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Viet Nam

Competitive Industrial Performance in 2012

UNIDO Country Office in Viet Nam – August 2014



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Executive Summary

In the Competitive Industrial Performance (CIP) ranking, Viet Nam moved up to the 54th-placed in 2012, jumping 18 spots in the last decade. Indeed, it has experienced a strong and steady growth of the manufactured production: its Manufacturing Value Added (MVA) per capita skyrocketed from US\$ 31 in 1990 to US\$ 176 in 2010. Yet, it still lags behind most countries in the region. Its industrial structure is also technologically unsophisticated, with a small and unchanged share of medium- and high-technology in MVA (20.3%) during this last decade.

Its performance on the trade side is better: its manufactured exports per capita rose by 20% per year on average during the last decade and have been unaffected by the recent financial crisis. Manufactured exports now account for almost two thirds of Viet Nam's total exports, though it remains among the lowest in the region. Despite obvious improvements with a strong growth of 50% per year on average of its exports of the world's 10 most dynamic high-technology products between 2002 and 2012, it remains a marginal player on the global stage and its industrial exports are still technologically unsophisticated.

Viet Nam's market diversification remains strong, even if it is becoming more dependent on the economic dynamism of the American market. However, Viet Nam's exports are concentrated in a limited range of exports products, with a predominance of low-tech exports, especially articles of apparel and clothing accessories.

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1. Capacity to produce and export

A strong and steady growth of the manufactured production

Viet Nam's Manufacturing Value Added (MVA) per capita growth has been impressive and shows its capacity to add value in the manufacturing process. Indeed, between 1990 and 2010, MVA per capita skyrocketed from US\$ 31 to US\$ 176 (Table 1). What is even more remarkable is the constancy of this growth trajectory during the last two decades, a feat that was only achieved by China within the region. Noteworthy, MVA growth has gone hand in hand with economic growth. Indeed, since 2010, China, Cambodia and Viet Nam recorded the highest GDP growth rates for the period (10%, 8% and 7.3% respectively), implying that there is a strong link between industrialization and economic development.

Albeit at still low level

Despite this rise, Viet Nam lags behind most countries in the region, and should remain so. This means that MVA growth in Viet Nam is actually not as impressive as it appears at a first glance. Yet, Viet Nam's industrial sector has the capacity to grow even faster given the size of its labor force employable in productive industry.

Table 1: Manufacturing value added per capita for Viet Nam and comparators, 1990-2010

Country	Value (US\$)			Average annual growth rate	
	1990	2000	2010	1990-2000	2000-2010
Singapore	3,895	5,941	8,198	4.3%	3.3%
Taiwan (Province of China)	2,432	3,615	6,153	4.0%	5.5%
Republic of Korea	1,443	2,876	4,783	7.1%	5.2%
Malaysia	620	1,244	1,427	7.2%	1.4%
Thailand	348	680	1,054	6.9%	4.5%
China	100	303	820	11.7%	10.5%
Indonesia	132	216	302	5.0%	3.4%
Philippines	251	260	296	0.4%	1.3%
Viet Nam	31	73	176	8.8%	9.2%
India	44	63	109	3.7%	5.7%
Cambodia	15	46	101	11.5%	8.2%

Source: UNIDO, Competitive Industrial Performance Index.

A booming trade in manufactures, even in times of crisis

Manufactured exports per capita growth in Viet Nam over the last decade has been impressive, even outshining China's growth for the period 2000-2010 (Table 2). This shows the country's capacity to meet global demand for manufactured goods in a highly competitive and changing environment. The most impressive fact is that Viet Nam's manufactured exports growth seems to have been unaffected by the recent financial crisis. Other countries like China, India or Cambodia saw a major slowdown in manufactured trade with the US and EU markets.

Better performance on the trade side than the industrial side

The level and growth of manufactured exports have been largely more impressive than those of the MVA. Viet Nam's exports gains illustrate the country's rapid integration into the world economy, including the crucial Bilateral Trade Agreement with the US in 2000 and WTO accession in 2007. However, manufactured production is not following this same impressive path with a MVA per capita which remains low and a share of medium- and high-technology in MVA unchanged during this last decade (20.3%). Therefore, Viet Nam should have suitable industrial policy to leap frog in the long-term towards the higher value-added and more technologically sophisticated sectors.

