

# Promotion of Supporting Industries: The Key for Attracting FDI in Developing Countries

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*January 27, 2004, the International Symposium - "Research on the Strategy of Promotion of Supporting Industries in Asian Countries - from experiences of Thailand to the fact of Vietnam" was held at Danang, Vietnam, with the participation of many professors and researchers from Japan, Thailand and United States of America. This is a part of the joint research project hosted by University of Danang in collaboration of Obirin University, Japan and Thammasat University, Thailand, co-sponsored by the Asia Center of the Japan Foundation and Obirin University.*

*The symposium was reported widely by local newspaper and television broadcasting, and it had attracted the interests of many bureaucrats, entrepreneurs, specialists and researchers in Vietnam.<sup>1</sup>*

*Followings are some main points quoted from the symposium.*

*At the beginning of the symposium, a theoretical framework for analyzing the role of Supporting Industries (SI), and the need to promote them for industrialization was presented.*

Generally, opening economic policies to join

in the globalization is the "first best" strategy for developing countries to catch-up with earlier comers. One of the important issues here is absorbing foreign direct investment (FDI). But to attract and increase efficiency of FDI, supporting industries (SI) should be promoted and developed early on the industrialization process. The reason is because SI plays a role as "infrastructure" for assembling industries, as they supplies necessary appliances and parts for assemblers. Nowadays, it is good precondition for the appearance of supporting industries that, almost all big companies, makers (particularly, multinationals companies) have changed their strategy of managing production. They keep some main activities, such as research and development (R & D), and assembly in-house, but outsource appliances and parts productions, in lieu of involving complete line production as they had done beforetime. They have had to do that to strengthen their price competitiveness in production.

Given that good precondition, SI in developing countries can only be able to develop if they get right policy supports from government, which is suitable with market principle, that is, respecting competitive function of the market. Such policy supports should

be concentrated on solving financial, technological matters, and improving output, input market conditions for SI. To attract FDI in SI field is indispensable issue in these policy supports, because this type of FDI will play a role as "seed" in making spillover of entrepreneurship locally.

And another issue, that is very important also, is to aid SI enterprises to develop human resources in fitness with the demand and development of market. Deregulation on tertiary education and training field to encourage the entry of private sector is one of these issues.

*Supported for the above analytical framework, the experience of Thailand about promotion of SI was presented soon after.*

Thailand had established a Supporting Industries Promotion Committee with some special agents (for instance engineering, electronic, etc.) These governmental agents keep communication closely with FDI and local entrepreneurs, and outside cooperation particularly from Japan, to support for the formation of various linkages between assemblers and appliances and parts supporters in the locality.

At the present time, the committee classified concretely all the supporting industries into 19 categories divided as three classes (machine and equipment, appliance and part, and service) to have respective policy supports for them.

Along with the above supports, Thailand has applied what so-called Local Content Policy, which encouraged legally and compulso-

rily assemblers to localize their products, by using appliances and parts produced locally.

With the efforts of government to promote SI, the result is that, the industrialization of Thailand has got big progress. For example in car industry, Thailand, which is recently be called as "Detroit" of ASEAN, has started export car with full appliances and parts produced locally.

Nowadays in Thailand, there are only about 15 car assemblers, while in SI field it has approximately more than 1,800 suppliers. This development of SI has been effectuated by strong governmental push on increasing localization rate in production. For instance, the localization policy for assembling light-truck was changed from regulating 40% localization rate (in 1996), to requesting legally using diesel engine produced in Thailand, to day.

The effort of Thai government in localizing modern industrial productions, in accordance with the appropriate supports, has effectuated the new boom of FDI flow into Thai. This new FDI flow involved not only the expansion of production scale of assemblers, but increasing and expanding of investment in SI fields.

In short, the experience of Thailand in promoting SI is the appropriate combination of applying local content policy and supports for the development of SI. This combination has to be run as an order as to attract general FDI firstly, then promote SI with cooperation from outside secondly, and strengthen regulations of localization lastly.

*And the symposium had been ended by*

*the presentation about the matters in current of Vietnam.*

Vietnam has been bearing a very hard oppression of opening economic policy to join the global economy. And to find out about a breakthrough is an important issue to remove this burden of oppression. So what is suitable breakthrough for Vietnam, now? Concentrating on promotion of SI can be seen as a "key" solution on the matter. This conclusion can be explained by the role of SI, that it will improve technical and economic conditions for absorbing FDI with possibility of competitiveness, in manufacturing field.

Given that, in the near future Vietnam will produce many complete industrial products, such as television, computer, car, etc. but with

almost all imported appliances and parts, so how will it be able to supply right on time to market with competitive products? Foreign investors (assemblers) will not come or move out if they do not find the perspective of local competitive procurement.

For this reason government should concentrate on building special policy for promoting SI, which involve the issues of financial and technological assistances and other supports for small and medium size of enterprises, since almost all SI enterprises belong to these size. 1 See the URL:

<http://www.tuoitre.com.vn/Tianyon/Index.aspx?ArticleID=17775&ChannelID=11>, and <http://www.tuoitre.com.vn/Tianyon/Index.aspx?ArticleID=17628&ChannelID=11> for the related news (in Vietnamese).