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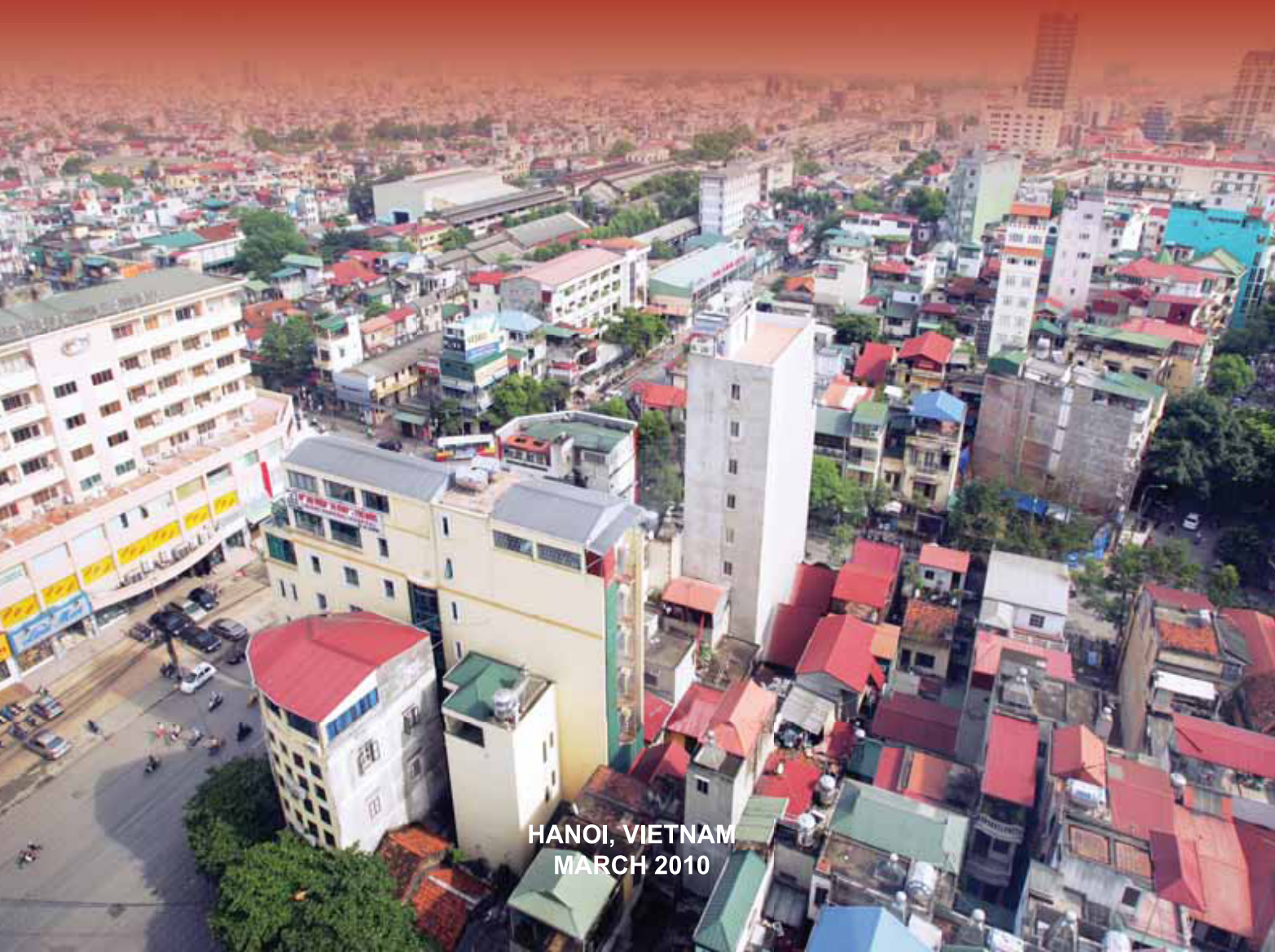


UNITED NATIONS DEVELOPMENT PROGRAMME

PROJECT
SUPPORT FOR FORMULATION OF SOCIO-ECONOMIC DEVELOPMENT
STRATEGY (SEDS) 2011-2020

MANAGING RISK AND ATTAINING EQUITABLE GROWTH

Research Topic
Global and Regional Economic Development Trends
and Their Major Impacts on Vietnam's Economy in the Next Decade



HANOI, VIETNAM
MARCH 2010

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Cover photo: The Asia Foundation

Graphic Design: Compass JSC

Printed in Vietnam

“This report was commissioned by the Development Strategy Institute (DSI) of the Ministry of Planning and Investment and the United Nations Development Programme (UNDP). The report contains views of the consultant team and does not necessarily reflect the official views or positions of DSI or UNDP”.

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RESEARCH TOPIC
**GLOBAL AND REGIONAL ECONOMIC DEVELOPMENT TRENDS
AND THEIR MAJOR IMPACTS ON VIETNAM'S ECONOMY IN THE NEXT DECADE**

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The Asia Foundation

**HANOI, VIETNAM
MARCH 2010**

FOREWORD

The Socio-Economic Development Strategy (SEDS) serves as the top-most national development document of Viet Nam. It provides a system of policies for national socio-economic development at the overall, wholistic, fundamental and long-term level. SEDS reflects a system of fundamental development approaches and objectives, strategic breakthroughs, major modalities for and solutions to socio-economic development in a 10-year period of the country. It serves as the foundation for formulating sectoral strategies; socio-economic development master plans for regions and territorial areas; sectoral development master plans; and five-year and annual socio-economic development plans. The goals and directions stated in SEDS are translated into concrete programmes and action plans in individual planning periods to achieve such goals.

The 10-year Socio-Economic Development Strategy (SEDS) 2001-2010 was prepared on relatively solid scientific research foundations and through an open and participatory process. The United Nations Development Programme (UNDP), under Project VIE/99/002, supported the introduction of international experience and best practices into the SEDS 2001-2010 preparation process, and supported open and participatory policy consultations and discussions. Responding to the Government of Viet Nam's request, UNDP has been continuing to support the sound evidence-and best international experience-and knowledge-based; and open and participatory policy formulation of the SEDS 2011-2020 through the Project 00050577 entitled "Support for Formulation of Socio-Economic Development Strategy 2011-2020". The SEDS 2011-2020 is being developed and consulted for finalisation and will be submitted to the XIth Nationwide Party Congress for approval in early 2011.

Within the framework of the UNDP supported project 00050577 "Support for Formulation of Socio-Economic Development Strategy 2011-2020", a series of research have been conducted. Topics and results of the research have been consulted among SEDS Drafting team, policy makers, academia and international community. Research results have partly contributed to supporting the definition of evidence-based prioritized goals and break-through policy options and measures of SEDS 2011-2020 development process. This report was commissioned by the Development Strategy Institute (DSI) of the Ministry of Planning and Investment and UNDP. The report contains views of the consultant team and does not necessarily reflect the official views or positions of DSI or UNDP.

We are very pleased to publicly introduce the research paper to a wide range of audience for reference to the discussion and consultation process of SEDS 2011-2020 formulation.



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ACKNOWLEDGEMENTS

This research report on “Global and Regional Economic Development Trends and their Major Impacts on Vietnam’s Economy in the Next Decade” was initiated under UNDP-supported Project 00050577 “Support for the Formulation of Vietnam’s Socio-Economic Development Strategy (SEDS) 2011-2020”. The national executing agency was the Development Strategy Institute (DSI) of the Ministry of Planning and Investment (MPI).

The research was carried out by The Asia Foundation, and the research team consisted of: Professor Colin I. Kirkpatrick, Professor Emeritus of Development Economics at the Institute for Development Policy and Management, University of Manchester, as well as the Director of Impact Assessment Research Centre and Co-Director of the Regulation Program in the Centre for Regulation and Competition; Dr. Nick J. Freeman, an independent economic development consultant based in Vietnam; and Dr. Kim N. B. Ninh, country representative of The Asia Foundation in Vietnam.

Additional research inputs were provided by Ms. Le Thu Hien and Ms. Nguyen Thu Hang of The Asia Foundation’s office in Vietnam. Dr. Bruce Tolentino and Ms. Nina Merchant of The Asia Foundation’s Economic Reform and Development Program reviewed the report and contributed helpful comments. Finally, the research team would like to express its gratitude to the many Vietnamese officials, experts and researchers who graciously took the time to share their experiences and ideas. This report could not have been possible without their valuable insights.

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ACRONYMS AND ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BOT	Build - Operate - Transfer
BTA	Bi-lateral Trade Agreement
CCA	Causal Chain Analysis
CDM	Clean Development Mechanism
CIEM	Central Institute for Economic Management
CSR	Corporate Social Responsibility
DSI	Development Strategies Institute
DFI	Development Finance Institution
ESG	Environmental, Social, and Corporate Governance
ETF	Exchange Traded Fund
EVN	Vietnam Electricity
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
GDP	Gross Domestic Product
GM	Genetically Modified
HDI	Human Development Index
IA	Impact Assessment
IFC	International Finance Corporation
IIF	International Institute of Finance
INGO	International Non-governmental Organizations
KBE	Knowledge - Based Economy
MDG	Millennium Development Goal
MNE	Multi-national Enterprises
MPI	Ministry of Planning and Investment
MVA	Manufacture Value Added
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PNTR	Permanent Normal Trade Relations
SEDS	Socio-Economic Development Strategy
SOE	State Owned Enterprises
SRI	Socially Responsible Investing
SWF	Sovereign Wealth Fund
TAF	The Asia Foundation
TNC	Trans-national Corporation
ToR	Terms of Reference
UNDP	United Nations Development Program
UNEP	United National Environmental Programs
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

Vietnam is currently in the process of conceptualizing its socio-economic development strategy for the period 2011-2020 (SEDS 2011-2020). This strategy will serve as the roadmap for the country's development in the coming decade, passing through the 2015 Millennium Development Goals, and hopefully arriving at the target of a middle income industrialized nation by 2020. That target destination is not, however, automatically attainable. Considerable obstacles and challenges have to be overcome first, which are both domestic and external in nature. And the external ones are particularly challenging, given the limited scope of any single developing country to influence global and regional trends, and the uncertain nature of how global and regional institutions may be reconfigured in the years to come in the aftermath of the recent financial crisis.

The previous two SEDS (1991-2000 and 2001-2010) have served Vietnam well in advancing from a largely poor, agricultural-based, less developed economy that for many decades was isolated from the global economy to a more complex and affluent developing economy, increasingly integrated into regional and global markets. Successes derived in poverty alleviation, per capita incomes, inward investment, foreign exchange earnings, and so on, are all well known. But Vietnam cannot afford to rest on its economic laurels. Social and economic development is a perennial work in progress, and the task of making yet further progress only gets harder over time, as the 'low hanging fruit' of reforms have already been harvested. Yet if reforms are not pursued further, and with vigour, then the law of diminishing returns dictates that the pace and extent of Vietnam's social and economic development will lessen, and there is even some risk that past progress could be undermined.

Therefore there is now a need for a new strategy, able to take Vietnam to the goals it has set itself for 2020. This new strategy must not simply build on earlier work; it must also take into consideration a different set of domestic and international challenges that Vietnam will need to navigate through in the next decade. This background research paper, the first of 18 papers commissioned by the Development Strategy Institute (DSI) to support the drafting of the SEDS, seeks to provide a map of the global and regional economic development trends, and assess their likely impact on Vietnam's own economic development in the next decade. Some of these new challenges are only just emerging on the horizon, but will become much more immediate in the coming years. In this evolving and uncertain environment, what is clear is that Vietnam cannot simply seek to emulate the past strategies of other countries when at a similar stage of development. What worked for a regional peer in the 1980s, for example, is highly unlikely to work for Vietnam in the 2010s.

Personal opinions will inevitably vary on what are the main socio-economic challenges confronting Vietnam in the next decade, their varying degrees of gravity, and how best to confront them. However, five seem to be upper-most in the minds of stakeholders

that we met while conducting this study, which were also echoed in numerous research documents we consulted for this paper. First is the need to strike a better balance between the quantity and quality of economic growth. A too narrowly defined pursuit of high economic growth is almost certainly not sustainable in the long-run, and will likely bring about adverse social and environmental impacts that could undermine future economic growth. The toll being placed on Vietnam's environment and natural resource stocks, for example, are becoming increasingly apparent to many Vietnamese.

Second is the need to pursue a more integrated approach towards rural and urban development. Pressures being placed on finite rural and urban land, and the livelihoods of people resident on this land, need to be addressed in a more holistic manner. In a still predominantly agricultural country, current industrialization and urbanization policies do not support the rural economy to modernize and to link to urban development. Rural infrastructure and other public services lag behind those provided to the cities, leading to a bifurcation of rural and urban development, rather than mutually reinforcing one another. If not addressed, this problem is likely to worsen.

Third is the increasingly urgent need to address a set of domestic capacity bottlenecks that seriously threaten to choke off future investment and growth. Persistent inadequacies in Vietnam's human capital, physical infrastructure, various institutions and the domestic corporate sector will cumulatively serve to put a cap on future socio-economic growth, if they are not speedily addressed. Indeed, some leading indicators suggest this cap is already upon Vietnam, as the country struggles to advance further up the value chain and develop larger and more competitive domestic business entities. Foreign investors and others are becoming increasingly vocal in citing host country bottlenecks that are becoming a disincentive to greater future investment.

But domestic firms also seem to be struggling to display the kind of entrepreneurial skills and innovation that would allow them to be more internationally competitive and plug into Asia's vibrant cross-border production networks. Having created a large community of private sector SMEs over the last decade or more, there is a pressing need to mould these into a more robust and internationally competitive corporate community. Job creation by Vietnamese companies will only come from increasing domestic content in processing, manufacturing and services, and bringing more of the 'value chain' onshore. Tackling that particular challenge - largely one of stimulating greater entrepreneurship and innovation - is likely to be a key theme of corporate sector development in Vietnam in the coming decade.

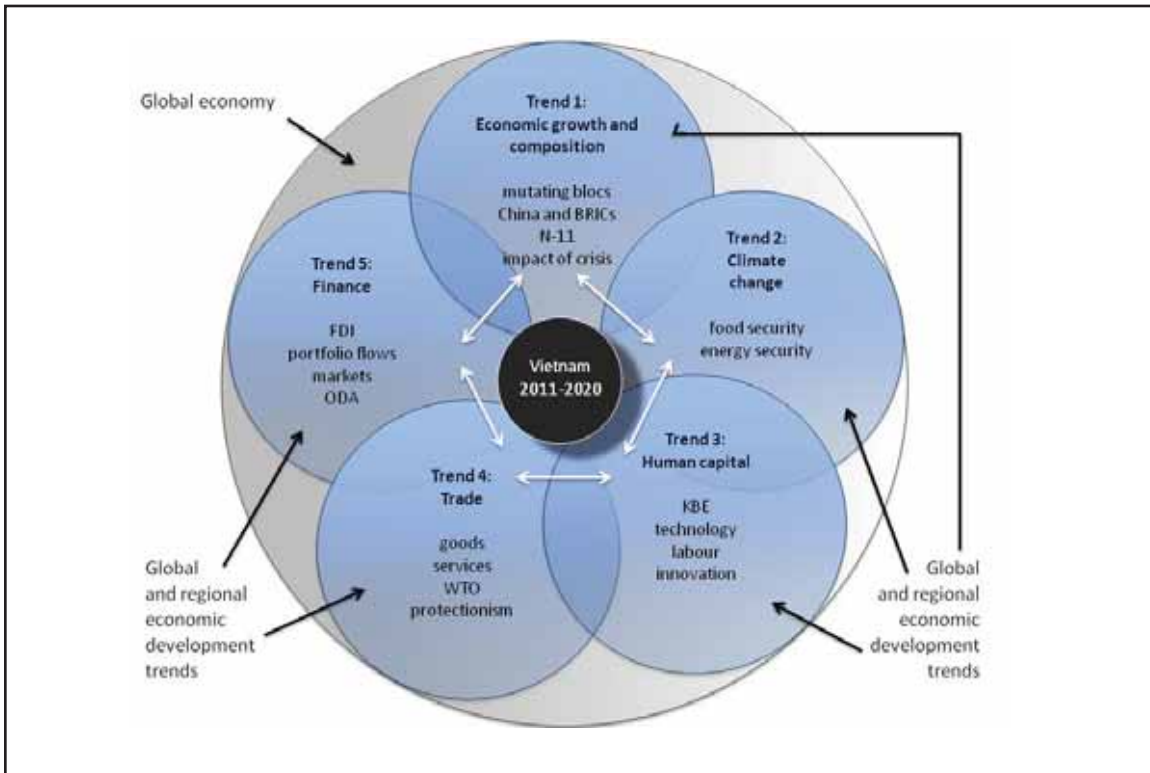
Fourth is the issue of coordination within and across various State agencies. The kinds of multi-faceted challenges now confronting Vietnam, as it enters its third decade of economic reform, tend not to be ones that can be confronted by a single agency with a single competency. (Tackling climate change is a good example.) Rather, a coordinated approach is required that brings together a potent and effective mix of core competencies. With the economy becoming increasingly advanced in nature, and enterprises embracing higher levels of technology, there is a need for State agencies to keep pace, if they are to perform adequately their primary roles in providing policy direction and regulation/enforcement. But there are some signs that the capacities of

government agencies are falling behind those of their private sector peers, and if not addressed, could serve as a constraint on future economic growth.

Finally, there is the issue of State-society relations. This is really three issues in one. The role of the state in Vietnam has necessarily changed over the years as the country made its momentous shift from a planned economy to a market-oriented one. As Vietnam seeks now to go beyond the poverty alleviation agenda to become a modern nation with sustainable middle income status, what is the proper role of the State to guide and support that process and what would be much more efficient to be left to the private domain, will be one of the most critical issues for Vietnam to consider. Secondly, Vietnamese society itself has been transformed in these past decades as well. Citizens are increasingly connected to the global information network, proactive in seeking new opportunities to have better lives for themselves and their children, and wanting to contribute to the country's development goals. In this context, a new paradigm for state-society relations is needed. Dynamism, innovation, entrepreneurship - these are qualities that are demanded for any country to compete at a higher level, and these qualities require cooperation between the State and other actors in society to harness the wide range of expertise and problem solving skills that are needed in a highly complex environment

It is in this context - with Vietnam at the verge of a new chapter in its social and economic development story - that work has begun to conceptualise and draft the SEDS 2011-2020. The task is not an easy one, but broadly boils down to answering this fundamental question: What is the optimal strategic approach that Vietnam should take in its pursuit of sustainable socio-economic development in the coming decade? We are pleased to be able to contribute to this process through our work on Paper #1, which pertains to global and regional economic development trends in the coming decade. The paper is very much forward looking, and is tasked with trying to: i) identify what these global and regional economic development trends are likely to be; ii) gauge their likely impact on Vietnam; and iii) propose strategic responses that might help Vietnam best position itself to pro-actively manage these trends. Given the broad scope of the work, and in order to do this in a systematic and evidence-based manner, the Integrated Impact Assessment (IIA) approach was adopted.

Five clusters of global and regional economic development trends were identified for closer analysis, namely: i) global economic growth and changing composition; ii) climate change, food scarcity and energy security; iii) the knowledge-based economy, technology and labour; iv) international trade in goods and services, WTO and protectionism; and v) foreign investment, capital flows and financial markets. The figure below seeks to provide a diagrammatic depiction of these five trend clusters, and their inter-relationships.



These five trend clusters were then examined and analysed in terms of their likely i) economic, ii) social and iii) environmental impacts on Vietnam. The indicators used for the anticipated economic impacts were: i) real income, ii) fixed capital formation and iii) employment. For the anticipated social impacts on Vietnam of the five global and regional economic development trend clusters, we used i) poverty, ii) equity and iii) education and health as the three indicators. And for the anticipated environmental impacts, we used i) climate change, ii) environmental quality and iii) biodiversity and natural resource stocks as the three indicators.

A brief summary of the detailed findings is shown in the figure below. The upward arrows indicate that, in our analysis, the global and regional economic development trends are broadly conducive (or ‘net positive’) for Vietnam. They are tail winds that can support Vietnam’s social and economic development trajectory. The downward arrows indicate that, again in our analysis, the global and regional economic development trends are not conducive (or ‘net negative’) for Vietnam. They are headwinds that will pose additional challenges for Vietnam in maintaining its social and economic development trajectory. The two-directional, arrows indicate that, in our analysis, the global and regional economic development trends are likely to have a mixed impact on Vietnam.

Trends	Economic impacts on Vietnam	Social impacts on Vietnam	Environmental impacts on Vietnam
Economic growth, composition and emerging blocs	↑	↓ ↑	↓
Climate change, food scarcity and energy security	↓	↓	↓
Knowledge-based economy, technology and labour	↑	↓	↑
Trade in goods and services, WTO and protectionism	↑	↓ ↑	↓ ↑
Foreign investment, capital flows and financial markets	↑	↑	↓ ↑
Note: Assuming that domestic policy framework is unchanged			

What these findings suggest is as follows. First, the anticipated economic impacts of global and regional economic development trends over the next decade look to be generally net positive for Vietnam. This in turn suggests that supportive policy measures could further enhance the positive economic effects of global and regional economic development trends. Second, the anticipated social impacts on Vietnam of global and regional economic development trends are likely to be much more varied in nature, with negative as well as positive impacts expected to accrue. This in turn suggests that a mix of policy measures will need to be designed to mitigate or prevent the adverse social impacts, as well as support any positive ones. Third, the anticipated environmental impacts of global and regional economic development trends are likely to be mostly net negative. And this in turn suggests that policy measures needed to mitigate or prevent the negative environmental impacts of economic growth will become a priority.

The third and final objective of this paper was to propose strategic responses that might help Vietnam best position itself to respond to these global and regional economic development trends. In doing so, it is important to stress the strategic nature of the measures proposed, and that they should be viewed in the context of the paper’s broad focus on global and regional economic development trends and their anticipated impact on Vietnam. Other research papers commissioned by DSI, as part of the conceptualization and drafting process for SEDS 2011-2020, will explore more in-depth a range of topics, such as labour, agriculture, industrialization, education, health, among others. These more detailed policy research papers will provide greater analysis and assessment of the policy choices Vietnam faces in these topical areas in the next development phase. It is therefore not the intention of this paper to provide a comprehensive portfolio of detailed policy measures that Vietnam should pursue under its SEDS for the next decade.

Rather, based on our analysis of the likely future global and regional economic trends, and their anticipated impacts on Vietnam, we propose a number of strategic recommendations that merit consideration in the preparation of SEDS 2011-2020, in the light of the changing external environment, as we see it, both now and in the coming decade. These recommendations have been termed ‘flanking measures’, and broadly comprise of two categories (see below).

Before doing so, however, it should be noted that the range and depth of policy measures to leverage the positive conditions or ameliorate negative impacts on Vietnam from international trends should flow from an in-depth analysis of recent historical development of key elements of the Vietnamese economy, and the current domestic conditions and policies, which were not part of the scope of this paper. As such, what we have presented below should be viewed as suggestive, and can be strengthened considerably when considered along side other research that focused on particular issues and areas of concern.

The first category represents preventive or mitigation ‘flanking measures’, intended to overcome or offset what are expected to be the ‘net negative’ impacts on Vietnam from global and regional economic development trends. They comprise:

- A more integrated urban-rural development strategy, linking relevant policies -- such as industrialization, urbanization and land use policies -- to support the modernization of the agricultural sector, the employment needs of rural areas as the rural labor force is changing, and improve both rural infrastructure and public services to narrow the rural-urban gap.
- Institutional reform in the education sector, with the aim of moving toward a knowledge-based economy, but also of improving vocational training to provide the employment skills necessary for ongoing industrialization needs in Vietnam.
- Strengthen institutional capacity to protect the significant gains already made in poverty reduction and equality, particularly from the potentially harmful effects of industrialization and climate change.
- A more integrated approach to climate change policy that both meets with international requirements, and facilitates greater access to increasing international finance for climate change mitigation initiatives.
- Strengthening of environmental regulation compliance and enforcement.
- Strengthening of regulations pertaining to property rights and the protection of intellectual endeavour, so as to support more knowledge-based business activity.
- Develop institutional capacity to cooperate with the corporate sector to improve social responsibility measures in the area of employment and working conditions.
- Develop institutional cooperation with the corporate sector to improve social responsibility measures in the area of environmental performance.
- Move to facilitate greater private investment in crucial infrastructure and energy projects by the non-SOE sector.

The second category represents enhancement ‘flanking measures’, intended to maximise what are expected to be the ‘net positive’ impacts on Vietnam from global and regional economic development trends. They comprise:

- Continue to support an enabling environment for private sector development (including business associations), particularly with the goal of moving from a small-scale business model to one that can better compete in regional and international markets, as well as a more liberalized domestic market.
- Strengthening of the regulatory business environment, as it affects the attraction of FDI inflows, and particularly more ‘high end’ manufacturing and infrastructure-related investment activity by non-SOE actors.
- Improvement in trade logistics, including customs and port handling, as a means of facilitating export growth.
- Investment to relieve infrastructure bottlenecks, particularly in energy and transport/logistics, combined with institutional reform aimed at improving the efficiency level of public investment.
- Further and more strident reform of the SOE sector.
- Improve access to good quality, affordable health care, particularly in areas where demand will increase disproportionately as result of industrial development and concentration.
- Phased trade liberalization of the services sector.

It is likely that some of the other background papers commissioned by DSI, focusing on more specific issues pertinent to the SEDS 2011-2020 will have similar recommendations to offer, relative to the above flanking measures. Indeed, we were gratified to see that these flanking measures complement the five issues we mentioned earlier as being uppermost in the minds of various stakeholders we consulted, namely: i) quality of growth over rate of growth; ii) integrated rural-urban development; iii) capacity bottlenecks in human resources, institutions, infrastructure, and the domestic private sector; iv) government coordination; and v) State-society relations.

The prominence of the environmental factors in the analysis and assessment of the potential impact on Vietnam’s development in the next decade is one of the clearest indications of the need to also focus on quality of growth, rather than just quantity of growth. The public’s growing concern with a deterioration in the quality of life, particularly in public health and food safety, represents a broader societal awareness of environmental costs of rapid growth and industrialization, but addressing industrial pollution and waste is also critical to addressing climate change. The concern with equity, with addressing the growing urban-rural gap, and the rising demand to address Vietnam’s educational lag and vocational training’s inefficiency are all part of the greater push for a more integrative process of growth and modernization, as Vietnam seeks to achieve a higher level of development. Addressing seriously the impediments to achieving full domestic capacity, be it infrastructure, human capital, or institution, will provide Vietnam with a stable foundation from which to better manage risk and attain equitable growth.

The external environment in which Vietnam aspires to further develop in the coming decade is increasingly uncertain and unpredictable. This in turn makes the traditional approach to economic ‘planning’ much more challenging for national policy-makers, and potentially a redundant one. There is an increasing need for flexibility and adaptability in responding to external developments that are often complex in nature and/or cut across conventional lines of demarcation. This in turn requires the use of innovative approaches to planning and policy that move away from classical projection and prediction methods, and towards scenario building, impact assessments, and risk management strategies.

One approach, employed by Singapore and others, is to set up, when required, occasional and impermanent ‘boards’ or ‘commissions’ to analyse a specific challenge and conceptualise a strategic response. These boards are made up of key policy-makers, experts and stakeholders, and their role is to, fairly speedily, develop an effective response, which government agencies are then expected to implement promptly. The intention is not to create an additional layer of administration, as the boards or commissions are temporary in nature, but to efficiently bring the country’s collective intellectual capital to bear on a particular problem while it can still be managed. The use of such boards and commissions is a clear recognition that the State alone cannot have the most effective solutions to the range of complex challenges facing countries today. Another approach is to establish a devoted ‘horizon scanning’ agency, sometimes located in the central office of the government, to identify more long-term threats, trends and issues, and to coordinate a cross-government strategy of response.

Often, the impacts of a given trend are ‘mixed’ and indirect, requiring the policy maker to develop a flanking strategy that combines both enhancement measures as well as preventative and mitigation measures. The distribution of impacts is also often dispersed across a range of sectors and interest groups that lie outside the public sector’s traditional planning instruments. These cross-linkages and indirect effects pose an additional degree of complexity for policy makers and government and may require significant institutional reform within the public sector. Institutional restructuring should aim to move away from a ‘silo’ approach to policy where separate ministries each formulate policy for ‘their’ sector, towards a more horizontal and ‘jointed up’ form of governance involving cross- ministry cooperation and ownership in the development of policy.

Integrated Impact Assessment is a public management tool which assists policy makers in designing effective policies, by providing a framework for the systematic analysis of the direct and indirect effects, as well as the cross cutting impacts, of an intervention. The adoption of an integrated impact assessment approach to policy formulation and selection in Vietnam, accompanied by appropriate institutional reform, could facilitate a shift towards a less dysfunctional, and therefore more effective, approach to policy design and decision making. (So far in Vietnam, the application of impact assessment as a tool for decision making has been largely to regulatory measures, and the use of regulatory impact assessment (RIA)). The integrated impact assessment (IIA) approach can be applied at any (and every) stage in the policy cycle, beginning with ex ante agenda setting (problem identification) and finishing with ex post evaluation. In

this study, the application of the IIA framework has been confined to the first stage in the policy cycle where the key issues or problems for more detailed assessment at the subsequent stages in the policy cycle, are identified. But it is also offered as a demonstration of how the IIA approach could be used to provide policy makers with information in an accessible and transparent form on complex policy issues.

This report has provided an assessment of the potential impact of expected global and regional trends on Vietnam over the next ten years. Integrated Impact Assessment is an art not a science and the findings and proposals contained in the report will be (and indeed should be) subjected to critical evaluation by both analysts and policy makers. The IIA framework does provide, however, is a useful tool that allows policy makers to substitute their own views and analysis. It may be that the approach taken in the report, as well as the analysis provided, are judged to be of merit to Vietnam's policy makers in their current task of devising a new social and economic development model for the country; one that is able to navigate the country through the next decade of challenges and opportunities.

1. INTRODUCTION

The process of formulating Vietnam's Socio-Economic Development Strategy (SEDS) 2011-2020 is happening at a critical juncture on the country's development path. Two decades of relatively rapid and sustained economic growth have been accompanied by deeper integration into the international economy, with globalization contributing significantly to Vietnam's transition from being one of the world's poorest countries in the mid-1980s, to the threshold of becoming a so-called 'middle income' economy.

