

# Value Chain and Capacity Building

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# Value Chain Concept

- The original idea of value chain comes from M.E.Porter (1985):
- Value chain is a chain of activities for a firm (or a group of firms) operating in a specific industry.

# Value Chain Argument

- M.E.Porter (1985) divides those activities into two groups: primary activities and support activities.
- Each activity (or step) creates value. Any firm tries to obtain competitive advantage (of value activities), either through better cost performance or differentiation in quality and reputation out of competitors.

# Value Chain Diagram by Porter

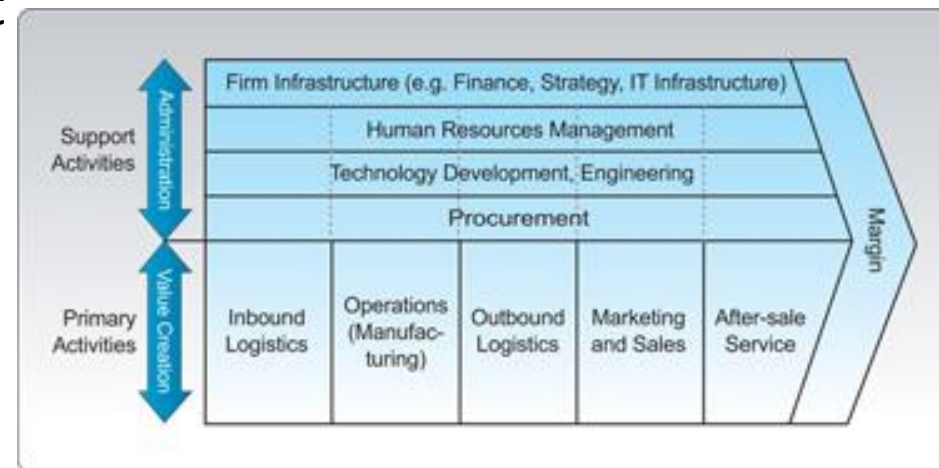
Primary activities include

- Inbound Logistics
- Operations (manufacturing/production)
- Outbound Logistics
- Marketing and Sales
- After-Sale Service (maintenance)

Support activities include

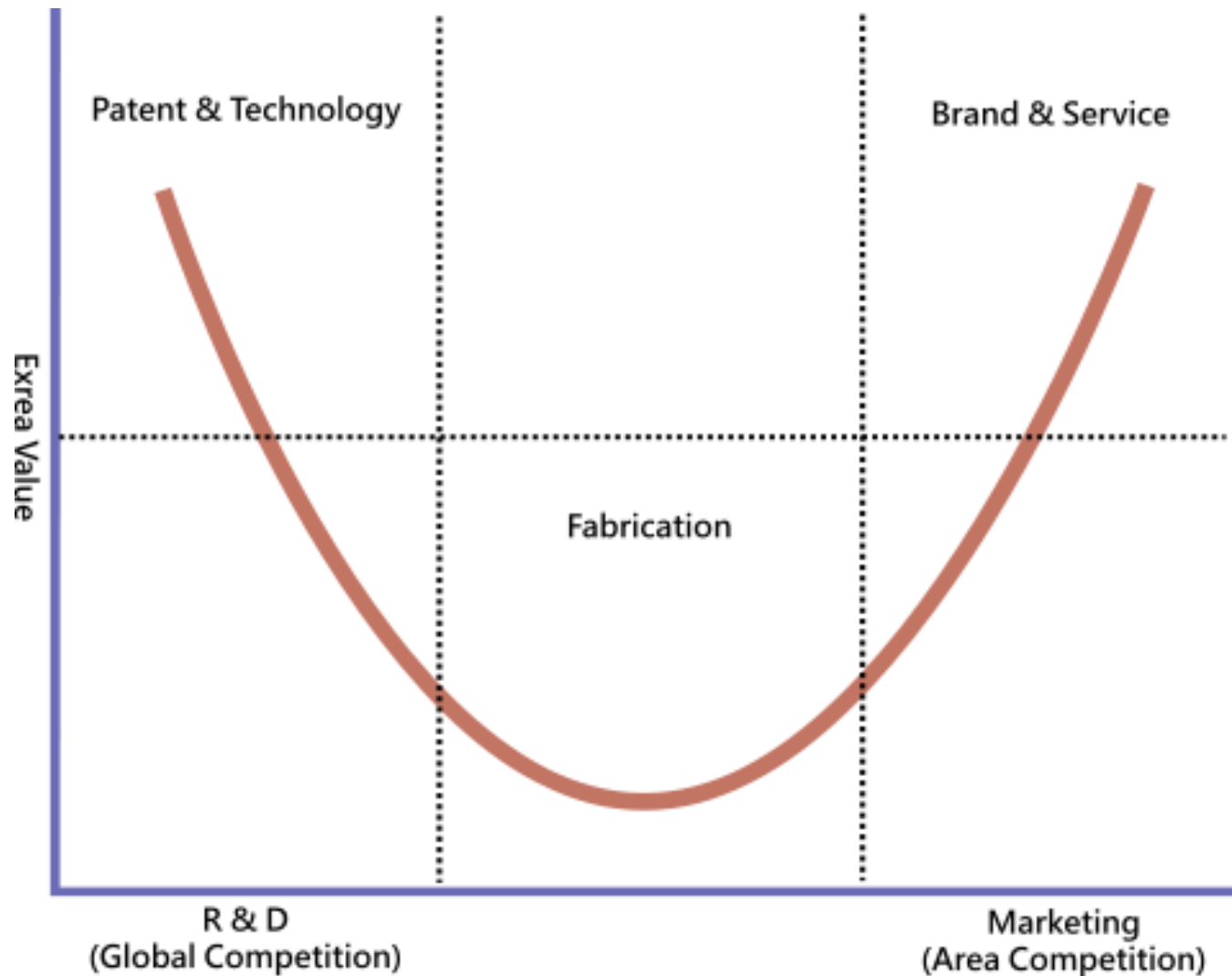
- Firm Infrastructure (finance, strategy, IT infrastructure)
- Human Resources Management
- Technology Development
- Procurement

