

TERMS OF REFERENCE
INSTITUTIONAL CONSULTANT FOR TECHNICAL BACKGROUND PAPER (TBP)
2014 VIET NAM NATIONAL HUMAN DEVELOPMENT REPORT
Regional Integration and Foreign Direct Investment –
Seizing the Opportunities for Inclusive Growth

PART I: GENERIC BACKGROUND INFORMATION

Introduction

The concept of human development emerged in the late 1980s based on the writings of Dr. Amartya Sen and Dr. Mahbub ul Haq. The human development approach puts people at the centre of the development agenda. Development is about removing the obstacles to what a person can do in life, obstacles such as lack of income, illiteracy, ill health, lack of access to resources, or lack of civil and political freedoms. The approach is about expanding people's choices with the ultimate goal of human wellbeing and human freedom.

The first global human development report was launched in 1990 by the UNDP and has been prepared annually since then. Each year, HDRs address a theme highly relevant to the current development debate. Viet Nam prepared its first national Human Development Report in 2001 titled *Doi Moi and Human Development in Viet Nam*. It focused on the *doi moi* policy reforms and their impact on poverty reduction and human development. Since then, Viet Nam has changed rapidly with remarkable growth and a substantive reduction in poverty levels. The second National HDR was produced in 2011 *Social Services for Human Development* highlighting the challenges many Vietnamese face in accessing basic social services.

The 2014 NHDR will focus on *Growth that Works for All: Enhancing Equal Opportunities*. The topic has been chosen based on consultations with stakeholders. The 2014 NHDR is part of a UNDP supported project of *Strengthening Capacity for Human Development Policy Making in Vietnam* with the Vietnam Academy of Social Sciences (VASS) as the national implementing partner. VASS has the overall responsibility of coordinating the preparation of the NHDR with technical and management support provided by UNDP. A Technical Working Group (TWG) consisting of senior researches and experts will guide the overall process and provide substantive comments on TBPs and the report.

The draft outline of the report can be found in Appendix 1.

Defining Inclusive Growth

The following preliminary working definition of inclusive growth will be used: *'Growth is inclusive when it allows all members of society to participate in, contribute to, and benefit from growth on an equal basis, regardless of individual circumstances. Inclusive Growth is both an outcome and a process'*.

As an outcome, inclusive growth results in:

- improved human development outcomes for the country, regions and diverse groups;
- expansion of inclusion of people in growth through business activities, employment and self-employment;
- eradication of both income and non-income inequalities;
- improved social inclusion and cohesion;
- institutional and policy environment that is conducive to long-term sustainable inclusive growth.

As a process, the focus is made on removing institutional, political and value-based barriers to inclusive growth. More specifically, key reforms and actions include:

- creating conditions for all to influence decision-making process and promote inclusive growth;
- creating conditions for all to contribute to growth through business activities, employment and self-employment;
- adopting policies and reforms supporting broad-based growth in multiple sectors;
- strengthening capacities of multiple partners to contribute to and benefit from growth process (vulnerable

- groups, public service, NGOs); and
- enhancing mechanisms and practices of growth benefits sharing (income and non-income such as access to social services, education and healthcare) in terms of equity, transparency, effectiveness and efficiency.

PART II: SPECIFIC SCOPE OF WORK

The NHDR team is commissioning a number of Technical Background Papers (TBPs) on a range of topics to contribute to the development of the 2014 NHDR. Selected TBPs will also be used as stand-alone policy papers to raise awareness on important policy issues.

The consultant will be required to produce a TBP on the following topic:

Regional Integration and Foreign Direct Investment – Seizing the Opportunities for Inclusive Growth

Rationale for Paper

Shifting global value chains, the ‘China Plus One’ factor, the ASEAN economic community, the Trans Pacific Partnership (TPP) and other regional integration and trade agreements present new opportunities for Vietnam to push domestic institutional reforms to become more competitive and for inclusive growth. However, to date the impact of foreign direct investment (FDI) on the domestic economy and on ‘inclusiveness’ has been mixed and linkages between FDI and domestic industries are still poorly developed limiting the benefits to the economy.

Despite weak overall economic growth and the slow path of reform implementation, the foreign private sector continues to show robust growth. FDI firms play an important and increasing role in export activities. The ratio of exports from FDI firms compared to total national exports has increased from 30% in 1996 to 47% in 2000 and 57% in 2005 and 63.1% in 2012. The foreign sector currently also has a higher rate of job creation while job creation in domestic firms is slowing down.¹ The factors explaining the diverging performance of FDI firms and domestic firms are interesting and shed some light into the type of reforms which will be required for Vietnam to reap the benefits of shifting global value chains, in particular companies relocating from China as well as the ‘China plus One’ factor.

As the 2013 VELP paper notes *‘from a policy perspective, macroeconomic instability, high interest rates, and limited access to resources have negatively impacted domestic firms, while FDI firms have somehow avoided these shocks. However, from an institutional perspective, the important factor here is that FDI firms, although established in Vietnam to make use of the cheap labor, resources, and some policy advantages, are still relying on external institutions to operate their businesses and production. The legal system that manages contractual relationships, the business administration, and linkages of production are all foreign based.... FDI firms have side stepped most of Vietnam’s institutions, which are considered to have inhibited the business activities of domestic firms.’* FDI firms therefore have limited incentives to develop linkages with the domestic sector. The paper concludes *‘As long as Vietnam fails to develop effective market-supporting institutions which foreign investors can rely on to expand their business activities, the current manufacturing process of low value added products based on important inputs and domestic assembly will continue.’*

This paper will take a forward looking approach and explore what type of institutional reforms and incentives will be required to ensure that global economic integration and FDI contribute more to inclusive growth.

