

Pillar 3: Sustainable Economic Development



1. Enhancing Productivity of Domestic Private Firms: Industrial Location and Linkages

Since 1986, Viet Nam has transformed itself into one of the world's fastest growing economies. With average annual gross domestic product (GDP) growth of 6.8% during 1990–2016, the country has lifted itself out of poverty and reached lower middle-income status. However, the development process still requires closing the income gap with

more advanced nations. Gains from productivity, the third momentum for growth, are limited and have diminished over time. There has been concern about the middle-income trap if Viet Nam is unable to maintain its high growth rate during the coming decades. In addition, the country now faces a fundamental challenge: how to generate sustainable productivity growth.

Stagnation of productivity growth is particularly worrisome for the domestic private sector, and the labour productivity of domestic private firms has been trending downwards since the early 2000s. Most domestic enterprises are small and lack resources to go global. Their market is limited, while manufacturing exports are dominated by foreign direct investment (FDI) firms. The FDI sector accounts for 50% of revenue and about two-thirds of export turnover. However, despite the strong presence of foreign firms and the exponential rise in the number of private local firms, interaction between these two players is weak. Only half of FDI intermediate inputs are purchased domestically. Out of these, most are sourced from other FDI firms.

To design an appropriate development agenda for the private sector, it is necessary for the Vietnamese government to consider the opportunities and challenges of globalisation's 'third unbundling', triggered by technological advances, especially artificial intelligence. For Vietnamese firms to improve their productivity in this new era, innovation and skills upgrading are of great importance. To assist this goal, Viet Nam should make use of its abundant FDI by facilitating FDI spillovers and linkages. As such, industrial agglomeration – a concept closely related to inter-firm transactions – is an important channel to connect the two sectors.

In Viet Nam, trade and investment liberalisation policies have stimulated the formation of industrial clusters. By 2014, the country had established 292 industrial zones and three export processing zones. However, the efficiency of those clusters in enhancing local firms' productivity as well as human resources development remain questionable. Analytical studies are scarce and do not provide a

consistent picture of the benefits local firms and workers have reaped from their foreign counterparts.

2. Technology and Jobs in East Asia

The world is witnessing an unprecedented pace of technological progress. The Fourth Industrial Revolution, a concept encompassing the application of smart technology to economic activities, is predicted to exert a profound impact on the global economy by enhancing productivity and efficiency, as well as encouraging the exchange of ideas and improving life's conveniences. However, besides the benefits, there has been growing concern about the disappearance of some occupations and jobs. The displacement of workers increases income disparity and threatens social stability, thus posing a challenge for inclusive growth. Therefore, the question is how to take advantage of this new wave of development and at the same time to prepare workers for unfavourable changes, if any, in the labour market.

Theoretically, technological progress can either complement or substitute workers and skills. In addition, production expansion as a result of technological improvements could lead to rising labour demand. The net effect of technology on employment is thus not clear-cut, with the answer remaining an empirical matter.

Against this backdrop, this project aims to deepen understanding about the relationship between technology and jobs by providing further empirical evidence in the case of East Asian countries.

3. Distributional Effects of Disasters on Food Security in ASEAN

The ASCC Blueprint and EAS statements clearly recognise the need for concerted efforts to address natural disasters and climate change; and their impacts on socio-economic development, health, and the environment. The AMS agreed to implement 11 related actions based on the principles of equity, flexibility, effectiveness, common but differentiated responsibilities, and enhanced institutional capabilities. Ensuring adequate access to food for all ASEAN peoples is also identified as a priority for ASCC blueprint implementation. However, both climate change and the increasing number of natural disasters are affecting regional and local food security.

Why are the AMS not investing more in disaster resilience, especially given the prevalence and rising cost of disaster events? This may be due to the fact that decision makers in governments, businesses, and households tend to focus on avoiding losses from disasters; and perceive the return on investment as uncertain – and only realised if a somewhat unlikely disaster event actually happens. Effective policy actions require sector-specific damage and loss data for agriculture and trade ministries. The national strategies of AMS on disaster risk reduction and climate change adaptation which support resilience must address the types of disasters with the greatest impact on the agricultural sector. Governments must design measures specific to the crop, livestock, and fisheries sub-sectors; and be able to adopt more systematic strategies that counteract the impact of disasters on agricultural sectoral growth and development, and national and regional food security.

Nevertheless, there should be business rationales for climate change adaptation and disaster risk management based on the multiple dividends of resilience. Actions should look beyond avoiding losses (the first dividend) to wider benefits to be gained independently of whether or not the disaster occurs. These include unleashing entrepreneurial activities and productive investments by lowering the looming threat of losses from climate change, and enabling farmers and supply chain actors to take positive risks (the second dividend); and co-benefits of resilience measures (the third dividend), such as flood embankments that double as roads, or drought-tolerant crop varieties that maximise crop yields. The no-regret adaptation strategies should also reflect recent efforts to build a stronger business case for resilience in the private sector, including the insurance industry.

