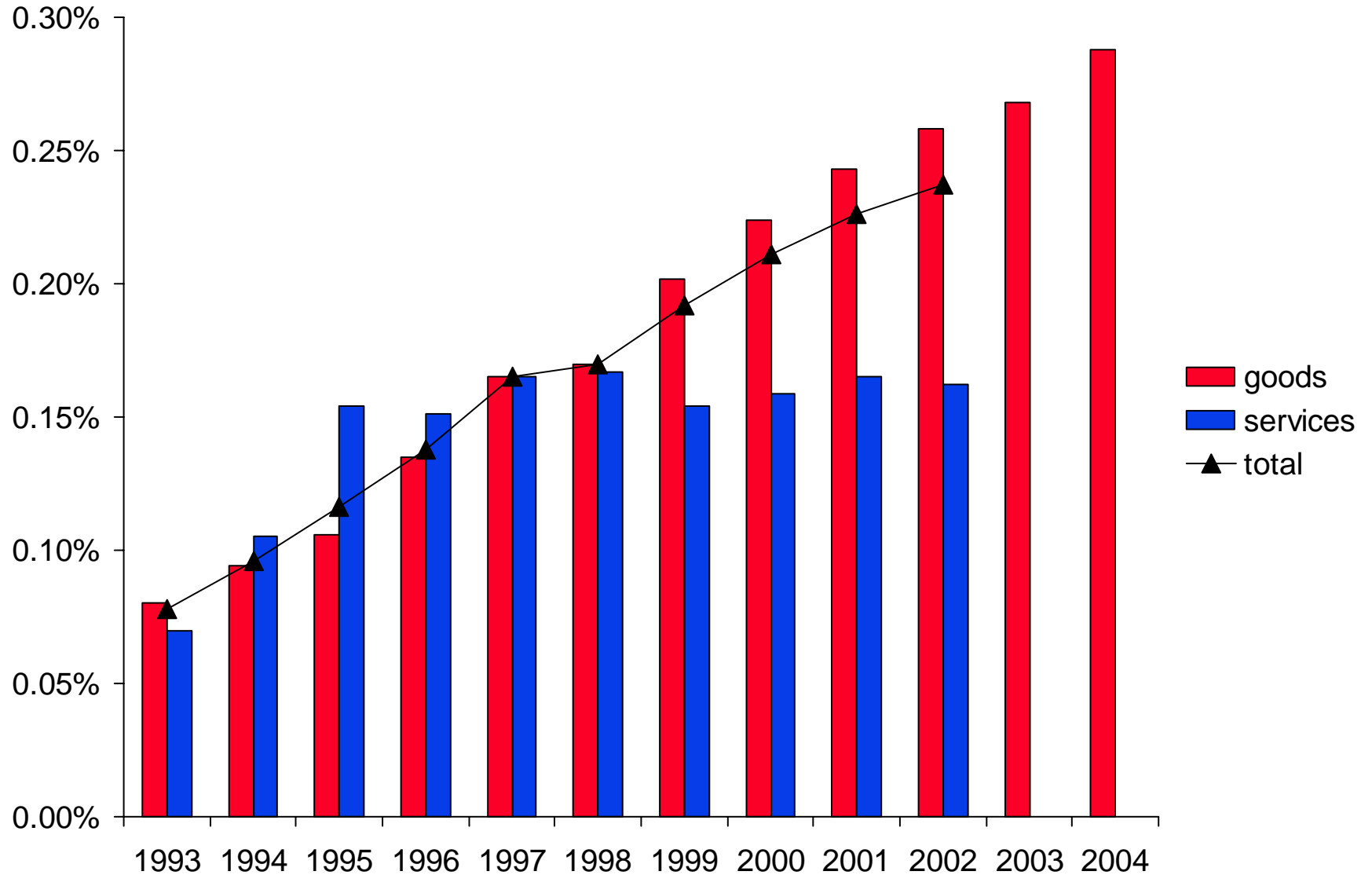


Source: EIU (2004)