Table 2: Manufactured exports per capita for Viet Nam and comparators, 2000-2010

Country	Value (US\$)			Average annual growth rate		
	2000	2005	2010	2000-2005	2005-2010	2000-2010
Singapore	18,448	26,995	35,709	7.9%	5.8%	6.8%
Taiwan (Province of China)	6,503	8,069	10,825	4.4%	6.1%	5.2%
Republic of Korea	3,559	5,802	9,280	10.3%	9.9%	10.1%
Malaysia	3,766	4,702	5,931	4.5%	4.8%	4.6%
Thailand	968	1,522	2,517	9.5%	10.6%	10.0%
China	180	550	1,124	25.1%	15.3%	20.1%
Viet Nam	86	206	551	19.2%	21.8%	20.5%
Philippines	481	466	517	-0.6%	2.1%	0.7%
Indonesia	203	244	396	3.7%	10.2%	6.9%
Cambodia	85	167	239	14.3%	7.5%	10.9%
India	34	77	154	17.8%	14.9%	16.3%

Source: UNIDO, Competitive Industrial Performance Index.

2. Technological upgrading and deepening

Evidence suggests that technology intensive structures can lead to faster growth because, over the long run, technology intensive activities tend to grow faster in trade than simple activities. These sectors are also less vulnerable to entry by competitors and therefore enjoy higher and more sustainable margins. Figure 1 sums up the evolution of Viet Nam's export structure towards more sophisticated products.

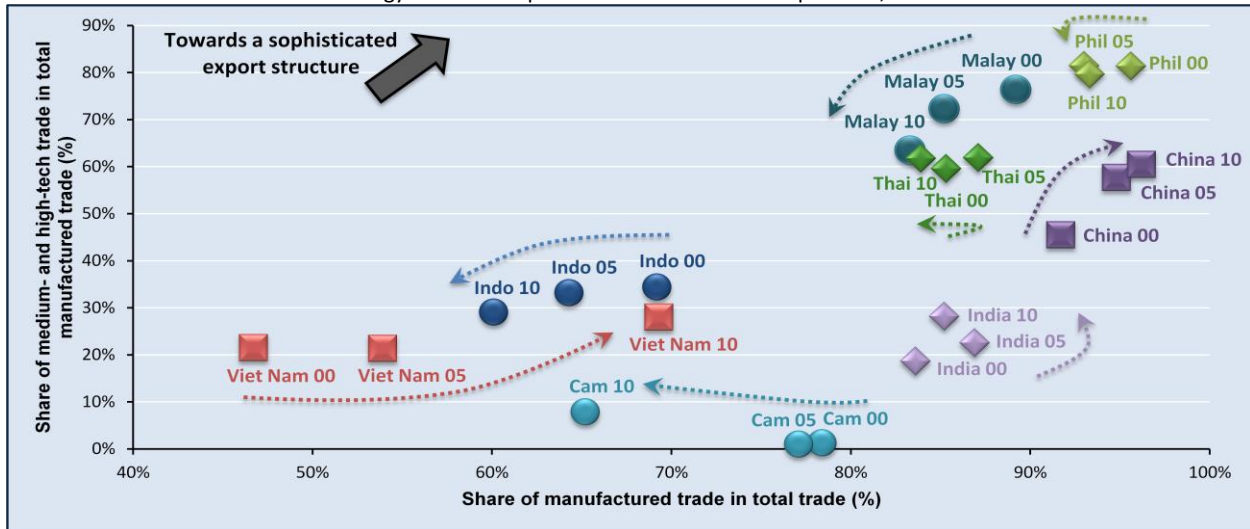
Manufactured exports as a share of total exports remain among the lowest in the region

Manufactured exports now account for almost two thirds of Viet Nam's total exports. But, in order to join the regional club of highly industrialized economies, Viet Nam's manufactured trade ought to account for more than 80% of its total trade. In the case of Republic of Korea, Singapore and China, the obvious role models in the region, manufactured exports represent more than 90% of their total trade.

Industrial exports are still technologically unsophisticated

On the whole, Viet Nam is moving in the right direction, albeit slowly. With resource-based and low-tech exports still taking central stage in the country's export pattern, the real challenge for Viet Nam is to increase the technological sophistication of its industries. Indeed, Viet Nam has a positive trade balance in low-technology manufactures, while recording a trade deficit at the more sophisticated end of the manufacturing spectrum. Yet, such a technological sophistication can be achieved fairly quickly, as is shown by China's example, whose high-tech and medium-tech exports now account for two thirds of its total manufactured exports.

