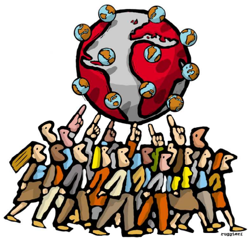

Routes Out of the Crisis: Strategies for Local Employment Recovery, Skills Development and Social protection in Asia

Malang, Java, Indonesia
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Vietnam National Case Study
“’Pro-active Responses of Vinh Phuc and Binh Duong Provinces to Address the Fall in Foreign Direct Investment and Market Demand”

By

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ABBREVIATIONS

CIEM	: Central Institute of Economic Management
CPI	: Consumer Price Index
DOLISA	: Department of Labor and Social Affairs (provincial level)
DOIT	: Department of Industry and Trade
DPI	: Department of Planning and Investment
FDI	: Foreign direct investment
GSO	: General Statistic Office
MOLISA	: Ministry of Labor and Social Affairs (national ministry)
MPI	: Ministry of Planning and Investment
PCA	: Provincial Cooperative Alliance
PCI	: Provincial Competitiveness Index
VNCI	: Vietnam Competitiveness Initiative
VCCI	: Vietnam Chamber of Commerce and Industry

I. VIETNAM AND THE ECONOMIC CRISIS[1]

1. Brief About the Crisis and its impact on Vietnam

The Vietnam's economy has undergone two third of its journey in 2009. The economy seems to have bottomed out of the crisis and is experiencing positive recovery. According to the Ministry of Planning and Investment, the country posted a growth rate of 4.6% in the first nine months of the year. New registered FDI reached US$ 12.5 billion which is much lower than the figure of 2008 but is still much higher than the figure for 2007 and the years before. Export is the sector which is still suffering from the slump in global demand. Total export has declined by 14% as compared with the first nine months of 2008 but still reached US$ 41.7 billion. It is expected that export growth rate will pick up in the last quarter of the year, resulting in a positive export growth rate for the whole year.

Looking back in 2007 and 2008, these positive figures are very encouraging. Since the second half of 2007, the global macroeconomic conditions have deteriorated. In addition to a slowdown in industrial countries, there is considerable uncertainty in financial markets and a surge in the world prices of commodities. However, Vietnam still ended 2007 with a lot of good news to celebrate. The economy was growing at 8.5% - the highest level in a decade. The capital inflows was massive with US$ 6.6 billion FDI flowing into the country in 2007, US$ 8.1 billion in 2008[2] . Business sentiment was high with thousands of new enterprises established every month. The Government planned for a rosy 2008 ahead, expecting the economy would grow at another 8-9%. Some were even grumbling that the growth rate was not high enough as compared with China.

GDP Growth Rate in Vietnam and Neigbouring Countries in East Asia(%)

	2007	2008	2009e	2010*
China	13.0	9.0	8.4	8.7
Cambodia	10.2	0.7	-2.2	4.2
Indonesia	6.3	6.1	4.3	5.4
Malaysia	6.3	4.6	-2.3	4.1
Philippines	7.1	3.8	1.4	3.1
Thailand	4.9	2.6	-2.7	3.5
Vietnam	8.5	6.2	5.5	-

Source: The World Bank

But right at the beginning of 2008, the macro economic conditions started to show worrying signs of an overheating economy with a surge in the prices of food, gasoline and other basic goods. Production were suffering when the consumer price index reached as high as 25% by the end of the year. The overall economic conditions were very fragile in 2008, especially in the second half of 2008, when financial difficulties in a risky segment of the mortgage

[1] This section is based on the report of the government to the National Assembly on the economy in the meeting of the Assembly on October 2009, various reports by the Ministry of Planning and Investment, and particularly the report "Taking Stock" by the World Bank in Vietnam in 2008 and 2009.

[2] Actual FDI inflow in 2006 was US$ 2.4 billion and is estimated at US$ 4.5 billion in 2009.

market in the United States developed into global financial crisis of unprecedented proportions. Fear paralyzed activity in industrial countries, bringing credit to a halt and even threatening to derail international trade. This is really worrisome for Vietnam, especially from the perspective that the export of the country is equivalent to approximately 80% of its GDP.