Vietnam's Export Performance

World Export Market Shares

World export share in %

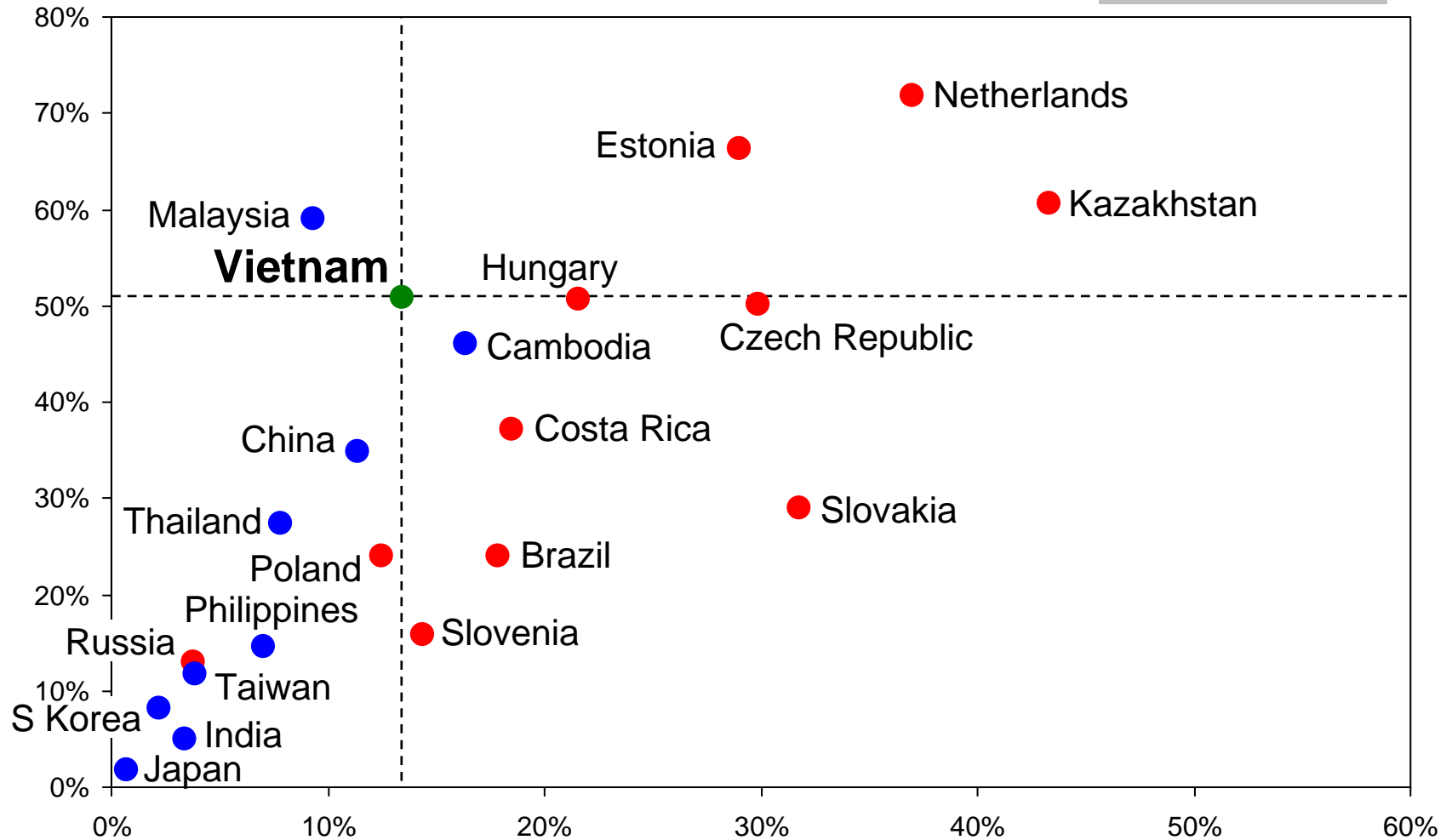


Comparative Inward Foreign Investment

Selected Countries

FDI Stocks as % of GDP,
Average 2001-2003

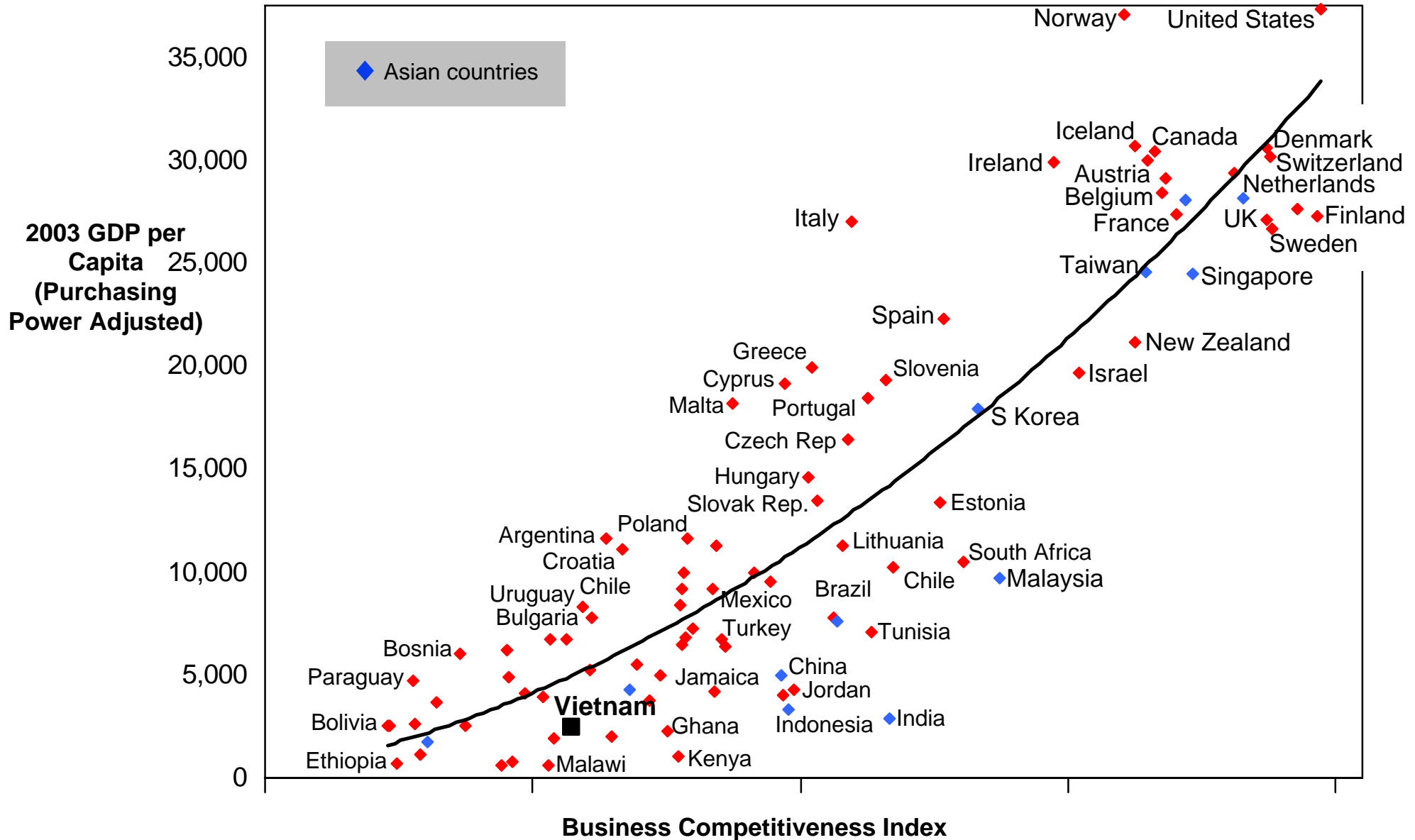
● Asian countries



FDI Inflows as % of Gross Fixed Capital Formation, Average 2001-2003

Global Competitiveness Report 2004

The Relationship Between Business Competitiveness and GDP Per Capita



Factor (Input) Conditions

Vietnam's Relative Position

Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

| | | |
|--|----|---|
| Administrative burden for startups | 35 | ↓ |
| Reliability of police services | 36 | |
| Availability of scientists and engineers | 40 | |
| Judicial independence | 53 | |
| Local equity market access | 54 | ↑ |
| Telephone/fax infrastructure quality | 55 | |
| Efficiency of legal framework | 55 | ↑ |
| Venture capital availability | 57 | ↓ |
| Quality of public schools | 58 | ↓ |
| Quality of math and science education | 58 | |
| Railroad infrastructure development | 61 | ↓ |

Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

| | | |
|---|----|---|
| Quality of management schools | 91 | |
| Overall infrastructure quality | 84 | ↓ |
| Quality of scientific research institutions | 84 | ↓ |
| Cell phones per 100 people (2003) | 84 | |
| Extent of bureaucratic red tape | 83 | ↓ |
| Quality of the educational system | 79 | |
| Port infrastructure quality | 77 | |
| Quality of electricity supply | 77 | |
| University/industry research collaboration | 74 | ↓ |