Figure 1: Evolution of export structure towards manufactured exports and technology intensive exports for Viet Nam and comparators, 2000-2010



Source: UNIDO, Competitive Industrial Performance Index.

Technological sophistication is ongoing with an impressive high-tech exports growth

Viet Nam’s performance in the world’s most dynamic products assess its ability to quickly shift production and export structures to meet global demand. Table 3 focuses particularly on world’s 10 most dynamic high-technology products. It indicates that Viet Nam has been able to sorely increase its exports of these high-tech products, with an average annual growth rate of almost 50%, which is well above the world average annual growth rate (11%). This rise, if it continues, should help to accelerate the evolution of Viet Nam’s export structure towards more sophisticated products.

Albeit its impact worldwide remains low

On the whole, Viet Nam remains a marginal player on the global stage, with a worldwide market share of only 0.7% in these products. The only exception is Viet Nam’s office machines exports (SITC 751), which have literally exploded and have made Viet Nam the world fifth largest exporter of office machines, with a worldwide market share of almost 5% in 2012.

Table 3: Viet Nam’s performance in the world’s 10 most dynamic high-technology products, 2002-2012

Code	High-technology product	World exports		Viet Nam’s exports	
		2012 Value (US\$ millions)	Annual growth rate 2002-2012	2012 Value (US\$ millions)	Annual growth rate 2002-2012
871	Optical instruments and apparatus	109,161	24.1%	55	88.2%
751	Office machines	51,266	16.1%	2,438	140.2%
541	Pharmaceutical products, except medicaments	168,463	15.1%	13	19.6%
718	Other power generating machinery and parts	24,966	14.1%	3	36.6%
525	Radio-actives and associated materials	16,135	12.1%	25	61.6%
716	Rotating electric plant and parts thereof	97,219	11.4%	1,220	33.8%
771	Electric power machinery, and parts thereof	92,592	11.3%	565	29.4%
542	Medicaments (incl. vet)	334,151	10.3%	73	24.6%
874	Measuring, analyzing and controlling apparatus	185,142	9.8%	140	27.0%
764	Telecommunication equipment and parts	521,442	9.7%	5,971	50.5%

Source: UNCTADstat.

3. Product and Market diversification

A strong market diversification, even though North America takes central stage

Viet Nam's manufactured trade is far from concentrated, due to its strong presence in the world's largest markets, namely North America, the European Union and East Asia. This helps the country protect itself from weak demand in specific markets and the emergence of strong competitors in the world's largest markets. But the current strong orientation towards the North American market is worth noting to the extent that it has now become the main destination of Viet Nam's manufactured exports, while exports to North America accounted for only 4% of total manufactured exports in 2000. Viet Nam is thus becoming more and more dependent on the American dynamism.

Exports are not enough diversified

Viet Nam's top five manufactured exports in 2012 were footwear, telecommunication equipment, articles of apparel, furniture and men's clothing of textile fabrics (Table 4). These together accounted for around 24% of exports in 2012, suggesting that exports are diversified. But if we look more carefully the top 15, five products belong to the same category, articles of apparel and clothing accessories (SITC 84), which means that exports are in reality concentrated in a limited range of export products. This should be a serious concern for its export sector, as it is consequently highly exposed and vulnerable to changing demand and third country competition.

With a predominance of low-tech exports

Viet Nam's top exports are largely dominated by low-technology exports. More precisely, Viet Nam is the world third largest exporter of footwear (SITC 851), with a worldwide market share of 7% in 2012. Viet Nam is also one of the top exporters of articles of apparel and clothing accessories (SITC 84), with a worldwide market share of more than 4%. However, export growth in this sector (7%) was less than the average global export growth (11%), which means that Viet Nam specializes in a sector where the economic outlooks are limited; hence the importance of product diversification and moreover technological upgrading.

As regards to food items, Viet Nam is the third largest exporter of fish and aquatic invertebrates, prepared, preserved (SITC 037). In this sector, the real challenge for Viet Nam is to increase value added by processing more and more the primary goods locally.