¹ See Vietnam Executive Leadership Program (VELP) Discussion Paper, 2013 *Unplugging Institutional Bottlenecks to Restore Growth*

Core Research Questions

Based on existing literature, the consultant/ research team will look at the following research questions:

Distributional Impact of FDI

- What has been the distributional impact of regional and international economic integration? This should look at the trends over the past ten years and, to the extent possible, build on existing material.
- Who has benefitted most so far and why?

Institutional Reform Issues

The good performance of the foreign sector is partly due to, as mentioned above, the fact that they are able to side-step domestic institutions.

- What institutional reforms would be required to create incentives for the foreign sector to create stronger linkages with the local economy? What reforms would be required for Vietnam to be able to fully reap the benefits of regional and global integration, companies relocating from China and the 'China plus One' factor?²
- What reforms are required to ensure that these benefits are more equitably distributed?
- What type of fiscal policy measures (e.g. taxation, etc.) could support this process?

The consultant/ research team should look at the experience of other relevant countries in opening their economies and in particular at policies that ensured a more equitable sharing of benefits from such integration.

The consultant/ research team should work closely with the consultant preparing the background paper on Medium Technology/ Supporting Industries – An Engine of Inclusive Growth.

Please note that the consultant/ research team in close consultation with UNDP and the NHDR focal point at VASS will be required to develop a more detailed list of research questions in the first phase of the assignment (see below).

Timelines and Specific Deliverables

The tasks can be either performed by an individual or a small team of consultants for a total of 40 working days between January to July 2014.

	Main Tasks	Outputs
Phase I (to start asap)	<ul style="list-style-type: none">- Discussion with NHDR team.- Based on a literature review of the topic, refine research scope and research questions.	<ul style="list-style-type: none">- Detailed research concept note/ outline of chapter.
Phase II March to May 2014	<ul style="list-style-type: none">- Based on feedback received on research note, conduct analysis and draft TBP.	<ul style="list-style-type: none">- Draft TBP (about 40 pages)
Phase III May to July 2014	<ul style="list-style-type: none">- Present preliminary research findings to TWG and other interested experts.- Finalise TBP and develop short policy note based on feedback received.	<ul style="list-style-type: none">- TBP- Policy Note (20 pages)

Note on Style

- Language should be clear and easy to understand by diverse groups of readers.
- Quotations should be enclosed within single quotation marks. Substantial quotations of forty or more words should be indented without quotation marks.

² This analysis should build in Pham Duy Nghia *TPP: Co hoi nao cho Viet Nam' (TPP: An Opportunity for Vietnam?)*, The Era Publishing House, 2013.

- The 'HARVARD' system should be used for bibliographical references in the text and notes: give author's name, year of publication and page number(s) in round brackets, e.g.: (Amin, 1997:5-10).

Reporting

The consultant/ research team will work under the supervision and guidance of UNDP and the NHDR focal point (Director, Center for Analysis and Forecasting at VASS).

Qualification and experience

The tasks can be performed by research team. The consultant or team leader should have the following:

- PhD in economics, social sciences and/or related field(s);
- Strong expertise about regional and global economic integration, FDI related issues in Vietnam and other relevant countries particularly from an institutional/governance angle;
- Extensive publication record on regional and global economic integration related issues; and
- Excellent English writing skills.

APPENDIX 1:

Tentative Structure of NHDR 2014

PART I: HUMAN DEVELOPMENT TRENDS IN VIET NAM

Part I focuses on the analysis of trends in human development in Viet Nam over the past 10 years using HD indicators and multi-dimensional poverty measurements. International comparisons (with relevant countries such as China, Indonesia, Thailand, etc.) will be made.

PART II: INCLUSIVE GROWTH AND HUMAN DEVELOPMENT

Chapter II A: What is inclusive growth and why it is important?

This part introduces international definitions, measurements and discussions on inclusive growth, its importance and relevance to human development.

Chapter II B: How inclusive has growth been in Viet Nam?

This part provides a working definition and set of measurements of inclusive growth appropriate for Viet Nam. These measurements are then applied to assess to what extent growth has been inclusive in Viet Nam over the past 10 years. This chapter will assess who has been left behind. Human/life stories will complement the quantitative analysis to illustrate patterns of exclusion and disparities.

Chapter II C: What is holding inclusive growth back?

This part explores why growth has not been inclusive and analyse factors driving declining inclusiveness. The discussion will focus on factors of inclusion/exclusion related to public resource allocation and use, in particular factors related to participation in decision making. The chapter will examine various case studies and use - where appropriate – a political economy analysis.

PART III: TOWARD MORE INCLUSIVE GROWTH

Part III explores how a more inclusive approach could contribute to sustained growth, further human development and address rising inequalities. It will also include discussions on the potential impact of declining inclusiveness on social cohesion. The last part will suggest concrete policy recommendations based on lessons learnt from other countries and the findings of this report.