The deepening integration of Vietnam into the global economy will present new challenges for sustaining Vietnam's development path through the next decade and beyond. Integration with the global economy has increased Vietnam's exposure to the vagaries of international trade, investment and financial flows. Membership of the WTO establishes new boundaries and constraints on the autonomy of national economic policy-making. Increasingly, the rules-based system of international governance is being extended beyond trade in goods and services, to include investment and financial flows, and international environmental and labour regulation, among others. Further, the evolving pattern and complexity of international production chains will make it more difficult for Vietnam to maintain substantial export growth flows, based on a ready supply of natural resources and relatively cheap labour.

As a transitional economy, Vietnam has undergone considerable change over the last 20 years with regard to the varying roles played by the State, the burgeoning corporate sector and other stakeholders, and their respective inputs into the country's socio-economic development. The direction of this change has been broadly in conformity with global and regional trends, although recent global economic events have triggered a reassessment of at least some of the conventional thinking behind those trends. Added to these challenges, there is the growing uncertainty about the future direction of the globalization process. No longer can it be assumed that Vietnam will progress to middle income status simply by replicating the development strategies followed by the now developed economies of East Asia. What is certain, however, is that the characteristics and trends of international flows in trade and investment in the next decade will be different to those of the earlier decades of the so-called 'East Asian miracle'.

The relatively dramatic and fast-mutating developments of the current global economic crisis adds further uncertainty to future developments in the international economy. While its precise impact on more long-term development trends is hard to discern at this stage, there is general consensus that some fundamental changes will emerge from the current global economic downturn, spanning many of the areas that this research paper is expected to focus on. Hence it would be erroneous to simply extrapolate pre-2008 global trends in forecasting likely future developments for Vietnam in the next decade.

Policymakers will also be challenged by the emergence of new global issues. Some of these can already be identified, and are discussed in the paper, including: the problems of global scarcities in food and energy supplies; the impact of climate

change on development; the shifting distribution of economic power blocs; the shift towards a development model that ensures the optimal mix of economic progress, social improvement and environmental sustainability; and the appropriate role of the State in facilitating socio-economic development.

Given this context, it is fitting that the first topic of the set of eighteen policy research papers being commissioned under the UNDP-DSI project “Support for Formulation of Socio-Economic Development Strategy 2011-2020)” calls for a comprehensive analysis of global and regional economic development trends and their likely impacts on Vietnam’s economy in the next decade.

The topic is potentially a large one, and the first task of the consultants has been to identify the set of global and regional trends that are likely to demand the attention of Vietnam’s policymakers. This has provided an appropriate framework for an assessment of the challenges and threats that external developments are likely to present to Vietnam’s development path over the next decade. Based on the key findings of the assessment, the study suggests a number of strategic-level policy interventions for strengthening Vietnam’s resilience to adverse trends and capacity to benefit from new opportunities.

The output of the study will serve to provide a wider contextual platform for the other research papers being commissioned by the Project, most of which have more specific themes or foci to address. While the primary focus of our study has been on the potential economic impacts of the major global and regional trends, we have also identified potentially significant social and environmental impacts that may result from the global trends. This provides a strategic level context within which the findings of the other studies can be placed.

The paper is intended to inform the strategic, forward-looking process of policy development in Vietnam. We have sought to do so by providing an evidence-based analysis of the significant impacts that may arise from future trends in the global economy. By alerting policymakers to these possible impacts, the study’s findings provide the starting point for more detailed analysis of the policy responses that could be taken to manage the associated opportunities and risks.

2. METHODOLOGICAL APPROACH

2.1 The Integrated Impact Assessment Methodology

Responding to the increasing complexities and uncertainties of future global and regional economic trends requires an adaptive and creative approach to policy and decision-making processes. The challenge is to develop a strategic approach to policy design that is both comprehensive in its coverage of direct and indirect effects and cross-sectoral impacts, and yet also forward-looking in allowing for future risk and uncertainty.

This paper has applied the Integrated Impact Assessment (IIA) methodology as a 'fit for purpose' tool for addressing the study's terms of reference. Integrated Impact Assessment is a tool for combining, interpreting and communicating knowledge in such a way that a cause-effect chain - typically involving economic, social and environmental factors - can be assessed to inform decision-makers¹. The IIA approach to public policy analysis can be applied to different types of public sector initiatives, ranging from strategic long term planning (such as this study) to sector level legislative action². It can also be applied at different stages of the policy cycle.

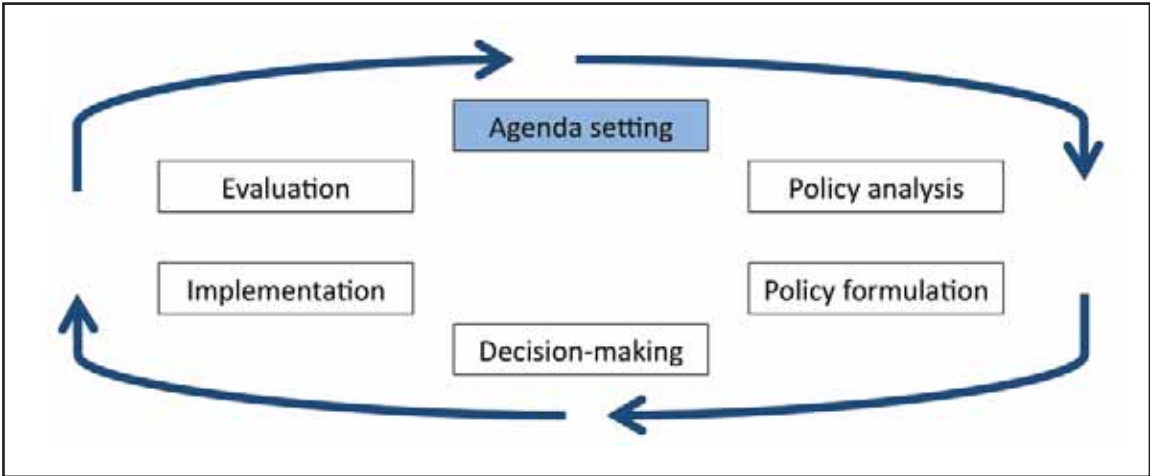
2.2 Applying IIA to the Policy Cycle

A key challenge is to integrate IIA into each stage of the policy cycle. Figure 1 shows a simple model of the characteristic stages of the policy cycle. It begins with Agenda Setting that involves the identification of the issues - which may be problems or opportunities - that require government attention. Agenda setting, or the understanding of the issues in a policy context, precedes the policy analysis stage, at which a range of policy options for addressing the opportunity or problem, are considered. The selection of preferred policy option is followed by policy implementation and decision making.

¹See UNEP (2009); Kirkpatrick, Pinder and Mosedale (2005) (www.manchester.ac.uk/sed/research/iarc)

²IIA can also be used to evaluate the actual impacts of policy that has already been implemented. The ex post application of IIA is similar in approach to the 'results-based' approach to evaluation. See, MPI (2009).

Figure 1. Stages of the Policy Cycle



The focus of this report is on the Agenda Setting stage of the policy cycle, where the aim is to identify the major global and regional trends over the period 2010 - 2011 and to assess their potential impact on Vietnam’s economy. To achieve this, we apply the IIA methodology, which consists of a set of logical steps or stages

The main stages in IIA are the following:

1. Agenda Setting (Problem Identification)

This stage describes the nature and extent of the problem that concerns the policy maker. It establishes the main drivers and underlying causes of the problem. This stage will also include a description of the baseline conditions.

2. Assessing the Impacts

This stage should begin by defining the objectives for policy: what is the desired outcome for policy interventions? The objectives can be strategic or specific and operational, depending on the level as which the problem has been identified. The definition of objectives provides the reference point against which the impacts are assessed (‘will the impacts have a positive or negative effect on the objectives?’). The second step is to identify the direct and indirect economic, social and environmental impacts and explain how they are likely to occur. This will involve the use of causal chain analysis to show the causality relationships between the policy intervention and the policy outcome or impacts. The impacts should be assessed against the baseline (what is expected to happen in the absence of a new policy intervention) and should be measured in quantitative and qualitative terms.

3. Identifying Flanking Measures

This stage of the IIA methodology considers the measures that could be adopted either to enhance the positive impacts or to prevent or mitigate the negative impacts. These measures are commonly referred to as ‘flanking measures’ - a term we have chosen to adopt for this study also.

4. Consultation

Consultation with expert opinion and interest groups in ministries, and with research institutes, social organizations and different social groups is a key part of the IIA methodology. Consultation is an important source of evidence that can be used for assessment. It also helps in checking the relevance and credibility of the IA report. Consultation should begin as early as possible (as we have done in the inception mission stage), and should be repeated during the preparation of the IIA report³.

2.3 Applying the IA Methodology to this Assignment

2.3.1 Agenda Setting

The Terms of Reference ask for a study that assesses the potential impact of global and regional trends on Vietnam's socio-economic development over the period 2010-2020. The first stage in applying the IA methodology involved the identification of the global and regional trends that are likely to have a significant effect on Vietnam during the next decade. This screening-in of a set of trends for more detailed assessment was undertaken by combining the results of three related processes: i) detailed review of relevant literature and secondary evidence; ii) the consultants' own knowledge and understanding of the issues; and iii) consultations with ministry experts and other non-government organizations.

2.3.2 Assessing the impacts

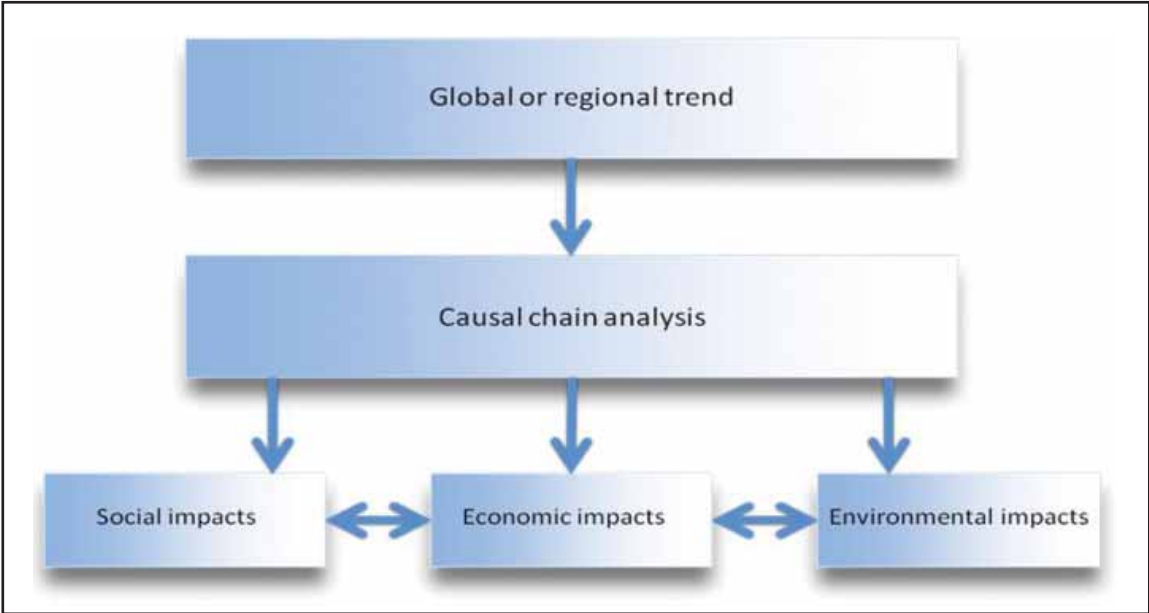
The second stage in the preparation of the report involved the assessment of impacts for each of the selected global and regional trends. Impacts have been assessed in terms of economic, social and environmental effects, which are used as indicators of Vietnam's strategic goal of balanced and sustainable development⁴.

Figure 2 illustrates the way in which the IIA methodology has been applied in this assignment. The economic, social and environmental impacts of each trend are assessed, including any significant indirect or cross-linkage effects. Where appropriate, a distinction will be drawn between short term and long term impacts. Short term impacts are those which occur during the period of adjustment; long term impacts are the combined outcome of the changes which result, once the period of adjustment is complete.

³The Interim Report was presented to a group of experts and Government officials at DSI on 25th November 2009. The views of the discussants and the questions raised in the general discussion have been taken into account in the preparation of this Final Report.

⁴Vietnam's strategic goals for 2010-2011 are discussed in detail in section 4.

Figure 2: Assessment of Impacts



Causal chain analysis (CCA) is used to identify the significant cause-effect links between the trend and its final economic, social and environmental impacts. The evidence used in the CCA is drawn from a range of sources, including empirical analysis and statistical data, case studies, consultations and expert opinion.

The IIA uses a set of core impact indicators, covering the economic, environmental and social dimensions of sustainable development (Table 1). These nine core indicators will be applied consistently in assessing the impact of each major trend, thus allowing comparability of the findings for each trend. Table 2 illustrates the types of key questions that could be asked as part of the process of reporting the likely impacts in terms of the core indicators.

Table 1: Core Sustainability Indicators

Sustainability dimension	Core indicators
Economic	Real income Fixed capital formation Employment
Social	Poverty Equity Health and education
Environmental	Climate change Environmental quality Natural resource stocks and biodiversity

Table 2: Core and Second Tier Indicators

Core Indicators	Second Tier Indicators (illustrative)
Economic	
Real income	What will be the impact on levels of production and trade? What will be the impact on the competitiveness of firms? What will be the impact on domestic prices and consumer choice? What will be the impact on domestic competition/ market competition?
Fixed capital formation	What will be the impact on cross border investment flows (including the relocation of economic activity)? What will be the impact on domestic investment? What will be the sectoral investment impact? What will be the impact on productivity, innovation and technology?
Employment	What will be the impact on employment? What will be the impact on wages and earnings? What will be the sector/industry employment impacts? What will be the impact on labour productivity, skills and training?
Social	
Poverty	What will be the impact on the income of the poor? What will be the impact on the assets of the poor? What will be the impact on the most vulnerable groups eg children, elderly, chronic poor, minorities? What will be the impact on the distribution of poverty?
Equity	What will be the impact on the distribution of income? What will be the impact on the distribution of wealth? What will be the impact on gender and social inclusion? What will be the impact on access to goods and services?
Health and education	What will be the impact on health and safety standards at work? What will be the impact on access to health care services? What will be the impact on access to education? What will be the health and/or education impacts on particular risk groups?
Environmental	
Climate change	What is the impact on emission of greenhouse gases into the atmosphere? What is the impact on emission of ozone-depleting substances? What is the impact on capacity to adapt to climate change?
Environmental quality	What is the impact on air quality? What is the impact on water quality? What is the impact on land use and soil quality What is the impact on waste production/ generation/treatment and recycling?
Natural resource stocks and biodiversity	What is the impact on energy use and intensity? What is the impact on renewable and non-renewable resources (forests, fish, minerals, groundwater)? What is the impact on endangered species or their habitats? What is the impact on ecologically sensitive areas?

It is important to provide the policy maker with information on the significance of the impacts. The following symbols are used to show impact significance:

↑ positive impact;

↓ negative impact;

↓↑ positive and negative impacts likely to be experienced according to context;

- impact has been evaluated as insignificant compared with the base situation.

2.3.3 Identifying Flanking Measures

The assessment of impacts assumes that the existing policy and regulatory environment remains unchanged. The next stage of the IIA is therefore to consider the strategic options and possible policy measures that could be made in response to the impacts that have been identified in the impact assessment. These measures can be categorized as (i) preventative measures, which are introduced before the (negative) impact occurs; (ii) mitigation measures, which are intended to reduce or minimize the (negative) impacts; and, (iii) enhancement measures, which are intended to maximize the (positive) impacts.

2.4 Summary

It is hoped that the systematic application of the IIA methodology in this report will demonstrate the usefulness of this approach to public policy analysis and formulation and will encourage its replication in the future, by others, should the external environment in which Vietnam finds itself change, and the global and regional economic development trends alter (a highly likely prospect between now and 2020). Indeed, if policy-makers disagree with some of our findings - which are inevitably subjective in part, given the judgements involved - at some intermediate stage in the IIA process, the methodological approach allows these to be substituted for alternative points of view, and the subsequent steps can be followed through to the final, flanking measures stage. In this regard, we would hope that the value of this study stems not only from the findings and conclusions, but also from the methodological approach taken.

3. VIETNAM'S ENGAGEMENT WITH THE GLOBAL ECONOMY

The assessment of the potential impacts of global and regional economic trends of Vietnam's development path over the next decade will build on an understanding and evaluation of the role that the international economy has played so far in Vietnam's socio-economic development. This evaluation of the previous two decades' experience will examine three related issues: i) the main trends and characteristics of Vietnam's engagement with the global economy; ii) the main economic, social and environmental impacts resulting from that engagement; and iii) the role of policy in managing Vietnam's 'internationalisation'⁵. In summary, this section considers the following three questions:

- What have been the main features of Vietnam's engagement with the international economy?
- What have been the impacts of economic globalisation on Vietnam's socio-economic development?
- In what ways has national policy been used to enhance or mitigate the impacts of the international economy on Vietnam?

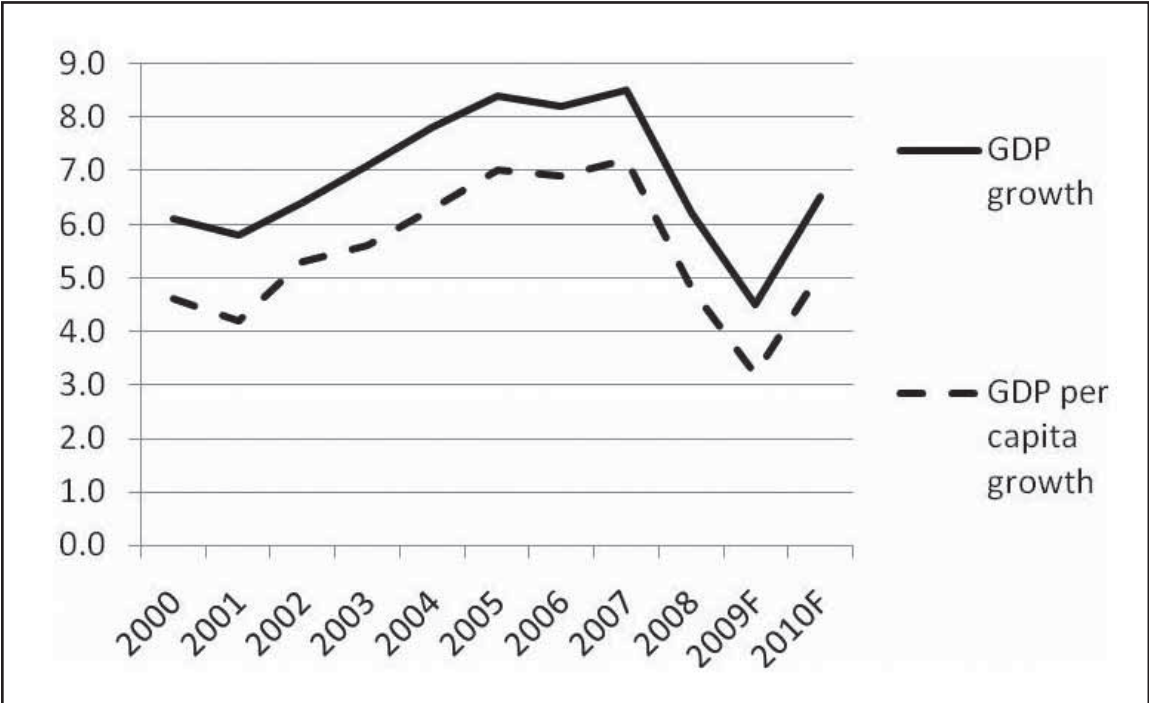
3.1 The main features of Vietnam's engagement with the international economy

Vietnam is a transitional economy, gradually shifting towards a more market-oriented model, albeit maintaining a number of socialist characteristics. The first tentative steps towards this transition were made in 1979, and concretized as 'doi moi' in 1986. The country is now more than two decades into its economic transition, which is widely - and rightly - recognized as having been a commendable success, thus far. The country has already graduated from a less developed to a developing economy, and aspires to become a middle-income country by 2020.

Figures 3 and 4, below, show Vietnam's GDP growth and per capita GDP growth trajectory 2002; and how that growth has been derived, in terms of the industry (including construction and mining), services (including trading) and agriculture (including forestry and fishing) sectors.

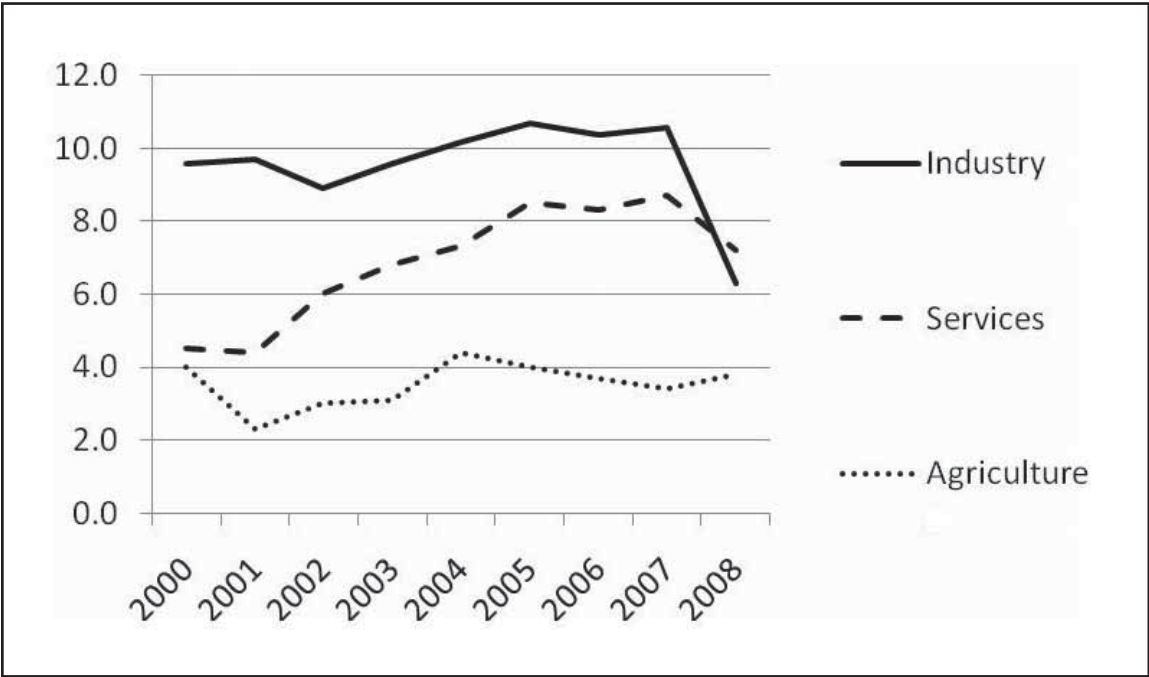
⁵This is consistent with the Impact Assessment (IA) methodology, which has three main parts: i) identification of significant trends; ii) assessment of impacts; and iii) policy responses. The evaluation of past trends also provides the 'baseline' against which the impact of future global and regional trends will be assessed.

Figure 3: GDP Growth and GDP per Capita Growth in Vietnam (2000-2010F)



Source: Asian Development Bank.

Figure 4: GDP Growth, by sector (2000-2008)

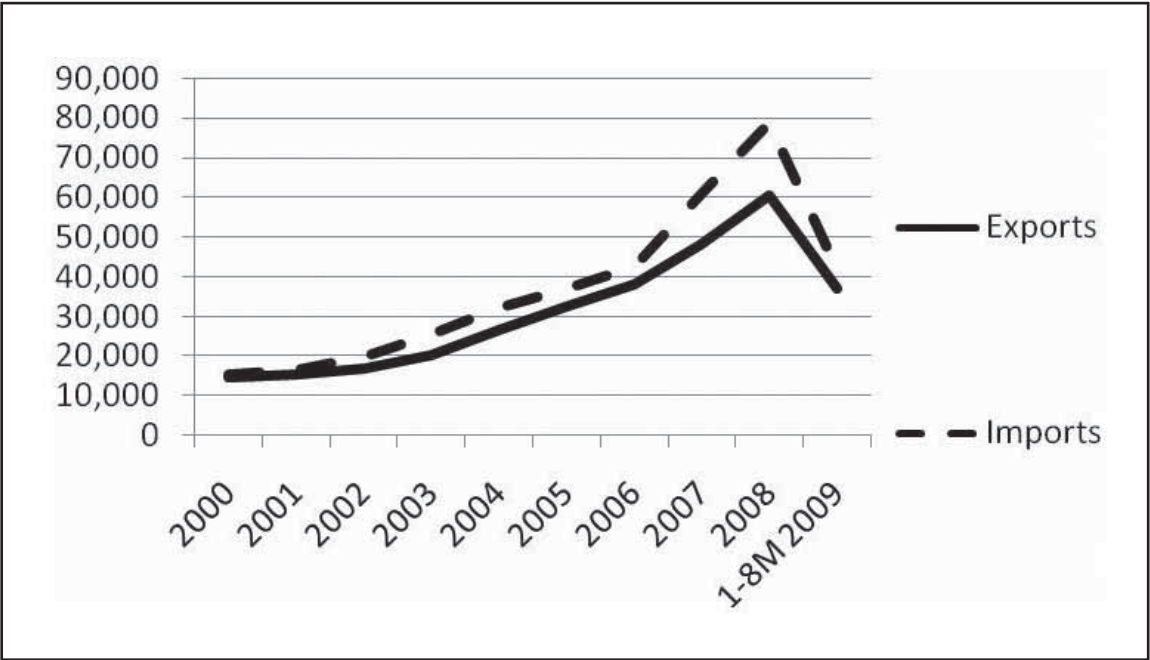


Source: Asian Development Bank.

Notwithstanding the impact of the global economic downturn on Vietnam, which became apparent in the latter part of 2008, one can see the relatively sustained pace of economic growth, and its impact on per capita income, which reportedly crossed the US\$1,000 milestone in 2008. The industry and services sectors have been the primary drivers of overall growth, with the agricultural sector displaying a more modest, but still sustained, pace of output growth.

A key part of Vietnam's growth story has been the rapid increase in outward-looking orientation, and its engagement with global and regional economic trends. Foreign markets serve as a major source of demand for commodities and manufactures that Vietnam's corporate sector produces. Recent years have also seen the domestic market burgeon considerably, as the point of economic 'take off' is attained, and a growing urban middle class forms. Nonetheless, overseas markets remain very important to the Vietnamese economy, and the country's policy-makers have been commendably successful in gaining greater access to the world's largest markets. The signing of the bilateral trade agreement with the US, and then gaining WTO accession, were both important milestones for Vietnam in this regard, and marked what has been a two-decade long reorientation of the economy from being an integrated member of the (now defunct) socialist bloc to being an increasingly integrated member of the international business community. Figure 5, below, shows how both Vietnam's exports and imports have risen in recent years quite considerably.

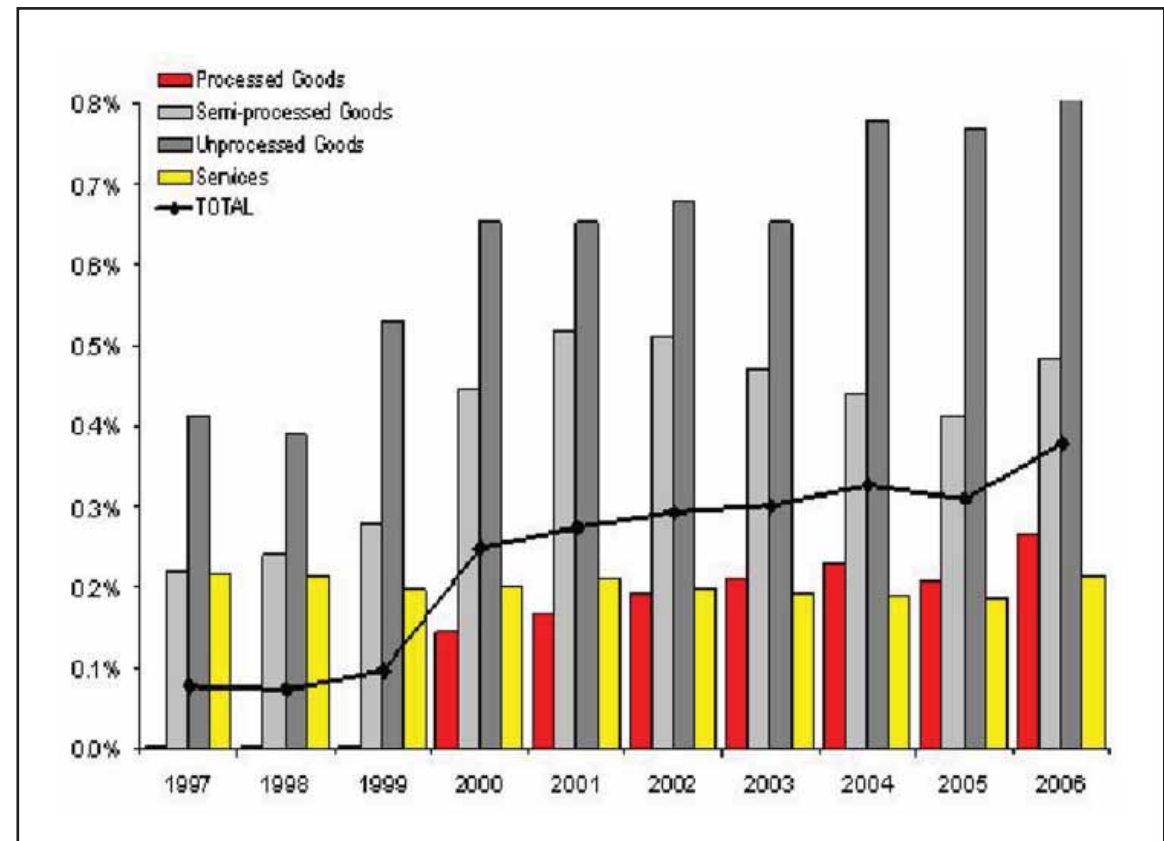
Figure 5: Exports and Imports (2000-August 2009, in US\$m)



Source: Asian Development Bank.