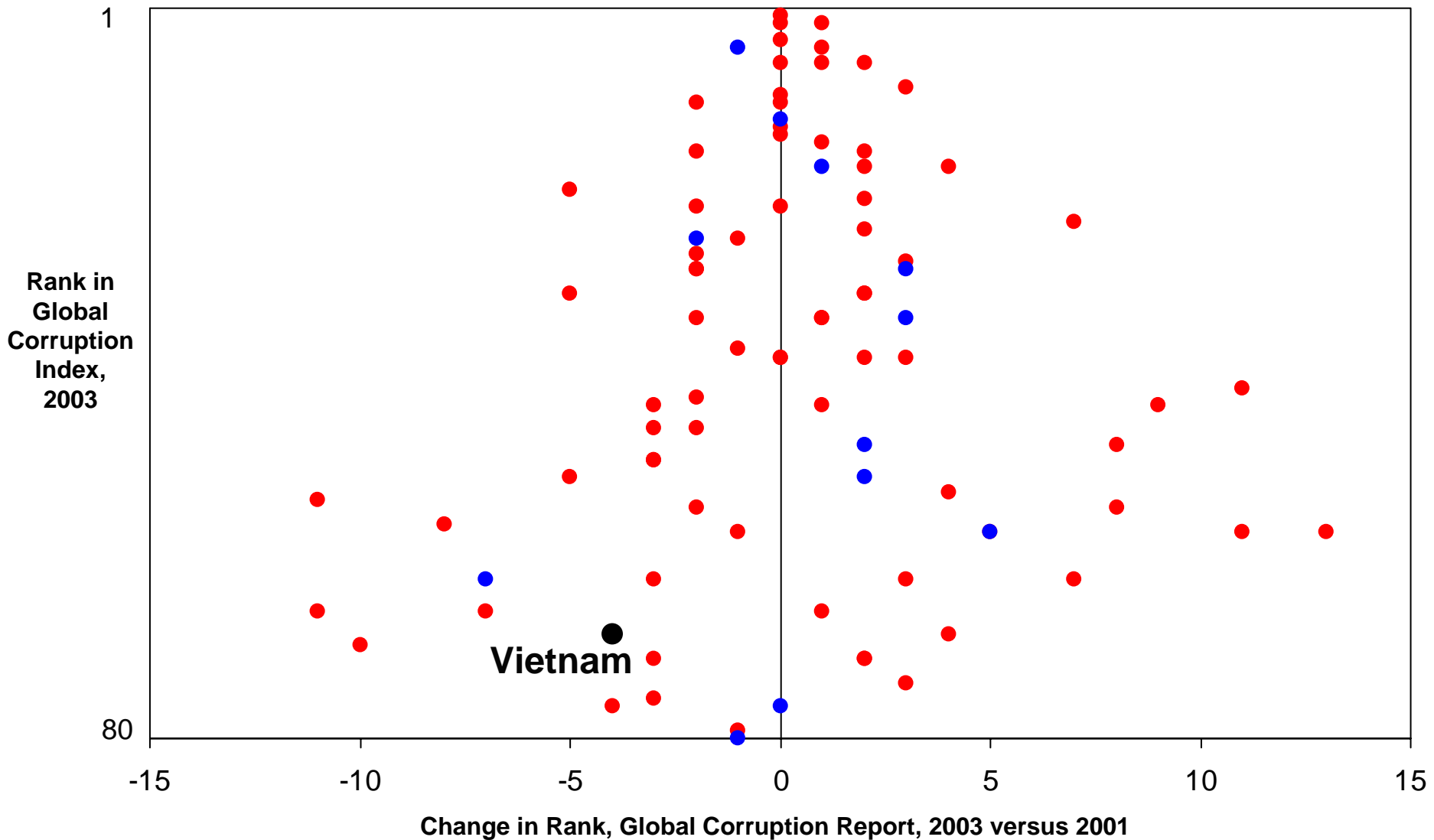
Note: Rank versus 93 countries; overall, Vietnam ranks 73rd in Business Competitiveness and 83rd in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