Value of Key Export Items

	Value (US$ million) 2008	Growth (in percent) 2008	First 6 month 2009
Total export earnings	62.68	29.1	- 6.8
Crude oil	10.36	22.0	-44.0
Non-oil	52.32	45.5	1.8

Among the non-oil export items which experienced the most drastic fall in earning in the first half of 2009 were wood products (-20%), footwear (-10%), garment (-2%), agricultural commodities except rice and sea food (-19.5%), seafood (-9%). These sectors are often labor intensive or have high level of migration workers or have direct impact on the earning in the rural areas.

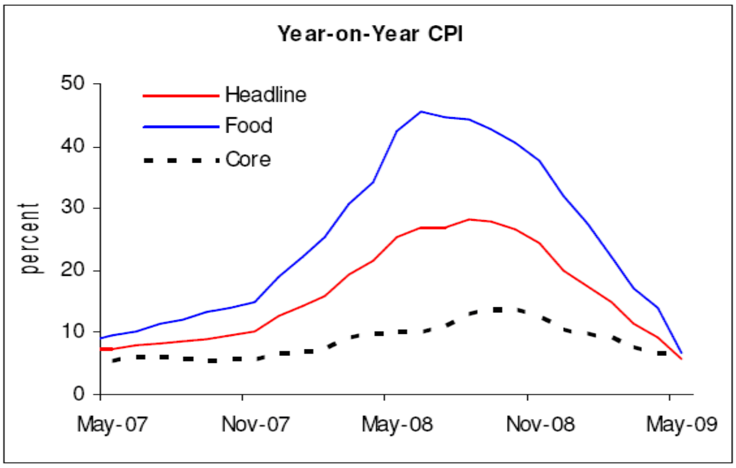
FDI sector is also suffering too with much fewer projects being registered. The table below show that FDI decreased sharply in the first half of 2009 as compared with 2008, both in terms of registered projects and registered capital. Actual FDI inflow into the country is expected to reach only US$ 4.5 billion – a sharp decline as compared with US$ 8.1 billion in 2008 or US$ 6.6 billion in 2007.

FDI Projects Fall Dramatically in the First Half of 2009

	Value (US$ billion) first half of 2009	Change (yoy, %)
Total new registered capital	6.7	-76.3
New registered projects		
Number of projects	256	-60.5
Registered capital	2.7	-89.2
Capital increase from existing projects	4.0	27.5
Implemented capital	2.8	-29.1

To a large extent, however, the macroeconomic difficulties of Vietnam are homemade. Confronted with massive capital inflows in 2007, the government still chose to give priority to rapid growth. The monetary authority purchased large amounts of foreign currency to prevent the appreciation of the dong, and eventually failed to mop up the additional liquidity through the sale of bills. The growth in base money led to a rapid expansion in credit, mainly driven by joint stock banks. As a result, consumer price accelerated and a real estate bubble developed. According to the General Statistics Office, consumer price index in Vietnam reached 12.6% in 2007 and an alarming 19.9% in 2008. The figures are two high when compared with other neighboring countries, e.g. in China (4.8% in 2007 and 5.9% in 2008) or Thailand (2.2% in 2007 and 5.5% in 2008) Ballooning imports of consumption goods added to an already large trade deficit, mainly associated with purchases of capital and intermediate goods. Investments by Economic Groups and General Corporations outside their core business fueled the asset price frenzy.

Inflation reach its peak in 2008



In brief, Vietnam suffered from two major economic problems in just only a very short period of time. Vietnam had experienced a huge credit expansion in 2007. At the end of the first quarter of 2008, the yearly credit growth reached an alarming 63 percent. Monetary aggregates had grown rapidly, reflecting the pace of economic expansion, ongoing monetization of the economy, and strong credit demand. As a result, it was an overheating economy with high inflation and high cost of living. But conditions changed so quickly after the global crisis unfolded in the second half of 2008, with the dramatic fall in global demand for goods and services churned out by Vietnamese companies. Affected by the crisis, many enterprises in industrial parks noted difficulties in complying with social insurance. In enterprises that are less affected by the fall in international order for goods, workers are only offered regular hours and shift with no overtime and the lack of overtime pay has forced workers to cut down their expenses, especially in Binh Duong, Ho Chi Minh City, Dong Nai, Long An, etc. Job losses are most common among seasonal workers and those who work on short-term contracts. In rural areas, families which depend on remittance from their relatives working abroad suffer both from cuts in pay.