The outward orientation of the Vietnamese economy increased steadily during the 1990s. The export to GDP ratio increased from 5 percent in the latter half of the 1980s to 48 per cent in 2000, and then to 86 per cent in 2006. Over the same period there was a shift in the composition of exports, away from primary products and resource-based manufacturing, towards labour intensive light manufacturing and more recently, component production and assembly (Athukorala, 2009). But as Figure 6, below, clearly shows, semi- and unprocessed goods remain the dominant components of Vietnam's export 'footprint' on the world market.

Figure 6: Vietnam's Export Profile, by industry (as measured by world export market share)



Source: Porter (2008).

There has also been a shift in the relative importance of external markets. Between 1995 and 2005, the share of Vietnam's exports to Japan fell from 27 per cent to 13.4 per cent, while the US market share increased from 3.1 per cent to 18.3 per cent (Table 3), thanks in large part to the bilateral trade agreement (BTA) with the US. However, despite rapid export growth over the last decade, by 2006 Vietnam still only accounted for less than one per cent of non-oil exports from developing countries, and Vietnam's share is the smallest among the six major ASEAN member countries (Athukorala, 2009).

Table 3: Export Destinations for Vietnam: 1995 and 2005 compared (% of total merchandise exports)

	USA	ASEAN	EU	Japan	China	Australia	Others
1995	3.1	18.3	12.2	26.8	6.6	1.0	32.0
2005	18.3	17.7	17.0	13.4	9.9	8.4	15.3

Source: Thoburn, 2009, based on GSO database.

Vietnam has also been very successful in attracting foreign direct investment (FDI) inflows. Table 4 shows the level of FDI inflows from 1988 (when direct investment commenced) to 2005. Since 2005, however, the scale of FDI inflows has risen even more dramatically, both in terms of pledges and commitments, peaking in 2008. Recent inflows have been a roughly equal mix of new investors and existing investors seeking to scale up their operations.

Table 4: FDI Inflows, 1988-2005

Year	FDI flows, MPI source			Actual FDI flows, UNCTAD source	FDI flows, GSO source		
	Number of licensed project	Registered capital	Realized capital		No, of licensed projects	Registered capital	Registered capital
1988	38	322		8	38	322	
1989	68	526		4	68	526	
1990	108	735		180	108	735	
1991	151	1,284	428	375	151	1,292	329
1992	197	2,077	575	474	197	2,209	575
1993	274	2,829	1,118	926	274	3,347	1,018
1994	367	4,262	2,241	1,945	367	4,535	2,041
1995	408	7,925	2,792	1,780	408	7,699	2,556
1996	365	9,429	2,923	1,803	387	9,735	2,714
1997	348	5,822	3,218	2,587	358	6,055	3,115
1998	275	4,781	2,375	1,700	285	4,877	2,367
1999	311	2,197	2,537	1,484	311	2,264	2,335
2000	379	2,494	2,420	1,289	389	2,696	2,414
2001	550	3,236	2,430	1,300	550	3,230	2,451
2002	802	2,805	2,591	1,200	802	2,963	2,591
2003	772	3,128	2,650	1,450	748	3,146	2,650
2004	723	4,222	2,860	1,610	723	4,222	2,852
2005	922	6,339	3,300	2,020			
Total	7,058	64,413	34,458	22,135	6,164	59,853	30,008

Note: - data not available.

Source: GSO website, MPI database (various) and UNCTAD database on website.

Direct foreign investment has contributed to the rapid growth in Vietnam's exports. In 2006, foreign owned enterprises accounted for 58 percent of Vietnam's total merchandise exports (CIEM, 2006, quoted in Thoburn, 2009), although as Freeman (2004) notes, they have to a significant extent substituted for a domestic private sector that is still in the process of developing into a robust corporate community⁶.

3.2 Impacts of Economic Globalisation on Vietnam's Socio-Economic Development

3.2.1 Economic Impacts

The rising trends in Vietnam's economic growth, exports and FDI have been seen by some observers as evidence of a causal link between openness and economic performance. Indeed, Vietnam is sometimes presented as a case study to show how opening up the domestic economy will lead to rapid economic growth (World Bank, 2001).

Among the benefits that are claimed for trade and investment openness, economic growth is the most important. But, both the theory and evidence on the causal relationship between growth and openness are contested. At a theoretical level, most of the potential benefits from openness tend to be efficiency gains associated with the reallocation of resources and production to internationally traded goods. This 'one-off' reallocation of resources will give a short term stimulus to growth, as the economy moves to a higher growth path. But once the reallocation effect is complete, growth will fall again to its 'steady state' rate⁷. If the economy is to move permanently to a higher rate of growth, openness needs to impact positively on the underlying rate of productivity growth (Winters, 2004).

The difficulties in establishing the contribution that openness makes to growth are increased by the problems of defining and measuring 'openness'. The commonly used measure of openness - the ratio of exports and imports to GDP - is the outcome measure, which tells us virtually nothing about the policy and non-policy factors that have produced this level of openness. More importantly, the openness index fails to reflect the complex network of direct and indirect linkages between economic agents that characterises economic globalisation⁸. There is likely to be a two-way causal relationship between economic growth and openness. Increased exports and FDI can act as a powerful stimulus to economic growth. But at the same time, a growing economy attracts inward FDI inflows and, by extending the production frontier, enables higher export volumes.

A further challenge arises in trying to isolate the influence of openness on growth from the other inputs that contribute to growth, including labour, capital, productivity growth and institutions. The interactions between openness and institutional development has

⁶State-owned enterprises account for a third of non-oil exports.

⁷However, the period over which the resource reallocation effect occurs may extend to a decade or more.

⁸OECD (2005) discusses the limitations of the standard measures of economic globalisation.

attracted much research interest in recent years, and has highlighted the important mediating role that institutions such as property rights, regulation and social protection can play in determining the impact of openness of economic performance (Rodrik et al 2004; Kirkpatrick et al 2007). The literature supports a presumption that openness contributes positively to economic growth. But the magnitude of the benefits depends also on 'enabling' policies and institutions. With the character of economic globalisation becoming more complex and interdependent over time, so policy and supporting institutions must also evolve, if the potential benefits of economic internationalisation are to be captured and translated into economic growth and development.

What evidence do we have on the impact of the global economy on Vietnam economic development over recent decades? Decomposition of GDP by demand components for the period 1995 to 2008 shows that net exports accounted for a relatively small share of total GDP growth. Indeed, in some years the contribution was actually negative (Anh et al 2009). The limitations of the decomposition method for estimating the contribution of trade to GDP growth are well known, particularly since a negative trade balance will show that trade has made a negative contribution to growth. Nevertheless, it is significant that a cross-country application of the decomposition method shows that Vietnam records the lowest share of growth contributed by trade (Table 5).

Table 5: Contributions to Growth and Employment Growth, 2000-2008 (in %)

Country	GDP Growth	GDP Growth Contributions					Employment Growth
		Consumption			Investment	Net Ex-ports	
		Total	Private	Government			
Bangladesh	5.8	3.6	3.2	0.4	2.1	0.0	3.3
Cambodia	9.0	6.9	6.6	0.3	2.3	-0.4	5.7
China	10.2	4.1	2.8	1.3	5.0	1.1	0.9
Hong Kong	5.0	2.3	2.1	0.2	1.3	1.7	1.4
India	7.2	4.1	3.5	0.5	3.6	-0.3	1.9
Indonesia	5.2	3.1	2.5	0.6	1.4	0.4	1.6
Korea	4.9	2.5	1.9	0.6	1.0	1.4	1.7
Malaysia	5.1	4.6	3.5	1.1	0.4	0.1	2.1
Pakistan	4.9	3.7	2.7	1.0	1.1	0.1	3.1
Philippines	5.0	3.9	3.8	0.2	0.7	1.0	2.3
Singapore	5.5	2.8	2.1	0.6	1.5	1.5	4.1
Sri Lanka	5.2	4.8	3.8	1.0	1.3	-0.8	1.9
Taiwan	3.6	1.5	1.4	0.1	0.0	2.2	1.2
Thailand	4.8	2.7	2.4	0.4	1.5	0.5	1.6
Vietnam	7.5	5.3	4.8	0.5	4.3	-2.4	2.3
Unweighted medians:							
All Coun-tries	5.2	3.7	2.8	0.5	1.4	0.4	1.9
All exel China	5.1	3.6	2.9	0.5	1.3	0.2	2.0

Source: Prasad (2009).

Vietnam's period of rapid growth has been associated with an increase in the national investment ratio, which increased from around 28 per cent in the 1990s to 43 per cent in 2008. This is confirmed in Table 5, which shows that investment accounted for more than half of economic growth during the current decade. Vietnam's investment ratio is the highest in the Asian region by far, with the sole exception of China. Foreign direct investment accounted for no more than 30 per cent of investment in the mid 1990s but showed a steady decline during the current decade (Table 6); a trend that may have been (temporarily) arrested in 2008.

Table 6: FDI as Share of Total Investment in Vietnam

Year	Composition (%)			Growth index: 1994=100			
	FDI	Domestic private	State-owned	FDI	Domestic private	State-owned	Total
1985	0.0	28.5	71.5	0.0	25.3	52.0	27.8
1986	0.0	40.2	59.8	0.0	34.0	41.2	26.4
1997	0.0	47.2	52.8	0.0	38.0	34.8	25.3
1998	2.5	44.2	53.3	2.4	40.4	39.9	28.6
1999	13.6	40.9	45.5	14.4	42.1	38.4	32.3
1990	13.1	46.7	40.2	17.5	61.0	42.9	40.8
1991	14.3	47.7	38.0	22.8	73.8	48.0	48.4
1992	21.0	43.9	35.1	51.1	103.8	67.9	74.0
1993	25.2	30.8	44.0	83.7	99.4	116.0	101.0
1994	30.4	31.3	38.3	100.0	100.0	100.0	100.0
1995	30.4	27.6	42.0	119.0	105.0	130.7	119.1
1996	26.0	24.9	49.1	117.0	109.0	175.4	136.9
1997	28.0	22.6	49.4	150.1	117.8	210.6	163.2
1998	20.7	23.7	55.5	114.4	127.0	242.8	167.5
1999	17.3	24.0	58.7	104.6	141.2	281.7	183.9
2000	18.0	22.9	59.1	125.4	154.9	327.3	212.0
2001	17.6	22.6	59.8	138.1	172.0	372.3	238.4
2002	17.5	26.2	56.4	156.6	228.0	401.4	272.7
2003	16.3	29.7	54.0	165.4	291.7	434.4	308.0
2004	15.5	30.9	53.6	175.1	338.8	481.2	343.6
2005	15.7	32.1	52.2	204.7	397.8	527.4	388.3
2006	16.2	38.1	45.7	249.7	461.4	579.6	441.5
2007a	24.8	35.3	39.9	482.5	541.7	621.9	555.4

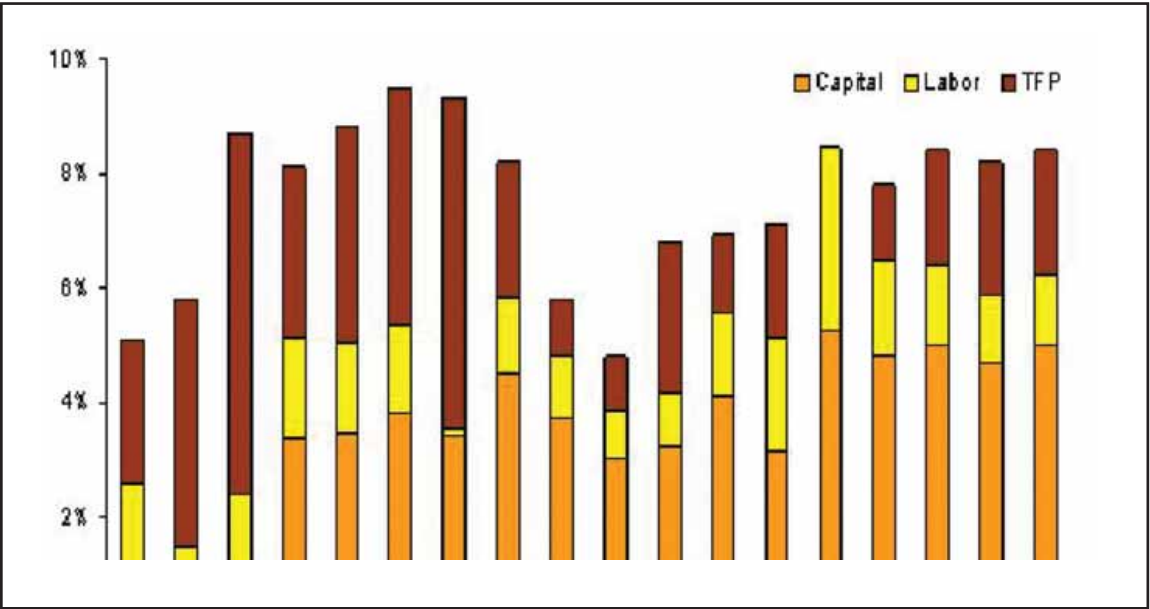
Note: a. Preliminary estimate from GSO website, 2007.

Source: CEIC Asi Database, 2006

The growth enhancing effects of openness are often indirect, resulting from: i) technology transfers associated with trade; ii) scale efficiencies in production associated with larger market size; and iii) increased efficiency in production in response to foreign competition. What evidence do we have on these indirect effects of openness on growth in Vietnam?

Estimates of the sources of growth, using a production function approach, indicate that the contribution of total factor productivity (TFP) growth to GDP growth actually declined during the period when the openness of the economy was increasing (Figure 7). This is a source of some concern, as TFP is a measure of the efficiency with which capital and labour are used by an economy and its enterprises. Put another way, if output increases are not to come from simply ‘pouring in’ either greater capital or labour inputs, then they will typically emanate from TFP gains⁹.

Figure 7: Contribution to GDP Growth (% contribution to annual GDP growth), 1990-2007



Source: Michael Porter (2008).

An alternative method of estimating the contribution of openness to growth is to examine the impact on performance at the enterprise level. Pham et al (2009) examine the relationship between technical efficiency and openness using manufacturing firm-level data. They find that, on average, export orientation has a positive but modest effect on technical efficiency. Estimates using measures of exposure to trade competition suggest that trade liberalisation has had a modest positive impact on the efficiency of manufacturing firms. However, the results do not show the direction of causation, and the possibility that the more efficient firms ‘self select’ to enter export production cannot be ruled out.

Further indirect evidence on the impact of trade openness on growth is provided in the study by Abbott et al (2009). Vietnam’s export growth, following bilateral or regional trade liberalisation agreements, is shown to have far exceeded the growth rates predicted by trade liberalisation modelling exercises. The above-predicted level of export growth is therefore attributed to domestic policy reforms, which have propelled

⁹A recent study suggests that in the period 1990 to 2008, the average annual growth of TFP has been highest in China, at just over 4%, followed by India at slightly under 3%, then Singapore, Thailand, South Korea and Indonesia.

export growth in particular commodities to those external markets that have lowered their import barriers to Vietnamese goods. This highlights the importance of institutional changes in enabling producers to take full advantage of the improved market access provided by trade liberalisation agreements.

In summary, the available evidence on the contribution of openness to Vietnam’s economic growth highlights the complexity of the causal chain that links openness to economic performance. While integration with the global economy has extended the opportunities for rapid economic growth, the contribution that trade has made to growth has depended on the interaction with other factors, including investment and labour availability, institutional reform and strategic policy interventions.

3.2.2 Social Impacts

What impact does trade liberalisation have on poverty? While economic theory provides a strong presumption that trade liberalisation will be poverty alleviating in the long run and on average, the empirical evidence suggests that in the shorter term, the impact of trade on poverty will depend on many factors, including: i) the starting point level of poverty; ii) the precise trade reform measures that are undertaken; and iii) the pro-poor policies that are adopted (Winters et al 2004).

Vietnam’s economic transformation and rapid economic growth have been accompanied by a significant reduction in poverty and improving living standards across a range of indicators (Table 7). The proportion of the population surviving on one dollar per day has fallen from 50 per cent in 1990 to just over 10 per cent in 2004, and Vietnam’s progress towards the Millennium Development Goals shows consistent improvement in educational enrolment and infant mortality, among other measures (Oxfam, 2006; World Bank, 2004)¹⁰.

Table 7: Vietnam’s Poverty Rate using International Standard

Year	Mean Expenditure Per Capita (in PPP \$ per month	Percentage of Population Living under	
		1PPP \$/day	2PPP \$/day
	1995	2000	2001
1990	41.7	50.8	87.0
1993	48.9	39.9	80.5
1996	63.7	23.6	69.4
1998	68.5	16.4	65.4
2000	71.3	15.2	63.5
2001	73.8	14.6	31.8
2002	78.7	13.6	58.2
2004	85.5	10.6	53.4

Note: The PPP dollars are reported in constant 1993 prices.

Source: Heo and Nguyen (2009)

¹⁰There are significant urban- rural, regional and ethnic differences in the rate of poverty reduction. The reduction in poverty level has been accompanied by an increase in income inequality with the Gini coefficient rising from 0.34 in 1993 to 0.37 in 2004 (Heo and Nguyen, 2009).

To what extent did the growing engagement between Vietnam and the global economy contribute to poverty reduction? There is a strong relationship between economic growth and poverty reduction in Vietnam. The growth elasticity of poverty over the period 1993 to 2004 was 0.77, which exceeded that of most other Asian countries during this period (Heo and Nguyen, 2009; Pasha and Palanivel, 2004). However, the relative contribution of openness to poverty reduction is more difficult to assess. As we saw earlier, while openness has contributed to growth, the role of investment and institutional reform has dominated that of trade. This implies that global integration has contributed indirectly to pro-poor growth, but has not been the principal driving force for poverty reduction.

Openness can also have an impact on poverty through employment. This can be a two-sided effect. On the one hand, the increase in demand will, *ceteris paribus*, increase employment. On the other hand, if labour productivity improves in order to compete internationally, employment per unit of output will fall. Table 5 above shows that employment has grown less rapidly than income since 2000, suggesting increasing labour productivity. Jenkins (2004a, b) shows that in the 1990-94 and 1995-99 periods, the employment growth in Vietnamese industry as a whole, resulting from output increases with unchanged employment output coefficients, was reduced by at least two thirds as a result of increased labour productivity.

This is confirmed for export production by Heo and Nguyen (2009) who estimate the employment coefficient for exports (i.e. the number of workers required to produce a given volume of output), and show that the employment intensity of exports declined between 1999 and 2004. The employment intensity of import competing manufacturing also declined over the same period. This evidence suggests that while the opening of trade impacted positively on employment through the growth effect, this stimulus to job creation was partly offset by rising labour productivity.

Trade liberalisation can also have an indirect impact on poverty, through its effect on trade revenues. In the case of Vietnam, it appears that tax revenues increased as a result of the conversion of quantitative controls into tariffs. This helped fund the rise in the government's expenditure on social protection targeted at the poor. Overall, it is fair to say that global integration has contributed to poverty reduction in Vietnam. This favourable outcome reflects the influence of government policy, which has been designed to strengthen the positive effects of greater openness, while at the same time mitigating the potential damaging effects¹¹.

Beyond the remarkable impact on poverty, global integration has wrought about other significant changes in Vietnamese society. Over the last two decades, numerous key laws (such as the Enterprise Law and the Land Law) regulating economic activities have been put in place, generating a more conducive environment for the growth of the domestic private sector and transforming state-society relations in the process. Unleashing latent entrepreneurial dynamism, innovation and creativity within society, market-oriented economic growth and global integration have given Vietnamese citizens more options and opportunities in their economic activities, quality of life, and participation in a wider world. A more vibrant society is at the heart of a more confident and active Vietnam in regional and international affairs in recent years; a

clear outcome of the state's adoption of the doi moi policy in late 1986, which marked the beginning of the country's integration process.

3.2.3 Environmental Impacts

The impact of global integration on a country's environment has been the subject of much attention in recent years, and the rapid expansion of trade and investment has heightened fears that irreparable damage will be incurred through the contraction of finite natural resources, reduction in biodiversity and increased air and water pollution.

Trade liberalisation may affect the environment through a variety of channels (Kirkpatrick and Scieciu, 2008). First, the overall increase in the level of economic activity is likely to be accompanied by an increase in the use of natural resources and higher levels of pollution (scale effect). Second, trade liberalisation changes the type of economic activity (composition effect). If the changes favour industries that pollute less or extract less of the country's natural resources, positive environmental impacts can be expected. If the products for which the country has a comparative advantage have high pollution intensities or a greater dependence on local natural resources, the effects will typically be in the opposite direction. Third, trade liberalisation can lead to a change in the environmental intensity of production or a change in the environmental effects of the methods of production used (technology effect). Openness can spur more environmentally friendly technological innovation, which has a positive effect on both the economy and the environment. Similarly, trade liberalisation can enhance a country's access to environmental know-how and technology, either through imports of environmental goods and services or through cleaner production techniques embodied in foreign direct investment (OECD, 2000). But greater openness may also encourage a race to the bottom, where countries compete for foreign direct investment and try to increase their international competitiveness by relaxing environmental regulatory standards.

Each of these channels is affected by the interaction between market forces and regulatory institutional frameworks at the national (and international) level. If regulatory controls are increased and effectively enforced, an increase in economic activity or a structural shift in production need not always result in a change in the net overall impact. Similarly, the effectiveness of the domestic regulatory institutions will affect the extent to which positive environmental impacts of foreign investment are realised (Kirkpatrick and Shimamoto, 2008).

The complex interdependencies that exist between trade, investment, regulation and environmental quality strongly suggest that we should not expect to find a unique or pre-determined pattern for the impact that trade liberalisation may have on the environment. The impacts that do occur will depend on country specifics, the nature of the environmental problem under investigation, as well as policy and institutional measures that accompany the trade reform process.

¹¹Vietnam's trade strategy has focused on export expansion while gradually lowering import protection. Thoburn, 2009: Gainsborough, 2004). As a result, the adverse employment effects have been spread over a longer adjustment period.

What have been the environmental consequences of Vietnam's integration into the global economy? Vietnam's rapid growth has been accompanied by a rapid deterioration in the quality of surface water, air, marine and forest resources, as well as biodiversity. There is an awareness among policymakers of the importance of the environment to maintaining Vietnam's development trajectory, but effective policy requires a good understanding of the drivers of environmental degradation.

Industrial activities contribute significantly to environmental damage, particularly in terms of noise, air and water pollution. The production of certain manufactured export goods are among the most seriously polluting industries (see Table 8). Low technology levels, combined with weak enforcement of environmental standards, and the lack of incentives, have exacerbated these problems (World Bank, 2006). Air and water pollution is a growing problem in urban areas and in centres of industrial activity.

Table 8: Top 10 Polluting Industries

Manufacturing Industry (VSIC-4)	Air index	Land index	Water index	Overall Index
1. Fertilizers and nitrogen compounds	3	1	1	1
2. Footwear	1	2	4	2
3. Basic iron and steel	4	3	6	3
4. Basic chemicals, except fertilizers and nitrogen compounds	6	5	3	4
5. Processing and preserving of fish products	2	6	10	5
6. Plastics products	7	7	5	6
7. Pulp, paper and paperboard	5	10	2	7
8. Casting of non-ferrous metals	8	4	7	8
9. Other chemical products	9	9	8	9
10. Forging and other metal processing, powder metallurgy	10	8	9	10

Source: World Bank, MONRE and MOI (2006): Analysis of Pollution from Manufacturing Sectors in Vietnam. A lower score signifies a higher pollution load. Industries are ranked from most to least polluting in a 10-point scale.

The expansion of marine aquaculture for exports has negatively impacted on mangrove systems and inter-tidal resources, and therefore on the livelihoods of communities that depend on these resources. The mining of coal - a major export - is characterised by poor environmental management practices and as a result, is a major source of environmental damage in areas such as mine water discharge, dust emissions, and waste dumping from open cast mines.

Tourism - another major source of foreign exchange earnings - puts further strain on physical and natural resources, through infrastructure development and management of solid and liquid waste. Vietnam is among the top twenty most biologically diverse countries in the world, however, this rich biodiversity is under threat from (illegal) wildlife trade, fisheries exploitation and agricultural expansion.

While much of this growing environmental damage can be attributed to rapid economic growth and weak environmental regulation, the opening of the economy, and particularly the focus on export growth, has exacerbated these underlying trends.

3.3 Policy Response

Our evaluation of the role that the international economy has played in shaping Vietnam's socio-economic development over recent decades has highlighted the importance of strategic policy choices. Policy interventions can be used to both enhance the positive impacts of economic globalization, and prevent or mitigate the negative impacts. But rarely do policy interventions remain constant, as external trends - and their impacts - inevitably change over time. In addition, the strategic goals of socio-economic development also change. The previous two SEDS were tailored to meet the goals of the respective subsequent decade, and this third SEDS (2011-2020) will also be drafted to meet the country's goals in the coming decade. What worked for Vietnam in 2001 to 2010 is unlikely to work again in the next decade, as: i) global trends have changed; and ii) Vietnam's own social and economic goals have risen to a higher level. Although one should not discount the very considerable progress that Vietnam has made over the last twenty-three years of economic reform, the task of social and economic development very much remains a 'work in progress'.

The very considerable reliance placed on foreign capital inflows, for example, as a means to up-grade the domestic corporate sector was an appropriate and successful policy in the past two decades, but has arguably exposed Vietnam to a high degree of overseas market volatility, and the country has probably not been so successful in promoting linkages between foreign and domestic firms. While foreign-invested enterprises resident in Vietnam account for roughly half of the country's total exports (and foreign exchange earnings), domestic firms have struggled to plug into higher value cross-border production networks. Unprocessed and semi-processed commodities, and other 'low tech' goods - such as garments and footwear - remain the principal fields where domestic firms have established an export presence. But the more advanced manufacturing activities tend to be the preserve of wholly foreign-owned enterprises; leveraging the more attractive attributes of the host economy (such as a large and relatively competitive pool of labour), but struggling to source more inputs from within the country and thereby raise up domestic content. With a need to generate more than 1.5m new jobs each year, and the agricultural sector rapidly running out of scarce land to exploit, the necessity of increasing domestic content in Vietnam's manufacturing and services sectors is very apparent. And this arguably needs to be done at a quicker pace than has been the case until now.

It is in this context that policies cited under SEDS 2011-2020 will need to address what could be described as some of the weaknesses that have been exposed in these final years of the earlier SEDS. Some would argue that Vietnam is now in need of a new economic model that can take the country to the next level; a process that is no longer so much focused on poverty alleviation, or on creating a domestic private sector, but on developing a robust and competitive corporate sector that can compete effectively for international markets and in a much less protected domestic market. Getting domestic

companies to a level where they can more actively participate in East Asia's international production networks is likely to be a major policy goal in the next SEDS. SEDS 2001-2010 helped Vietnam get to this point, but the policies contained in SEDS 2001-2010 will not achieve the next set of socio-economic advances; that is the job of SEDS 2011-2020.

In conclusion, Vietnam has successfully managed the process of integrating with the international economy, thus far. But the increasing complexity and uncertainty of the global economy will place new demands for detailed policy analysis, based on the application of appropriate analytical tools by an enlarged and more diverse cadre of skilled professionals. This may, in turn, require institutional changes affecting the relationship between the technical and political dimensions of policy formulation and implementation for managing Vietnam's engagement with the global economy¹². This is a topic we will return to in Section 7 of the report. Also in Section 7, we provide some tentative recommendations on policy interventions - or 'flanking measures' - that could be used to both enhance the positive impacts of current and emerging global and regional economic development trends, and prevent or mitigate the negative impacts of those same trends. These are provided as possible components for Vietnam's new economic development model, as defined by SEDS 2011-2020.

¹²Rama (2008); Nguyen Mai (2006).

4. VIETNAM'S DEVELOPMENT GOALS, 2011-2020

Vietnam's Ten Year Socio-Economic Development Strategy (SEDS) for 2011-2020 will be a key document in setting the strategic directions Vietnam must take to respond to major global and regional trends impacting the country's development. The new SEDS will ideally build on the achievements of the 2001-2010 Socio-Economic Development Strategy in accelerating industrialization and modernization following the socialist orientation, and laying the foundations for Vietnam to become a middle income country by 2020. It will also dovetail with the specific components of Vietnam's Millennium Development Goals (MDGs), at least in part, which have a deadline of 2015.

At the same time, the 2011-2020 SEDS will reflect the changing realities of Vietnam's engagement with the global economy and the country's new phase of development. It is instructive to review the goals set for SEDS 2001-2010, so as to ascertain the different context for SEDS 2011-2020, which were:

To bring our country out of underdevelopment; improve noticeably the people's material, cultural and spiritual life; and lay the foundations for making ours basically a modern-oriented industrialised country by 2020. To ensure that the human resources, scientific and technological capacities, infrastructures, and economic, defense and security potentials be enhanced; the institutions of a socialist-oriented market economy be basically established; and the status of our country on the international arena be heightened¹³.

The driving impulses embodied by these goals are modernization, industrialization, and integration into the global system. Coming from a relatively low base of economic development and previously isolated from international affairs, the earlier decades of reform entailed a fundamental ideological reorientation by the Vietnamese leadership that would allow and encourage private sector activities, while simultaneously making a concerted effort to become a member of various regional and international fora.

Modernization and industrialization were - and still are - clearly necessary for Vietnam to shift from an agriculture-based economy to a manufacturing one, with a GDP growth trajectory that would help the country address serious hunger and poverty, and graduate out of the ranks of the least developed countries. This was the backdrop to the SEDS 2001-2010; a decade in which Vietnam's economic reform and business liberalization efforts bore significant fruits. It entailed: i) a marked drop in poverty rate (falling from 58.1% in 1993 to 16% in 2006); ii) an average GDP growth rate of 7.43% (1990-2008); iii) a dramatic increase in per capita income (from US\$220 in 1994 to US\$1,024 in 2008); and iv) a growing private sector, and a steady increase in FDI in recent years¹⁴. By the end of 2006, the year that Vietnam marked two decades of doi moi policy, the country had completed negotiations with the World Trade Organization to become the 150th member of the global trade body, and attained Permanent Normal

¹³Strategy for Socio-Economic Development 2001-2010.

¹⁴Figures obtained from the World Bank's Vietnam Country Review (June 2008) and the International Monetary Fund's World Economic Outlook Database (October 2009).

