

CHALLENGES TOWARD PARTICIPATION IN INTERNATIONAL PRODUCTION-BUSINESS ACTIVITIES AND BENEFIT SHARING OF VIETNAM

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Abstract:

Participation in international production-business activities brings benefits for Vietnam. Our labor based contribution, however, produces for Vietnam the benefits inferior to the ones of many other nations. This disadvantage is experiencing an increasing trend in the close future due to impacts from Industrial Revolution IV where some developed nations have plans to take home production activities. Therefore, Vietnam has no ways to avoid the needs of enhancing its endogenic capacities for management, science-technology (S&T) and marketing.

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Production-business activities naturally are based on many elements. Through this set of elements, the social sectors participate in production-business activities and share the created benefits. Any one participating in production-business activities gets his own share of benefits but the parts are not evenly divided. It is the problem of research interests of this paper.

1. Some historical models

In history, there are some models of benefit sharing we should pay attentions to, namely: individual production model coupled with self-provision practice, cooperative production model, commercial good production model and capital sourced production model.

Model 1: Individual production model coupled with self-provision practice. The production activities in this model include two production elements: labor and natural resources which is reflected very exactly by the old and famous statement of William Petty, English economist: “Labor is the father and Land is the mother of the riches”. The produced products are consumed well without needs to be circulated between them. The main actors in these activities are individual labors and the whole gained benefits belong to them.

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Model 2: Cooperative production model. Differently from Model 1, this model makes appear the management element. Management gains more important roles when many labors coordinate in production activities like the roles of the orchestra conductor (Karl Marx). Model 2 includes two actors in production activities and benefit sharing who are labors and managers. Management becomes a superior producing factor and then consequently managers hold advantageous positions in benefit sharing process.

Model 3: Commercial good production model. Commercial good production depends on market elements. With no goods which can be sold, the production activities are considered as no value producing activities. Therefore, the one which holds the segment of market circulation takes advantageous positions in sharing of benefits created from production-business activities.

Model 4: Capital sourced production model. Besides to elements of labor, management and commerce, the capital can be one of the important production elements. In this case, the one who put capitals into production-business activities gets the superior positions in sharing of created benefits.

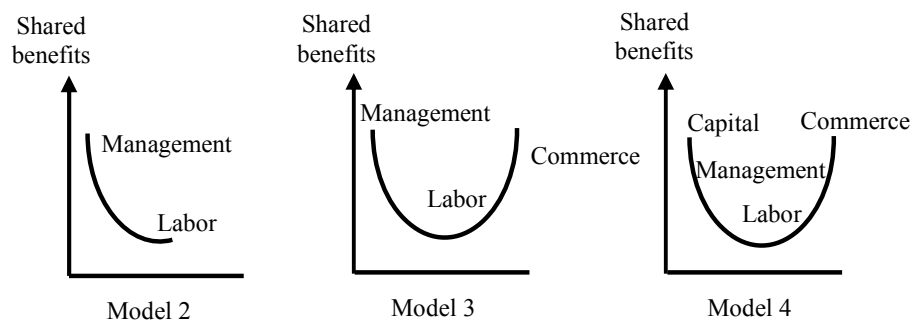


Figure 1. Some models of benefit sharing in history

The presented 4 models of benefit sharing show that the benefit sharing based on roles of participation among production elements is a globally covering relation in economic activities. As it is seen the sharing of created benefits among actors participating in production-business activities is generally is not even. In Model 2, managers take advantageous benefits. As example, in practice of vocational associations the leaders take duties of organizing and managing works while labors take duties of producers. Their roles are different and their incomes, as rules, are not equal also.

In Model 3, the ones who make goods circulate in markets hold considerable parts of benefits. For example, the ones who are responsible for sales of products take roles of market searching and good selling. The

benefits are shared for two parts: production and commerce. The ones who are responsible for activities of sales get more benefits than the ones who are responsible for activities of production.

In Model 4, the ones who provide capitals take the superior advantages in sharing of created benefits. The interest amounts from the loans offered by capital providers are taken from the benefits of production-business activities. The higher is the interest rate, the bigger is the difference in shared benefits between the capital providers and other actors in the chain of production-business activities.

There exist many economic theories which try to explain the fact of difference of gained benefits among the actors of production-business activities and the continued efforts of joint production-business activities despite of different gained benefits. The typical example is the theory of surplus values by Karl Marx with analysis of relations between capitals and labors, and relations between production capitals, commerce capitals and finance capitals. In conformity to analysis objectives, here the attention is paid to a simple way for interpretation.