2. Reaction by the National Government

In response to this general deterioration of macroeconomic conditions, in February and March of 2008 the government switched its priority to stabilization. Measures were taken to reduce the growth rate of credit, with the objective of bringing it down to 30 percent by the end of the year. The stabilization package announced also included cutting government expenditures, stopping inefficient public investment projects, postponing new ones, and allowing greater flexibility of the exchange rate. The GDP growth target for 2008 was revised downwards, from 8.5-9 percent to 7 percent[3].

[3] And the country eventually could manage to grow at 6.2 per cent in 2008.

While at the beginning of 2008, the primary concern was how to dampen the overheated economy and control inflation that was threatening to spiral out of control. In this respect, the government intends to cut back its expenditure by 48 trillion dong (4.2 percent of GDP in 2007), by reducing general government expenditure (excluding salaries and some social entitlements), and canceling or postponing inefficient or non urgent public investment projects. It also announced its intention to abolish petroleum-related subsidies. Since then, the stabilization package announced by the government in March 2008 appears to have worked. Inflation came down.

However, the international economic environment deteriorated dramatically. The world economy is entering a major downturn, caused by the most dangerous shock in mature financial markets since the 1930s. Developing country growth fell sharply in 2009 through several channels. Exports decelerated as a result of falling demand in the advanced economies. Primary commodity prices have plunged at the prospect of falling world demand. This reversal, while providing a ray of light for commodity importing nations in the wake of the huge price increases of the past 1-2 years, also poses the need for adjustment in commodity exporters, which until recently were enjoying boom conditions. Private portfolio and bank lending flows to developing countries have fallen sharply, combined with extraordinary declines in stock prices[4], significant currency depreciation and sharp increases in external borrowing costs. Trade finance has been disrupted. Over a longer horizon, foreign direct investment may also weaken because of weaker growth prospects. There are also concerns that official development assistance (ODA) flows could be affected by tighter budgets in donor countries.

In that context, by the end of 2008, the policy of the Government was quickly shifted from addressing the domestic overheating to global crisis. Policy emphasis was moved from fiscal restrain to fiscal stimulus. Since 2009 national budget was approved, additional stimulus measures were approved and came into rounds. The first one, costing US$ 1 billion focused on cuts and delays in tax payment, the interest rate subsidy and more social spending. A much bigger one was announced also at the end of quarter 1, 2009 and costed US$ 8 billion (143 trillion VND).

The package is organized around five groups of measures: 1) promoting production and exports, 2) supporting consumption and investment, 3) further loosening the financial and monetary stance, 4) reducing poverty and providing social welfare, and 5) strengthen public sector management at all levels.

The Government also approved a 15 percent increase in pension and social subsidies starting October 2008, three months ahead of the plan. Subsidies to low-wage civil servants and military personnel were also approved. It has also redefined the national poverty line in 2008, which will have important implications for spending in the social sectors. These measures, while costly, are important to alleviate the impacts that poor and vulnerable segments of the population are likely to suffer due to the recent bout of double-digit inflation and the global financial crisis.

[4] Vietnam had the worst performing stock market in the world in 2008, with the VN-Index falling by a staggering 67.3 percent. However, in 2009, a looser monetary policy and more upbeat expectations on economic activity are leading to a reversal of the trend.