Trade Relations (PNTR) with the U.S. In addition, the basic economic structure of the economy had completed a radical change; while the service and trade sector continued to account for around 40% of GDP, the agricultural sector (including forestry and fisheries) had gone from representing roughly 40% to 20% of GDP, and conversely the industrial sector (including construction) had gone from representing roughly 20% to 40% of GDP. The table below illustrates the commendable economic progress achieved.

Table 9: Selected economic growth indicators for Vietnam, 1995 and 2000-2008

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP growth (percen)*	9.5	6.8	6.9	7.1	7.3	7.8	8.4	8.2	8.5	7.3
GDP (billion US\$)**	20.7	31.1	32.5	51.1	39.6	45.5	53.0	60.9	70.0	81.3
GDP per capita(US\$)*	228	401	413	440	489	555	637	722	818	937
Population	71.9	77.6	78.6	79.7	80.8	82.0	83.2	84.4	85.5	86.7

Note: * constant prices, ** current prices.

Source: International Monetary Fund (IMf), Word Economic Outlook Database, April 2008 (Available at: <http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>)

The headlong push for modernization and industrialization is also not without negative impacts, however, particularly with regard to the environment, social stability, and continued welfare improvement for the most vulnerable populations, such as the poor, disadvantaged women, and ethnic minorities. Quoting Prime Minister Nguyen Tan Dung, 'Viet Nam's development strategy is towards sustainability, including three mainstays: economic development accompanied with ensuring social equity and environmental protection'¹⁵. This commitment to the goal of sustainable development is reflected in the Ministry of Planning and Investment's use of 'three pillars' of development to evaluate the results of implementing the Five-Year Socio-Economic Development Plan for 2006-2010 (MPI, 2009). The three pillars being:

- Ensure high and sustained growth through improved efficiency so that the country graduates from under-developed status;
- Ensure progress in the social sectors to improve the material and spiritual lives of the people;
- Protect natural resources and the environment for sustainable development.

As such, the term 'sustainable development' is increasingly being used in Vietnam by the public and government alike, reflecting the increasing recognition that economic growth at any and all costs is no longer viable. Environmental degradation is visible, with waterways heavily polluted by industrial waste, and related public health issues are a growing concern. As one of the twelve countries that will be most impacted by climate change in the world, Vietnam also has to mainstream climate change into its planning processes. Relatively cheap labour has been Vietnam's primary comparative advantage in export-oriented manufacturing, but the rising number of strikes in recent

¹⁵Viet Nam News, 8 September 2009.

years point to inadequacies in industrial relations. The push for industrialization has also resulted in an increasing amount of agricultural land being acquired for industrial (or other) purposes, leaving a growing number of farmers without land and without the skills necessary to enter the labor force. Modernization has primarily focused on urban areas, leaving the countryside with insufficient infrastructure and opportunities, which further pushes young people to migrate to the cities to find employment. The rural-urban gap is widening, as is that between the rich and the poor.

These are common challenges many developing countries face, but this next phase of development is critical, as Vietnam has moved beyond the poverty alleviation agenda and is increasingly focused on how to: i) compete successfully in the global market; ii) reach the rank of middle income countries; and iii) establish itself as an active participant in regional and international affairs. The oft-cited phrase of “prosperous people, a strong country, an equitable, democratic, and civilized society” can stand as a long term development goal for Vietnam. In a sense, the very success of the next phase of development requires new approaches, institutions and practices in order for Vietnam to keep pace with an increasingly complex economy and modernizing society, under conditions of greater global volatility. We note also that these challenges related to labor, agricultural development, environment and climate change, among others, are recognized by the Vietnam leadership, and are among the topics being addressed in the series of 18 reports being commissioned to help inform the 2010-2020 SEDS drafting process, of which this report is just one part.

Those specific papers will provide more detailed analysis of these challenges and the relevant experiences of other countries in addressing, and which should be useful for Vietnamese policymakers to consider. For our part, in interviews and discussions with senior government officials, researchers, and representatives of international organizations, conducted as part of the consultation process for this report, the concerns and challenges they see for Vietnam in the next development phase - and which should inform the 2011-2020 SEDS - were markedly similar and highly inter-related. As such, we feel that it is worthwhile to note the convergence of their views and have grouped them into five development ‘characteristics’ outlined below:

1. Quality of growth over rate of growth: growth that takes into account environmental issues, labor concerns, and the rural-urban divide is much more likely to be sustainable in the long run, by more efficient use of assets and resources, and by giving different groups within society a stake within the system.
2. Integrated rural-urban development: in a still predominantly agricultural country, current industrialization and urbanization policies do not support the rural economy to modernize and to link to urban development. Rural infrastructure and other public services lag behind those provided for the cities, leading to a bifurcation of rural and urban development, rather than mutually reinforcing one another.
3. Capacity bottlenecks in human resources, institutions, infrastructure, and the domestic private sector were referenced by all whom we interviewed. The capacity gap is particularly critical, as Vietnam seeks to move: i) from a low wage

economy to one that is knowledge-based; ii) from a small scale business model to one that can compete in regional and international markets; and iii) from reactive responses to external shocks, to those which can more nimbly forecast volatility and mitigate its impacts.

4. Government coordination is critical, as complex issues require the involvement of many agencies, but Vietnam largely remains locked in a vertical, top down organization structure.
5. State-society relations will need to evolve as the role of the State shifts from that of control to one of facilitation, and the broader engagement and expertise of society is needed to generate knowledge and innovations, appropriate for the challenges and opportunities of the Twenty-first Century.

5. CONFIRMING THE GLOBAL AND REGIONAL ECONOMIC TRENDS, AND GROUPING INTO FIVE THEME CLUSTERS

As noted earlier, the terms of reference (ToR) guiding this study listed a number of specific global and regional economic development trends that should be included in the research. In the ‘scope of work’ section of the ToR, these trends were cited thus: “possible medium- and long-term global and regional trends in terms of economic growth and composition, investment, financial, trade, technology and labour flows, and energy and food security (taking into account possible impacts/outcomes of the current crisis). In the ‘expected deliverables’ section of the ToR, the trends are identified as being: “global and regional economic development trends (focusing on economic growth and composition, investment flows, trade in goods and services, labour and technology developments, energy and food security, etc., and taking into account possible outcomes/impacts of the current crisis such as trends in protectionism, the environmental movement, new structures of major economies (e.g. US, Japan, EU, China, India), etc.” (See .)

The research team used the inception mission to gather information and ‘home country’ perceptions on these trends, as well as an opportunity to explore: i) whether the trends identified in the ToR comprise the most pertinent external impacts on Vietnam in the coming decade; ii) whether any additional global or regional economic development trends should also be included in the scope of work; and iii) how best to approach this relatively diverse set of regional and global trends in a manner that would lend itself to cogent analysis. The Inception Mission consultations were conducted over a five day period. Approximately 20 institutional stakeholder groups were identified as representative of a broad spectrum of public, private and social sector interests. (The stakeholders that were consulted are shown in Annex 1.)

A semi-structured questionnaire was sent to all groups in advance of the meetings. (An example of the questionnaire is given in Annex 2.) The structure of the questionnaire was used to record the views and responses of the stakeholders. The results were subsequently analysed and used as part of the evidence base for the selection of the major global and regional economic trends to be assessed for their potential impact on Vietnam.

Based on the meetings and discussions that the research team held during the inception mission, we were able to confirm that the issues cited in the ToR did indeed span the most pertinent global and regional economic development trends, in terms of their anticipated impacts on Vietnam. We then sought to ‘flesh out’ these trends, to ensure that we were capturing the full depth of these issues, and how we might best ‘cluster’ them in a way that would allow for considered analysis. Needless to say, these trends are made up of various component parts, virtually none of which are mutually exclusive. Not only are they complex in scope, but they also dovetail in some

ways, and overlap in other ways. For example, the issue of global climate change is closely linked with that of energy and food security at the regional (and national) level, and its impact is being felt in international business activity, from direct investment to trade, and even in the financial markets. This then makes the delineation of such trends quite a difficult, and potentially subjective, exercise.

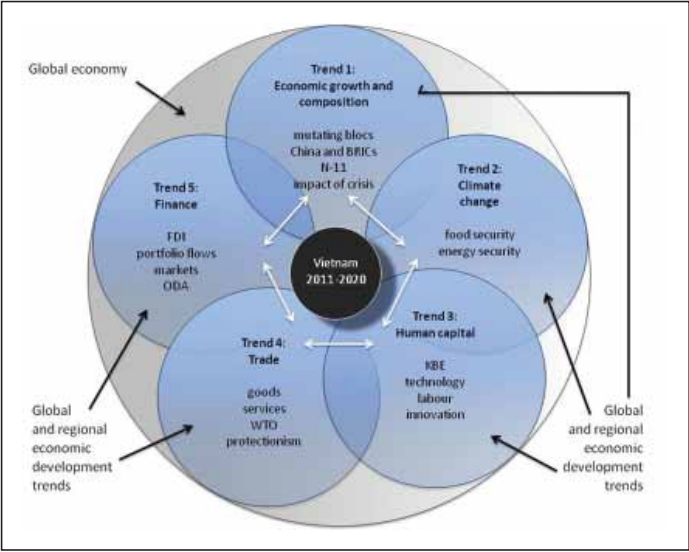
Notwithstanding the above, there is definitely a need to carve out from these interlocking global and regional economic trends some sensible ‘clusters’ of issues, for the sake of coherent analysis. Based on discussions held with various experts and organizations during the inception mission, the research team developed the following five ‘trend clusters’ for consideration:

- Economic growth and composition and mutating blocs;
- Climate change, food scarcity and energy security;
- Knowledge-based economy, technology and labour;
- Trade in goods and services, WTO and protectionism;
- Foreign investment, capital flows and financial markets.

In summary, we propose to use these five ‘clusters’ of global and economic development trends as the prisms, as it were, through which to analyse global prospects in the coming decade, and the likely impact on Vietnam’s own social, environmental and economic well-being. As noted earlier, this is not to suggest that each of the ‘clusters’ is mutually exclusive from the others. Indeed, far from it. There is a significant degree of overlap between each of them. But some form of sensible grouping is necessary for the purposes of our analysis. And the five ‘clusters’ chosen are, in our view, the most coherent for the purposes of this study. The ‘mandala’ below (Figure 8) serves to depict how the five (inter-related) ‘clusters’ could be viewed in a holistic manner¹⁶.

¹⁶The term ‘mandala’ commonly refers to a highly stylised plan or chart that seeks to represent the universe in microcosm.

Figure 8: A Mandala of the Global and Regional Economic Development Trends Impacting in Vietnam, 2011-2020



6. IMPACT ASSESSMENT OF THE TRENDS ON VIETNAM 2011-2020

The report now turns to each of the five topic ‘clusters’ in turn. In this section we profile the major global and regional economic trends for each of these ‘clusters’, before suggesting what we anticipate will be the economic, social and environmental impacts on Vietnam for each of them.

6.1 Economic Growth and Composition

6.1.1 Global and Regional Trends

Both the future growth trajectory of the global economy and the way its constituent blocs will develop and mutate in the coming decade, can provide an important contextual frame in which to posit Vietnam’s own prospects until 2020, given the increasing extent to which Vietnam’s domestic economy has become inter-linked with the international business community, through burgeoning trading links, capital and investment flows, and shared global concerns. However, given the turmoil seen in some financial markets since late 2007, and the resulting impact on the global economy from 2008 until now, we propose to look at this issue in two components: i) the more immediate impact of the on-going economic downturn; and ii) the more long-term impact, once the effects of the economic downturn become less pronounced.

The more immediate impact of the on-going economic downturn is seen in the dramatic slowdown in world economic growth. Developed economies’ GDP grew by less than 2 per cent in 2008 and negative growth is predicted for 2009 (Table 10). Developing countries have also seen a decline in growth rates, down from 7.7 per cent in 2006 to a predicted rate of 4.5 in 2009 (World Bank, 2009). Fixed investment has been a major driver of growth in developing countries over the past decade, particularly in East Asia, where its contribution to growth has outstripped contributions from trade. But, with the financial crisis constraining financing flows to developing countries, there is likely to be a negative impact on investment commitments with adverse implications for longer term growth prospects. Looking forward, the decline in investment and the fall in export demand in the major OECD markets are likely to exert downward pressure on growth performance in the developing countries for some time to come.

A notable aspect of the current slowdown has been the synchronized nature of the decline in exports and imports of major developed and developing countries. Despite the growing share of developing countries’ trade in the global total and the increased geographical diversification of trade flows, the developing countries have remained vulnerable to economic conditions in the developed countries (WTO, 2009).

One of the main channels for transmission of the crisis from developed to developing countries has been via private capital flows, although this impact has been less severe for countries that are less integrated into international private capital markets. The main channel of transmission of the crisis to exporters of manufactures and services is through a decline in trade volumes, with exporters of primary products more affected by declining prices. With the decline in commodity prices, FDI flows into these sectors are likely to fall. A further transmission channel is remittances. For some regions there is strong evidence of reduced dynamism of remittances. Where migrant workers are concentrated in construction sector activities, the downturn in remittances will be particularly severe, and may be linked to the repatriation of workers. The impact on aid flows is unclear but there is a risk that aid budgets may not increase enough to protect poor countries from the negative effects of the recession (Griffith-Jones and Ocampo, 2009).

Table 10: Global Output Growth (percent change over previous year)

	2007	2008	2009f	2010f
Mature Economies	2.4	0.3	-3.5	2.4
United States	2.1	0.4	-2.5	2.8
Euro Area	2.7	0.6	-3.7	1.9
Japan	2.3	-0.7	-5.6	2.3
Emerging Economies	7.7	5.5	0.7	5.7
Latin America	5.4	4	-2.4	3.9
Argentina	8.7	7	-2.4	3.8
Brazil	5.7	5.1	-0.2	4.3
Mexico	3.3	1.4	-6.9	4.4
Emerging Europe	6.5	4	-6.8	2.8
Russia	8.1	5.6	-9.0	2.5
Turkey	4.7	0.9	-6.3	4.0
Asia/Pacific	9.9	7	5.8	8.2
China	13	9	8.5	10.0
India	9	6.7	6.0	8.0
Africa/Middle East	5.1	5.1	0.0	3.4
South Africa	5.1	3.1	-1.9	2.6
World	3.6	1.5	-2.5	3.1

Source: IIF, 3rd October 2009.

The severity of the economic impact on developing countries will vary depending in part on the extent and characteristics of an economy's linkages with the global economy. Growth prospects will vary significantly across countries and regions, depending on their reliance on external flows to finance investment and trade links, on the composition of their exports, and on the concentration of exports in the most severely affected high income markets. Domestic policy responsiveness to the crisis will also play a large part in shaping a country's post-crisis performance. In the short term, the ability to deploy monetary policy to offset adverse effects on domestic banking and financial markets will affect the impact on the domestic economy. In the medium term, policy directed toward the diversification of exports to markets that have been less severely affected and show greater potential for income growth will accelerate the recovery process.

As the global economy recovers from the current crisis, the developing countries are expected to maintain a higher growth path than developed countries. This will ensure that the trend that began in the early 1990s towards a more multi-polar distribution of economic concentration is maintained. There is likely to be a continuation of the shift in the global distribution of manufacturing output and trade away from the major economic powers, including United States, Europe and Japan, towards the largest emerging economies, including China and India (National Intelligence Council, 2008). Industrialized countries accounted for 75 per cent of world manufacturing value added (MVA) in 2000 but dropped to less than 70 per cent in 2005. Reflecting their high rate of output growth, East Asia increased its share of global MVA from 13.3 per cent in 2000 to 17.5 per cent in 2005 (UNIDO, 2009). A similar shift has occurred in international trade with the share of industrial countries in world exports in decline since the 1990s. In recent years, the boom in commodity prices has boosted the share of developing countries in world exports. The composition of world exports has also changed significantly in recent decades, with a strong rise in the share of manufactured goods and a marked decline in agricultural products and non-fuels minerals. For all manufactured goods, the developing countries' share is now slightly more than a third, double their share twenty five years ago. The share of services in world trade has also risen significantly in recent years. While Europe occupies the leading position in world services trade, the share of non-OECD countries has increased reflecting rapid growth in imports and exports of commercial services linked to the increasing sophistication of manufacturing production, off-shoring of business services and the growth in tourism services. The increase in exports by developing countries has been matched by an increase in the share of world imports, with rising incomes fuelling demand for imported goods and services in the large emerging economies in recent years. Over the period 2000 - 2007, both India and China recorded an annual increase in imports of 23 per cent (WTO, 2008).

The rapid growth of developing country exports of manufactures has been driven by the rapid growth in trade between developing countries. South - South trade increased its share of share of world trade by four percentage points in the first half of the current decade and now accounts for almost 15 per cent of global trade (UNIDO, 2009). Trade in manufactures within developing world grew by 16 per cent annually between 2000 and 2005, double the pace of growth between high-income countries. The rapid growth in internationally integrated production networks in the 1990s led to a shift in

the composition of South - South manufactured exports away from low-technology and labour intensive products, with the result that medium and high technology exports now account for 60 per cent of total South - South manufactured exports.

East Asia accounted for three quarter of developing countries' increase in the value of manufactured exports between 2000 and 2005 and now dominates South - South trade. Intra-regional trade in East Asia accounted for 77 per cent of manufactured trade within the developing world and 83 per cent of East Asia's manufactured exports stayed within the region (UNIDO, 2009). The growing presence of the Asia region in global trade flows reflects a variety of value chains. In some cases, exports take place within the internalized operations of transnational corporations. Increasingly, production and trade are linked to the operations of large firms from within the Asian economies. Exports are increasingly originating in regional value chains involving coordinated production in different regional economies, resulting in a rapid rise in intra regional trade (Ng and Yeats, 2003; Lall and Abaladejo, 2004). The specialization of East Asian countries in particular production stages in the electronics value chain in particular, has enabled the growth in complementary rather than competitive trade flows within the region, and has allowed East Asian countries to retain their export competitiveness in technology-intensive sectors. Much of China's growth in manufacturing exports has incorporated components produced in neighbouring countries.

The emergence of the so-called BRICs is a further indicator of the shifts that are occurring in the global distribution of national and regional economic strength. The term is used to refer to four big emerging economies - Brazil, Russia, India and China - which together account for about a quarter of world GDP. More recently, an additional acronym has become popular - N11 - which refers to a further group of developing countries that occupy an increasingly important part of the global economic landscape. These countries are Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey, and Vietnam itself. The main shared characteristic of the N11 is their size in terms of large populations. One recent study forecast that by 2025 (i.e. just five years beyond the 2020 horizon line of this study), while the US would remain the single largest economy, in terms of GDP, China would be very close behind (and would have significantly overtaken the US by 2050), with Japan, India, Germany, Russia, the UK, France, Brazil, Italy, Mexico and Korea following some way behind, respectively (Goldman Sachs, 2007). And that Vietnam would be the world's 17th largest economy by 2025, according to this same study. (Numerous observers have suggested that the 21st century will be on led by Asia, with China and India at the fore.) It is also worth mentioning that Vietnam's continued economic growth will, in itself, contribute to global and regional trends. A population close to 100m by 2020, and a marked rise in average incomes, will make Vietnam a global 'player' in its own right.

The usefulness of the BRICs and N11 acronyms lies mainly in drawing attention to the economic size of these economies in relation to the global economy. The BRIC-N11 groupings can be both a threat and an opportunity for other developing and emerging economies. An opportunity in so far as their economic size presents other developing countries - the vast majority of which account for a tiny share of global economic space - with growing market for exports of goods and services and a potential source

of inward investment and other financial flows. On the other hand, the BRIC and N11 countries could use their collective economic strength to hold up progress in completing the Doha Round negotiations by adopting more interventionist industrial policies and resisting further market opening of trade and services and trade facilitation reforms, to the detriment of smaller economies that rely more heavily on trade and investment inflows to drive economic growth.

The Asian BRICs (India and China) will continue to have a major influence on the development prospects for the Asian region. The emerging Asian economies are an increasingly important part of global trade flows with China in particular, tripling its share of world exports between 1990 and 2007 to become probably the world's largest merchandise exporter. India's merchandise exports grew by 19 per cent annually between 2000 and 2007, although in total value terms, India's exports are less than 10 per cent of those of China. China is also the leading country among developing countries in terms of manufacturing value added (MVA). Between 1995 and 2005 it increased its share of MVA produced by developing countries at an accelerating rate, from 23 per cent in 1995 to 34 per cent in 2005. In contrast, India's share of developing countries' MVA has remained stable at less than 5 per cent, despite its recent economic growth and technology boom (UNIDO, 2009).

India is now becoming an increasing popular destination for foreign direct investment, much of it Asian investment. Measured in flows, India is overtaking China as Japan's biggest destination for long term investments. Traditionally, India has 'looked west' for business and investment opportunities with the result that India is only weakly integrated into regional supply chains. However, the global downturn in Europe and America markets, is likely to give added impetus to India's increased engagement with, and importance in, Asian trade and investment flows.

China's recovery from the current global downturn and future growth trajectory will have a major impact on the other Asian developing countries' economic development. China's recovery will rely to an extent on expanding exports, which have fallen sharply in the last year. While exports contribute relatively little to GDP growth - recent estimates suggest that they accounted for about one fifth of economic growth in 2007 - they are important as a source of employment of unskilled labour. However, since China already commands large market shares in many manufactured goods markets, this could put price-competitive pressure on regional exporters as China seeks to boost its exports by taking market share from other low cost producers (de Jonquieres, 2009). In the longer term, China's development model is predicted to shift away from exports and investment in manufacturing towards greater reliance on domestic demand, modernizing the financial infrastructure, and stimulating the growth of services markets. As rapid growth is restored, China's economy is likely to face rising costs in manufacturing production, as labor market conditions tighten and environmental costs of rapid industrialization become internalized into production costs. Rising costs in China will provide low cost regional producers with the opportunity to increase exports to the China market and to compete with Chinese exports in third country markets.

6.1.2 Assessment of Impacts

Economic Impacts

The economic impact of the recession on real income growth in Vietnam has been less severe than predicted by many commentators. In part, this can be explained by the macro and monetary policy accommodation response in June 2008 with the announcement of a ten-measure stabilization package. Exports to Vietnam's traditional markets declined but sales to non-traditional markets in the Middle East and Latin America have increased, moderating the overall fall in export growth.

Vietnam's export markets are more diversified than many other regional economies. Europe, the United States and Japan account for just over half of non-oil exports, with ASEAN accounting for a further 15 per cent. China accounts for less than 10 per cent, with the rest of the world taking about a quarter of Vietnam's exports (World Bank, 2009). Interestingly, exports to the rest of the world have risen significantly, from 23 per cent in 2006 to 26 per cent in 2008, jumping to 39 per cent in the first quarter of 2009.

The market dispersion of Vietnam's exports combined with proven capacity to rapidly switch exports to new markets suggests that Vietnam will be well placed to respond to the shifting pattern of global economic blocs to take advantage of the expanding market opportunities in the BRICs. China, in particular, is likely to become a major market for Vietnamese products as China's domestic market expands and as China's manufactured exports upgrade to more technology intensive products. Exports to Latin America, with Brazil as the principal market, have increased significantly in recent years. As India continues to liberalize its import regime, the opportunities for Vietnam's exports will continue to expand. And, as India increasingly 'looks east', Vietnam is a potential destination for outward FDI from India. The impetus that the BRICs are likely to give to Vietnam's export growth will in turn contribute positively to overall GDP growth.

The impact on fixed capital formation of a shift to a more multi-polar global economic system is likely to be seen in increased FDI inflows from emerging economies. South - South investment flows have risen dramatically in the last decade, much of it on an intra-regional basis (UNCTAD, 2006). The BRIC countries are each important sources of FDI for other developing countries. Rising costs of production, particularly labour, has already pushed manufacturing FDI out of some Asian economies - Malaysia, Singapore, Korea - to lower cost locations in the region, including Vietnam. Competition in China's domestic economy is increasingly important as a push factor behind the rapid expansion of FDI by Chinese TNCs. In natural resources sector, food and energy security concerns have been responsible for the increased investment by BRIC companies in other developing countries. FDI from other developing countries can provide Vietnam with a broader range of potential sources of capital, technology and management skills. It may also provide greater employment generating potential than FDI from advanced country TNCs. But it can also carry certain risks. The technology that is brought in may be outdated and uncompetitive in global markets.

There may be concerns about undue political influence when an investing company is state-owned, which is the case with many developing country TNCs in natural resources. Developing country FDI may adopt less favourable environmental and labour standards, if domestic regulatory institutional frameworks are weak.

Strengthening of the domestic business environment, including transparency and consistency in the regulatory framework, will play an increasingly important role in ensuring the inflow of FDI that contributes to the advancement of Vietnam's social, environmental and economic development objectives.

While the impact of the global downturn on employment has been adverse, with some job losses, reduction in working hours and increased reliance on informal sector jobs being experienced, this negative impact has been offset somewhat by the expansion of exports to non-traditional markets which have been less severely affected by the global downturn, as well as an increased focus on the domestic market by some previously export-oriented manufacturers. The impact of the shifts in the distribution of global economic power on employment will be positive in the medium term.

Social Impacts

While Vietnam is expected to sustain its rapid economic growth over the next decade, the transition towards middle income status is likely to be accompanied by a deceleration in the rate of economic growth. The growing importance of the large industrializing countries, including India and China, is expected to contribute positively to Vietnam's growth performance by sustaining trade growth. The impacts on social indicators - poverty, equity and health and education - are expected to follow the general baseline trends that were described in section 3. Vietnam's economic transformation and rapid economic growth have been accompanied by a significant reduction in poverty and improving living standards across a range of indicators. The proportion of the population surviving on one dollar per day has fallen from 50 per cent in 1990 to just over 10 per cent in 2004, and Vietnam's progress towards the Millennium Development Goals has shown consistent improvement in educational enrolment and infant mortality, among other measures.

At the same time, the role of government policy in ensuring that the benefits are growth are widely enjoyed, and that the potentially negative impacts are effectively controlled or mitigated, will become increasingly important. As absolute poverty levels are reduced, concentrated pockets of poverty remain in the most vulnerable groups such as ethnic communities and poor women, in the highlands, and in the rural areas. Continued progress on poverty reduction will be much harder to accomplish and will require the state to pay greater attention to social safety net issues and more localized, targeted responses. Secondly, the current rural-urban gap will likely continue, unless policies related to rural development, industrialization and urbanization can be effectively coordinated. As Professor Dao The Tuan, Chairman of the Sciences for Rural Development Association and the former Director of the Vietnam Agricultural Science Institute, has noted in a recent interview:

¹⁷⁴"Food Crisis – An Opportunity for Vietnam's Agriculture," in VietnamNet Bridge, 10 July 2008, <http://english.vietnamnet.vn/interviews/2008/07/792866>

In other countries, rural and urban planning go hand in hand. Urban planning must help promote the development of the surrounding rural area. In Vietnam, the Ministry of Construction is responsible for making urban planning and the Ministry of Agriculture and Rural Development is in charge of rural planning. Lack of a unified agency to harmonise urban and rural development and improper interests in developing rural areas will widen the gap between urban and rural areas. The country's general development will be unsustainable¹⁷.

In sum, concerns about the unequal distribution of the gains from growth become more significant. Also, there is likely to be increasing interest in Vietnam's performance in the area of human rights and labour conditions on the part of international investors and donors. Vietnam is currently perceived by some observers as being 'high risk' in terms of working conditions and child labour, and the reputational risks that emanate from this.

Environmental Impacts

The predicted growth of the Vietnamese economy will see a continuation of the baseline environmental impacts - on climate change, natural resources and biodiversity - that were described in section 3. Vietnam's rapid growth has been accompanied by a rapid deterioration in the quality of surface water, air, marine and forest resources, as well as biodiversity. Industrial activities contribute significantly to environmental damage, particularly in terms of noise, air and water pollution, with the production of certain manufactured export goods among the most seriously polluting industries. Weak enforcement of environmental standards has exacerbated these problems. Air and water pollution is a growing problem in urban areas and in centres of industrial activity. The expansion of marine aquaculture for exports has negatively impacted on mangrove systems and inter-tidal resources, and therefore on the livelihoods of communities that depend on these resources. The mining of coal - a major export - is characterised by poor environmental management practices and as a result, is a major source of environmental damage in areas such as mine water discharge, dust emissions, and waste dumping from open cast mines. Tourism - another major source of foreign exchange earnings - puts further strain on physical and natural resources, through infrastructure development and management of solid and liquid waste. Vietnam is among the top twenty most biologically diverse countries in the world, however, this rich biodiversity is under threat from (illegal) wildlife trade, fisheries exploitation and agricultural expansion.

The mitigation of these adverse environmental impacts of economic growth will require a significant strengthening of the existing domestic environmental regulation framework to ensure effective control and compliance.

The next decade will also see increased international policy intervention in the area of carbon emissions. An international agreement to internalize the environmental costs associated with the international transportation of inputs, components and products could act as a constraint on the growth of Vietnam's merchandise exports. Developing countries will be required to play a more active role in the promotion of policy agendas

¹⁷"Food Crisis – An Opportunity for Vietnam's Agriculture," in VietnamNet Bridge, 10 July 2008, <http://english.vietnamnet.vn/interviews/2008/07/792866>

to minimize carbon displacing energy use. While this responsibility will fall largely to the BRICs, including India and China, other regional economies, including Vietnam, will be increasingly involved in regional and global institutions of environmental and climate change governance. Overall, the trend will be towards the extension of international environmental regulation with extends 'behind the border' to domestic regulatory policy.

Table 11: Summary of Impact Assessment for Trend 1: Economic Growth and Composition

Core Indicators	Causal Factors	Impact significance
Economic		
Real income	Recovery in world economic growth Growing importance of BRIC markets	↑
Fixed capital formation	Recovery in domestic economic growth Increased FDI from middle income economies and Asian BRICs	↑
Employment	Resumption of growth will continue to create new employment opportunities FDI from other developing countries contributes to employment growth	↑
Social		
Poverty	Resumption of growth contributes to poverty reduction, with appropriate policy interventions needed	↑
Equity	Industrial growth and urban development widen inequalities in income and wealth	↓
Health and education	Economic recovery generated resources for public investment	↑
Environmental		
Climate change	Economic growth and industrialization	↑
Environmental quality	Economic growth and industrialization	↑
Natural resource stocks and bio-diversity	Economic growth and industrialization	↑

6.2 Climate Change, Food Security and Energy Security

6.2.1 Global and regional trends

The human drama of climate change will largely be played out in Asia, where over 60 per cent of the world's population, around four billion people, live. Over half of those live near the coast, making them directly vulnerable to sea-level rise... Many Asian countries like Indonesia, Bangladesh and Vietnam are also home to millions of small-scale farmers. To cope with a changing environment Asian small-scale agriculture will need dramatically increased support, and an approach to farming built on maximum appropriate, locally adapted crop diversification that boosts biodiversity. Up in smoke? Asia and the Pacific' (2009).