M.E.Porter (1985: Ch.2)



# Various Value Chain Diagrams

- Based on Porter's argument, various diagrams of value chain have been drawn. One of the most famous diagrams is in the next slide:
  - +horizontal axis: sequence of actions in value chain
  - +vertical axis: extra value (=value added) for each action



Case of Manufacturing: <http://www.smartsheet.com/productivity/chapter10>

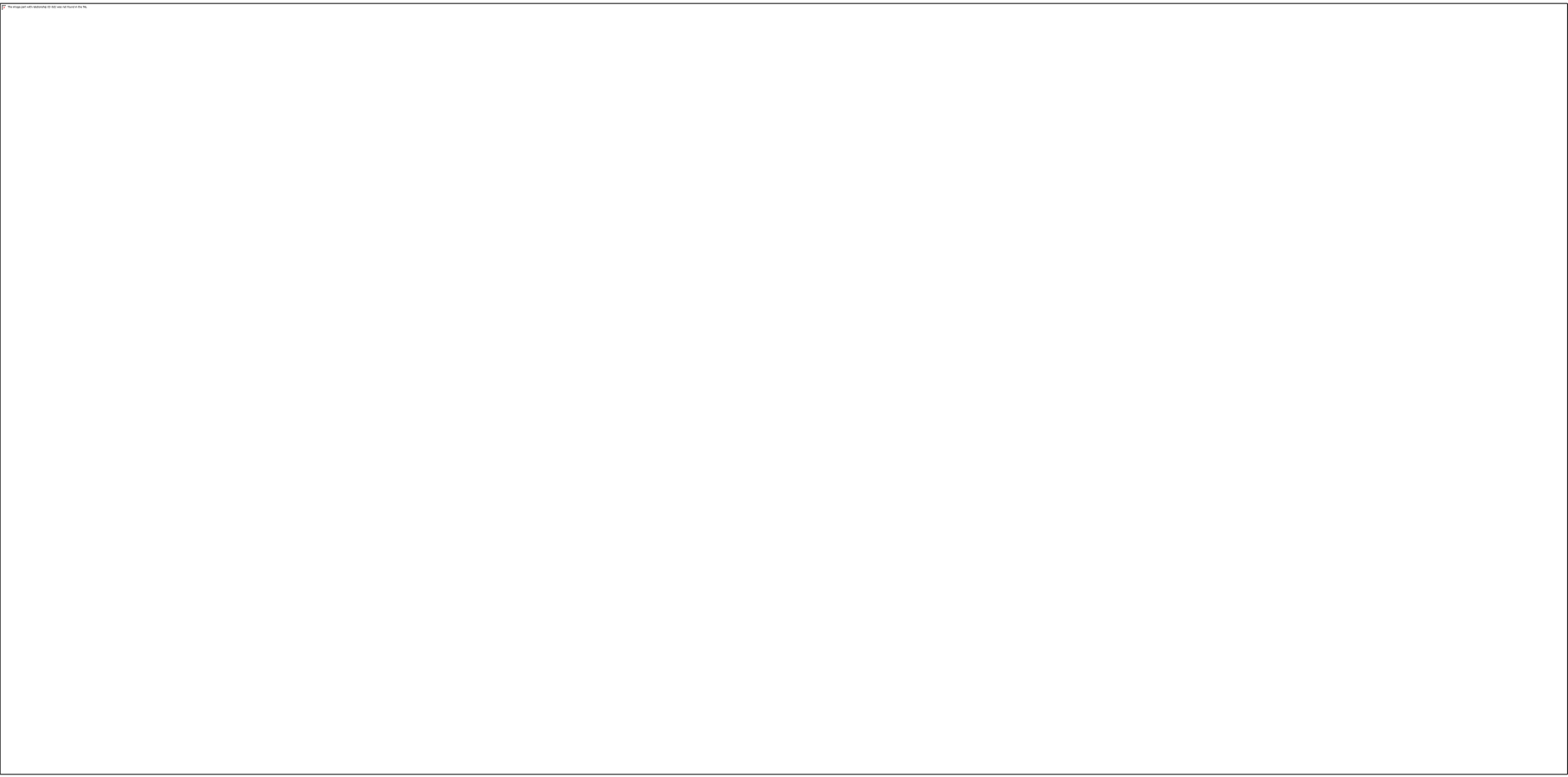




Case of software: <http://msdn.microsoft.com/ja-jp/library/ms954811.aspx>



## Value Chain among Japanese firms in Electric Appliance Industry



Case of electric appliances in Japan: <http://p3s-blog.blogspot.com/2008/08/blog-post.html>