VND 143 trillion (US$ 8 billion) Economic Stimulus Package Programme

In trillion VND

Revenue Item	
▪ Combination of measures related to rebates and payment delay on CIT, PIT and VAT.	28
Total revenue foregone	28
Expenditure Items	
▪ Advancing the implementation of critically important projects from 2010. In practices, resources will be reallocated from project with poor implementation ▪ Subsidized interest rate schemes. ▪ Other spending, mainly on social safety net, including Tet allowance. ▪ Investment to be financed on revenue brought forward from the 2008 budget. ▪ Issuance of additional off-budget domestic bond (20 trillion VND are to finance additional expenditure. The other 7.7 trillion represent additional finance)	37.2 17 7.2 22.5
Total expenditures	83.9
Financing item	
▪ Suspending the recovery of advances made in 2008 for investment not implemented. ▪ Issuance of additional off-budget domestic bonds for investment	3.4 27.7
Total additional financing	31.1

Source: *Taking Stock, World Bank Vietnam, June 2009.*

II. RESPONSE OF LOCAL GOVERNMENTS TO THE ECONOMIC CRISIS

1. Vinh Phuc and Binh Duong

Vinh Phuc is located in the neighbourhood of Hanoi in the North East. The province has a population of 1.2 million and an area of 1.231 km2. The province is only 50km from Hanoi and 30 km from the Noi Bai international airport. It is also close to seaports in Hai Phong and Quang Ninh, which are very helpful for its economic development and FDI attractions. In terms of economic structure, industry accounts for 59%, agriculture 14% and services 27% (in 2008). The major industries in Vinh Phuc are engineering, motorcycle, cars, construction materials, agro-processing, textile and footwear. The province is home to two factories of Honda (one for motorcycles and the other for cars), Piagio and Toyota. The province’s ambition is becoming the hub for motorcycle and car manufacturing in Vietnam and for high-tech industry, e.g. laptop assembly, precision machinery, electronics industry, bio-technology. DPI Vinh Phuc estimated that from 2001-2008, Vinh Phuc each year created approximately 19,000 – 20,000 new jobs.

In the last two decades, Binh Duong has emerged as one of the economic highlight in Vietnam. With a total natural land area of 2695,5 km², it is seen as the promise land for migrant workers in Vietnam. Within only one decade, the population of the province has doubled to 1.5 million (people with permanent residence in the province). With around 0.6 million migrant workers, the total population of the province is estimated at 2.1 million. The province economy has been growing fast and continuously in the last two decades and the province economy is very much dominated by industrial production which accounts for 64.8%[5]. Service accounts for 29.7% and agriculture for a mere 5,5% of the economy. Binh Duong is only 60 km from Ho Chi Minh city – the economic hub in the South. Major industry in the province are agro processing, textile, footwear, wooden products, electronics, etc. One tenth of Vietnam's export originates from the province. It also has a dynamic and proactive leadership and has always been ranked among the leading provinces in (PCI) Provincial Competitiveness Ranking[6].

Proximity to the country's economic hub e.g. Hanoi and Ho Chi Minh city is one among the key advantages of the two provinces in FDI attraction and business development. Proximity to Hanoi has enabled Vinh Phuc to attract many white collar workers, better trained workers, engineers, managers, investors, etc. who live and Hanoi and commute daily to work in Vinh Phuc factory. As compared with Ha Noi and Ho Chi Minh City, the two provinces also offer lower cost of doing business (in terms of land, labour, etc.) while many of the factories based in the two provinces are not too far from Ha Noi of Ho Chi Minh city centres or to the international ports, airports, etc.

However proximity to Hanoi is obviously not the only factor which explains the success in FDI attraction of the two province. Dynamism and creativeness of the province leadership has played an important role in improving attracting investment into the province. Both Vinh Phuc and Binh Duong are well-known as the birth place of many policy which the national government has adopted and rolled out through the rest of the country[7]. Right after the beginning of 90s, when the open economic policy was introduced, the two provinces immediately introduced a well-articulated policy of "rolling out the red carpet" to welcome investors. The policy has been integrated into the working philosophy of every public institutions in the provinces and been translated in to a business-friendly attitude which everyone might feel whenever visiting the province. Additionally, the policy has been translated into different initiative of the provinces, e.g. development of industrial zones, support to farmers who lose land to industrial development, demand-based vocational training programmes, etc. Both of the two provinces are among the top 10 in PCI ranking in recent years

As such, the two provinces have been regarded as success story in terms of enterprise development, FDI attraction and job creation. Starting from a very low base with almost

[5] Binh Duong DPI, 2008.