¹⁸In late 2008, some 26 SWFs met and signed the so-called 'Santiago Principles', setting out 24 general principles and practices. Vietnam is a permanent observer to the International Working Group of SWFs.

The second ‘cluster’ of global and regional economic development trends we have identified comprises the inter-related issues of: climate change, food security and energy security. While issues relating to energy security have been with us for some time, the related problems of climate change and food security have particularly come to the fore in recent years. The considerable spike in the global prices of most agricultural commodities in the first half of 2008 - despite bumper harvests - reflected in large part a growing concern about the scarcity of food in many countries, and the unpredictability of harvests / supplies. With the population of the globe expected to grow by 50% in the next 40 years, and demand for agricultural produce expected to rise by 70%, we do not envisage this concern fading away in the coming decade. Indeed, quite the reverse; it is likely to become more prominent, and the volatility of soft commodity prices may well become even more pronounced in the next decade, exacerbated further by the impact of climate change on weather patterns, and therefore harvests and crop production. This may be ameliorated in part by the introduction of genetically modified (GM) crops, but is it unlikely to be wholly offset by such ‘advances’.

This food security concern has also been associated with another new - and highly controversial - phenomenon, whereby relatively wealthy countries seek to acquire or long-term lease land for agricultural use in third countries, through various investment vehicles, including sovereign wealth funds (SWFs), or at ‘arm’s length’ through various third parties. While Vietnam has not been directly impacted by this phenomenon, it has been apparent in neighbouring countries (whether as home or host country actors). Press reports suggest, for example, that long-term leases on agricultural land in both Cambodia and Laos have been sought by a number of SWFs or their equivalents. Likened to a second ‘colonial land grab’, aimed at securing natural resources, notably in parts of sub-Saharan Africa, but also parts of Asia too, this recent trend has the potential to pose a contentious issue for policy-makers in numerous countries¹⁸.

Table 12: World Primary Commodity Prices, 2002 – 2008 (Percentage change over previous year)

Commodity group	2003	2004	2005	2006	2007	2008	2002-2008a	Jan-Dec. 2008b
All commodities ^c	8.1	19.9	11.7	30.4	12.9	23.8	164.0	-22.5
All commodities (in SDRs) ^c	-0.2	13.5	12.1	30.7	8.5	19.4	115.0	-19.3
All food	4.1	13.2	6.3	16.3	13.3	39.2	129.8	-11.8
Food and tropical beverages	2.3	13.2	8.8	17.8	8.6	40.4	126.3	-5.2
Tropical beverages	6.2	6.4	25.5	6.7	10.4	20.2	100.8	-8.3
Coffee	8.7	19.8	43.8	7.1	12.5	15.4	160.3	-15.8
Cocoa	-1.3	-11.8	-0.7	3.5	22.6	32.2	45.1	10.9
Tea	8.4	2.1	9.1	11.7	-12.3	27.2	50.4	-0.9
Food	1.9	13.9	7.2	19.0	8.5	42.5	128.8	-5.0

¹⁸In late 2008, some 26 SWFs met and signed the so-called ‘Santiago Principles’, setting out 24 general principles and practices. Vietnam is a permanent observer to the International Working Group of SWFs.

Commodity group	2003	2004	2005	2006	2007	2008	2002-2008a	Jan-Dec. 2008b
Sugar	2.9	1.1	37.9	49.4	-31.7	26.9	85.9	-1.8
Beef	0.4	17.8	4.1	-2.4	1.9	2.6	25.8	-8.3
Maize	6.5	5.0	-12.0	24.4	38.2	34.4	126.7	-25.4
Wheat	-0.7	6.8	-1.4	26.6	34.3	27.5	126.6	-38.7
Rice	4.1	23.1	17.1	2.5	9.5	110.7	265.3	40.2
Bananas	-28.7	39.9	9.9	18.5	-0.9	24.6	60.3	23.8
Vegetable oilseeds and oils	17.4	13.2	-9.5	5.0	52.9	31.9	154.8	-45.4
Soybeans	24.1	16.1	-10.4	-2.2	43.0	36.1	145.8	-33.5
Agricultural raw materials	19.8	13.4	4.0	15.0	11.2	19.4	115.6	-25.6
Hides and skins	-16.8	-1.7	-2.1	5.1	4.5	-11.3	-22.1	-44.6
Cotton	37.2	-3.3	-11.6	5.9	10.2	12.8	54.4	-24.3
Tobacco	-3.5	3.6	1.8	6.4	11.6	8.3	30.8	9.8
Rubber	41.7	20.3	15.2	40.4	8.6	14.3	242.2	-53.6
Tropical logs	20.1	19.2	0.3	-4.7	19.5	39.3	127.8	-1.4
Minerals, ores and metals	12.4	40.7	26.2	60.3	12.8	6.2	283.0	-37.0
Aluminium	6.0	19.8	10.6	35.4	2.7	-2.5	90.6	-39.0
Phosphate rock	-5.9	7.8	2.5	5.3	60.5	387.2	755.8	84.2
Iron ore	8.5	17.4	71.5	19.0	9.5	65.0	369.8	0.0
Tin	20.6	73.8	-13.2	18.9	65.6	27.3	356.0	-31.2
Copper	14.1	61.0	28.4	82.7	5.9	-2.3	346.1	-56.5
Nickel	42.2	43.6	6.6	64.5	53.5	-43.3	211.6	-56.5
Tungsten ore	18.0	22.9	120.7	36.2	-0.6	-0.3	332.4	-3.0
Lead	13.8	72.0	10.2	32.0	100.2	-19.0	361.6	-63.0
Zinc	6.3	26.5	31.9	137.0	-1.0	-42.2	140.7	-52.9
Gold	17.3	12.6	8.7	35.9	15.3	25.1	181.2	-8.2
Crude petroleum	15.8	30.7	41.3	20.4	10.7	36.4	288.9	-54.3
Memo item:								
Manufactured	9.2	8.3	2.5	3.2	7.5	4.3	40.6	...

Source: UNCTA secretariat calculation, base on UNCTAD, Commodity Price Statistics Online: an United Nations Statistics Division (UNSD), Monthly Bulletin of statistics, various issues

Note: In current dollars unless otherwise specified

a Percentage change between 2002 and 2008.

b Percentage change between January 2008 and December 2008.

c Excluding crude petroleum.

d Export unit value manufactured goods of developed countries.

Current concerns regarding food scarcity have also been a function of climate change, and particularly the increasingly erratic nature of weather patterns across much of the world, which are in turn impacting on harvests and the unpredictability in output

¹⁹In 2008, of 15,854MW of installed capacity, oil and gas accounted for almost half (7,567MW) and coal a further 1,545MW. Hydro accounted for 5,498MW. World Bank mimeo, 'Background Note on Vietnam's Power Sector'.

of various soft commodities (the most recent being sugar). Increasing popular and coordinated pressure to address climate change - as exemplified by the impending Copenhagen summit, in December 2009 - is also then feeding into changing perceptions on energy generation and use; seen as one of the main contributors to greenhouse gas emissions.

Although estimates and forecasts tend to vary, there is a general view that the globe has until 2014 to put in place policies that could prevent climate change reaching the so-called 'tipping point' of no return, whereby it will become impossible to arrest global warming. It is therefore highly likely that the coming decade will see a host of national, regional and international initiatives aimed at reducing greenhouse gas emissions, which in turn will impact on business activity in particular, including that of energy generation, but also transport and logistics, as well as manufacturing activity itself. China in particular will likely need to address its greenhouse gas emissions, as well as its approach to the environment in general, including that of access to water resources and arable land.

While China has, to date, arguably put high economic growth ahead of sustainable growth, there are some tentative indications that this may change in the coming years, as the toll on the environment becomes increasingly apparent and unpleasant. If so, and Vietnam continues to focus on high growth ahead of sustainable growth, then the comparison will be an unfavourable one in the eyes of international business and the international development partner community, to Vietnam's detriment. For example, China's carbon dioxide emissions have recently overtaken those of the US, and are forecast to continue rising until at least 2035, thereby making the country a high priority. That means there will be considerable international support for any attempt by China - at a cost of trillions of dollars - to markedly cut greenhouse gas emissions, should the decision be made by its policy-makers, and equally considerable funding and other technical assistance will then be directed at China. That in turn will probably mean less available funding and assistance for other, deemed less high priority, developing countries in Asia, including that of Vietnam. One policy option is to move ahead of China on climate change mitigation and adaptation activities, so as to attract (or 'capture') international support now, rather than belatedly following in China's 'slipstream' in the future.

Vietnam's rapidly growing energy demand - and the need to meet this demand - should also be seen in this wider context of energy security. Like a number of developing countries in Asia, Vietnam needs to produce increasingly large quantities of energy to meet the needs of its burgeoning economy, and yet the means to achieve this, particularly in a sustainable manner, are difficult to attain. Electricity demand has been growing by around 15% per year; twice the rate of GDP growth, and shows no sign of abating. Roughly half of total electricity consumption is for industry alone, while the number of individuals becoming first time power users grew by 33m in the twelve years up to 2008, mostly thanks to rural electrification. Between 2003 and 2008, installed generating capacity rose from 9,300MW to 15,800MW. Nonetheless, since the late 1990s, it has been apparent that domestic financial resources alone are insufficient for Vietnam to meet its rapidly rising energy demands. Fossil fuels have been

¹⁹In 2008, of 15,854MW of installed capacity, oil and gas accounted for almost half (7,567MW) and coal a further 1,545MW. Hydro accounted for 5,498MW. World Bank mimeo, 'Background Note on Vietnam's Power Sector'.

traditionally relied upon for energy generation, given their relative abundance, ease of access and use, and low cost considerations¹⁹. Conversely, renewable and alternative sources of fuel tend to be expensive to develop and operate, at least on a scale that Vietnam requires to meet demand projections. But the cost to the environment of using fossil fuels, as a consequence of carbon emissions, is a high one, and ultimately may prove unsustainable.

By 2020, Vietnam's energy requirements are likely to be around 295 TWh; up from 59 TWh in 2006. That entails an increase in installed capacity from 12,357MW in 2006 to around 60,300MW by 2020, according to a World Bank estimate, if Vietnam is not to become dependent on electricity imports (probably from China and Laos). That in turn necessitates investments of around US\$30bn between 2011 and 2020 - the period of the next SEDS - in power generation alone, excluding additional investments in transmission and distribution. That is unlikely to be feasible from conventional domestic resources alone. But for more actors to enter, the vertically integrated power utility system needs to be changed into a competitive power market, as envisaged by the 2006 'roadmap'. Under the roadmap, a competitive generation market should be completed by 2014, and a wholesale competitive market should be largely in place by 2020. However, implementation of the roadmap is running behind schedule, and thus is a source of some concern.

On the specific issue of food security, the population of the globe is projected to increase by around 2.3 billion people by 2050, taking the number of human inhabitants on earth to 9.1 billion. That in turn will require the globe to produce 70% more food than is currently the case, if there is not to be mass starvation. (Even today, around 1.2 billion people are starving or face serious malnutrition.) The challenge posed is even greater when one considers some of the 'head winds' that we will face in achieving this goal. First, the impact of climate change will make stable food production even more difficult to achieve, as a consequence of rising sea levels and salination of land, more erratic weather and seasonal changes, an expected increase in pests, and so on. Some estimates suggest that climate change will cause food production in Africa to decline by around 30%, and by 21% across the developing world as a whole. Secondly, the global trend of human migration, from rural to urban areas - itself partly a consequence of climate change - will result in cities and conurbations growing in size, and literally 'eating into' previously agrarian land.

Nothing less than a second 'green revolution' is required, if food security is not to become a major concern in the next decade. Such a revolution is likely to comprise of improved seeds, irrigation, fertilizer and feeds, rural infrastructure and storage facilities, and pesticides - as was the first green revolution of the 1960s and 1970s. But it needs to be borne in mind that issues relating to pesticides, genetically modified (GM) crops, the efficient use of energy, and even the economies of farming are all sources of debate at present, unlike forty years ago. The bulk of the investment in the

²⁰Both the US and France have contemplated such a move. "Under the range of likely emissions reductions being envisaged by the major industrial countries, there will be clamor to offset the competitiveness pressure of imports from countries which make less ambitious reductions. For example, if industrial countries reduce emissions by 17 percent by 2020 relative to 2005 levels, energy-intensive industries in the US will face output declines of around 4 percent. ... industrial countries can respond to competitiveness concerns by imposing tariffs or border tax adjustments. The most extreme form of trade action would be one that is based on the carbon content of imports and applied to all merchandise imports. This would no doubt address the competitiveness and environmental concerns in high income countries but would come at the price of seriously damaging the trade prospects of developing country trading partners. Such an action would imply average tariffs on merchandise imports from India and China of over 20 percent and would depress manufacturing exports between 16 and 21 percent." See Mattoo et al. (Nov. 2009).

agricultural sector will need to come from the private sector, but the returns on such investments are not always as attractive or consistent as in the industry and service sectors. That in turn necessitates that public funds are carefully used to catalyse private sector investment in the agricultural sector. Approximately 70% of the world's population depends on the agricultural sector for its livelihood, and many of these are at subsistence level. Developing the infrastructure and factor markets that would allow them to graduate beyond subsistence is also required. (It should also be borne in mind that agricultural activity is the second largest producer of greenhouse gases, after energy production.)

Globally, the food price shock of 2007-2008 (with some pundits forecasting another in 2010) is proving to be something of a 'wake-up call', as evidenced by a new surge in investment into the agricultural sector, by private and public funds alike. Investment in the sector had previously been steadily declining over the last 20-30 years, and even ODA flows to the sector - on which so many of the world's poor depend - contracted by around 75% between 1980 and 2006. As a result, aggregate yields have been flat in many parts of the developing and less developed world, with output increases emanating from increased and unsustainable use of land (and water resources), rather than new productivity gains. This seems likely to change, with greater investment and the introduction of new technology.

Within Southeast Asia, there has been relatively little activity conducted, on a pan-regional basis, with regard to climate change issues, with initiatives occurring more at the global and national levels. On food and energy security issues, however, there have been a number of initiatives, and where the Mekong River in particular serves as an important focal point for the mainland countries of Southeast Asia. Concerns about the current and future health of the river have increased in recent years, given its critical role in the economies of five ASEAN members. Not only is it an important real and potential source of clean energy (hydropower), it irrigates much of the agricultural land through which it flows, also serves as an important source of nutrition, and is host to unique flora and fauna. In this regard, the work of the Mekong River Commission has an important role to play.

6.2.2 Impact Assessment

Economic Impacts

The immediate coming decade is unlikely to result in climate change having a highly pronounced impact on Vietnam's economy per se (notwithstanding the fact that evidence of climate change is already becoming apparent, particularly in some coastal provinces). However, global, regional and national policy responses to climate change - such as in the field of mitigation - as a consequence of growing popular concerns, will affect the way business, consumers and even whole economies choose to act. This in turn poses both challenges and potential opportunities for Vietnam, depending on key policy decisions made in the coming decade. One example of this is growing pressure within some industrialized countries for additional tariffs to be applied to products being imported from countries where the price of carbon emissions is lower. In short, a

tax on the ‘carbon footprint’ of imports. Such a development, should it happen, would almost certainly have an adverse impact on Vietnam’s manufactured and processed exports, with a likely knock-on effect for its FDI inflows as well²⁰. Conversely, were this not to happen, mobile production activities could move to host countries offering ‘carbon havens’ - countries willing to endure higher levels of greenhouse gas emissions in exchange for greater investment.

Few would doubt that factors relating to, and stemming from, climate change will entail an added burden to the Vietnamese economy. The agricultural sector in particular is likely to be adversely affected, and may work up through the value chain, impacting on processors, exporters, and conceivably also becoming apparent in the country’s balance of payments. The real income growth of individuals in the agricultural sector would be impacted, and any deterioration in food security could see a similar scenario for urban dwellers, as commodity price inflation takes effect. The net impact on fixed capital formation and employment as a consequence of climate change is difficult to discern. Over time, if areas of agricultural land are rendered unsuitable for agriculture, this will clearly impact on incomes and rural employment. With specific regard to energy security, however, if Vietnam wishes to remain largely independent of external sources of power, it will have to embark on a major investment in the energy sector, requiring financial inputs from the private sector and ODA sources, as well as domestic public funds. There will almost certainly have to be a change in past policy towards BOT-type power projects, as well as the tariff regime and market for electricity, so that companies other than EVN can invest in power generation projects. In November 2009, the National Assembly debated a new Law on Energy Savings and Efficiency, intended to ensure energy security and help prevent Vietnam from becoming dependent on energy imports. The same month, the National Assembly approved the construction of the country’s first two nuclear power plants, with the first plant expected to commence energy production in 2020.

As discussed in section 6.5, below, a ‘business as usual’ approach to the promotion of ODA will also likely result in an adverse impact for the economy, as aggregate ODA flows diminish; flowing instead to poorer economies, and those with a more emphatic approach to climate change mitigation and adaptation. A similar trend is conceivable for investment activity.

²⁰Both the US and France have contemplated such a move. “Under the range of likely emissions reductions being envisaged by the major industrial countries, there will be clamor to offset the competitiveness pressure of imports from countries which make less ambitious reductions. For example, if industrial countries reduce emissions by 17 percent by 2020 relative to 2005 levels, energy-intensive industries in the US will face output declines of around 4 percent. ... industrial countries can respond to competitiveness concerns by imposing tariffs or border tax adjustments. The most extreme form of trade action would be one that is based on the carbon content of imports and applied to all merchandise imports. This would no doubt address the competitiveness and environmental concerns in high income countries but would come at the price of seriously damaging the trade prospects of developing country trading partners. Such an action would imply average tariffs on merchandise imports from India and China of over 20 percent and would depress manufacturing exports between 16 and 21 percent.” See Mattoo et al. (Nov. 2009).

Social Impacts

The social impacts of climate change are likely to be adverse. The World Bank estimates that between 11 to 35 percent of Vietnam's population would be displaced if the sea level rises between three and 15 feet²¹. The impact on poverty and equity could be quite pronounced, as the poor and near-poor are expected to be negatively impacted by climate change most. This is an unfortunate irony, given that the poor typically have the lowest carbon footprints in society. The impact will not be confined to rural and/or coastal locations alone (although they are likely to be in the 'front line'), as the urban poor will also be impacted, notably through any increase in food and energy prices. As the period of high inflation in early 2008 showed, a rise in the price of food and other staples can be a source of legitimate concern for the urban near-poor, and even has the potential to push some people back down below the poverty line again. The impact on health and education is also likely to be adverse. A deterioration in the climate poses a range of health concerns, from an increase in diseases through to loss of life stemming from extreme weather conditions. The pursuit of energy security could also pose additional health concerns if it results in higher greenhouse gas emissions and pollution. Food security concerns may also drive up health problems, if that results in more intensive use of pesticides and artificial fertilizers, or forces the poorer elements in society to consume sub-standard foods. That can be mitigated in part by improved regulation and enforcement of food quality standards, but as a spate of recent incidents have shown, the relevant agencies struggle at times to prevent the manufacture and distribution of sub-standard foods.

As a concrete illustration, given that the Mekong Delta is projected to be one of the most severely impacted regions in the world by climate change (see Figure 10), a region that is considered the rice basket of Vietnam and densely populated, the potentially large number of displaced people will have a broader impact on Ho Chi Minh City and its environs, on critical public services such as health care and housing, as well as on the country's food supply.

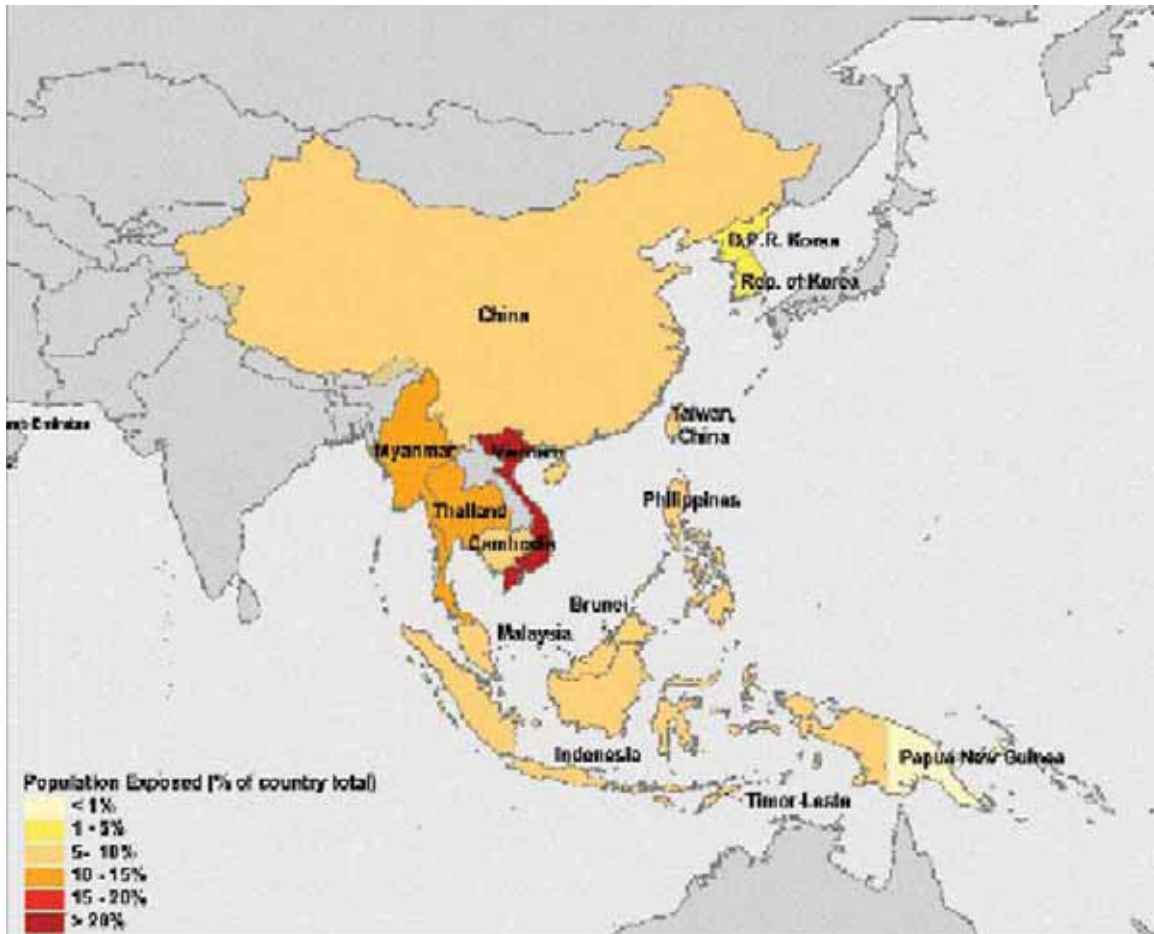
Environmental Impacts

The impact on environmental quality and natural resource stocks and biodiversity of climate change, as well as the pursuit of both food and energy security, are likely to be adverse. Climate change and various forms of pollution have already had a negative impact on Vietnam's once-rich biodiversity. But the anticipated future impact of climate change on Vietnam, if nothing is done to arrest current trends, is even more alarming. The New Economic Foundation's recent report, 'Up in smoke? Asia and the Pacific', makes the following forecast: "A one metre sea-level rise could flood 15,000 to 20,000 square kilometres of the Mekong River Delta and affect half a million square hectares of the Red River Delta. In this scenario, 2,500 square kilometres of mangrove will be lost, and around 1,000 square kilometres of cultivated farmland and mariculture

²¹Susmita Dasgupta, Benoit Laplante, Craig Meisner, David Wheeler, and Jianping Yan. "The Impact of Sea Level Rise on Developing Countries: A Comparative Analysis" World Bank Policy Research Working Paper 4136 (February 2007).

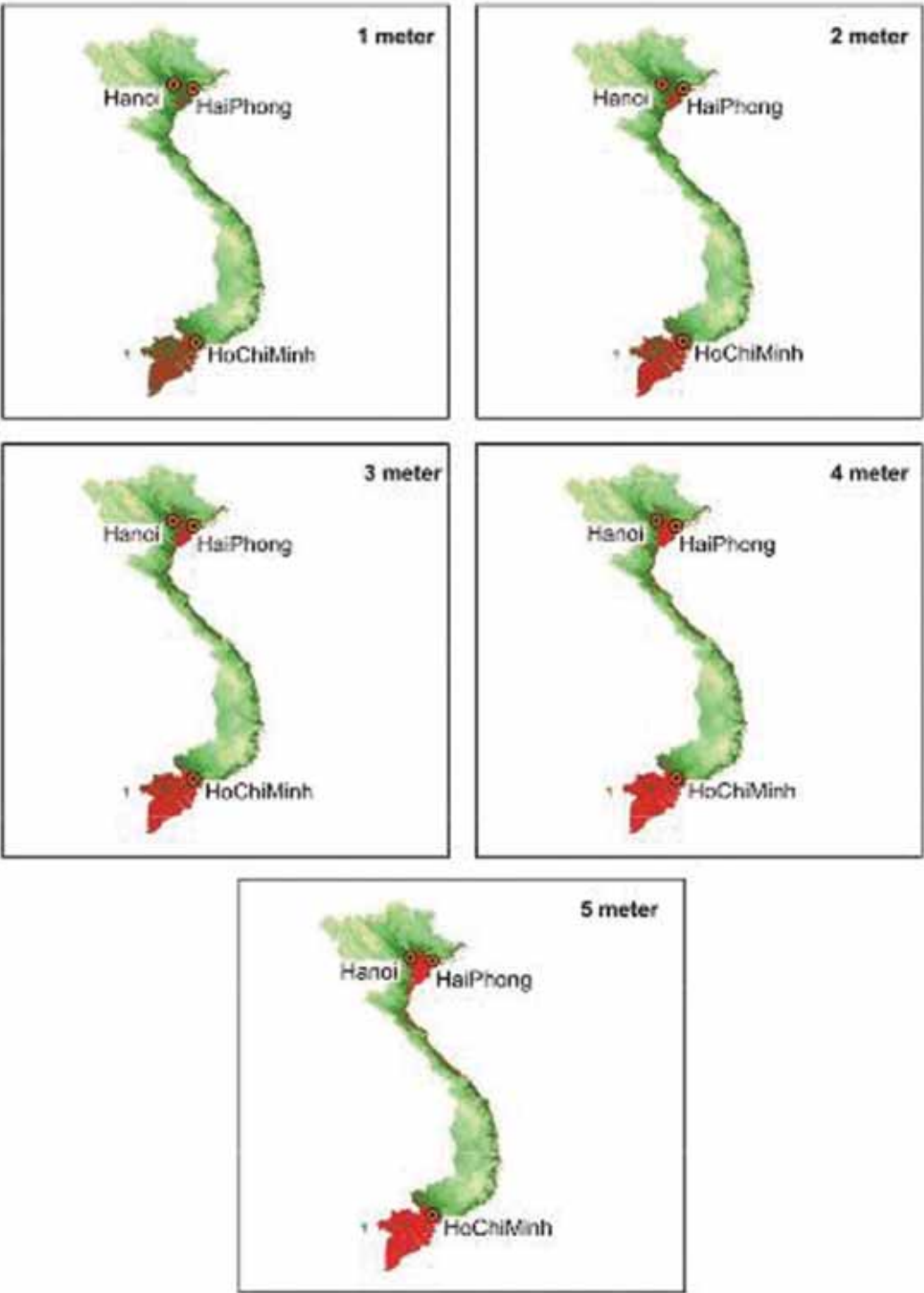
areas will become salt marshes. Vietnam will suffer most from sea-level rise according to a new World Bank report. Should climate change result in a one metre sea-level rise, Vietnam could incur losses totalling US\$17 billion per year and lose more than 12 per cent of its most fertile land. The best agricultural land, together with 50 per cent of the population, is on the low-lying Red River and the Mekong Delta regions. Over 17 million people could lose their homes, 14 million of whom live in the Mekong Delta region. Intrusion of saline or brackish water could also affect the irrigation of paddy rice. Deforestation and pollution of water resources have already devastated much of Vietnam's rich biodiversity. With rising sea levels, Mangrove and cajeput forests - important ecosystems in low-lying areas - may die back or be entirely lost." Looking beyond 2020, a 2007 World Bank report - 'The Impact of Sea Level Rise on Developing Countries: A Comparative Analysis' - suggests that Vietnam is one of a small number of countries that the anticipated consequences of sea level rise are "potentially catastrophic", largely because of the high concentrations of people and economic activity in the two low-lying delta regions. Indeed, a 5m rise in sea levels would impact no less than 35% of the total population of Vietnam.

Figure 9: Exposed Population, based on 5m rise in sea levels, in East As



Source: World Bank (February 2007).

Figure 10: Inundation Zones for Vietnam, based on 1 to 5m rises in sea levels



Source: World Bank (February 2007).