All the actors participating in production-business activities always wish to get the highest benefits but the practice of benefit sharing does not depend on the wills of any actor. The real relation in practice of benefit sharing depends on the correlations among the roles the producing actors contribute. Naturally, the top consideration is based on the role and the rate the presence of the goods in markets (supply-demand relations). At the same time, we can see the actors which get smaller parts of benefits still find it better that the situation where they do not participate in joint production-business activities. They target to push up production-business activities to improve their own benefits on basis of global increasing benefit earnings of the whole team rather than try to grab the positions of higher benefits from other actors.

This brief history overview shows well that the benefit sharing based on participation in production elements is made in different forms. Joining them together, we can set up some trends with the following features:

- Increasing trend of more actors participating in production-business activities and sharing of created benefits and an emerging trend of new production elements;
- Increasing trend of new low-high levels in sharing of created benefits (Ref. to Fig. 1). The levels in benefit sharing are bound to the diversity of positions of production elements. There is a clearer vision on the 4 basic levels $A \rightarrow B \rightarrow C \rightarrow D$ as it is seen in Table 1.

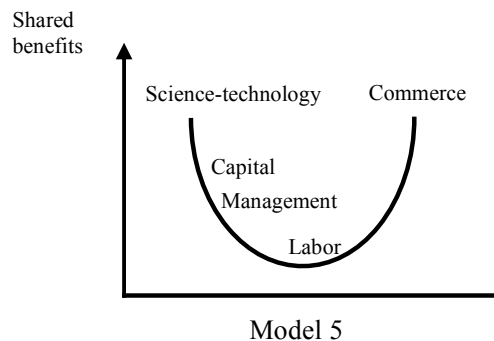
Table 1. Basic positions of production-business elements

Roles	Low roles	High roles
Supply-demand relations		
Supply > Demand	A	C
Supply < Demand	B	D

- Increasing trend of diversified forms of certain actors participating in production-business activities and benefit sharing practice. The commercial actors are in facts the owners of selling chains in feudal time up to the owners of commercial companies in capitalist time, and the heavy loan providers in feudal time up to bank owners in capitalist time.
- Lowering trend of the roles of labors as production element, in a global view. And consequently, the small part of benefits for labors gets even lower in benefit sharing practice.

2. Model of actual practice of economic benefit sharing and challenges for Vietnam

Today the smile curve is spoken more and more. This, in reality, is similar to the mode of benefit sharing among production elements we just have discussed here which can be called Model 5. Model 5 continues the above noted development trend with some remarkable features: strong emergence of S&T elements and corresponding actors, roles of S&T elements in formation of new levels in benefit sharing, roles of globalization in extension of international links in production activities and lowering roles of labors in the chain of production-business and distribution activities.

**Figure 2.** Model of actual practice of benefit sharing

Vietnam is actually active in its integration into international production-business activities and international benefit sharing. Our participation is mainly made through provision of labor forces including participation of Vietnamese labors in overseas production-business activities and the ones

in local production-business activities of foreign companies. The fabricating activities of Vietnam based foreign companies are made on basis of the externally provided capitals, technologies, management, market searching capacities and the only local labor force.