[6] PCI is an index jointly developed by the Vietnam Competiveness Initiative (VNC) and the Vietnam Chamber of Commerce and Industry (VCCI). PCI ranks all 61 provinces in Vietnam in terms of their competitiveness. See more about the index at: www.pcivietnam.org.

[7] E.g. one of the reform to liberalize agriculture production introduced by Mr. Kim Ngoc, a leader in Vinh Phuc in the 60s has been adopted by the central government in the 80s and the policy had resulted in breakthrough in agriculture production and landslide agriculture achievement in Vietnam in the following decades. In recent years, both Vinh Phuc and Binh Duong has been well known for "breaking the fence" – a term which refers to actions and initiatives by local governments which went beyond what the national law allows to support businessman and investors.

negligible industry output, not a single industrial site at the end of 1990s (when the national economy started to opened up), the two provinces quickly emerged as the investment hubs in the Northern and Southern Region in Vietnam. The output of the two provinces keep growing steadily at 15% continuously within 20 years, helping to triple the local economy in a relatively short-time period.

As of the end of 2008, total foreign investment into Binh Duong reached US$ 13.3 billion with 1.931 registered projects and total FDI into Vinh Phuc reached US$1.97 billion with 129 FDI projects. The combined committed registered FDI into the two provinces account for 8.7%% of the total FDI registered in Vietnam[8]. Poverty rate in is estimated at 7% Vinh Phuc and 1% in Binh Duong.

Some Key Economic Indicators of Vinh Phuc and Binh Duong in 2008

In US$

Key economic indicators	Vinh Phuc	Binh Duong	Vietnam/ Nationa Average
Population	1.2 million	1.5 million	85 million
Growth rate	14.4%	15.5%	6.23%
GDP per capita	US$ 1.500/ person	US$1.400/ person	US$ 950/ person
FDI	0.3 billion	1.9 billion	64 billion
Export	0.33 billion	6.2 billion	62.9 billion
Import	1.1 billion	5.9 billion	80.4 billion
Poverty rate	8.3%	1%	12.5%
Job loss as direct consequence of the crisis	4,500	13,600	Approximately 106,000

Source: *General Statistic Office, Department of Planning and Investment in Vinh Phuc and Binh Duong, Vinh Phuc Department of Industry and Commerce, and the National Federation of Trade Union.*

FDI sector accounts for the lion share in the total export in both Binh Duong and Vinh Phuc. Binh Duong economy is very dependent on export with the total annual export turnover of approximately 6.2 billion in 2008, accounting for 10% of the nation's export. The figure is much lower in Vinh Phuc at US$ 330 million in Vinh Phuc. Major exports of the two provinces are textile, footwear, electronics products, wooden product, motorcycle, agriculture products.

2. Impact of the crisis on the two provinces

Vinh Phuc and Binh Duong, the two provinces which are considered to be among the most successful provinces in terms of attracting FDI and improving the local economy. FDI into the two provinces account for almost 9% of the total FDI into the countries. When the economic crisis unfolded, they were also among the first to feel the heat of the crisis.

[8] Vietnam has 63 provinces and total FDI committed to be invested into Vietnam reached US$ 174.7 billion as of the end of December, 2008.

Due to economic crisis, the economic growth rate in Vinh Phuc was dramatically revised down to 5.3% in 2009 (compared with 15% in the whole two decades before). Budget revenue will be maintained at the level of 2008 at US$ 430 million while budge expenditure will increase to US$ 417 million. Meanwhile in Binh Duong only revised it growth target slightly downward to 13% for 2009 and expect to attract another US$ 1 billion in FDI even in this difficult year.

The two provinces were hit the hardest in the Quarter 4 of 2008 and Quarter 1 of 2009. Economic growth was almost stagnated in the two provinces and the majority of job losses in the two provinces as indicated in the table above took place during these six months[9]. Job losses were frequent among seasonal workers, and those on short-term contracts. Many enterprises in industrial parks in both Vinh Phuc and Binh Duong experienced difficulties in complying with social insurance and the new system of unemployment insurance which was introduced in early 2009. Lack or scarcity of overtime pay forced workers to cut on expenses, especially in Binh Duong due to the high cost of living. Also a result, workers in the two provinces have less money to remit to their families in rural areas. However, permanent return of migrant workers to their home villages are less common than it has been reported in some other countries, e.g China.