**Factor
(Input)
Conditions**

Corruption

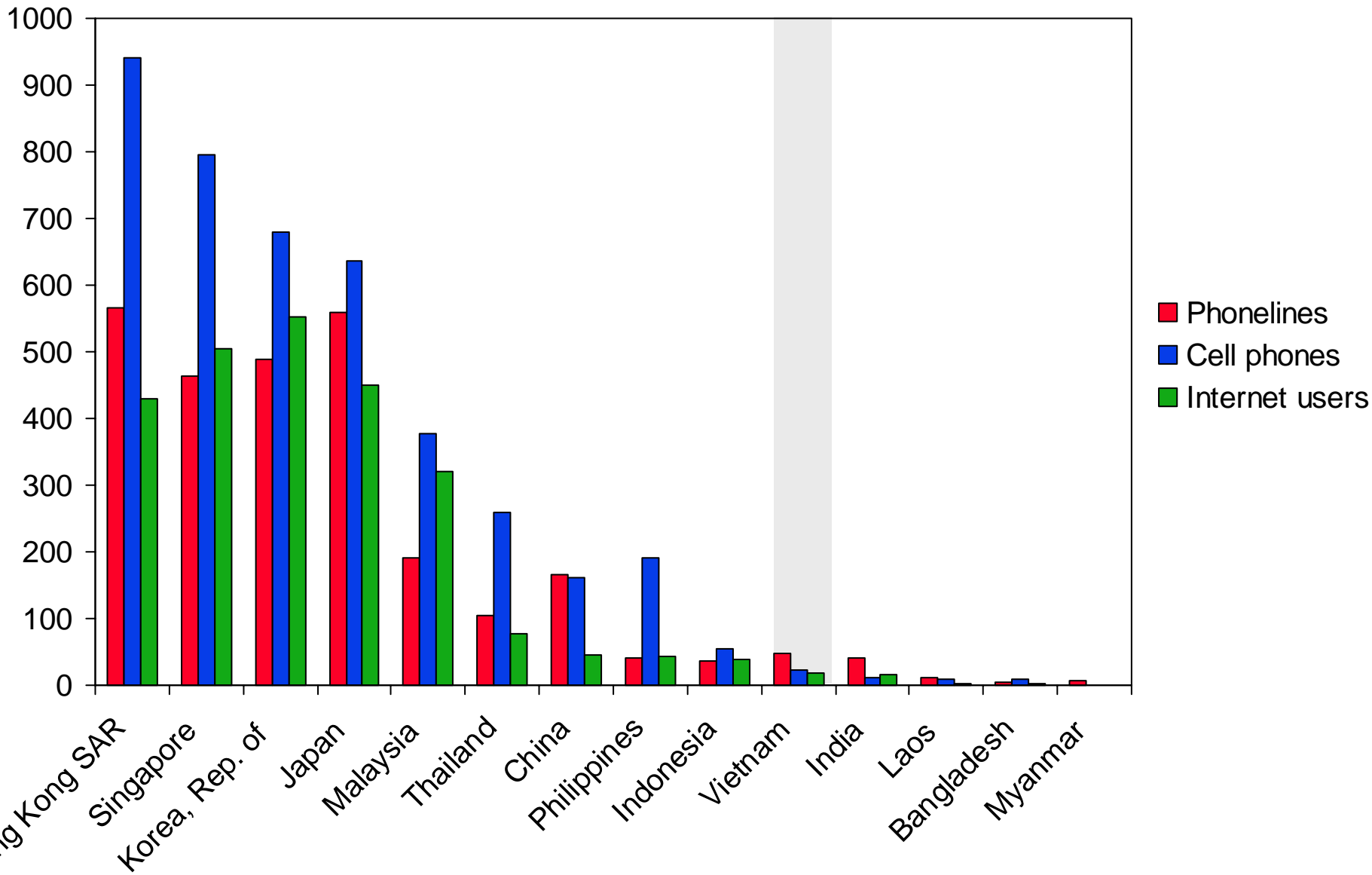
● Asian countries



Communication Infrastructure

Vietnam's Relative Position

Per 1,000 inhabitants,
2002



Context for Firm Strategy and Rivalry

Vietnam's Relative Position

Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

| | | |
|---|----|---|
| Cooperation in labor-employer relations | 33 | |
| Decentralization of corporate activity | 39 | |
| Extent of locally based competitors | 40 | ↑ |
| Centralization of economic policy-making | 41 | |
| Favoritism in decisions of government officials | 50 | ↓ |
| Protection of minority shareholders' interests | 52 | |
| Tariff liberalization | 53 | ↑ |
| Efficacy of corporate boards | 61 | |

Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

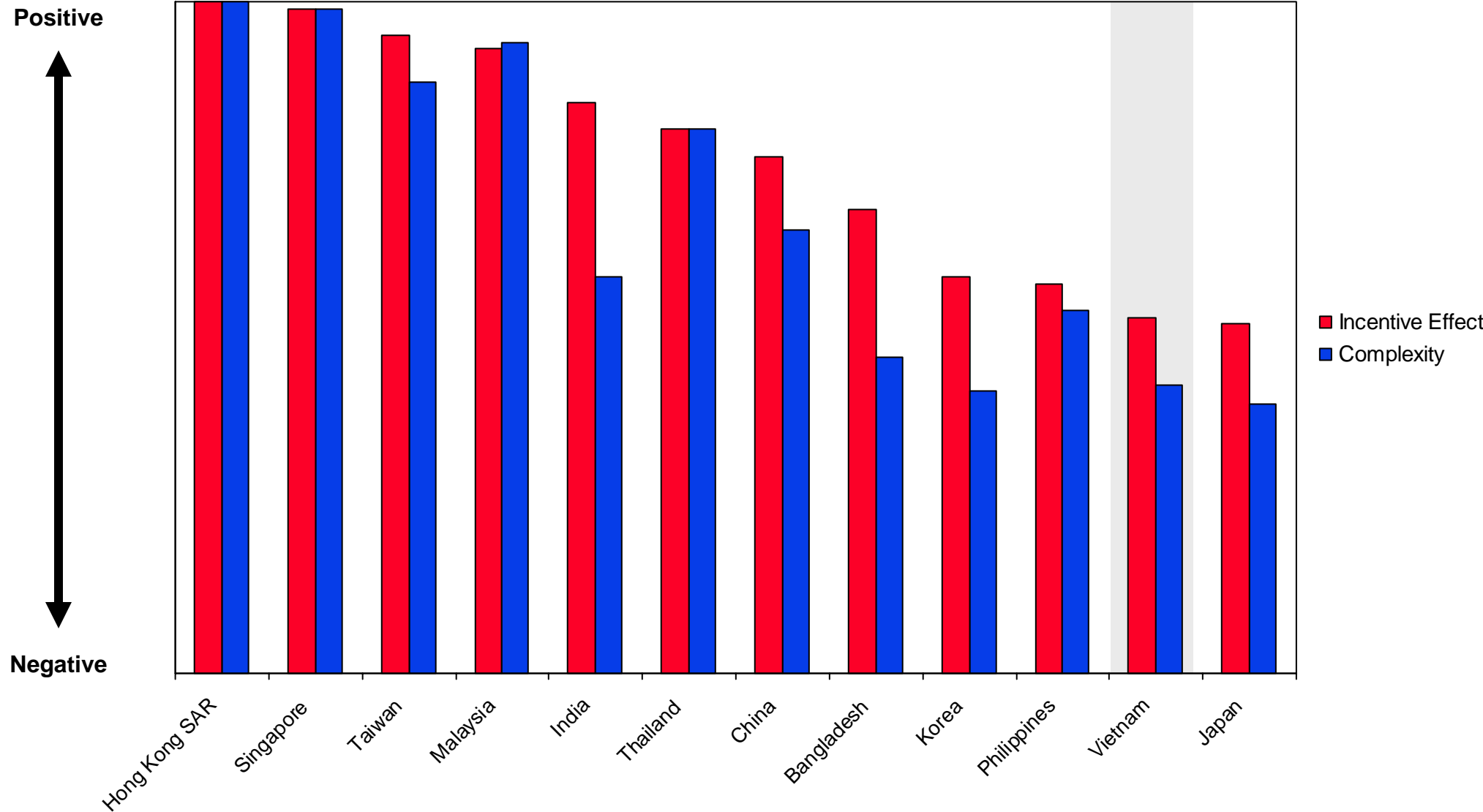
| | | |
|--|----|---|
| Hidden trade barrier liberalization | 91 | |
| Prevalence of mergers and acquisitions | 88 | |
| Foreign ownership restrictions | 86 | |
| Effectiveness of anti-trust policy | 84 | ↓ |
| Intellectual property protection | 84 | |
| Regulation of securities exchanges | 75 | |
| Business costs of corruption | 69 | |
| Intensity of local competition | 66 | |

Note: Rank versus 93 countries; overall, Vietnam ranks 73rd in Business Competitiveness and 83rd in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