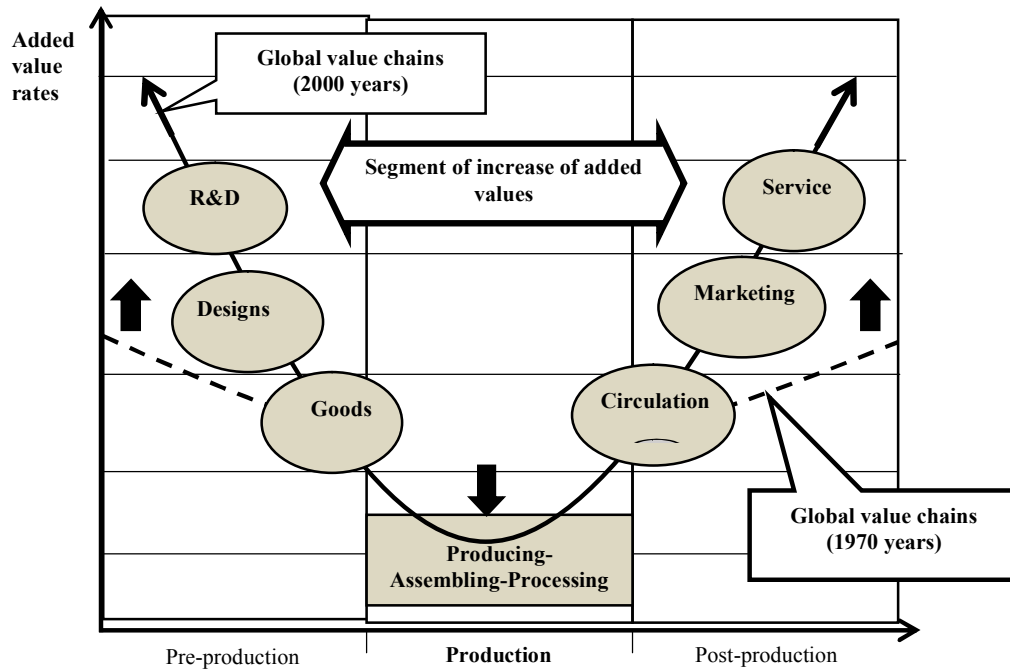
We have observed our weakness in management, capital and commerce elements. Despite of the whole responsibility for production-business activities by domestic actors and the even practice of benefit sharing among local actors but, due to the low competitiveness in the world markets, Vietnam still gets the whole share of “a small cake” (which is right also for supporting industrial sectors at the actual focus of development). Recently, in the process of integration into international production-business activities, “the cake” gets much bigger but the share for Vietnam remains small. Our efforts for changes are still confined between the whole part of “the small cake” and the small part of “the great cake”.

The context of integration has changed the producing mode in direction of flexible choice of sites of activities. Even the glorious title of “the world’s factory” of the UK from the Industrial Revolution I time stopped being the symbol of strength from long years. The control made through the border lines between economies is replaced by the control made through production elements. The clear separation between producing sectors and unified production elements has been shifted to the clear separation between production elements in unified international production activities. Accordingly, “where is the production site” is not so important as “how is the production controlled” is.

Foreign investment in Vietnam sometimes is described as attraction of capitals, technologies, management and market searching capacities. But there is another way which describes it in a more substantial way: foreign partners bring in capitals, technologies, management and market searching capacities for a combination with local labors of Vietnam. But only with the labor force, we are found in a more disadvantageous position in production activities and sharing of benefits produced from Vietnam located enterprises.

In fabricating practice, the rate of earned benefits is also too modest in comparison to partners and this practice leads to certain disappointment. The small share, however, fits to the principles of the game of production internationalization and other general rules observed in the history. If we still base our participation on the labor element we could only earn the benefits as we do now or even less. And then there exist some bad trends for great attentions:

- *First bad trend:* the gaps in sharing of created benefits between Vietnam and foreign partners are extending in scales and shortening in time. The role of S&T gets increasing while the one of labor gets decreasing, and the supply of labor gets higher than the demand of labor. This leads to a new picture of sharing rates as shown in Fig. 3. At the same time, the time of a production-business cycle gets shorter then, for the same time period, the multiple production-business cycles would lead to a greater gap of shared benefits.



Source: Jeong Hyeong Gons: "Special economic zones in trade policies of Korea" (Korean Institute of Public Policies and Management - KDI)

Figure 3. Shift of added value chains

- *Second bad trend:* more consideration for the problem of jobs in developed countries reduces chances for Vietnamese labors. The problem of jobs sees an emerging trend in developed countries. The US trend to take production facilities home can propagate to other developed countries. This trend leads to lower chances for Vietnam to participate in international production and benefit sharing chains.
- *Third bad trend:* the changes in demands of labors under impacts of Industrial Revolution IV cause more disadvantages for Vietnam. The quantity of labors to be used gets reduced while the required quality of demand gets increased. This shift narrows the door for Vietnamese labors to enter the international production markets and reduces the part

of Vietnam in sharing of created benefits from international production activities.

Briefly, there is no ways to base expectations on labor for requirement of a bigger share of benefits from international production. Even, there is no hope in future to keep the actual rate of benefits. By another way, there is not only a risk to lag behind in comparison to leading developed countries but we face a risk to get lagged in our own state if we still base our consideration on the existing labors.

3. Exploitation of opportunities to overcome challenges - Visions for Vietnam

Vietnam has two scenarios for future: *firstly*, preparation of the mind to accept bad things to occur; and, *secondly*, concentration of efforts to change the destiny. According to the second scenario, Vietnam needs to make changes starting from its contributions to international production: reduction of contributions from the group of disadvantageous elements and enhancement of endogenic capacities in terms of management, S&T and market searching.