This project produced a two-set volume titled *Towards a Resilient ASEAN – Disasters, Climate Change, and Food Security: Supporting ASEAN Resilience (Volume 1) and Advancing Disaster Resilience and Climate Change Adaptation: Roadmap and Options for Implementation (Volume 2)* – in December 2019. Climate change tends to increase the frequency and intensity of weather-related natural disasters, which puts many people at risk. ASEAN is more vulnerable to these risks than any other region due to its dependence on natural resources. Economic and social impacts further increase the vulnerability of FVCs and isolated communities, and tend to slow down development and increase disparity nationally and regionwide. This book addressed the distributional effects of disasters and climate change on food systems, people, and places – introducing concepts of resilience and methods for analysis; and illustrating roadmaps

for adaptation at the local, sectoral, national, and regional levels.

The chapters in the first volume set the stage by focusing on climate change and disasters and by broadly exploring their economic consequences. The detailed assessments and analyses embedded in the chapters covered a wide range of impact categories, including agriculture, livestock, fisheries, and urban sectors; and sought to identify the immediate actions that need to be taken by ASEAN.

The chapters in the second volume discussed response mechanisms to climate change and disaster resilience in terms of sectoral preparedness, information sharing, institution building, and financial resource mobilisation. Based on a review of country experiences, this volume also presented a mid- and long-term roadmap for climate change adaptation and contained guidelines for integrating climate change vulnerability, disaster risk reduction, and international targets into everyday planning and implementation processes.

4. International Trade of Recyclable Waste

China has been the biggest importer of plastic waste and other recyclable waste for more than 10 years, and in 2016 imported more than half of the internationally traded plastic waste. However, China revised its NTMs on some types of recyclable waste in 2017. For example, a ban was imposed on importing plastic waste (excluding plastic waste generated in production processes) and unsorted wastepaper, with effect from the end of 2017.

In a workshop of the Asian Network for Prevention of Illegal Transboundary Movement of Hazardous Wastes held in Hanoi in November 2017, representatives of ASEAN nations stated that the Chinese import restriction might have a negative impact on some types of recyclable waste going to ASEAN countries. Trade statistics in 2018 showed a decrease in imports of plastic waste by, and an increase in imports of plastic waste in, Southeast Asian countries such as Malaysia, Viet Nam, Thailand, and Indonesia. Increased imports of recyclable waste may stimulate investment in the recycling industry in ASEAN countries. However, problems have been observed – illegal imports of plastic waste; and improper treatment of residual waste from plastic recycling, including open burning of non-recyclable plastics. Governments are trying to restrict imports of plastic waste, particularly of uncleaned and unsorted plastic waste. China also now restricts imports of mixed wastepaper, while imports by Indonesia and India have increased.

This project will identify the impact of Chinese regulation on the international trade in recyclable waste, and on recycling industries in surrounding Asian countries – particularly in Indonesia, Malaysia, Thailand, and Viet Nam. Appropriate trade restrictions and other related policies are also discussed. The enforcement of pollution controls for the recycling industry – particularly the plastic recycling industry – should be strengthened. Quality control of imported plastic waste should be institutionalised and enforced. Import regulations should take into account differences in the quality of recyclable waste. China announced that it will prohibit imports of waste metals from July 2019. Scrap metal imports may also be increased in ASEAN countries.

5. Towards Sustainable Indonesia's East–West Maritime Nexus for Seamless Connectivity and Development

The Indonesian government has an interest in determining the future of the Pacific and Indian Ocean region. President Joko Widodo introduced the 'maritime-axis doctrine' – a five-pillared marine doctrine covering sovereignty, sustainability, prosperity – in his speech at the 2014 EAS. At that time, however, Indonesia faced significant challenges in improving its maritime sector, particularly its sea infrastructure. Large-scale transportation of goods is conducted by sea, so sea infrastructure is a crucial factor in growing trade. Connectivity between ports and the hinterland is also vital in ensuring the system is sustainable.

The government has established several special economic zones in eastern Indonesia that are expected to become growth engines in the area. The growing economic outputs, particularly from eastern Indonesia, will be supported by this nexus, and this growth will reduce the need for subsidies in sea tolls in the eastern region. The study aims to identify the economic and welfare impact of Indonesia's sea toll programme – subsidised sea transport logistics – for eastern Indonesia, and examine possible improvements for hinterland connectivity. This connectivity is aimed at accelerating economic growth in eastern Indonesia to ensure the sea toll programme is sustainable. The study will also formulate complementary policies to increase the performance of the sea toll programme.