Table 13: Summary of Impact Assessment for Trend 2: Climate Change, Food Security and Energy Security

Core Indicators	Causal Factors	Impact significance
Economic		
Real income	Real incomes, and real income growth, could lessen as a consequence of climate change-related factors, as well as activities designed to mitigate or adapt to climate change.	↓
Fixed capital formation	The pursuit of energy security in particular, and food security to a lesser degree, should stimulate further investment. Combating climate change also has the potential to increase ODA and public investment in some sectors, if financial resources permit.	↑
Employment	Climate change has the potential to have an adverse affect on employment, if adaptation and mitigation strategies are not pursued, and agricultural land is lost or rendered barren. The pursuit of energy and food security are not expected to have a major positive impact on employment levels.	↓
Social		
Poverty	A worsening in environmental conditions could have an adverse impact on poverty rates in Vietnam, partially undoing some of the progress made in recent decades.	↓
Equity	The poor are likely to be more adversely impacted by climate change factors, including more erratic and extreme weather conditions, rising sea levels and salination of agricultural land. Should food security concerns result in higher (or just more erratic) prices for various essential commodities, this will impact the poor and near-poor more, particularly in urban areas.	↓
Health and education	The overall health of citizens will be at additional risk from climate change-related factors. The pursuit of food security could also have an adverse impact on health, if existing methods of agriculture are not improved upon. Energy security concerns could also impact on health issues, if Vietnam remains focused on hydrocarbons as the primary resource.	↓
Environmental		
Climate change	Worsening global climatic conditions, resulting (but not confined to) droughts, more erratic and extreme weather conditions, rising sea levels and salination of delta land areas.	↓
Environmental quality	Worsening environmental quality, as a consequence of climate change factors. Potential for worsening environmental quality as a consequence of urban migration and pressures placed on the agricultural sector to ensure energy and food security, if no second 'green revolution'	↓
Natural resource stocks and biodiversity	Diminishing biodiversity, as a consequence of various factors, but including: climate change-induced factors, urbanization, unchanged agricultural practices placing added strain on flora and fauna, and further depletion of marine stocks.	↓

6.3 Knowledge-based Economy; Technology and Labour Movements

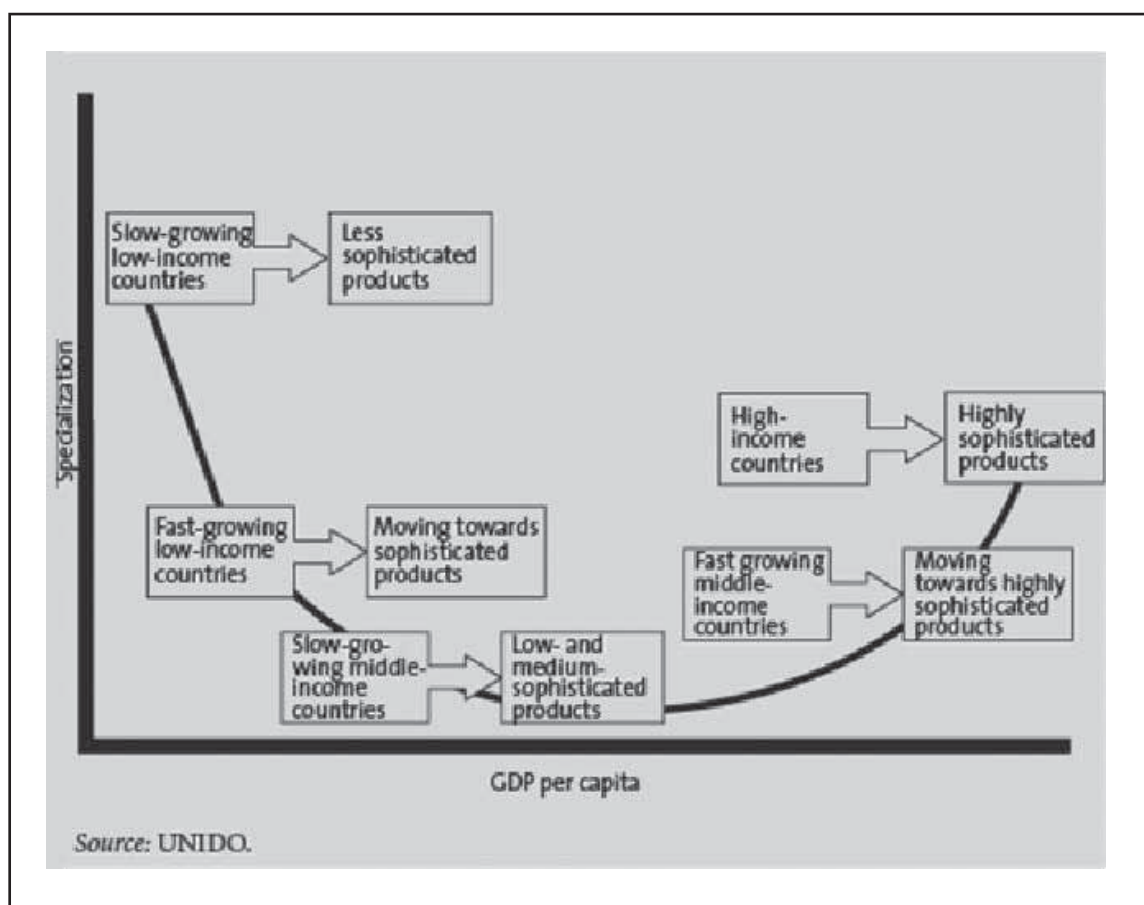
6.3.1 Global and regional trends

While the process of industrialization will continue to act as the principal driver of economic growth in Vietnam over the next decade and beyond, maintaining the impetus that manufacturing provides to growth will almost certainly require significant structural changes in the product characteristics and sectoral composition of the manufacturing sector. Structural change - the shift of capital and labour from low productivity to high-productivity sectors - has long been recognized as a key source of economic growth. But not only does manufacturing appear to speed development but its contribution depends on its composition. Product diversification and product sophistication, particularly in exports, both contribute to higher productivity growth (UNIDO, 2009). In short, what a country makes matters for growth.

There are several possible explanations of why industrial diversity contributes to higher growth. One is that more diverse economies may be better able to take advantage of export opportunities in global markets. A second is that a wider range of industrial activities provides more space for the entry and exit of firms, enabling the growth of higher productivity firms that can compete internationally.

The idea that the technological sophistication of what a country produces and exports changes as a country 'moves up the production ladder' is widely accepted. With more technologically complex production providing increasing returns to scale and potential for further learning and innovation, manufacturing activities can act as a major source for productivity change in an economy. The increase in productivity and real wages facilitates firms' movement out of low technology, labour intensive production into more capital intensive, technologically sophisticated sectors, which in turn provides a further stimulus to growth through the spillovers to the rest of the economy in terms of skills development and knowledge. Recent research has confirmed the causal relationship between the sophistication of manufactured goods and economic growth, including a strong, positive relationship between the level of sophistication of each of a country's exports and its subsequent growth performance (Hausman, Hwang and Rodrik, 2007; Rodrik, 2006). Here, product sophistication includes not just 'narrow' aspects such as capital intensity or process complexity, but also 'broader' aspects superior market knowledge, design and logistics. This positive relationship between product sophistication and economic growth is likely to reflect the presence of globally competitive firms in the economy. If a firm in a low income country can enter the market for exports that are produced mainly by high income country competitors, firm level productivity should match that of its higher-income competitors, so that a country with a larger number of such globally firms will experience rapid productivity growth in manufacturing and more rapid overall economic growth. Figure 11 shows the stylized relationship between economic growth and product diversity and sophistication.

Figure 11: The Relationship between Economic Growth, Product Diversity and Sophistication.



Parallel to the shift towards more sophisticated products observed in the more rapidly growing economies, we also observe an increasing share of intermediates and components in manufacturing trade. This is variously referred to as 'value chains', 'trade in tasks' and 'offshoring' and refers to the dispersion of different stages in the vertically integrated production process to different countries. The information technology revolution has substantially lowered the costs of coordination between different stages of the production process in many industries. A common concern with trade in tasks and outsourcing is that it may also reinforce specialization in low-technology, unsophisticated manufacturing and thereby act as a brake on future growth. The evidence suggests that these concerns are unfounded. It appears that countries that grow faster are also specializing in more sophisticated tasks as well as products.

The experience of successful industrialization in middle income and developed economies also points to the importance of industrial concentration in shifting to KBE status. Economies of scale give rise to the 'clustering' of industrial activity at the same location. Externalities can arise from the presence of a large number of firms in the same industry in a specific location, from a concentration of closely related industries, including suppliers and purchasers, in the same location, or from the presence of a large

number of firms in unrelated industries. Clustering among firms in the same industry is driven by common needs for inputs, industry specific knowledge and the need for specialized skills. A potential advantage of clustering is information and knowledge spillovers, particularly in marketing, management and technology. Proximity to closely related firms or industries can also generate externalities in the labour market with firms being attracted to areas where there is a large pool of workers and managers with skills relevant to their industry. The clustering of similar firms or industries is positively linked to productivity growth, a relationship that is particularly marked in exporting manufacturing (UNIDO, 2008).

While there are significant productivity and growth benefits accruing from industrial concentration, policy makers need to recognize that agglomeration is a market driven process and spatial policies for promoting industrial development need to facilitate the private sector's development rather than work against it. At the same time, policymakers need to be alert to the potential environmental and social costs that large scale industrial concentration can give rise to, in the form of urban-rural income imbalances, pressure on infrastructure, housing and education services, and pollution and related health costs.

Recent research on export performance in developing countries has highlighted the key areas where policy interventions can facilitate more rapid export growth: infrastructure provision; trade logistics; and regulatory reform (Limo and Venables, 2001; Kirkpatrick and Iwanow, 2007; World Bank, 2007). Industry depends on a reliable supply of infrastructure services. Surveys of business in low income countries consistently rank lack of access to, and poor quality of, infrastructure - power, water, transport and communications - as one of the major constraints to private investment.

The costs of trade, commonly referred to as trade logistics, are another important determinant of trade performance, and 'trade facilitation' reforms that reduce the costs of importing and exporting can contribute to improved trade performance. As international transport costs have declined, other 'behind the border' aspects of trade logistics - customs, port handling, internal transport and distribution - have gained increasing importance.

The quality of the regulatory environment for business also affects private sector growth. There are various dimensions of the regulatory environment that can affect a country's ability to progress its technological advance and industrial upgrading. For foreign investment, in particular, the transparency and consistency of the legal and tax frameworks are a key influence on investment decisions. Perceived corruption in public administration can act as a constraint to the development of a vibrant private sector. As manufacturing moves towards more sophisticated products, issues of intellectual property rights protection and enforcement become increasingly important in determining the foreign investors' decision on the transfer of technology to the host country.

The move towards a knowledge based economy implies the upgrading of human capital in terms of technical and managerial skills. If foreign firms are to act as the main conduit for technology transfer, they will require an adequate supply of trained

manpower. By anticipating these needs and investing in appropriate forms of education and skills training, the state can minimize the risk of skilled labour bottlenecks acting as a constraint to the economy's process of industrial upgrading and transition to higher income status.

6.3.2 Impact Assessment

Economic Impacts

For developing countries like Vietnam, the pursuit of a more industrialized economy, where economic growth emanates from advances made up the value chain, the need to pursue technological innovation - and the human skill base that lies behind it - has increasingly come to the fore. For those economies able to successfully 'surf' these trends, an opportunity to leap-frog the more gradual industrialization process of the past is extremely alluring, albeit hard to achieve. Conversely, an inability to keep up with global advances runs the very real risk of an economy - and a corporate community - being 'left behind'.

A number of factors cumulatively serve to potentially inhibit the pace at which Vietnam can progress towards becoming a knowledge-based economy. As the business community moves up the value-chain, its basic needs increase in tandem. Companies begin to have greater requirements of (hard and soft) infrastructure, of human capital, of financial sector support, and so on. Clogged ports and roads, inadequate intellectual property right protection, too few people with the right combination of skills - all these can serve to adversely impact a country's economic growth trajectory.

There is a large body of quantitative and qualitative evidence suggesting that each of these areas is emerging as a serious constraint on Vietnam's future growth. These constraints are reflected in various international rankings of Vietnam's business environment and competitiveness. Table 13 shows Vietnam's comparatively low ranking in many areas of the business environment, particularly in infrastructure, the labour market and financing. Other such rankings give a broadly similar picture.

Table 14: Business Environment RankingsBusiness Environment Ranking^a

Overall position	Value of index ^b 2004-08	2009-13	Global rank ^c 2004-08	2009-13	Regional rank ^d 2004-08	2009-13
Political environment	5.2	5.3	54	50	11	9
Political stability	6.3	6.3	47	45	9	7
Political effectiveness	4.2	4.5	57	55	9	7
Macroeconomic environment	5.8	4.7	76	81	16	17
Market opportunities	5.6	4.5	58	52	13	12
Policy towards private enterprise & competition	4.0	5.0	66	62	14	14
Policy towards foreign investment	6.0	6.9	58	47	12	8
Foreign trade & exchange controls	6.0	6.9	62	60	14	13
Taxes	5.2	6.3	61	39	14	10
Financing	3.3	4.4	76	67	17	15
The labour market	5.9	5.7	50	60	13	14
Infrastructure	3.5	4.7	74	72	14	13

Source: EIU (2009)**Note:** a for explanation of ranking methodology, see EIU, 2009; b out of 10; c out of 82 countries; d out of 17 countries.

Looking beyond the business environment, there are other weaknesses in the provision of public goods that threaten the sustainability of Vietnam's transition to a knowledge-based middle income economy (Riedel, 2009). Weaknesses in transportation infrastructure and trade logistics undermine Vietnam's international competitiveness (World Bank, 2009a). Weaknesses in the health care system lower labour productivity. Weaknesses in the education system (students spend around three hours per day in school) also contribute lower labour productivity and discourage investment in more skill intensive industries.

Although high levels of capital investment have been a key feature of Vietnam's recent growth experience (as evidenced by a large import bill and high FDI inflow figures), it is not only the aggregate amount of investment that matters, but its productivity and the quality of job creation. This is where there is arguably an imbalance in Vietnam. The bulk of investment is deployed in state owned enterprises - and particularly some of the larger state corporations and 'economic groups' - some of which are shedding labour as they seek to better commercialize their operations. (In some cases, we have recently seen large state enterprises also leverage their ready access to finance to diversify their operations across a wide spectrum of non-core business fields that are outside of their core competencies, in what is potentially a misallocation of finite investment capital resources.) In marked contrast, the non-state (i.e. private) domestic sector, is still dominated by micro enterprises and SMEs that typically suffer from inadequate access to finance and other key inputs, including land and management expertise. While some FIEs and a growing number of domestic companies are

beginning to occupy the space in the middle between these two corporate sector poles (ie. large state corporations and myriad small private entities), the current asymmetry is a source of legitimate concern, particularly with regard to productivity and industrial upgrading. Having attained greatly improved access to overseas markets, the current profile of Vietnam's corporate sector is not ideally configured to take advantage of this, as most SMEs currently lack the ability to innovate on a level that will make them internationally competitive. Not only are they too small to 'plug into' international production networks, they are also not well positioned to withstand increased domestic market penetration from foreign firms entering Vietnam under WTO conditions.

The productivity of investment in the state owned enterprise sector is also poor, and far below that of the private companies. As Table 15 below indicates, the output-capital ratio for SOEs is less than half that for private companies, and the capital-labour ratio for SOEs, on average, is almost three times higher than for private companies. That means that every dollar invested in a private company, on average, generates three times more jobs and twice as much output as when invested in the average SOE. Thus, the growing share of private companies in the industrial sector has no doubt been an important contributor to Vietnam's rapid growth.

Table 15: Ownership Structure and Productivity of Industry

	Ratio of turnover to capital	Ratio of capital to labor	Share in industrial output %		Growth of out- put p.a. %
	2005	2005	1996	2007	1996-2007
State-owned Enterprise	0.5	711	49.3	27.7	9.5
Non-State Owned	1.2	236	24.0	33.4	18.9
Private Companies	n.a	n.a	7.4	24.3	28.6
Collectives & Household	n.a	n.a	16.6	9.1	9.1
Foreign invested Enterprises	0.8	432	26.7	38.9	19.4

Source: Riedel, 2009.

This relatively low productivity of the SOE sector - where most of Vietnam's largest corporate still reside - is likely to act as a major constraint on the growth of higher productivity, more sophisticated forms of manufacturing which characterizes the knowledge based, skill-intensive industrialization model that Vietnam aspires to achieve in the next decade.

Social impacts

The transition towards becoming a more knowledge-based economy will have mixed social impacts. The growth in higher skilled employment is likely to lead to higher wages. But the increase in relative earnings could contribute to an increase in income inequality. As agglomeration effects favouring rapid productivity growth in the urban hubs of the country accelerate, it will become increasingly difficult to maintain moderate levels of inequality. These pressures will intensify as the economy becomes more sophisticated with transformation occurring in industries with higher value added and in services. The earnings gap between urban and rural areas could also increase as a result of the industrial transformation process (Rama, 2008).

The process of industrial transformation and agglomeration can also be expected to put additional strain on health and education provision in the urban areas. This is actually already the case in Vietnam, and in recent years the inadequacies of the education system in particular has been a growing public concern. The current education system is judged by many Vietnamese educators as too academic and traditional; not sufficiently dynamic and modernized to provide students with updated knowledge and foster in them the creativity necessary in a knowledge-based economy. At the higher end, the country's vocational training system is also considered to be inadequate in training technicians and other low-skilled workers to meet with changing labor demands. As such, the availability of a broad range of workers and professionals is missing, making it difficult for Vietnam to make the transition from a low wage economy. Given the current situation, movement toward a knowledge-based economy will likely be very uneven, and positive social impacts will likely affect a relatively small number of people, without significant reform in the education sector.

Environmental impacts

The environmental impacts associated with economic growth have already been assessed in section 6.1. But these impacts will be overlaid and moderated by the changes in industrial structure associated with the trend towards KBE status. There are large variations in the carbon emissions and other pollutants between different industrial activities and between different technologies within an activity that make it difficult to predict the precise environmental impacts of Vietnam's industrial transformation. However, the cross-country evidence on the relationship between the level of industrialization and the pollution intensity of production shows a positive correlation, suggesting that the overall environmental impact of changing industrial structure and composition, will be benign. The move towards more technologically advanced and sophisticated products and industries will generally be associated with 'lighter' forms of industrialization that incorporate improvements in pollution control technology.

²²Vietnam became the WTO's 150th member, after roughly 15 years of negotiations.

Table 16: Summary of Impact Assessment for Trend 3: Knowledge-based Economy; Technology and Labour

Core Indicators	Causal Factors	Impact significance
Economic		
Real income	Low productivity in SOEs and 'missing middle' will limit the pace of transition to more diversified and sophisticated types of manufactures needed to sustain economic growth.	↓
Fixed capital formation	The business environment and quality of public goods will influence the volume of FDI inflows.	↑
Employment	The demand for more skilled workers and managers will be related to the pace of change in industrial structure.	↓
Social		
Poverty	No significant impact on poverty is expected.	↓
Equity	Increasing agglomeration and more skill intensive production is expected to increase income and urban-rural inequality	↓
Health and education	Shift towards more knowledge-based industrialization and urban development will increase pressure on health and education infrastructure and quality of service delivery	↓
Environmental		
Climate change	Changes in industrial structure and product sophistication are expected to lower the emissions intensity of manufacturing.	↓
Environmental quality	Changes in industrial structure and product sophistication are expected to lower the pollution intensity of manufacturing.	↓
Natural resource stocks and bio-diversity	Changes in industrial structure and product sophistication are expected to lower the resource-use intensity of manufacturing.	↓

6.4 Trade in Goods and Services, WTO and Protectionism

6.4.1 Global and regional trends

As we saw in section 3, international trade has been an important driver of Vietnam's socio-economic development over the past two decades. Access to export markets and openness to imported goods, services and embedded technology and know-how have together provided policy makers with the means of extending the opportunities for sustained economic growth. Few would disagree that Vietnam has displayed a remarkable ability to 'ride' the international 'trade winds' to considerable and positive effect. Its December 2001 bilateral trade agreement (BTA) with the US and subsequent accession to the WTO in January 2007 have been major fillips in Vietnam's burgeoning trade flows, which in turn have helped drive economic growth and development in the country²².

²²Vietnam became the WTO's 150th member, after roughly 15 years of negotiations.

Table 17: Export and Import Volumes of Goods, by region and economic grouping, 2003 – 2008 (Annual percentage change)

Region/country	Volume of exports						Volume of imports					
	2003	2004	2005	2006	2007	2008	2003	2004	2005	2006	2007	2008
World	6.1	11.2	6.3	8.9	5.5	4.3	7.1	11.7	7.4	8.2	6.4	4.0
Developed countries	3.4	8.5	5.4	8.3	3.7	3.2	5.2	9.0	6.1	7.1	3.6	0.7
<i>Of which:</i>												
Japan	9.2	13.4	5.1	11.8	6.8	4.8	5.9	6.3	2.0	4.3	0.8	-0.8
United States	2.9	8.7	7.4	10.5	6.8	5.5	5.5	10.8	5.6	5.7	0.8	-3.7
European Union	3.5	8.6	5.6	8.6	2.9	2.9	5.5	8.5	6.6	8.8	4.5	2.2
South-East Europe and CIS	7.9	11.7	-0.2	5.4	7.1	18.6	17.6	18.7	12.4	21.1	26.4	22.5
South-East Europe	19.3	22.6	6.1	16.9	18.2	12.1	16.4	16.2	-0.7	8.9	23.2	13.5
CIS	7.2	11.2	-0.4	4.8	6.5	19.3	17.9	19.2	15.2	23.5	26.9	23.9
Developing country	11.8	16.8	9.2	10.5	8.3	4.7	11.1	17.5	9.9	9.4	10.4	8.5
Africa	3.7	7.6	4.2	0.8	6.9	1.5	5.5	12.5	13.0	9.6	10.0	18.6
Sub-Saharan Africa	3.3	8.9	3.6	-0.6	6.8	2.1	14.7	9.9	13.3	12.4	8.6	8.6
Latin America and the Caribbean	3.8	9.5	6.3	5.7	2.3	-1.0	0.7	13.6	10.5	13.3	11.7	6.7
East Asia	21.1	23.4	17.8	18.5	15.1	8.3	18.4	18.8	6.6	10.3	10.4	4.5
<i>of which</i>												
China	33.4	31.7	26.9	25.4	21.9	12.5	32.9	24.6	8.4	13.2	14.2	7.7
South Asia	8.9	11.1	9.3	7.9	7.1	7.2	13.4	15.9	16.7	8.4	8.0	13.4
<i>of which</i>												
India	11.1	18.2	16.1	10.2	12.8	9.5	17.1	18.6	22.2	7.8	12.2	17.7
South-East Asia	7.8	19.9	6.4	10.0	6.9	6.4	6.5	18.4	10.0	7.3	7.1	11.1
West Asia	6.9	11.3	0.2	2.9	-1.4	4.2	13.2	23.4	16.8	4.8	16.1	11.5

Source: UNCTAD secretariat calculations, based on UNCTAD Handbook of Statistics database

The onset of the recent global economic downturn, and the accompanying threat of rising protectionism as individual countries adopted domestic stimulus measures that sought to protect local companies and employment, threatened to derail international trade as an engine for global growth. At the same time, the continued inability of the international community to conclude the Doha Round serves to demonstrate that more long-term obstacles remain. Furthermore, the international community is increasingly concerned to extend the rules-based management of international trade to include social and environmental concerns. This section of the report therefore seeks to identify global and regional economic trends in the sphere of international trade in goods and services, protectionism and trade agreements, and to gauge their likely impact on Vietnam.

A useful starting point is to identify and analyse the key ‘drivers of future change’ in international trade - factors that are present today or likely to emerge - and to consider how they may evolve and interact. A key influence on the future growth of the international trading environment will be the longer term effects of the recent financial crisis and economic recession, which saw the steepest drop in global activity and trade since World War II (IMF, 2009). As of autumn 2009, the global economy appears to be expanding again, with strong performance in the Asian economies and more modest recovery elsewhere. As prospects have improved, commodity prices have risen and world trade has begun to pick up.

However, the pace of recovery is slow, and trade flows remain below pre-crisis levels. There is evidence that the recent financial crisis has inhibited trade expansion through the negative effects of reduced liquidity on access to, and increases in, the cost of trade credits to exporters. In addition, some countries, including China, India, US, the EU, have adopted trade restricting or trade distorting measures to protect key national industries and jobs, despite the G20 leaders’ commitment resisting protectionist pressures at the April 2009 G20 Summit Meeting (Evenett, 2009). The current global recession will also have a fundamental effect on the evolution of global economic governance, and in particular the future of the WTO as the guarantor of the norms and rules of the global trade regime. These issues are discussed later in this section.

Will this initial, albeit modest, recovery be sustained? Current IMF forecasts predict that global growth will average about 4 per cent over the period 2010 - 2014; a lower growth path than before the crisis, but consistent with the sharp decline in investment and resultant loss of output potential. In emerging economies, real GDP growth is forecast to reach 5 per cent in 2010, driven by China, India and a number of other emerging Asian economies. For Vietnam, growth is predicted to rise to 7 per cent by 2014 (IMF, 2009). The recovery of growth in the world economy is expected to support an increase in world trade growth rates. However, the trade - growth elasticity is expected to be lower than in the pre- recession period, as countries with large current account deficits seek to lower the growth rate of imports. This will have a dampening effect on the recovery in countries that have followed an export-led growth strategy.

Trade liberalization has been a major driver of international trade over several decades, particularly in the Asian countries. Trade liberalization has proceeded at three levels: unilateral, regional and multilateral. The case for unilateral trade liberalization and ‘openness’ as a means of stimulating economic efficiency and economic growth is widely accepted and as discussed in section 3, has been a significant causal factor in Vietnam’s rapid economic growth. The contribution of regional trade arrangements to trade expansion and economic growth is more uncertain, despite the proliferation of regional trade agreements between Asian countries (Zhai, 2006). Expert opinion remains divided on the potential benefits of regional trade agreements. Some observers argue that cross border commerce in Asia, as elsewhere in the developing world, is hampered by the protectionist barriers that are erected against their neighbours (Sally, 2007). Regional trade agreements are seen as a potential barrier to the development of intra-regional production networks, while distracting the policy makers’ attention away from further unilateral trade liberalization and domestic reforms and from extending

²³The term ‘offshoring’ is now used in preference to ‘outsourcing’ to describe this international fragmentation of production. Outsourcing is defined as the acquisition of an input or a service from an unaffiliated company. Offshoring is the sourcing of input goods or services from a foreign country, and includes sourcing from a foreign affiliate through foreign direct investment and sourcing from a foreign non-affiliate through arms-length contracts.

multilateral liberalization through the WTO. Other observers argue that regionalism has acted as a 'stepping stone' to multilateral trade reform, and predict that regional trade agreements that extend beyond trade in goods to include services and trade facilitation reforms, will yield significant economic gains to participating countries (Francois and Wigniaraja, 2009).

ASEAN has the highest share of intraregional trade in total trade among developing countries. Although created as a political rather than an economic group, trade among its members has consistently increased since the mid - 1970s. Trade liberalization was formalized in 1992 with the launch of the ASEAN Free Trade Area (AFTA). Recent research on the trade diversion and trade creation impacts of AFTA suggests that the net effect has been benign (Calvo-Pardo et al 2009). The growth in intra-AFTA trade does not appear to have been at the expense of trade with non-members and AFTA members have responded to lower internal tariffs by reducing also their barriers on imports from outside the agreement. In this sense, AFTA appears to have promoted freer world trade.

The growth of intra-ASEAN trade is closely linked to the rise of regional production networks. Initially, this involved the distribution of production stages to different locations and importing intermediate inputs. More recently, firms have begun 'unbundling' their office services tasks, thereby exploiting the reduction in communication and transportation costs brought about by technological advances, particularly in electronics. The most striking example is in telecommunications, where the expansion of computer networking has changed the way large companies organize production globally, and has at the same time opened up global market opportunities for small firms²³. The rapid growth in merchandise and services offshoring is likely to continue, with services offshoring predicted to increase at a faster pace than that of goods (WTO, 2008; Blinder, 2007). Although trade in goods continues to account for the bulk of ASEAN trade flows, the share of services has risen in recent years. A further cause of specialization in trade is the shift in consumer demand for product variety, which provides exporters with the opportunity for greater specialization and product differentiation in exports.

Maintaining ASEAN's momentum and role in supporting member countries' trade expansion and economic growth will face a number of challenges in the coming decade. First, the issue of services liberalization will need to be addressed. While various services are important for final consumption, services are much more important in the ASEAN context as intermediaries for production of goods and other services. Services liberalization is important in supporting the continued growth of production networks in the region (Lim, 2008; Milic, 2009). Second, the liberalization or removal of non-tariff barriers will become a more significant factor in maintaining trade growth momentum. Measures and policies that can reduce the costs of trading are important both for deepening ASEAN integration and strengthening its position in the international production networks. The term 'trade facilitation' is often used to describe a broad range of policies that not only directly affect exporting and importing costs (such as customs formalities, administrative procedures, and regulatory transparency, but also improvements in infrastructure, and domestic regulatory frameworks. There

²³The term 'offshoring' is now used in preference to 'outsourcing' to describe this international fragmentation of production. Outsourcing is defined as the acquisition of an input or a service from an unaffiliated company. Offshoring is the sourcing of input goods or services from a foreign country, and includes sourcing from a foreign affiliate through foreign direct investment and sourcing from a foreign non-affiliate through arms-length contracts.

is solid empirical evidence that improvements in trade facilitation can act as a stimulus for export growth and the attraction of foreign investment in offshoring activities (Kirkpatrick and Iwanow, 2007; Francois and Wignaraja, 2008).

The shifting balance of economic power in the global economy has been accompanied by a shift in the role of the institutions for global economic governance, particularly the WTO. The outcome of the protracted Doha negotiations will be linked to the role played by the BRICs and the WTO G20, with India and Brazil in particular, exerting a major influence on the negotiations²⁴. Much will depend on the extent to which the negotiations can address the developmental issues of fairness and distribution of the gains from trade, in addition to the traditional concern with the economic efficiency gains that accrue to the global economy from multilateral trade liberalization (South Centre, 2009). This concern with the 'fairness' of multilateral trade liberalization is not confined to the developing countries. There is growing support in developed countries for the view that the continuing division of labour brought about by the growth of major developing countries such as China and India, is having negative consequences for the major economies, especially the US and European Union. (Samuelson, 2004). The current global crisis has placed further pressure on the consensus in favour of trade liberalization, in favour of a shift towards 'defensive' protectionism (Evenett, (2009). If the US and Europe were to shift significantly in this direction, it would represent a major threat to the role of the WTO and to the Asian economies that have benefited from multilateral trade liberalization and market opening.