Table 4: Viet Nam's top 15 manufactured exports, 2002-2012

Technology classification	Code	Product	World exports		Viet Nam's exports	
			2012 Value (US\$ millions)	Annual growth rate 2002-2012	2012 Value (US\$ millions)	Annual growth rate 2002-2012
Low-tech	851	Footwear	117,448	9.2%	8,428	16.0%
High-tech	764	Telecommunication equipment and parts	521,441	9.7%	5,971	50.5%
Low-tech	845	Articles of apparel, of textile fabrics	138,072	7.2%	4,584	21.4%
Low-tech	821	Furniture and parts	156,813	9.2%	4,341	26.0%
Low-tech	841	Men's clothing of textile fabrics, not knitted	70,552	5.6%	3,971	15.3%
Low-tech	842	Women's clothing of textile fabrics	80,584	5.3%	3,618	21.0%
Resource-bas.	334	Petroleum oils or bituminous minerals > 70 % oil	1,018,259	21.7%	2,579	35.8%
High-tech	751	Office machines	51,266	16.1%	2,438	140.2%
Low-tech	651	Textile yarn	55,523	5.7%	2,265	33.2%
Low-tech	844	Women's clothing, of textile, knitted or crocheted	58,555	11.6%	2,045	27.9%
Medium-tech	773	Equipment for distributing electricity	112,287	10.9%	1,910	26.1%
Resource-bas.	037	Fish, aqua. invertebrates, prepared, preserved	27,385	10.5%	1,605	32.5%
Low-tech	843	Men's clothing, of textile, knitted or crocheted	31,209	10.5%	1,370	23.3%
Low-tech	893	Articles of plastics	142,130	9.4%	1,326	28.6%
Low-tech	831	Travel goods, handbags and similar containers	56,058	13.3%	1,298	21.6%

Source: UNCTADstat.

4. World competitiveness rankings

UNIDO's index is based on quantitative and transparent indicators

The CIP index consists of eight sub-indicators grouped along three dimensions of industrial competitiveness: the countries' capacity to produce and export manufactures; the countries' level of technological deepening and upgrading; and the countries' impact on world manufacturing. This way, the CIP index does not make any implicit normative assumptions or prescriptions at the institutional level.

And give a better rank to Viet Nam

While Viet Nam is ranked 54th in the world according to the UNIDO ranking, it is only ranked 75th in the World Economic Forum (WEF) ranking (Table 5). Its position in this international ranking is very low given its relative closure to international markets, companies' control ownership and massive presence of state-owned enterprises. Noteworthy, Viet Nam is not ranked by the Institute for Management Development (IMD).

Table 5: Countries' ranking in the CIP index and movements across competitiveness rankings

Country	UNIDO ranking		WEF ranking	Ranking difference CIP - WEF	IMD ranking	Ranking difference CIP - IMD
	2000	2012	2012		2012	
Republic of Korea	12	4	19	-15	22	-18
Taiwan (Province of China)	10	5	13	-8	7	-2
Singapore	11	6	2	+4	4	+2
China	23	7	29	-22	23	-16
Malaysia	20	21	25	-4	14	+7
Thailand	24	23	38	-15	30	-7
Indonesia	40	38	50	-12	42	-4
India	52	43	59	-16	35	+8
Philippines	38	44	65	-21	43	+1
Viet Nam	72	54	75	-21	NA	NA
Cambodia	93	90	85	+5	NA	NA

Source: UNIDO, Competitive Industrial Performance Report 2012/2013.

Concluding remarks

Among the high-growth economies of East Asia, Viet Nam's growth has been truly remarkable and its performance in the Competitive Industrial Performance (CIP) ranking deserves special attention. Indeed, Viet Nam ranked 54th in 2012, jumping 18 spots in twelve years and becoming one of the most rapidly improving countries in the world (Table 5). These competitiveness gains are reflected in the booming production and especially exports experienced by Viet Nam. However, Viet Nam still has some way to go before it can catch up with the regional leaders in East Asia. Indeed, despite obvious improvements and technology sophistication (*e.g.* Viet Nam has become the world fifth largest exporter of office machines), investors still largely view Viet Nam as a location for cheap export-oriented manufacturing and not as a hub for high value added manufacturing. Consequently, Viet Nam still needs an industrial policy aimed at structural change towards high value added manufacturing sectors to sustain current growth levels in the long run.



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