Taxation

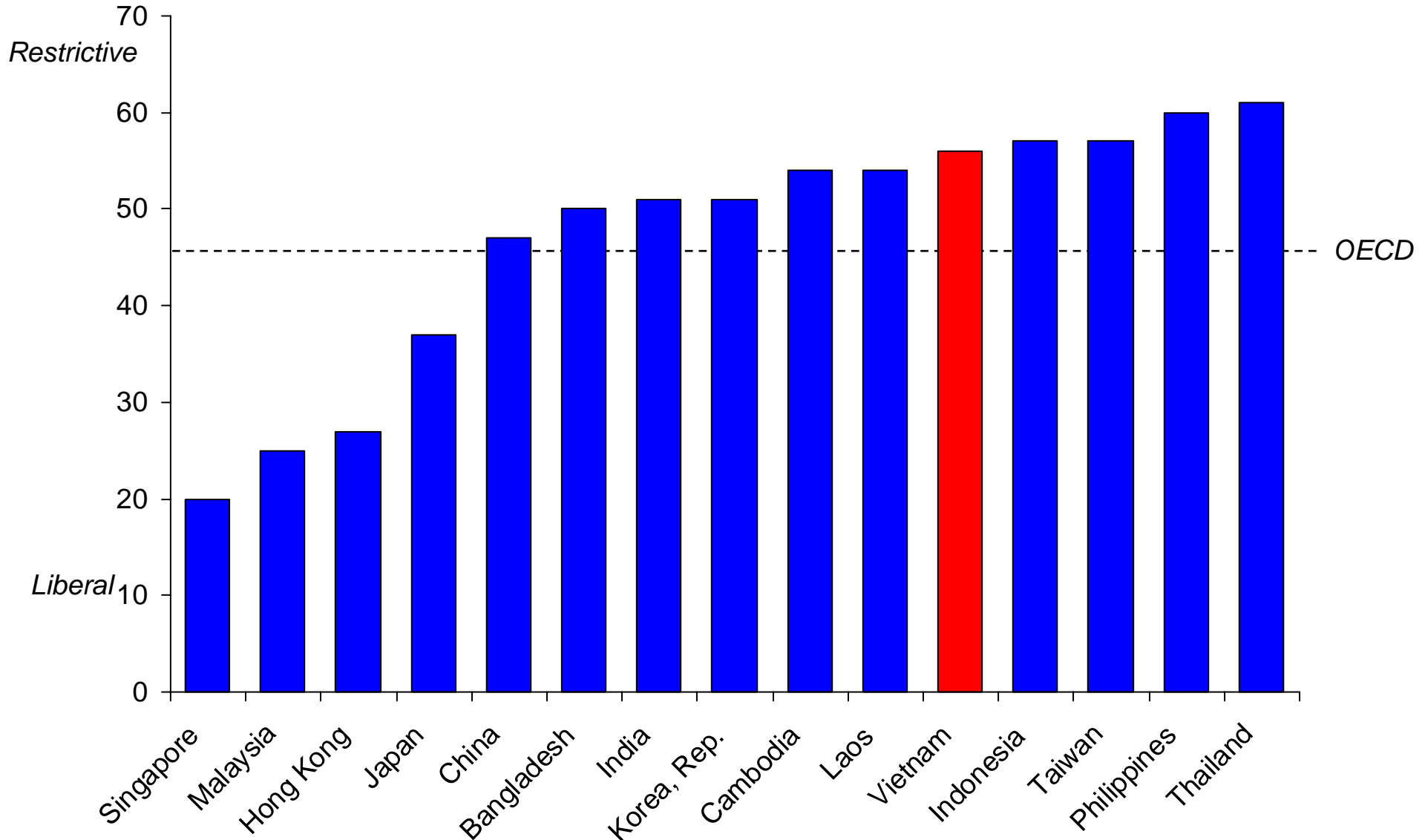
Selected Asian Countries



Labor Market Regulation

Selected Asian Countries

Stringency of Labor Market Regulation*, (0-100)



Note: Average of values for hiring, firing, and employment condition regulations


Source: World Bank (2005)
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Demand Conditions

Vietnam's Relative Position

Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

| | |
|--|--|
| Government procurement of advanced technology products | 32 |
| Sophistication of local buyers' products and processes | 51 |
| Buyer sophistication | 60  |

Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

| | |
|--|----|
| Stringency of environmental regulations | 89 |
| Laws relating to ICT | 85 |
| Presence of demanding regulatory standards | 79 |

Note: Rank versus 93 countries; overall, Vietnam ranks 73rd in Business Competitiveness and 83rd in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

Related and Supporting Industries

Vietnam's Relative Position

Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows indicate a change of 5 or more ranks since 1998

Local availability of process machinery 63

Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows indicate a change of 5 or more ranks since 1998

State of cluster development 80

Local availability of specialized research and training services 75

Local availability of components and parts 69

Extent of collaboration among clusters 68

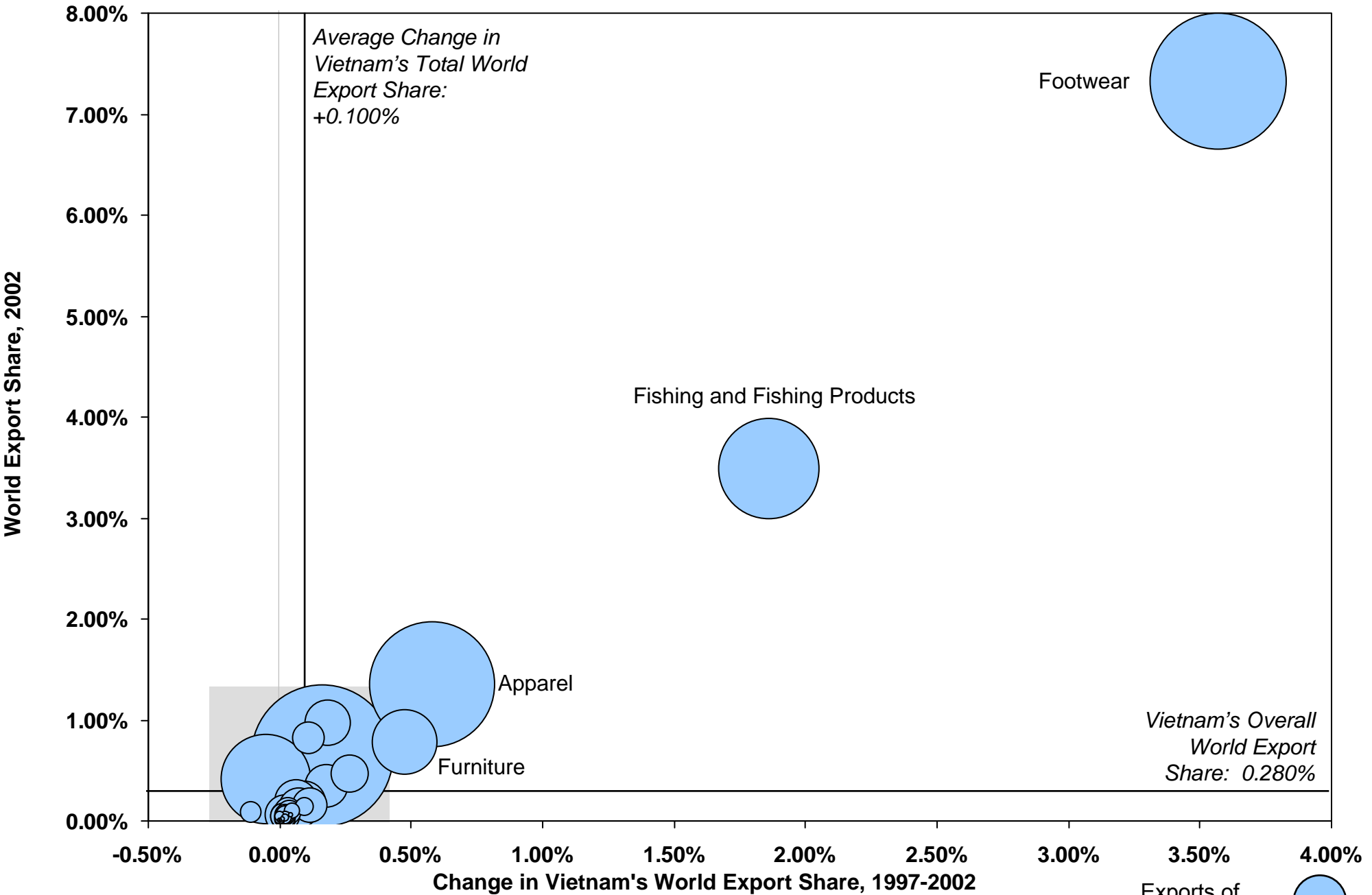
Local supplier quantity 67

Note: Rank versus 93 countries; overall, Vietnam ranks 73rd in Business Competitiveness and 83rd in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