The wave of regional trade agreements, particularly in Asia, also has repercussions for the multilateral regime, and is seen by some observers as having eroded the role and influence of the WT) (Baldwin and Carpentier, 2009). One major disadvantage of regional and bilateral trade arrangements is that they can represent a worsening in trade rules for the weaker partners who may be asked to agree to a level of market opening that goes beyond their multilateral WTO commitments. The replacement of WTO dispute procedures with bilateral or preferential dispute settlement mechanisms can also disadvantage the weaker party in the agreement. Thus, while regional and bilateral trade agreements can often yield significant economic efficiency gains to the members of the agreement without harming the interests of non-members, these regional agreements can have a broader negative impact on the influence of the WTO in promoting an open, non-discriminatory rules based multilateral trading system.

The growth and pattern of international trade flows in the next decade will also be influenced by the growing involvement of the international community in managing the environmental consequences of global trade. The post- Copenhagen period will see increasing international cooperation in climate change management, including the introduction of carbon controls and licensing of internationally traded goods and services. The global stresses in the commodities sector will be further complicated by climate change. Continued escalation of energy demand will hasten the impacts of climate change and the likelihood of international agreed action to combat carbon emissions. The pattern of global commodities trade will be affected in a number of ways. Cutting back on fossil fuel consumption could result in a switch in use of arable

²⁴China's policy since joining the WTO has been largely supportive of the rules based multilateral trading order and has shown little interest so far in promoting reform of the WTO or multilateral trade system in general (Higgott, 2009).

land for food to fuel crops, although the indirect consequences for food security and climate change may be adverse). The introduction of carbon labeling and taxes could increase the costs of international transportation and encourage a shift in production towards the market. Exports from developing countries typically depend on long-distance transportation and are produced by relatively small firms that will find it difficult to participate in carbon-labelling schemes (Brenton et al 2009).

Consumer preferences and corporate behaviour are already shifting towards 'sustainable' products and production methods and this trend will accelerate in the coming decade and beyond. The impact on the demand for developing countries' exports will depend, in part, on the capacity of the producing countries to adopt environmentally sustainable production methods and to respond to changing market preferences. The focus on regulating the environmental consequences of production will also stimulate increased trade in environmental goods and services. Developing countries will be challenged to lower existing barriers to trade in imported services, particularly environmental services, in order to access the environmental technology and related knowledge that will be needed to adapt to the new environmentally-sensitive market realities for international trade.

International cooperation in managing the social consequences of trade is also likely to become more important in coming years. Consumer pressure, increased corporate responsibility and international organizations are increasingly concerned to ensure minimum standards are met in terms of employment and labour conditions. The major advanced country trading blocs are putting their commercial weight behind efforts to promote social standards and decent work through their trade policy²⁵, not least in the context of negotiation of free trade agreements with third countries, in line with the 2006 Communication on decent work. In this context, decent work issues are being taken up systematically in ongoing trade negotiations with a view to including chapters on trade and decent work standards in all agreements. In parallel, there is a acknowledgement on the part of the international community of the potential adverse effects of trade liberalization and trade opening on employment and of the need for active labor market policies to address these social consequences (WTO, 2008). This presents both a challenge and an opportunity for low income countries: the challenge is to develop effective targeted trade adjustment programmes; the opportunity is to access the funding and assistance that is offered by the international community in implementing such schemes.

Realistically, neither WTO-led multilateral trade liberalization nor regional trade negotiations are likely to propel Asian economic growth in the way experienced in earlier times. If trade liberalization is to continue to act as a primary driver of economic growth and development, national policymakers will need to focus increasingly on 'bottom up' unilateral liberalization and domestic institutional reform in response to internal and external conditions, rather than on external negotiations.

²⁵Following the ILO, 'decent work' is defined as consisting of four areas covering: productive and freely chosen work, rights at work, social protection, the social dialogue and the promotion of gender equality as horizontal objectives.

6.4.2 Impact Assessment

Economic Impacts

The impact of the predicted trends in international trade on real income growth is expected to be positive, but less significant than in the pre-recession period. The contribution that trade makes to the economy's economic growth will depend partly on the resumption of growth in Vietnam's main export markets. Over the longer term, the contribution of exports to GDP growth will be affected by a change in the composition of exports. The impact of export growth on GDP growth depends on the domestic value added component of exports, so that a shift away from agricultural based products, which has a relatively high domestic value added share, to manufactured exports, which have a lower domestic value component, can be expected to lower the 'growth elasticity' of exports. Increasing product differentiation and application of environmental and social standards to imported goods in the advanced economy markets will act as further constraints on rapid demand-led export growth.

The impact of trade trends on fixed capital formation is more complex and difficult to predict. Foreign direct investment is concentrated in the tradable goods sector, being used to fund imports that are subsequently used in export production. The downturn in world trade has been mirrored in a sharp decline in FDI inflows to export-dependent economies such as Vietnam. For Vietnam, the decline in FDI will have an adverse impact on the speed at which export supply can respond to the recovery of demand in external markets. In the longer term, the shift away from unskilled labour intensive exports will imply a more selective approach to FDI, based on strengthening the backward and forward linkages and 'spillover' effects with the domestic manufacturing sector. Looking forward to the next decade and beyond, it is likely that trade liberalization will yield diminishing returns in terms of stimulating economic growth. Trade policy will need to focus on strengthening the domestic infrastructure and institutional framework to support continued export growth by investing in physical infrastructure and human capital (Rodrik, 2007; Ang et al 2009).

Trade trends over the next decade will have a variety of impacts on employment. The first impact can be attributed to the recent downturn in export growth which has led to significant job losses in the formal sector and has pushed workers back into the less lucrative informal sector activities (Warren-Rodriguez, 2009). Recent cross country evidence provided by the International Labour Office and the WTO Secretariat shows that informality rates can be highly persistent over time, responding only weakly to accelerations in trade openness or economic growth (Bacchetta et al 2009). Second, the longer term trend growth of employment attributable to trade is also likely to decline. The employment creating effect of export growth appears to have declined in recent years and this trend is expected to continue as the share of labour-intensive products in total exports declines (Heo and Nguyen, 2009). The expected slow down in the rate of exports growth will have a further dampening impact on employment growth.

Social Impacts

The long term social impacts of the predicted trade trends are not expected to differ significantly from the experience in previous decades, as described in section 2. The expansion of trade is likely to continue to have a positive, but modest, impact on poverty and equality. The growth of trade tax revenues can provide the means for funding a marginal increase in expenditure on health and education, both of which will improve the quality of labour available for employment in manufacturing export production. The move towards compliance with international standards for 'decent work' will exert upward pressure on the social conditions of employment. In the shorter term, however, the social impact of trade developments may be less benign.

The current downturn in export performance global recession has had a negative impact on social welfare. While official estimates of employment suggest that employment in exporting sectors has been more resilient than expected, there is strong evidence that employment conditions have been adversely affected. For example, workers have been able to retain their jobs at the expense of having to accept significant wage cuts or shorter work hours. Reliance on family support for the unemployed is pushing down household incomes. Backward migration to rural areas has risen, depressing already low incomes in the receiving households (Warren-Rodriguez, 2009). Although not directly attributable to the downturn in export performance, it can be noted that the number of families facing serious food hardships increased by over 20 per cent in 2008-09, and a recent survey of conditions in four provinces found significant drops in families' expenditure on basic food stuffs.

At a broader level, Vietnam's experience with the global economic downturn, outlined briefly above, underscores the fragility of the country's agricultural and rural development. Looking forward, continuing expansion of trade and related policies will need to take this into account, so as to ensure more resilient and equitable development across the urban-rural divide.

Environmental Impacts

Section 3 described the environmental consequences of Vietnam's increasing openness and engagement with the global economy. The environmental impacts of the trade trends that are predicted for 2011 - 2020 will depend on the scale, composition and technology effects of trade, and the extent to which these effects are modified by national and international environmental regulatory measures. Recovery of export growth will involve additional pressure on natural resource stocks. Production of oil, coal, timber products and agricultural commodities give rise to adverse impacts on climate change, environmental quality and biodiversity. However, a shift in the composition of exports, in particular, an increase in the share of more advanced manufactures as part of global value chains, would reduce the overall environmental impact of trade growth. The liberalization of services and a more selective approach to FDI, will widen access to environmental goods and services, including technology, which can be deployed in the export sector. The pace of adoption of environmentally methods of production will be accelerated by increasing international pressure for collective action to mitigate the climate change effects of international trade. Improving the environmental quality of exported goods is rapidly becoming an essential condition for maintaining national competitiveness in global markets.

Table 18: Summary of Impact Assessment for Trend 4: Trade in Goods and Services, WTO and Protectionism

Core Indicators	Causal Factors	Impact significance
Economic		
Real income	Timing and extent of recovery of global demand Shift in composition of exports may lower domestic value added content	↑
Fixed capital formation	Timing and extent of recovery in FDI inflows Greater selectivity of FDI	↑
Employment	TJob losses and increase in informal sector activities Structural shift towards less labour intensive exports Trend fall in employment-export growth elasticity Lower growth rate for exports	↓
Social		
Poverty	Trade growth expands the income opportunities for the poor Recession – related slow down in exports reduces household savings Increase in rural poverty caused by return migration	↓ (long term) ↑ (long term)
Equity	No significant impact	=
Health and education	Potential for increase in social expenditure Increase in reported hunger in some rural areas	↓ ↑
Environmental		
Climate change	Changes in industrial structure and product sophistication are expected to lower the emissions intensity of manufacturing.	↓ ↑
Environmental quality	Improved access to environmental goods and services	↓ ↑
Natural resource stocks and biodiversity	Adoption of energy saving technology	↓ ↑

6.5 Foreign Investment, Capital Flows and Financial Markets

6.5.1 Global and regional trends

Finally in this report, our analysis focuses on the cluster of issues that pertain to international finance, comprising: foreign investment inflows, overseas development assistance (ODA) and other capital flows, and financial markets. Here again, we are seeing evolutionary change occurring in the way that international business and investment activity is conducted across borders, along with the increasing demands that investors place on all host countries seeking to attract inflows of capital. Just one example is the increasing emphasis being placed on issues relating to corporate governance and corporate social responsibility (CSR), by consumers, shareholders, asset managers and other stakeholders. Demands for higher standards of corporate governance have been coming to the fore in recent years, but the impact of the US credit crisis, which then mutated into a full-blown global economic downturn, have only served to underline this trend, and added a higher degree of perceived importance and urgency. In short, this is an issue that is not going to fade away anytime soon, and

will likely become even more prominent in the minds of global asset allocators. For economies that failed to take heed, it will become an uphill struggle to attract ‘quality’ portfolio capital inflows.

Environmental and climate change concerns in particular will also come more to the fore, which in turn will alter the way in which both policy-makers and the international investor community perceive acceptable means of conducting business, from the specifics of manufacturing, transport and logistics, through to more general approaches to sustainable development. Policy-makers and businesses in developing countries that are slow to adjust to such trends run the risk of being sidelined by direct investors, international asset allocators and financial flows. This in turn will make it more difficult for their respective home countries to tap and harness capital, needed for investment and development, whether in the form of debt or equity. Conversely, host countries that move rapidly to position themselves to ‘ride’ these trends to best effect - such as carbon credits under the Clean Development Mechanism (CDM) - can expect to attract higher levels of interest from capital allocators than might previously have been expected. A recent report for the United Nations Environment Programme (UNEP, 2009), quoted the International Environment Agency as stating that US\$45 trillion was needed, globally, between now and 2050 to achieve a 50% reduction in carbon dioxide emissions, or US\$1.1 trillion per year. Approximately half of that annual figure - US\$475bn - is needed for developing countries, according to the World Bank; US\$400bn for mitigation-related investment, and US\$75bn for adaptation investment. Most of that investment will need to be financed from the private sector, although public funds will undoubtedly also be needed to serve as a catalyst.

China is an example of a country that promptly responded to the opportunity provided by the UN’s Clean Development Mechanism (CDM) system, and has been able to attract co-financing on a range of energy and other projects that have been accredited as legitimate carbon offsetting projects (certified emission reduction credits, or CERs), as the table below shows²⁶

Table 19: Breakdown of Top Eight Recipients of Certified Emission Reduction Credits

Top countries by Issued CERs (Unit: million tons (MT), by 1 January 2009)

Top countries by Issued CERs	MCERs	Share
China	100.0	41.6%
India	54.1	22.5%
South Korea	35.5	14.8%
Brazil	28.4	11.8%
Mexico	5.0	1.9%
Vietnam	4.5	1.2%
Chile	2.9	1.2%
Egypt	2.4	1.0%

²⁶In contrast, Vietnam has much fewer CDM projects at present.

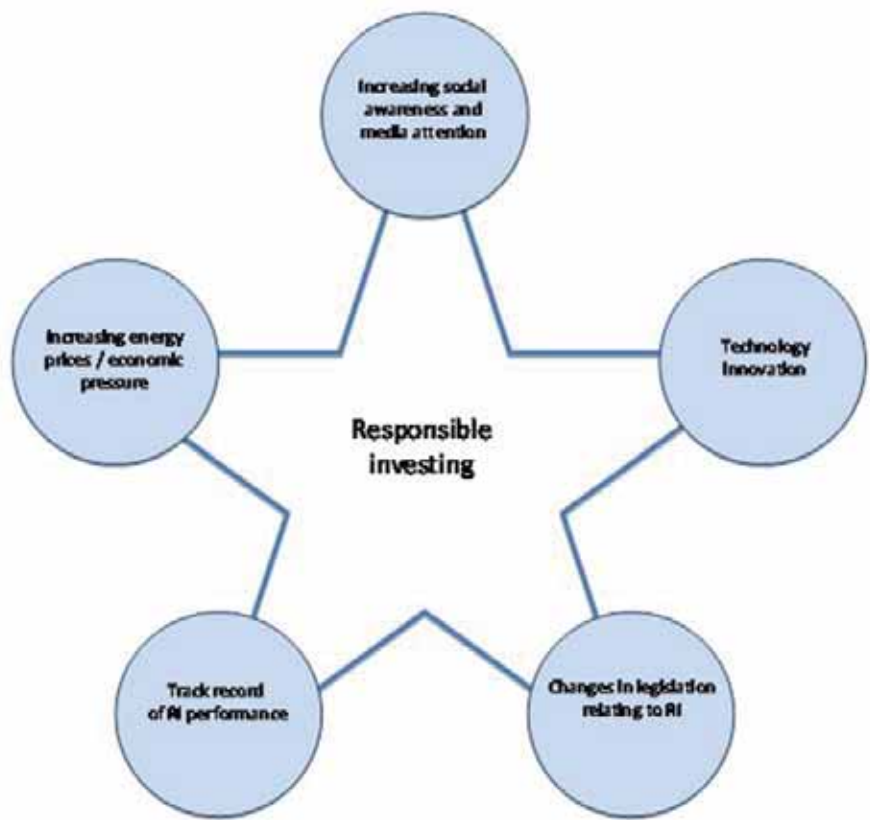
Among institutional and portfolio investors, concepts such as ESG (environmental, social and corporate governance) investing and SRI (socially responsible investing) are no longer the preserve of specialist or boutique fund managers; they are becoming mainstream concepts. A recent report by Robeco on the mainstreaming of SRI, estimates that by 2015, responsible investment activities will account for up to 20% of total global assets under management (around US\$26.5 trillion), and total revenues of about US\$53bn (up from US\$9bn in 2007). The rise of various global, regional and even national SRI and ESG indices, by which to benchmark the performance of companies, is further evidence of this burgeoning trend. This poses a particular challenge for developing countries in emerging markets that are unable to provide the kind of regulatory platform - and enforcement -- that can support ESG / SRI investing, particularly by the larger international investment institutions. Failure to respond to this trend runs a number of risks. The first is that institutional and portfolio investors will opt not to invest in domestic companies that do not meet their minimum ESG / SRI eligibility requirements. The second is that foreign direct investors may also opt to invest elsewhere, conscious of potential problems arising from host country inputs provided by local suppliers, and any adverse reaction from shareholders and consumers that could pose reputational risks. Conversely, emerging markets able to provide a platform that supports higher levels of ESG and SRI compliance are likely to be seen as more attractive to portfolio investors in particular, and thus see their companies enjoying higher share price premia.

The last 10-15 years have seen a major change in the perceptions of portfolio (i.e. non-direct) investors towards what is now commonly referred to as 'emerging markets' - a term first coined by the International Finance Corporation (IFC). A number of factors, including the proliferation of stock markets and a general easing in capital controls, have allowed investors to commit considerable sums of capital into developing countries and their corporate sectors. The primary attraction was the higher anticipated returns from investing in these markets, despite the concomitant higher risks of doing so; even though those higher returns have proved surprisingly elusive. Virtually no economy of any scale now lacks a stock market of some kind, and most permits foreign investors to participate in them, to a greater or lesser degree²⁷. A similar trend has been seen with fixed income instruments (eg. bonds), with both corporates and governments tapping international markets for funding through the issuance of debt paper. Notwithstanding the 'flight to quality' of the last one to two years, this trend is likely to persist, if only because the emerging markets 'asset class' represents roughly 50% of total global output, but only 10% of global stock market capitalization. Consequently, emerging markets are under-represented in most investors' portfolios, and there is seen to be a need to gain greater exposure to the business activity of developing countries. At present, particular attention is being paid to a handful of 'frontier' emerging economies that have populations of more than 80m people, including: Bangladesh, Indonesia, Nigeria, Pakistan and Vietnam²⁸.

²⁷Even tiny Bhutan, with a population of well below 1m people, has had a stock market for more than a decade, trading shares in roughly 20 local companies. To the south, the 'emerging market' of India has more listed companies (over 6,000) than the US.

²⁸See 'Attractions of emerging markets hard to ignore'. Financial Times (London), 26th October 2009.

Figure 12: Key Drivers of the Global Trend in Responsible Investment

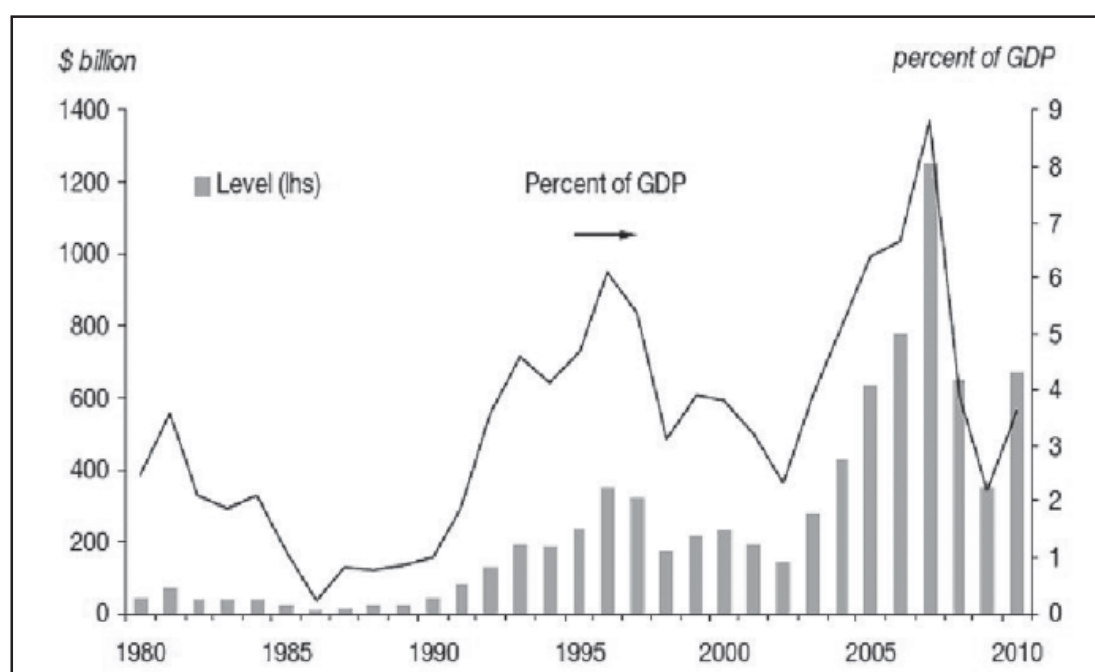


Source: Robeco (2008).

And commercial banks too have been willing to markedly increase their ‘lines of credit’ to emerging markets, as reflected in much higher ceilings for single country debt limits. That provision of bank credit is often critical in supporting foreign direct investment activity, as well as investment activity by domestic companies, in a host country. Rarely will a company wish to, or be able to, pursue a major investment project or expansion drive that is financed solely by its own balance sheet. But the near term forecast for bank lending to emerging markets is not particularly good. As the IIF notes in its latest report, “banks are in balance sheet retrenchment mode, so the supply curve of cross-border bank lending available to borrowers in emerging market economies has shifted significantly leftwards over recent quarters. While a global recovery might normally be expected to push the curve outwards again—especially in an expansion led by emerging economies—we believe that banks, in aggregate, will be quite cautious about emerging market exposures, especially in an environment where there is likely to be a significant tightening in risk-weighted bank capital requirements” (IIF, 2009). That will serve as a major constraint on FDI activity in the near-term, given the important role played by commercial bank lending (ie. debt financing) in funding foreign investment projects. In the longer term, however, we can reasonably expect to see commercial banks increase their ‘country ceilings’ for most emerging markets, and lending will resume its long-term

growth trajectory. A similar story is likely for debt instruments, including both sovereign and corporate fixed income paper, once investor appetite is regained.

Figure 13: Emerging Market Private Capital Inflows



Source: IIF (3rd October 2009).

However, in the near term, international investors and creditors have both become much more risk adverse towards most asset classes, including that of emerging market bonds, equities and overall credit exposure. (In the case of banks, most of them markedly reduced or frozen their country limits in 2008.) The latest report from the International Institute of Finance (IIF, October 2009) suggests that it could take at least a few more years for private capital and credit inflows to emerging markets to return to pre-crisis levels. That said, the very high returns seen in most Asian emerging market stock indices during 2009 will serve as a strong stimulant. Another stimulant is likely to be an increase in the relative ease by which investors can get exposure to emerging markets, and the costs of doing so. For example, more and more companies located in emerging markets are gravitating to stock markets located near the large pools of international investors, such as London and New York, or Hong Kong and Singapore in Asia, and at least partially shunning their own domestic equity markets²⁹. That makes it easier, cheaper and less risky (eg. reducing foreign exchange risks) for both retail and institutional investors to acquire their shares. In addition, new financial products - such as ETFs (exchange traded funds) make it far easier for retail investors in particular to gain exposure to foreign firms, markets and various other tradable assets - such as commodities - that were previously difficult and expensive to invest in³⁰.

²⁹Either by listing their shares directly, or by issuing so-called 'depository receipts'.

³⁰By July this year, US\$862bn was invested in ETFs around the world, and US\$123bn in emerging market ETFs alone.

Table 20: Emerging Market Economies: External Financing

Emerging Market Economies: External Finalcing				
\$ billion				
	2007	2008	2009f	2010f
Current Account Balance	529.4	540.9	371.5	334.3
External Finalcing, Net:				
Private Inflows, Net	1252.2	649.1	348.6	671.8
Equity Investment, Net	601.9	430.8	425.1	533.5
Direct Investment, Net	499.8	512.5	343.0	459.4
Portfolio Invesment, Net	102.1	-81.7	82.2	74.1
Private Creditors, Net	650.2	218.3	-76.5	138.2
Commercial Banks, Net	431.4	102.7	-82.7	48.5
Nonbanks, Net	218.8	115.6	6.2	89.7
Official Inflows, Net	42.9	55.5	63.6	43.4
IFIs	4.1	26.6	43.7	26.2
Bilateral Crediors	38.8	28.9	19.9	17.2

Source: IIF (3rd October 2009).

Table 21: Emerging Asia: External Financing

Emerging Market Economies: External Financing				
\$ billion				
	2007	2008	2009f	2010f
Current Account Balance	421.5	432.9	433.0	372.1
External Finalcing, Net:				
Private Inflows, Net	422.2	171.2	191.1	272.9
Equity Invesment, Net	240.7	153.0	211.3	256.8
Direct Investment, Net	210.7	209.6	160.3	219.2
Portfolio Investment, Net	29.9	-56.6	51.0	37.6
Private Creditors, Net	181.5	18.3	-20.2	16.1
Commercial Banks, Net	151.9	12.2	-28.5	-0.5
Nonbanks, Net	29.6	6.0	8.3	16.6
Official Inflows, Net	28.6	18.5	0.0	6.3
IFIs	1.3	2.0	3.1	2.9
Bilateral Crediors	27.3	16.5	-3.1	3.4
Equity Investment Abroad, by Residents, Net	-135.9	-89.8	-56.6	-118.2
Resident Lending/Other, Net	-148.7	-175.0	-37.2	-67.0
Reserves (- = Increase)	-587.8	-357.9	-530.3	-466.1

Source: IIF (3rd October 2009).

For direct investors in developing countries, a number of global development trends can be discerned. This is being driven in large part by the heightened degree of competition between aspiring host countries (and even between sub-national locations within these countries) to attract foreign investment, particularly at a time right now where FDI flows are muted. It is also being driven by the increased influence that multinational enterprises (MNEs) and transnational corporations (TNCs) have in allocating direct investment in some business sectors. A substantial number of products and services are dominated by a relatively small handful of MNEs, and their decisions on where to locate large projects can be influential. The decision by Intel, for example, to locate a US\$1bn chip assembly plant in Vietnam was (rightly) regarded by many observers as an important milestone for the host country in advancing up the industrial value chain. (And looking ahead, it will be just as important to ensure that Intel's experience in Vietnam is a broadly positive one, so that it continues to invest in the country, hopefully expanding and developing the activities it conducts at the new plant.) Conversely, Intel's decision to cap or reduce its activities in Malaysia and the Philippines arguably tells another, less flattering, story about these host countries.

As a consequence, MNEs and other foreign investors can afford to become increasingly more discerning and demanding in their requirements of host countries. For developing countries in particular, there is often a tendency to try and attract FDI inflows with fiscal and various other incentives and subsidies, intended to offset some of the adverse effects of what is often a less than wholly conducive enabling environment. And not surprisingly, MNEs and others will often negotiate hard to maximize such incentives, particularly when negotiating over large-scale or high profile investment projects. While this is an attractive proposition in the near term, it is rarely a viable proposition in the long term, and cannot be sustained indefinitely, if only because of the real and opportunity costs incurred by the host economy. Rather, the consensus view is that aspiring host countries need to provide a conducive host country platform that MNEs and other investors are fundamentally attracted to, regardless of any incentives that are served up as palliatives. As noted earlier, there is a range of factors that investors - both domestic and foreign - will typically stress as being important in their decisions about where to allocate capital and other resources, from a lack of corruption and 'red tape', through to the quality of human capital, and a host of others in between. And these factors will tend to vary in relative importance, depending on the kind of investment activity being considered; what a garment manufacturer needs compared to an upstream oil company is clearly very different. The above notwithstanding, for a developing country that seeks to attract manufacturing-related FDI as part of its wider industrialization programme, and to move up the value chain, as Vietnam does, a number of critical factors can be identified. They include (but are not limited to): a stable and predictable regulatory environment, and one that is transparent; a stable macro-economic and monetary environment; equitable and uniform enforcement of the regulatory and legal framework; strong property rights protection; and an effective infrastructural (eg. energy, transport, utilities, etc.) platform.

A relatively new trend is that of FDI emanating out of former developing countries, as most clearly evidenced by China and India as major sources of FDI outflows - not just recipients - in their own right. That trend is expected to gather greater strength in the coming decade,

even if the pattern of their outward investments is likely to be quite different. Counter-intuitively, perhaps, a significant proportion of this investment activity has been focused on acquisitions in the industrialized countries, as opposed to so-called 'greenfield', south-south FDI activity (with the notable exception of the resources sector).

Within East Asia, intra-regional FDI inflows have become more pronounced, and are reflected in Vietnam's own FDI inflow statistics, where countries such as Singapore, Taiwan, South Korea and Malaysia, among others, are very well represented in the home country inflow tables. To some degree at least, they reflect Vietnam's increasing integration in Asia's much vaunted cross border production networks, although where these investments are structured as wholly or largely foreign-owned projects, it also reflects the extent to which domestic Vietnamese companies have yet to 'plug into' these kinds of networks in their own right. Vietnam itself is also starting to be a source of outward FDI flows, notably in a few neighbouring countries. Again, we see this trend continuing and probably strengthening.

With regard to ODA flows, the most recent trend has been to provide emergency budget and other forms of financial support, to assist economies weather the global economic downturn. But as the global economy returns to a more even keel, more long-term ODA trends are likely to come to the fore again. Those are likely to be a continuation of focus on poverty alleviation, and a growing emphasis on climate change-related issues.

There has been some discussion of financial market cooperation within East Asia, and particularly Southeast Asia. A regional bond market, for example, has been proposed, and there has been some collaboration between select stock markets and their regulators in the region. But we do not envisage any major strides towards financial sector integration occurring within East or Southeast Asia in the next decade.

6.5.2 Impact Assessment

Economic Impacts

The economic impacts, in terms of real income, fixed capital formation and employment are all likely to be net positive ones. The impacts on Vietnam of global trends in ODA activity, which have previously focused largely on poverty alleviation issues, are multiple. First, the scale and profile of activities that the development partner community in Vietnam will pursue is expected to change considerably in the next decade. As Vietnam moves further towards achieving its socio-economic targets set for 2020 (including that of lower poverty levels), we are likely to see the number of development partners active in Vietnam decline. Bilateral donors in particular will start - and some have already begun - to pursue gradual departure strategies from Vietnam, as they reallocate their limited funds to other countries that are perceived as being in greater need. This may be further exacerbated in the near term by the considerable debts and budget deficits that some bilateral donor countries have accrued in the last few years, in responding to the global economic downturn, and consequently reduce their aggregate overseas development budgets. A similar trend

is also likely among parts of the INGO community. However, the scale of spending by the Development Finance Institutions (DFIs), such as the World Bank and Asian Development Bank, may well increase in scale, particularly in the aftermath of the large recapitalizations that have recently occurred. There is clearly a need for Vietnam to expend far greater resources on physical infrastructure, if it is not to become a bottleneck on future economic growth. And in that context, the DFIs could increase their exposure to Vietnam, if a sufficient number of appropriate deals and projects are forthcoming. Thus the overall composition of ODA will also shift, away from grant-funded projects, and further towards subsidized lending projects.