With more than 600,000 migrant workers, Binh Duong was suffering more from labour strike and the tension between workers and employers during the peak of the economic crisis was particularly high. Labor strikes in 2008 and in the first quarter of 2009 increased by 36% to more than 200 with the participation of more than 120,000 workers[10]. Most of the strikes are related to slow payment of salary, increased cost of living, less income due to less overtime hours, etc. Labour strikes during this difficult time was one of the prime concern and were always ranked among the top priorities of local of the local governments. Both of the local governments took strong actions to address labor strikes, mostly through a arbitration mechanism and a multi-stakeholder taskforce, proactive dialogues with enterprises and workers (please see more on the following section).

Though labour strikes were not a big problem in Vinh Phuc, the delayed implementation of many big FDI projects became a great source of concern for local authorities. Due to the crisis, two high profile FDI projects by Compal and Foxconn Precision Industry Co with combined capital of more than US$ 1 billion were delayed in implementation and it is not clear until when the investors would resume the construction. Thousands of would-be workers which are being trained by the province in preparation for the two projects suddenly lost job opportunity. Return on hundreds of million of USD spent out of the province's budget on land clearance, investment on human resources, etc. is delayed to be paid back.

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[9] According to MOLISA, approximately 106,000 people have lost their job nationwide due to the economic crisis at the peak time. There is no statistics on how many of them have returned to their home village. However, DOLISA in Vinh Phuc and Binh Duong indicated that the laid off workers in their province mostly stayed on in the provinces, trying to wait for the worst time is over and trying to find a new jobs at other factories or enterprises. It was the two provinces which tried, by different manners, to match these laid off workers with new job opportunities through such initiative as job bazaars, direct support to labor intensive factories who made efforts to retain workers.

[10] In 2007, there were only 140 labor strikes in Binh Duong, involving only 30,000 workers.

In the first half of 2009, growth in export turnover in both of the two provinces also slowed down to a moderate year on year 4.3% in Vinh Phuc and 4.4% in Binh Duong.

2. Responses of the Two Provinces to the Economic Crisis

2.1. Implementation of Government Economic Stimulus Package

As both provinces have been accustomed to continuously increasing FDI inflow, new factories being established, thousands of jobs created annually and province's domestic output increasing at more than 15% each year, local governments have no experience in dealing with the crisis. They are not prepared for worse case scenario.

Bewildered by continuously bad news from the international markets and from the provincial business community, local governments look to central Government for support, both in terms of advices and financial support. Like any other provinces, the first response by Vinh Phuc and Binh Duong was to implement the economic stimulus package launched by the Government. In the two provinces, stimulus package are implemented in the following manners:

a. Soft loans to enterprises and household business:

The soft loans are made through banks and financial institutions which are based in the provinces. Under the national economic stimulus package, banks can lend at the interest rate of 4% per year and the difference between the lending rate with the market rate is subsidized by the Government budget. Though this subsidized interest rate policy is under criticism, it is considered needed by the Government to ensure the flow of money in the time of credit crunch. In Vinh Phuc, total loans made under this scheme reached US$ 350 million with 1,019 loans to enterprises (both domestic and foreign invested enterprises) US$ 49 million with 6,900 loans to household business (mostly micro-enterprises). The provincial Department and Investment estimated that 20% of province's enterprises have benefited from this lending scheme. The 95% of the loans made are of short term (less than 3 months) and are for production and renewal of equipment purposes.

In Binh Duong, total loans made under the subsidized interest rate scheme reached USD 800 million, reaching nearly two thousands enterprises in the provinces. The soft loans have become an important source of working capital for enterprises based in the provinces, especially when the revenue from export markets fell dramatically after the crisis took place.

A credit guarantee plan for small enterprises was also implemented in both Binh Duong and Vinh Phuc. Under the scheme, the Vietnam Development Bank issues a guarantee to eligible SMEs so they can access to loans from commercial banks without collateral. The credit guarantee plan was used as a supplementary tools under the economic stimulus package. It is interesting that this programme runs well in Vinh Phuc with more than 60 enterprises are guaranteed to borrow from banks with the total loans of USD 12 million.