- In order to get rid of “middle-income trap” [ World Bank (2007)],
- The new development model requires step-ups in the “Value Chain” through increased sophistication of production. [World Bank (2010) p.21]

# Development of Supporting Industries

- Japanese initiative to help the development of supporting industries in VN  
is one of the efforts for value chain move-up in the direction of upper stream.
- In general, supporting industries are more value-added, but require more sophisticated skills and technology [than simple assembly].

Foreign Minister Okada met his counterpart Khiem to discuss further cooperation between the two countries, including the support industry development (July 24, 2010, Hanoi)



[http://www.mofa.go.jp/mofaj/kaidan/g\\_okada/asean\\_1007/vietnam\\_gaiyo.html](http://www.mofa.go.jp/mofaj/kaidan/g_okada/asean_1007/vietnam_gaiyo.html)

# Weak development of Supporting Industries in Vietnam

According to VDF Report (2006),

For the case of Japanese FDI firms in manufacturing, Local Procurement Ratio is

- only 22.6% in Vietnam, while
- 45% or higher in Malaysia and Thailand (in 2003)

← Japanese firms (=assemblers) require  
Quality, Cost and Delivery (QCD).

And so far, many of Japanese firms have difficulty to find local parts producers well qualified.

## Toyota in Vietnam



[http://vietnam.vnnet.vn/VNP\\_Upload/News/2007-9/13/0907Ec16L.jpg](http://vietnam.vnnet.vn/VNP_Upload/News/2007-9/13/0907Ec16L.jpg)

<http://www.presscenter.org.vn/jp/content/view/255/51>

# Breakthrough Measures

In order to develop supporting industries,  
in addition to

- Demand Size (=scale merit) as the pre-condition;
- ( i ) High-quality Industrial Human Resources,
- ( ii ) Attractive Tax and Tariff Policies,
- ( iii ) Stable Policy Environment,
- ( iv ) Overcoming the Information and Perception Gaps between FDI Assemblers and Vietnamese Suppliers is necessary . [VDF Report (2006)]

# Technology Transfer

- In the initial stage, inviting (a substantial number of) foreign suppliers may be necessary.
- But eventually, there must be technology transfer to local people and firms.
- Vietnam should prepare sufficient basis for this technology transfer, especially in terms of industrial human resources.

[Tran V. Tho (2004); K. Ohno (2009)]



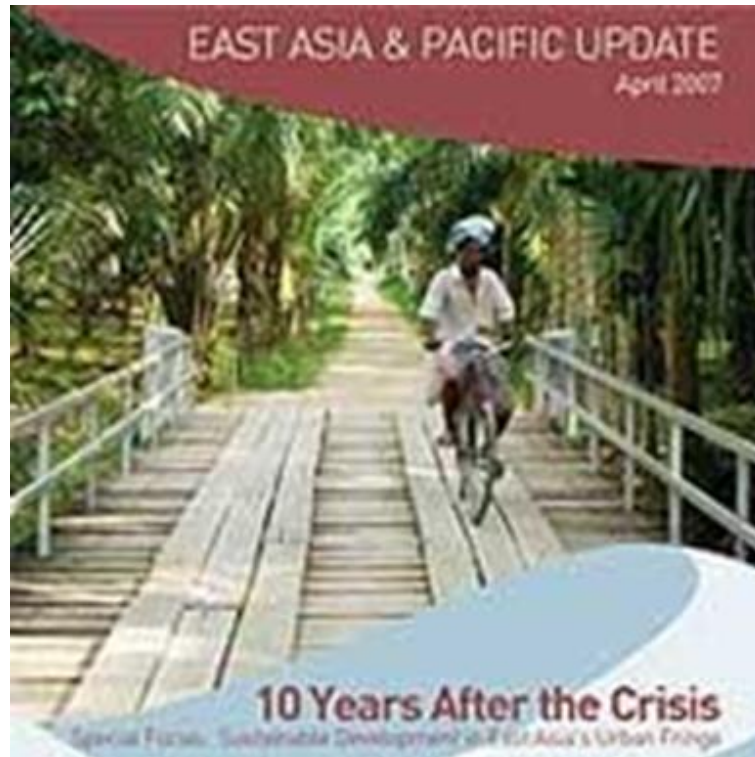
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# Thank You!



- World Bank (2007),  
“East Asia and Pacific Update:  
10 Years After the Financial Crisis”.