Secondly, it is likely that climate change adaptation and mitigation projects will become a much greater component of total ODA activity in Vietnam, and that many more ODA projects will have some element of climate change mainstreaming contained within. Having been identified as one of the most vulnerable countries to the effects of climate change, it is clear that ODA activity in Vietnam will focus more closely on this issue, in conformity with the government's own National Targeted Programme to Respond to Climate Change (NTP-RCC). The extent and nature of this change will depend to a large extent on the degree to which the government is able to respond to the donor community's desire for a more coordinated approach to climate change-related activities, across a spectrum of agencies. Failure to do so runs a risk that ODA spending will contract, as poverty alleviation in Vietnam is (rightly) perceived to be less of a problem, and the new 'ODA issue du jour' (ie. climate change) is held back by institutional capacity constraints within the host country's relevant government agencies. Conversely, if Vietnam is able to respond effectively to the development partner community's increasing appetite for climate change related activities, then it could probably expect to see the scale of ODA activities 'hold up' quite well, as focus shifts in large part from poverty alleviation to climate change.

Turning to portfolio investment, the impact of global and regional trends has, to date, been largely a positive one. Looking ahead, that is likely to continue, particularly as the domestic capital markets develop. That said, the extent to which Vietnam benefits from the eventual up-tick in international private capital flows will depend in large part on advances made in corporate governance and CSR by domestic companies, and in the SOE sector in particular. An acceleration in the SOE reform process - and particularly the equitization programme, including the listing of shares in equitized firms - will also determine the extent to which Vietnam benefits from global trends in international portfolio flows. As will the liberalization of current restrictions placed on foreign investors. As the novelty of Vietnam's 'opening' to portfolio capital begins to wear off, there will be a need to make the leap from being a so-called 'frontier market' to 'emerging market' in the eyes of major institutional investors. While boutique and specialist asset managers have dominated foreign portfolio investment activity in Vietnam to date, they should be followed by more mainstream institutional investors. Further, if Vietnam's corporate sector is able to make major strides in areas such as CSR and SRI, it is not inconceivable that the country's capital markets could actually 'hit above their weight' in attracting even greater portfolio investment inflows that might have been expected, as international asset allocators have increasing investment appetite to gain exposure to firms of this ilk.

With regard to foreign direct investment, a resumption of global economic growth should herald a similar resumption in global flows of FDI, both from industrialized home countries and the new entrants, like China and India, as well as some neighbouring Southeast Asia countries. That in turn will be positive for Vietnam's economy. More than twenty years since Vietnam first opened its doors to FDI inflows, the anticipation is that the country will continue to see an increase in new foreign investor entrants, as well as an expansion of activities by foreign investors already present. But again, as with portfolio investment inflows, the extent to which Vietnam benefits from these regional and global trends depends in large part on the extent to which it provides a conducive host country platform. While considerable strides have been made in reforming the regulatory framework, institutional capacity weaknesses have arguably constrained effective implementation and enforcement in a number of areas. And an increasing concern voiced by foreign investors is the fragility of the physical infrastructure provided, which is struggling to keep pace with corporate sector expansion. Congested roads and ports, power shortages, a shortage of appropriately skilled labour and other worries do have the potential to 'choke off' the kind of increase in FDI inflows that Vietnam might reasonably expect to attract, once global and regional flows resume in earnest. And as the profile of FDI shifts up the value chain, the minimum demands of foreign investors will rise in tandem, as they require more from the host country environment.

Social Impacts

The social impacts of global and regional economic trends are likely to be net positive, although probably not uniformly so. Rising capital inflows, particularly of FDI and ODA, should have a beneficial impact on poverty and near-poverty levels, through the creation of additional employment and other initiatives intended to help increase incomes. That said, it is virtually inevitable that private capital flows will tend to focus on particular locations, posing challenges for equitable distribution, and the need for ODA initiatives and public funds to mitigate the rising divergence of incomes between remote rural and select urban areas in particular. Where large capital inflows inadvertently serve to fuel corruption, and the socio-political risks - as well as economic inefficiencies - that can arise as a result, there needs to be a strong response. We are broadly ambivalent on the likely educational and health impacts of capital flows, although thoughtful and supportive policies can encourage private investment in the education and health fields, which have the potential to satisfy unmet demand and support the modernization of both sectors. Private engagement in healthcare and education services can also allow government's revenues to be efficiently redirected to target both the larger needs of the public as well as where the needs are greatest, thereby addressing the equity concern.

One capital flow not mentioned above is that of inward remittances, particularly by overseas Vietnamese, and which probably amounts to more than total ODA spending in the country. We see these remittances persisting, and may potentially rise, although probably not substantially.

Environmental Impacts

The environmental impacts on Vietnam of these global and regional economic development trends for capital are quite difficult to discern with much confidence, although there is some room for guarded optimism. With specific regard to climate change, it is conceivable that ODA and higher calibre FDI activity will have a positive impact on Vietnam's greenhouse gas emissions and carbon footprint, if the right policies are in place to provide a conducive regulatory environment for pro-green investment activity, and the issue of climate change is 'mainstreamed' into Vietnam's economic development strategy. If, however, this is not attained, then one can envisage Vietnam's carbon footprint and greenhouse gas emissions increasing, congruent with increased industrialization and more intensive agricultural techniques. With regard to environmental quality, again, much will depend on the profile of FDI and ODA activity that is pursued in Vietnam. A shift away from seeking to simply attract the largest aggregate FDI inflows, and towards a more discerning approach to the attraction of foreign capital could begin to reap rewards in terms of environmental quality in the medium term, as the more polluting firms and industries are scaled back or required to implement higher standards, and which are more effectively enforced. As for biodiversity and natural resource stocks, it is a little harder to be optimistic about the likely impact of future capital flows, notwithstanding the CSR efforts of some investors to help in preserving the country's unique flora and fauna. Pressure being placed on land and sea resources, through urbanization and industrialization, in turn funded in part from capital inflows, are bound to have an adverse impact, even though there is much Vietnam can and should do to better protect its biodiversity.

Table 22: Summary of Impact Assessment for Trend 5: Foreign Investment, Capital Flows and Markets

Core Indicators	Causal Factors	Impact significance
Economic		
Real income	<p>Rising inflows of foreign direct investment and portfolio investment, congruent with a pick-up in the global economy, including a likely rise in FDI flows from countries like China and India.</p> <p>Rising inflows of portfolio investment, congruent with an increase in investor appetite for frontier and emerging markets.</p> <p>ODA flows likely to remain broadly constant, albeit different in profile, with greater emphasis on climate change.</p> <p>Inward remittances from overseas also likely to remain at least constant.</p>	↑
Fixed capital formation	<p>Rising inflows of foreign direct investment and portfolio investment, congruent with a pick-up in the global economy, including a likely rise in FDI flows from countries like China and India.</p> <p>Rising inflows of portfolio investment, congruent with an increase in investor appetite for frontier and emerging markets, provides an opportunity for domestic companies to scale up.</p>	↑

Core Indicators	Causal Factors	Impact significance
Economic		
Employment	Rising inflows of portfolio investment, congruent with an increase in investor appetite for frontier and emerging markets, should assist job creation. Rising inflows of portfolio investment, congruent with an increase in investor appetite for frontier and emerging markets, provides an opportunity for domestic companies to scale up their activities.	↑
Social		
Poverty	Rising inflows of capital of all kinds, supplemented by public funds, should assist in raising incomes. Some risk that ODA focus will shift away from more direct poverty alleviation initiatives.	↑
Equity	Some risk that private capital flows in particular will be focused on specific areas, posing problems for the equitable distribution of economic gains, with rural areas in particular 'falling behind'.	↓ ↑
Health and education	No clear impact discerned.	=
Environmental		
Climate change	Increased industrial FDI has the potential to increase Vietnam's greenhouse gas emissions, both directly and indirectly (eg. through increased demand for electricity, generated by coal and oil-fired plants), although a proportion of FDI activity likely to place strong emphasis on maintaining a small carbon footprint.	↓ ↑
Environmental quality	Increased industrial FDI has the potential to increase Vietnam's general pollution levels, although a growing proportion of FDI activity likely to place strong emphasis on the environment, as CSR issues gain in importance, and environmental regulations are more strictly enforced. ODA initiatives likely to have a positive impact.	↓ (long term) ↑ (long term)
Natural resource stocks and bio-diversity	Increased FDI likely to place added pressure on Vietnam's resource stocks and bio-diversity. But a proportion of FDI and foreign portfolio activity likely to pursue bio-diversity considerations, as part of their CSR approaches. ODA initiatives likely to have a positive impact.	↓ ↑

6.6 Summary of Integrated Impact Assessment Findings

The preceding sections have provided an evidence-based assessment of how each of five major global and regional economic development trends might affect Vietnam's future development path, and thereby impact on the country's long term development goal for sustainable and balanced economic growth that will deliver a "prosperous people, a strong country, an equitable, democratic, and civilized society." In this final section, we summarize the impact assessment results for each of the five trends, in terms of the three core indicators: economic, social and environmental.

Table 23: Summary of the IIA Results

Trends	Economic impacts on Vietnam	Social impacts on Vietnam	Environmental impacts on Vietnam
Economic growth, composition and emerging blocs	↑	↓ ↑	↓
Climate change, food scarcity and energy security	↓	↓	↓
Knowledge-based economy, technology and labour	↑	↓	↑
Trade in goods and services, WTO and protectionism	↑	↓ ↑	↓ ↑
Foreign investment, capital flows and financial markets	↑	↑	↓ ↑

Note: Assuming that domestic policy framework is unchanged

A broad overview of the results in Table 23 provides the following ‘summary of the summary’ findings for the five global and regional trends:

- The economic impacts are generally positive, highlighting the potential for the economic impacts to be enhanced by supportive policy measures.
- The social impacts are more varied, with negative as well as positive (and mixed) impacts expected to result from the global and regional trends. This suggests that policy measures will need to be designed to mitigate or prevent adverse social impacts.
- The environmental impacts are dominated by the negative (or mixed) impacts linked to economic growth. This suggests that policy measures to mitigate or prevent the negative environmental impacts of economic growth will become a priority.

There are two important qualifications to be attached to Table 23. First, the table is no more than a tabular summary of the results of the detailed impact assessment in the earlier parts of Section 6, and the interpretation of the information that is presented in the table should therefore be informed by the preceding analysis. Secondly, the results that are summarized in table 23, and the preceding impact assessment from which the results are derived, make the important assumption that the domestic policy framework is unchanged. In other words, the impacts that have been identified in Section 6 and summarized in the above table, will occur only if Vietnam’s policy makers do nothing (or at least, nothing new). The main purpose of the impact assessment is to inform policy makers as to the areas where policy intervention is needed - or revised - in order to prevent, mitigate or enhance the potential impacts.

7. STRATEGIC OPTIONS AND POLICY PROPOSALS

The third requirement of this study is to focus on the strategic development options for Vietnam in facing the likely impacts of global and regional trends in the next decade. This requirement is addressed in the remaining three sub-sections of our report. In section 7.1 we discuss the specific flanking measures that can be considered for policy intervention in response to the impacts identified in our analysis. Section 7.2 discusses four strategic cross cutting ‘themes’ for public policy that have relevance to each of the major trends that have been analysed. Finally, in section 7.3, we consider some implications and ‘lessons’ of our use of the IIA approach, for the process of policy analysis and implementation in Vietnam.

7.1 Flanking measures

The impact assessment approach that has been adopted in addressing the terms of reference has sought to identify and analyse the key global and regional ‘drivers of future change’ and to identify the implications of these changes for Vietnam’s future development path. In doing so, the report is intended to provide policymakers with a ‘vision’, or starting point, for the development of more specific and problem focused policy interventions. Consequently, our discussion of flanking measures focuses on strategic ‘areas’ for public policy intervention, rather than on the design of specific policy measures. In most cases, the strategic ‘areas’ are cross-cutting, and have relevance to each of the five trends that have been analysed.

7.1.1 Preventive and Mitigation Measures

As noted in the methodology section, preventive flanking measures are proposed as a means to pre-empt negative impacts, before they occur. Mitigation flanking measures are proposed as a means to reduce or minimize negative impacts that are already apparent. In the context of the regional and international economic development trends that have been identified, it is proposed that the following preventive and mitigation measures should be considered for inclusion in the preparation of the SEDS for 2011-2020:

- A more integrated urban-rural development strategy, linking relevant policies -- such as industrialization, urbanization and land use policies -- to support the modernization of the agricultural sector, the employment needs of rural areas as the rural labor force is changing, and improve both rural infrastructure and public services to narrow the rural-urban gap.
- Institutional reform in the education sector, with the aim of moving toward a knowledge-based economy, but also of improving vocational training to provide the employment skills necessary for ongoing industrialization needs in Vietnam.
- Strengthen institutional capacity to protect the significant gains already made in poverty reduction and equality, and from the potentially harmful effects of industrialization and climate change.

- A more integrated approach to climate change policy, that both meets with international requirements, and facilitates greater access to increasing international finance for climate change mitigation initiatives.
- Strengthening of environmental regulation compliance and enforcement.
- Strengthening of regulations pertaining to property rights and the protection of intellectual endeavour, so as to support more knowledge-based business activity.
- Develop institutional capacity to cooperate with the corporate sector to improve social responsibility measures in the area of employment and working conditions.
- Develop institutional cooperation with the corporate sector to improve social responsibility measures in the area of environmental performance.
- Move to facilitate greater private investment in crucial infrastructure and energy projects by the non-SOE sector.

7.1.2 Enhancement Measures

Enhancement flanking measures are proposed as a means to maximize positive impacts that have been identified. In the context of the regional and international economic development trends that have been identified, it is proposed that the following enhancement measures should be considered for inclusion in the SEDS for 2011-2020:

- Continue to support an enabling environment for private sector development (including business associations), particularly with the goal of moving from a small-scale business model to one that can better compete in regional and international markets, as well as a more liberalized domestic market.
- Strengthening of the regulatory business environment, particularly as it affects the attraction of FDI inflows, and particularly more 'high end' manufacturing and infrastructure-related investment activity by non-SOE actors.
- Improvement in trade logistics, including customs and port handling, as a means of facilitating export growth.
- Investment to relieve infrastructure bottlenecks, particularly in energy and transport, combined with institutional reform aimed at improving the efficiency level of public investment.
- Further and more strident reform of the SOE sector.
- Improve access to good quality, affordable health care, particularly in areas where demand will increase disproportionately as result of industrial development and concentration.
- Adopt phased trade liberalization of the services sector.

7.2 Cross-Cutting Strategic Themes

Beyond the specific ‘flanking measures’ cited above, which pertain to - and seek to address - the challenges and potential opportunities stemming from the five ‘clusters’, there are four cross-cutting strategic directions that we wish to discuss in this concluding section of the Report. These strategic directions relate to: i) quality of growth over rate of growth; ii) integrated rural-urban development; iii) capacity bottlenecks in human resources, institutions, infrastructure, and the domestic private sector; and iv) State-society relations.

7.2.1. The results of our integrated impact assessment have demonstrated that while future developments in the global economy will, for the most part, present Vietnam with economic opportunities, these same external trends may have adverse impacts on the country’s progress towards social equality and environmental sustainability. One issue that came up repeatedly in the consultations held during the preparation of this report was that of quality and sustainability of economic growth, and not just the quantity - or rapid pace - of economic growth. The pursuit of a consistently high GDP growth trajectory is an understandable aspiration, but it does have its drawbacks if pursued at all costs. As the international, high-level Commission on the Measurement of Economic Performance and Social Progress has noted, GDP is “essentially a measure of economic activity, and more specifically of economic activities leading to monetary transactions”.³¹ As a consequence, its primary weakness is that “being a monetary aggregate, it pays little or no attention to distributional issues and to elements of human activity or well-being for which no direct or indirect market valuation is available”. Indeed, “it has long been clear that GDP is an inadequate metric to gauge well-being over time particularly in its economic, environmental, and social dimensions, some aspects of which are often referred to as sustainability”.³²

The UNDP’s Human Development Index (HDI), among others, serves to address this by combining GDP with measures of health and life expectancy, as well as education, in a composite measure of developmental progress. Tellingly perhaps, this year (2009) Vietnam dropped two places in the HDI rankings, to 116th out of 182 countries surveyed. This was not so much a reflection that living conditions in Vietnam have deteriorated, but that other countries had made greater progress (arguably a common theme across a number of global indices in 2008-2009, where Vietnam’s ranking has dropped). The results of our analysis serve to confirm, therefore, that if Vietnam’s progress towards a more sustainable form of economic growth is to be maintained, detailed consideration should be given to preventing or mitigating the potentially adverse effects that the international environment could have on that progress.

7.2.2. Our analysis has also identified the potential negative impact of global and regional trends on the country’s urban - rural balance. In a still predominantly agricultural country, current industrialization and urbanization policies do not support the rural economy to modernize and to link to urban development. Rural infrastructure and other public services lag behind those provided to the cities, leading to a bifurcation of rural and urban development, rather than mutually reinforcing one another. The assessment of likely impacts of global trends, particularly in trade and production patterns, strongly

³¹Commission on the Measurement of Economic Performance and Social Progress (2009).

³²Report by the Commission on the Measurement of Economic Performance and Social Progress.

suggests that these existing urban-rural imbalances will be accentuated, unless an appropriate flanking strategy is developed.

7.2.3. Capacity bottlenecks in human resources, institutions, infrastructure, and the domestic corporate sector are already recognized by Vietnam's policy makers. The results of our impact assessment analysis indicate that, in the absence of a strategic flanking response, these capacity constraints will be intensified as Vietnam responds to global trends, by moving from a low wage economy to one that is knowledge based, and from a small scale business model to one that can compete in regional and international markets (as well as a much more liberalized and competitive domestic market).

7.2.4. The impact assessment approach adopted in this study has demonstrated the value to the policy maker of engaging with the expertise and knowledge of interest groups and experts outside the government's policy making bodies. While the development and implementation of policy remains the responsibility of government, the input of 'outside' experts and affected parties at the earlier stages of policy design, can contribute to the development of more effective policy interventions and successful outcomes. The engagement with 'outside' expertise is particularly relevant in the context of dealing with issues which are likely to cut across ministerial or sector boundaries and impact on a range of sectors in the economy.

A good example is that of climate change mitigation, which requires coordinated strategies and actions at multiple levels within a single country, society and economy. 'Mainstreaming' climate change is not easily done in the conventional top-down manner that State structures typically operate, with individual ministries expected to oversee efforts within their respective areas of remit, yet also dovetailing together somehow. Life is rarely that simple. Achieving that kind of coordination can typically involve a lot of time, and as the speed with which the recent global economic downturn impacted clearly illustrates, time is often in short supply, especially if a country is to respond sufficiently quickly to offset the worst effects of a potential in-bound crisis. Equally, the science of climate change is complex, and expertise in this area may reside primarily outside of Government. In the same way, understanding how vulnerable communities might cope with the effects of climate change at the localised level may require detailed consultation with potentially affected groups in society.

7.3 Implications for Planning and Policy Analysis Processes

The assessment of global and regional trends has highlighted the increasing uncertain and unpredictable environment confronting the planning process. There is an increasing need for flexibility and adaptability in responding to external developments that are often complex in nature and/or cut across conventional lines of demarcation and therefore require innovative approaches to planning and policy that move away from projection and prediction methods towards scenario building and risk management strategies. Further, in developing countries like Vietnam, most state agencies typically face capacity constraints that push human and other finite resources to the limit. As a consequence, immediate ('day to day') issues must clearly take priority, and there is often a tendency for more long-term policy and strategy issues to remain on the

permanent ‘back burner’. Put another way, the time horizon for government agencies and policy-makers becomes fairly short-term, resulting in relatively ‘knee jerk’ reactions to challenges that are fairly immediate in nature, as there is not adequate time to develop more considered and efficient strategies to contend with issues that were identified from a greater distance.

One strategy, which has been adeptly employed by Singapore, is to have occasional and impermanent ‘boards’ or ‘commissions’ that are set up, when needed, to analyse a specific challenge and conceptualise a strategic response. These boards are made up of key policy-makers, experts and pertinent stakeholders, and their role is to, fairly speedily, develop an effective response, which government agencies are then expected to implement promptly. The intention is not to create an additional layer of administration, as the boards or commissions are temporary in nature, but to efficiently bring the right intellectual ‘guns to bear’ on a problem (or opportunity), while that problem is still containable or the window of opportunity remains open. Singapore’s regularized use of boards and commissions is a clear recognition that the State alone cannot have the most effective solutions to the range of complex challenges facing countries today. It is both necessary to access the expertise available within society to help construct such solutions, and to ensure that groups within society feel that they have a stake within the system for long term social stability. This approach is also one way to potentially overcome the coordination problem and the potential bureaucratic resistance to change. In other countries, the response that has been adopted is to establish some kind of devoted ‘horizon’ scanning agency, sometimes located in the central office of the government, to identify more long-term threats, trends and issues, and to coordinate a cross-government strategy of response. Again, Singapore provides a good example of this, with its RAHS and ‘horizon scanning centre’.³³ Such a function might also have its merits within Vietnam’s own government structure.

Returning to the issue of climate change, for example, we envisage a considerable amount of international attention and resources being expended, in the next decade, on activities intended to tackle climate change. It will be evident in international business and ODA activities in particular. For Vietnam, this presents a ‘window of opportunity’ to position itself to take advantage of these global trends, above and beyond the necessity of doing this for purely domestic reasons. Conversely, not to react speedily and take advantage of this international trend will result in considerable downside risks, as well as lost opportunities for the economy and society.

Our assessment of impacts has emphasized the importance of cross linkage effects between the economic, social and environmental spheres. Often, the impacts of a given trend are ‘mixed’, requiring the policy maker to develop a flanking strategy that combines enhancement measures and preventative and mitigation measures. The distribution of impacts is also often dispersed across a range of sectors and interest groups that lie outside the public sector’s traditional planning instruments. As the economy and corporate sector continue to advance, and become increasingly hi-tech in profile, there is clearly a need for government agencies to keep pace, if they are to conduct their mandate of policy guidance and regulatory oversight in an adequate

³³See: <http://rahs.org.sg>.

manner. There are some signs that a widening gap is appearing in this regard, with government agencies falling further behind the private sector, as measured by their institutional capacities, potentially serving as bottlenecks on future growth. Further, the role of the State, and its relationship with actors in society and the corporate sector needs to become more nuanced in the next stage of economic development, as befitting a developing country that has graduated to a higher level of industrial capacity. The promotion of innovation and entrepreneurial endeavour (which recent research shows has a positive impact on economic growth),³⁴ for example, requires a different kind of policy environment and regulatory oversight than was the case even ten years ago. As Singapore has already discovered, as it departed away from its 'government-linked company'-driven economic model, the promotion of a vibrant domestic SME community, overseas investment, a more knowledge-based economy, the attraction of high-end FDI, entrepreneurial risk taking and innovation, all requires the adoption of a different approach by policy-makers and regulatory agencies. Changes in vocational and higher education, through to the way companies are supported, and even cultural perceptions of private business endeavour, all have to be recalibrated for the next chapter in Vietnam's economic development story. With more than 1.5m young people now joining the ranks of the Vietnamese labour force each and every year, policy-makers have relatively little room for manoeuvre in this regard, as the demands of job creation require that a robust, vibrant and competitive corporate sector is stimulated and encouraged and that this be achieved in a manner that is sustainable in the long-term.

The Integrated Impact Assessment approach used in this study provides a systematic framework for addressing these strategic policy choices. So far in Vietnam, the application of impact assessment as a tool for policy analysis and decision making has been largely confined to regulatory measures, and the use of regulatory impact assessment (RIA). This study has sought to demonstrate the applicability of the integrated impact assessment approach to strategic level decision-making, in the particular context of future developments in the international environment within which Vietnam's next Socio-Economic Development Strategy will be located. The application of the impact assessment approach to policy design and decision-making in all spheres of public policy could facilitate the process of realigning the role of the State and its relationship with the needs of the corporate sector and civil society.

This realignment of the role of the State will necessitate considerable investment of energy and resources in providing a conducive enabling environment that will allow the corporate sector to burgeon and mature. Balancing that need with increasing awareness of environmental degradation, and the toll that rapid industrialization can have - and arguably is having - on quality of life issues, is possibly the key challenge that the Socio-Economic Development Strategy for 2011-2020 must address. While attaining that balance could be viewed as a less tangible (or more abstract) and immediate goal than attaining NTR or WTO accession was, for example, it is nonetheless a pressing and real concern. As Vietnam's economic development continues, the kinds

³⁴"If developing countries do not consider the promotion of productive entrepreneurship as a main concern in their policy agenda (Wennekers et al. 2005), they will only reduce necessity-based entrepreneurship without achieving higher growth through opportunity-based entrepreneurship. Such governmental decisions necessitate the creation of better national strategies to accelerate country growth and move more rapidly toward major innovation-based entrepreneurial activities (Acs and Amorós 2008). Developing countries must rationally organize their functions, and seek to remove unnecessary barriers and controls that hamper entrepreneurial activity. They need to protect and stimulate property rights, and introduce policies that support the creativity and efficiency of the private sector. With an adequate environment, including the quality of institutions, entrepreneurship can help to improve the economic and social conditions for developing economies." (Amorós, February 2009.)

of external assistance offered will mutate, in tandem with the economic development reforms that are needed to reach the next set of goals. Inevitably, as the 'low hanging fruit' of economic reform is picked clean, the challenges of future reforms become harder to attain, necessitating a more coordinated policy approach. And while the external economic environment has arguably become less benign in the last few years, some global and regional economic trends do provide an opportunity for Vietnam to make some important new advances in its own economic growth trajectory, if the right approach to policy analysis and 'flanking measures' is adopted. In this respect at least, Vietnam's 'fate' between now and 2020 is certainly not wholly dependent on global and regional economic development trends, as there is much that policy makers, the corporate community and other stakeholders can do to position the country to navigate through the external environment to best effect. And that process of 'navigation' is primarily one of continuing to reform the domestic social and economic environment with the same kind of vigour that has been conveyed in the prior two Socio-Economic Development Strategies.

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Annex 1: Stakeholder Consultations

Government Organizations	Interviewees
1. Development Strategies Institute (DSI), Ministry of Planning and Investment (MPI)	Phan Ngoc Mai Phuong, DSI Vice President and Project Manager Vu Van Hoa, Director of DSI Dept. for International Study and Project Member
2. Central Institute for Economic Management (CIEM), Ministry of Planning and Investment (MPI)	Dr. Vo Tri Thanh, Vice Director
3. National Institute for Science and Technology Policy and Strategy Studies (NISTPASS), Ministry of Science and Technology (MoST)	Dr. Mai Ha, President Nguyen Xuan Hieu, NISTPASS staff member Dinh The Phong, NISTPASS staff member
4. Institute for Diplomacy and Strategic Studies (IDSS), Ministry of Foreign Affairs (MoFA)	Nguyen Manh Cuong, Director of Centre for Integration and Development Studies Thuy Minh, IDSS staff member
5. Vietnam Institute of Economics (VASS)	Prof. Dr. Tran Dinh Thien, Director Dr. Bui Quang Tuan, Deputy Director General Nguyen Chien Thang, Vice Head of Dept. of International Economic Integration
6. Department for Asia and Asia Pacific Markets, Ministry of Industry and Trade (MoIT)	Chu Thang Trung, Deputy Director General
7. Institute for Strategy and Policy on Natural Resources and Environment (MONRE)	Dr. Nguyen Trung Thang, Head of Dept of Environment and Sustainable Development Dr. Nguyen Lanh, Head of Dept. of Climate Change, Marine and Islands
8. Vietnam Chamber of Commerce and Industry (VCCI)	Dr. Pham Thi Thu Hang, Director of Enterprises Research Institute – VCCI
9. Centre for Analysis and Forecasting, Vietnam Academy of Social Sciences	Dr. Nguyen Thang, Director
International Organizations and Experts	Interviewees
1. IMF	Ben Bingham, Chief Representative
2. World Bank	Richard Spencer, Senior Energy Specialist
3. UNDP	Alex Warren-Rodriguez, Economic Policy Advisor Koos Neefjes, Climate Change Advisor
4. Oxfam GB	Steve Price Thomas, Country Director
5. Freshfields Bruckhaus Deringer LLP	Tony Foster, Partner
6. European Centre for International Political Economy	Dr. Razeen Sally, Co-Director
7. International Labour Organization	Rie Vejs Kjeldgaard, Director
8. DEPOCEN	Dr. Nguyen Ngoc Anh, Chairman

Annex 2: Semi Structured Questionnaire for Consultations

INTRODUCTION

The Asia Foundation has been contracted by the Ministry of Planning and Investment's Development Strategy Institute, to support the team that is currently drafting the Socio-Economic Development Strategy for 2011 -2020.

Our ToR is to prepare a background paper on 'Global and Regional Economic Development Trends and their Major Impacts on Vietnam's Economy in the Next Decade'. In particular, we will be focusing on the following trends:

- Economic growth and composition (inc. poverty revisited)
- Food security issues
- Energy security issues
- Technology and innovation trends
- International regulation (incl. labour, international trade and RTAs, and environment/ climate change)
- FDI and other capital/financial flows (inc. SWFs)
- China, India and other burgeoning economic powers
- The current global economic downturn, and its likely consequences, as an extra variable (the 'wild card')

Our report will draw on the views of key experts in Vietnam, and we are therefore conducting a series of informal discussions with a range of representatives of the public sector, the business community, research and policy centres, NGOs and other representatives of civil society.

Given your considerable expertise on a number of these topics, we would like to discuss the following questions with you:

1. In your opinion, what global and regional (i.e. external) economic factors or trends have had the most significant impact on Vietnam's economic development over the past decade?
2. What have been the most important domestic factors and/or policy measures that have affected Vietnam's ability (or inability) to respond to these global and regional economic factors?
3. Do you expect these global and regional factors (that were important in the last decade) to continue having a significant impact in the next decade? And if not, why not?
4. What do you see as the new global and regional economic trends for the next decade, both in terms of:
 - (a) net positive impacts (ie. opportunities for Vietnam)?
 - (b) net negative impacts (ie. threats for Vietnam)?
5. What do you think needs to be done by policy makers in Vietnam to:
 - (a) maximise (leverage) the positive impacts you mention to best effect?
 - (b) minimise (mitigate) the negative impacts?
6. Do you feel there are any key regional or global economic development issues that Vietnam's policy-makers are failing to take sufficient notice of, or adequately prepare for? Possibly in those areas where you are most focused, such as economic growth, trade and investment?

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