It may be the changes from the way of use of the capacities we have now. Thanks to advantages in labors we started the participation in international production activities. The participation in international production activities has opened various opportunities: creation of jobs, increase of incomes, learning of management experiences and technologies. During the recent time, we just exploited mainly opportunities to settle the problems of creation of jobs and increase of incomes. During the same time, some other economies such as Korea, Singapore, Taiwan, China and others made focus on learning for higher indigenous capacities for management, technologies and marketing. For example, one of the crucial points of view of the Singapore Government in its S&T development policies is to bind “indigenous technological capacities” with “imported technological capacities”. Here, the “indigenous technological capacities” are the technological capacities of the sector of Singaporean technologies while the “imported technological capacities” are the ones attracted from external sources (multi-national companies, high qualified experts from other countries including the ones from developing countries such as India, China, Malaysia and etc.). The Singapore Government considers that “endogenic capacities” and “imported capacities” must be combined to create a “unified technological capacities”. The way of actions is to attract external technological sources to build up gradually domestic technological capacities and to enlist the strengths of multi-national companies for S&T development.

Taiwan has managed to attract large FDI sources and the impacts from them are seen mainly not in higher technological capacities but in management ones. Taiwanese companies learn management capacities not only from FDI companies but create many product management systems like the one established by Acer. From another side, the majority of Taiwanese enterprises are SMEs which leads to an easy mobility of labors for a higher reciprocal learning of more complete management systems. As shown by Taiwan experiences, the reduction of production costs depends not only on technologies and equipment but, more importantly, on effective management measures. The management scope covers technological procedure, product quality and planning capacities. The effectiveness is decided by management arts and coordination capacities between units and individuals in organization ways. Here, the organizational capacities for learning get accumulated continuously and have a high important role. Together with creation of technologies, Taiwanese enterprises and R&D units paid considerable efforts for high organizational capacities for learning to get higher capacities for mass production. Despite of discrepancy between upgraded technologies, globally the organizational capacities for technology management and quality management get upgraded regularly and continuously. Thanks to that, the time period from the start of the phase of production of products to the phase of strong market position reduces very fast (8 years for taking over 40% of the world's market of laptops, 4 years for CD-ROM readers and about 2 years for liquid crystal displays).

The way of China "to adapt" external technologies is conducted in a three stage cycle: *First*, to attract FDI for assembling and fabricating of products according to original manufacturing designs; *Then*, through relations of links and joint ventures, to shift to domestic production of products in high tech sectors while still maintaining original trademarks of foreign corporations; and *Finally*, to produce products in high tech sectors through links and joint ventures with Chinese designs and trademarks. By this way China has become "a model" in "domestic production of foreign products for sales in overseas markets".

The opportunities for participation in international production activities are the same but the different ways of implementation lead to different results. Vietnam and other countries which focus efforts on settlement of the problem of jobs and higher incomes did not get the changes in their position. The economies which made focus on learning for higher capacities of management, S&T and marketing have moved gradually to higher levels in the international system of production. Now they do not

have to face the challenges coming from cheap labor based practice in international production activities.

In reality, Vietnam has certain undertakings to learn experiences of management and technologies through FDI plans. The problem is these undertakings were not realized in practice. It is possible to see, in comparison to Korea, Singapore, Taiwan, China and others, we experienced a lack of concrete measures, deciding wills, persistence and, maybe, a strong reliance on advantageous potentials of cheap labors.

It is necessary to distinguish the three different levels of enlisting FDI sources in developing countries.

Level 1: FDI sources bring in results made from externally completed S&T and production links. These results are technologies, management practices, new economic sectors and etc.

Level 2: S&T and production links are realized in FDI units operating in developing countries. In comparison to Level 1, the S&T and production links in Level 2 are more complete and global. FDI units operating in developing countries not only conduct production activities but also S&T activities and linkage of S&T and production. Actually not only FDI enterprises but also FDI based R&D organizations² are present in developing countries.

Level 3: The links between S&T and production are not limited in FDI sectors (as they are in Level 2) but extend to other economic sectors. The relations also appear between production activities of FDI enterprises and S&T activities of domestic enterprises. In fact, the links and sub-contracts in economic activities can be fully realized in R&D sectors³.