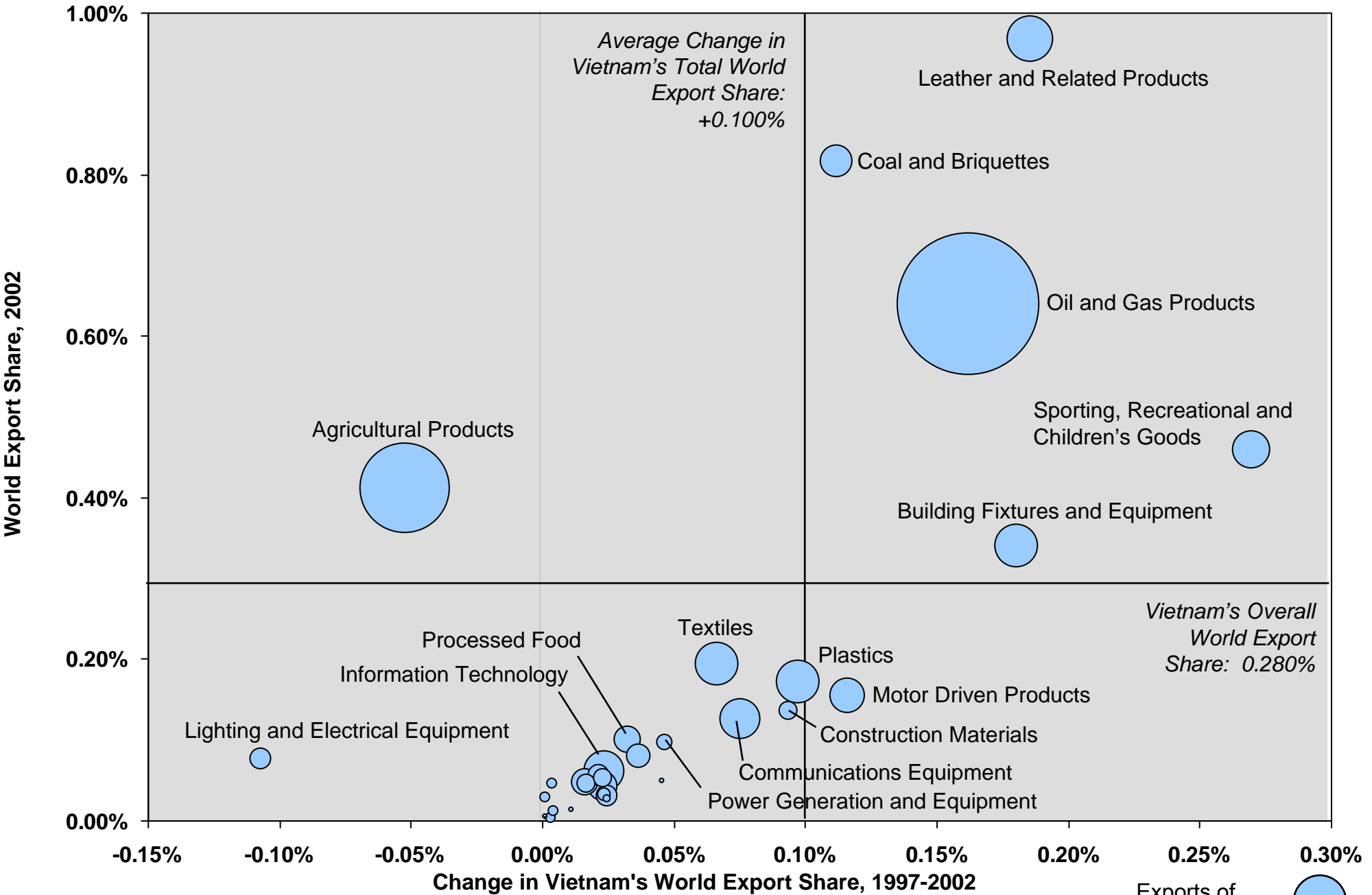
Vietnam's Goods Export Portfolio


Exports by Cluster, 1997-2002



Vietnam's Goods Export Portfolio

Exports by Cluster, 1997-2002 (continued)



Exports of \$500 million = 

Leading Vietnam Export Industries, 2002

| | Industry | Cluster | World Export Share | Change in Share 1997-2002 | Export Value in \$thousands |
|----|--|---------------------------------|--------------------|---------------------------|-----------------------------|
| 1 | Crude petroleum oils | Oil and Gas Products | 1.17% | 1.03% | \$ 3,076,200 |
| 2 | Miscellaneous footwear with leather soles | Footwear | 6.52% | 2.28% | \$ 1,236,530 |
| 3 | Crustaceans, mollusks, and aquatic invertebrates | Fishing and Fishing Products | 7.09% | 3.53% | \$ 999,876 |
| 4 | Other footwear, rubber plastics | Footwear | 17.04% | 8.86% | \$ 822,703 |
| 5 | Coffee, coffee substitute | Agricultural Products | 4.92% | 3.39% | \$ 406,669 |
| 6 | Gym, training shoes and the like rubber or plastics soles | Footwear | 19.24% | 14.33% | \$ 318,736 |
| 7 | Miscellaneous prepared or preserved fish, crustaceans and the like | Fishing and Fishing Products | 3.99% | 0.85% | \$ 304,603 |
| 8 | Men's or boys' overcoats, outerwear and similar articles | Apparel | 7.21% | 5.63% | \$ 299,509 |
| 9 | Rice, milled or semi-milled | Agricultural Products | 8.26% | 9.14% | \$ 285,029 |
| 10 | Jerseys, pullovers, cardigans, waistcoats, knitted | Apparel | 1.36% | 0.42% | \$ 276,026 |
| 11 | Fish, fresh, chilled, or frozen | Fishing and Fishing Products | 1.29% | 0.63% | \$ 272,800 |
| 12 | Other wooden furniture | Furniture | 2.19% | 0.74% | \$ 253,093 |
| 13 | Other travel bags, sets | Leather and Related Products | 9.99% | 9.67% | \$ 244,351 |
| 14 | Fruit, nuts excluding oil nuts | Agricultural Products | 0.85% | 0.23% | \$ 238,336 |
| 15 | Women's or girls' overcoats, other coats | Apparel | 5.55% | 4.99% | \$ 234,641 |
| 16 | Footwear, with textile uppers and rubber soles | Footwear | 13.32% | 10.92% | \$ 227,098 |
| 17 | Natural rubber, balata and similar natural gums | Plastics | 8.69% | 1.43% | \$ 214,343 |
| 18 | Men's or boys' trousers, breeches and shorts | Apparel | 1.47% | 0.61% | \$ 210,394 |
| 19 | Insulated wire, cable and conductors | Communications Equipment | 0.64% | 0.08% | \$ 210,329 |
| 20 | Women's or girls' trousers, breeches and shorts | Apparel | 1.20% | 0.33% | \$ 178,695 |
| 21 | Printed circuits | Information Technology | 1.30% | 1.17% | \$ 172,631 |
| 22 | Men's or boys' shirts | Apparel | 2.27% | 1.55% | \$ 168,757 |
| 23 | Coal, not agglomerated | Coal and Briquettes | 0.83% | 0.73% | \$ 168,194 |
| 24 | Convertible seats and parts | Building Fixtures and Equipment | 0.68% | 0.42% | \$ 167,583 |
| 25 | Other garments, not knitted | Apparel | 2.74% | 1.81% | \$ 136,924 |