The above noted levels reflect the different possibilities in shortening the gaps in S&T and production relations between developing countries and developed ones. While Level 1 creates pre-conditions for linking S&T with

² FDI based R&D activities in developing countries are found in general trends of international R&D activities - originally being one of the lowest internationalized activities in value chains of multi-national companies - where production, marketing and other functional activities are shifted much to overseas countries. However, some R&D units were realized overseas during long periods of time. Under certain forms, the internationalization of R&D activities might exist since the first days of FDI practice for purpose to adapt technologies for sales to technology receiving countries. Also, there are some typical cases for internationalization in fundamental research activities. During post-WW2 years, Monsanto Chemical (USA) extended its fundamental research facility in New Port (UK), UK based laboratories of Esso (USA) conducted fundamental researches and etc.

³ This level was shown by Singapore where FDI sources, as a specific feature, are used to enhance the technological capacities of the country; by Korea where some strong groups could establish strategic cooperation relations with multi-national companies; by China where China-USA S&T cooperation for high tech development (coordination between Beijing based R&D center of Siemen with Datang, a China leading mobile communication network company for study of standards for a 3G network also called TD-SCDMA); by Malaysia where FDI sources play important roles in establishment of companies for exploitation of new technologies (Spin-offs).

production activities, Level 2 shows well the models for learning and copying, and then Level 3 allows countries to participate in the international chain of links of S&T and production activities (through FDI sources).

From another side, the different levels require the corresponding different conditions. For Level 1, the level of technologies and organizational capacities depends on the qualification of labors and the level of competition they have to face.

For Level 2, the S&T activities by FDI enterprises in the countries depend on local production-business activities which require special studies (first of all, to meet specific markets) and capacities to use local S&T human resources. In reality, R&D activities in developing countries by multi-national companies are usually focused in some countries⁴.

For Level 3, economic and S&T units of the countries have to be ready at high level to receive links coming from FDI sources. The economic and S&T level of the countries must be at the level that FDI sources find necessary and possible to establish ex-economic relations for higher effectiveness of their production-business activities. Local S&T and production capacities of the countries need to be developed up to the level that they can coordinate with FDI sources⁵. Also, infrastructure for R&D activities and linkage of S&T and production activities must be developed to facilitate the coordination and linkage between FDI sources and local units. The governments of developing countries need to have clear policies for FDI activities. From one side, FDI sources should be encouraged to move to higher levels: from bringing in advanced technologies (Level 1) to establishing R&D units (Level 2) and up to coordinating with local units for R&D activities and other activities related to the linkage of S&T and production activities (Level 3). From another side, the fact that the local governments of developing countries build and implement effectively programs for development of endogenous technologies, enhance coordination between S&T and production activities is found useful for creation of an environment for linkage between FDI sources and domestic organizations.

⁴ For example, the expenditures for R&D activities by US multi-national companies in developing economies were focused mainly in 5 countries: China, Singapore, Brazil, Mexico and Korea. These countries take about 70% of the total R&D expenditures by US multi-national companies in developing countries by 2002. In Latin America and Caribbean region, Brazil and Mexico take about 80% of R&D expenditures by US multi-national companies in the region since 1994. There are those places which gather many conditions for R&D development in developing countries by multi-national companies.

⁵ The typical case is Korea where, thanks to enhanced domestic research capacities, some units of Korea could establish strategic cooperation relations with foreign multi-national companies. For example, in appliance electronic sector, Samsung had signed agreements for joint research with TRD, JVC (Japan), Thompson (France), FROG (Germany) and etc. During the late 1980s and early 1990s, the long term research agreements were established between Korean companies and foreign partners in many other sectors (production of fax machines, DRAM memories and etc.).

It could be the lesson of success of Singapore which afterwards gets attentions for application by some countries including Thailand.

In the close future, the efforts by Vietnam should be focused on Level 2. Technology transfer through FDI channels remains meaningful in terms of settlement of limitations in use of imported technologies and exploitation of advantageous potentials in natural resources, labor and geo-economic conditions of the country. However, this role is reducing its importance. Impossible to hope that FDI sources would bring in high techs and R&D activities while the local capacities to use and to master new technologies remain low and the same for qualification of human resources. Therefore, the hope for a new role of technological transfer through FDI channels will put requirements towards new solutions.

This analysis of the new model for actual benefit sharing practice is expected to have certain meanings in giving contributions to the shift to the innovation of the model of development for Vietnam./.

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