Leading Vietnam Export Industries, 2002 (continued)

| | Industry | Cluster | World Export Share | Change in Share 1997-2002 | Export Value in \$millions |
|----|---|---|--------------------|---------------------------|----------------------------|
| 26 | Other sports shoes with leather uppers | Footwear | 4.53% | 1.90% | \$ 123,943 |
| 27 | Spices | Agricultural Products | 4.28% | 4.82% | \$ 105,836 |
| 28 | Ornamental ceramic articles | Furniture | 7.12% | 2.89% | \$ 98,323 |
| 29 | Bicycles and other cycles, non-motorized | Sporting, Recreational and Children's Goods | 4.27% | 0.39% | \$ 98,077 |
| 30 | Brassieres, corsets, braces, suspenders, garters | Apparel | 2.15% | 0.91% | \$ 88,453 |
| 31 | Baskets, brooms, brushes, paint rollers and mops | Building Fixtures and Equipment | 2.34% | 1.14% | \$ 82,093 |
| 32 | Children's toys | Sporting, Recreational and Children's Goods | 0.71% | 0.33% | \$ 79,772 |
| 33 | Women's or girls' suits, dresses, skirts, trousers, knitted | Apparel | 1.27% | 0.34% | \$ 79,439 |
| 34 | Other sports shoes with rubber, plastics uppers and soles | Footwear | 5.04% | 8.64% | \$ 76,009 |
| 35 | Men's or boys' shirts, knitted | Apparel | 2.32% | 1.20% | \$ 71,320 |
| 36 | Garments made of felt, miscellaneous nonwoven or coated fabrics | Apparel | 2.05% | 1.03% | \$ 65,119 |
| 37 | Parts for telecommunication equipment | Communications Equipment | 0.10% | 0.04% | \$ 61,402 |
| 38 | Fans, cooker hoods with fan | Motor Driven Products | 1.33% | 0.00% | \$ 61,047 |
| 39 | Oxygen-function amino-compounds | Chemical Products | 0.99% | 0.76% | \$ 58,318 |
| 40 | T-shirts, other vests, knitted | Apparel | 0.39% | 0.28% | \$ 55,028 |
| 41 | Household linens | Textiles | 0.73% | 0.90% | \$ 54,577 |
| 42 | Electric motors<=37.5w | Motor Driven Products | 1.00% | 0.03% | \$ 53,569 |
| 43 | Gold, silver jewelry or ware | Jewelry, Precious Metals and Collectibles | 0.29% | 0.09% | \$ 53,046 |
| 44 | Headgear, knitted or made up from fabrics | Apparel | 4.28% | 1.50% | \$ 52,140 |
| 45 | Vegetables | Agricultural Products | 0.22% | 0.22% | \$ 47,857 |
| 46 | Wood in chips or particles | Forest Products | 2.64% | 1.25% | \$ 45,236 |
| 47 | Trunks, suit-cases, executive-case and similar containers | Leather and Related Products | 1.14% | 0.64% | \$ 45,019 |
| 48 | Miscellaneous articles of ceramic materials | Building Fixtures and Equipment | 2.33% | 0.55% | \$ 44,415 |
| 49 | Women's or girls' underwear, nightwear, knitted | Apparel | 0.91% | 0.38% | \$ 43,821 |
| 50 | Bedroom furniture of wood | Furniture | 1.11% | 0.13% | \$ 43,615 |

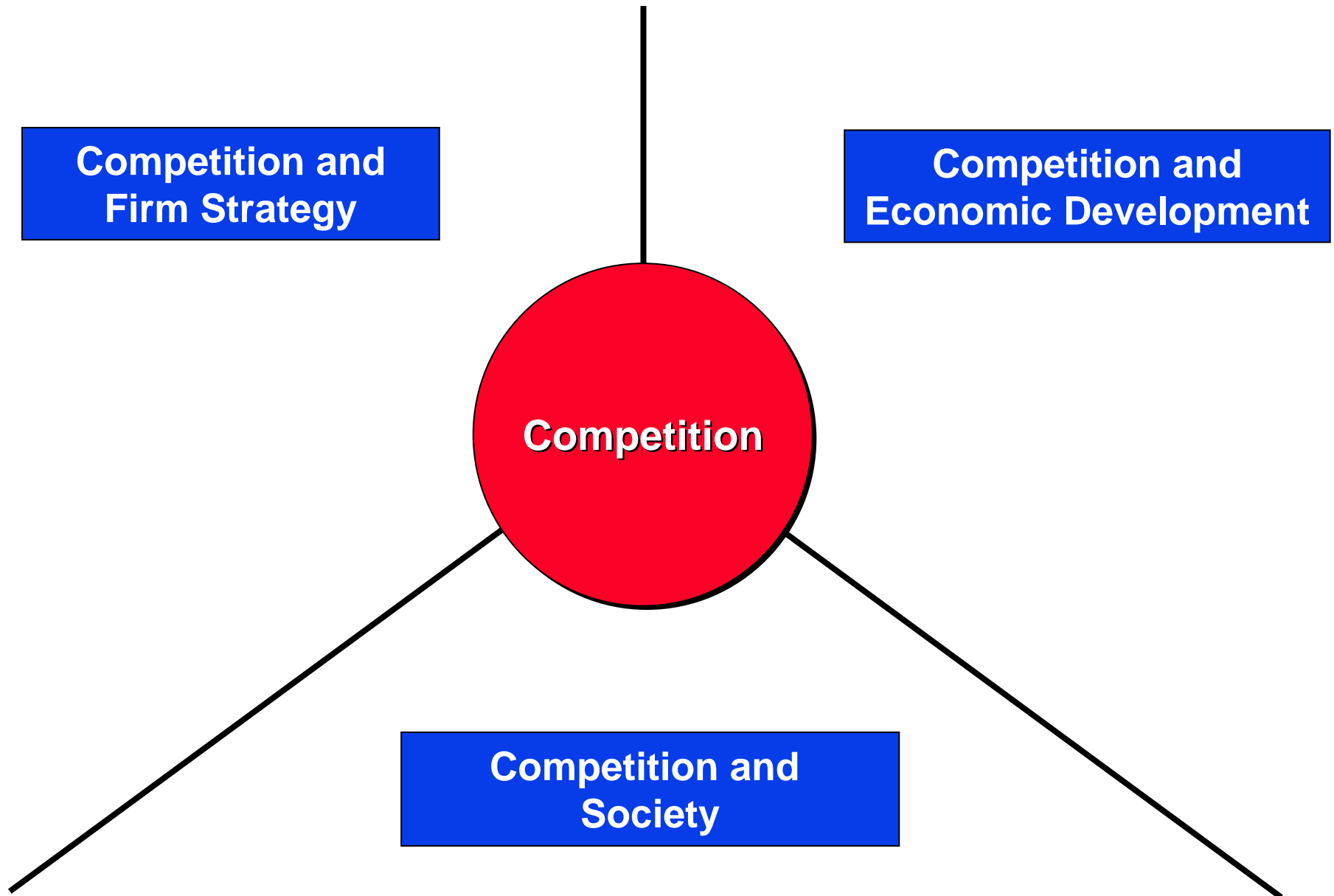
Top 50 Industries as % of Vietnam's total goods exports: 82.7%

Key Issues for Vietnamese Competitiveness

- Move **beyond** reliance on low wage-based export growth
 - Make Vietnam a more productive location
 - Upgrade domestic clusters
- Develop an independent and vibrant **domestic private sector**
 - Improve privatization process and governance
 - Financial market development
- Address key weaknesses in the **business environment**
 - e.g. Corruption and bureaucracy
 - Bottlenecks in physical infrastructure
- Mobilize emerging **clusters**
 - Tourism
 - Shoes
 - Textiles
 - Fishing products
 - Oil and gas
- Leverage different **levels of geography**
 - Regions within Vietnam
 - Indochina
 - ASEAN

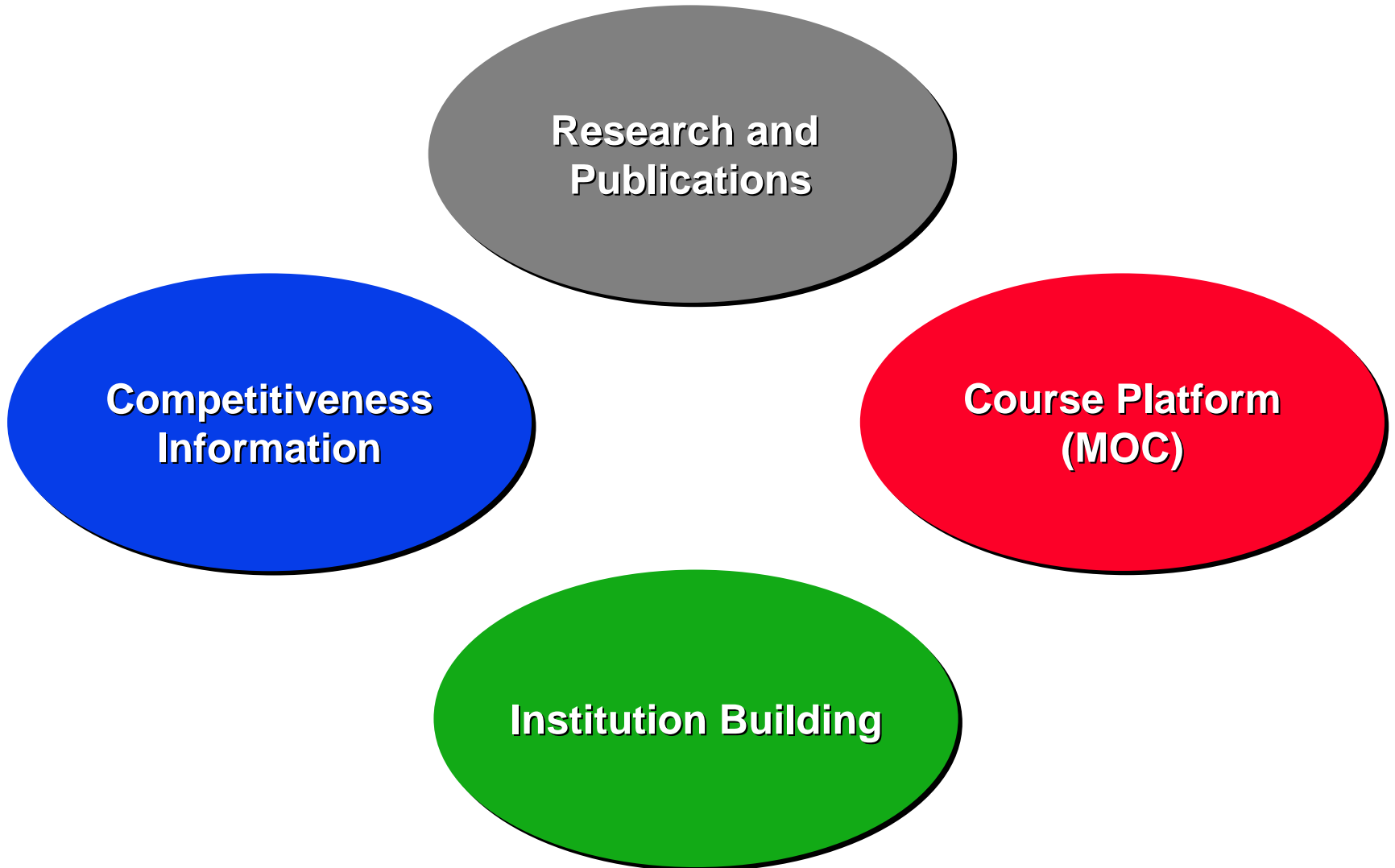
Institute for Strategy and Competitiveness

Intellectual Agenda



Institute for Strategy and Competitiveness

Strategic Pillars



Potential Resources for Vietnam

- Course “Microeconomics of Competitiveness”
 - Competitiveness data on ISC web site
 - Connection to ISC partners in the region, especially the new Asian Institute for Competitiveness in Singapore
-
- Support for overall competitiveness or specific cluster efforts