However, the subsidized interest rate scheme was under some criticism too. The critics argue that the subsidized interest rate might erode the market principles which are nascent in Vietnam. Subsidized interest might risk to divert the resources more to state-owned enterprises or private enterprises with better connection with the government, jeopardizing the efficient use of the resources.

b. Exemption of Personal Income Taxes and Deferred payment of VAT, corporate income taxes

Exemption of income taxes and deferred payment of VAT and corporate income taxes have immediate impact to support enterprises in the provinces. Vinh Phuc and Binh Duong took proactive actions to implement this policy and the implementation has brought about positive impacts on the enterprises. In consideration of the provincial budget account, Vinh Phuc decided to reduce and defer a total amount of tax which are payable by both FDI and domestic enterprises in the two provinces by US$ 60 million equivalent to 18% of the province budget revenue. In Binh Duong, this amount is approximately USD 90 million. This amount include reduction in corporate income taxes for small enterprises, exemption of personal income tax, reduction of VAT.

This policy brought direct benefits to more than 3,000 domestic enterprises and 75 FDI enterprises in Vinh Phuc and 7,000 domestic enterprises and nearly 200 FDI projects in Binh Duong. Though there is no official statistic about the number of jobs created by the policy, enterprises at the Vietnam Singapore Industrial Zone in Binh Duong said that it help them to use their resources to pay workers and help to retain them at the work line.

Before crafting its own programmes and initiatives, the two schemes under the national economic stimulus package programme were considered, by DPI of the two provinces, to be the timely supports from the Government to enterprises. Since the implementation of the two lending schemes are through banks and credit institutions, local governments play a critical role to make it effective. Monitoring on the use of the funds ranked high in the working agenda of local line departments, especially the Tax Agency, the Department of Planning and Investment, and the branches of the State Bank of Vietnam in the provinces.


Interview at a job bazaar

2.2. Own Initiatives by the Provinces to Economic Crisis

While the national economic stimulus package is designed for the entire country, each problem might face different problem and issues. Vinh Phuc and Binh Duong are among the more advanced provinces in terms of economic development but they are also facing different issues. With an official population of 1.4 million, Binh Duong has a strong immigration workforce of 0.6 million who worked mostly in industrial zones or in FDI enterprises. Meanwhile, the immigration workforce in Vinh Phuc is much less in size. Migrated workers in Vinh Phuc are mostly based in Hanoi and often commute to work in the province. Meanwhile, some other provinces which do not have much FDI or rely heavily on budget transfer to survey do not seem to face the same problems with Binh Duong and Vinh Phuc during the crisis time in all of the issues of labor strike, less budget revenue, less credit, mass lay-off from factories, etc.

These are the most typical responses by Binh Duong and Vinh Phuc in response to economic turmoil, especially in support of the FDI sector and the economic crisis.

a. Setting up of a Special Taskforce to Address Labour Issues and Strengthening the Dialogues and Direct Meetings between Provincial Leaders, Line Department with Enterprises and Workers

Facing economic difficulty, some FDI owners just took different ways to dodge their obligations towards workers. Some deferred salary payment or other financial benefits for workers or some even just fled the country, leaving behind the factories with hundreds or even thousands of workers with months of unpaid salary. At the end of 2008, when inflation reached as high as 20% and the costs of living kept rising, this led to labor strikes in many of the industrial zones in the two provinces. The situation was particularly severe in Binh Duong with 13,600 workers losing their job as of the end of 2008.

In such a context, the People's Committee of Binh Duong and Vinh Phuc both set up Taskforces to Address Labor Issues. The taskforces, headed by a vice chairman of the Provincial People's committee, comprised members from the Department of Labor and Social Affairs, the Department of Planning and Investment, Department of Finance, Department of Tax, Province's Trade Union, Industrial Zone Management Board, provincial business associations.

Addressing labor strike

The inter-agency taskforce helped to intensify the dialogue between the provincial authorities with the enterprises and workers, trying to find a solution in support of both the enterprises and the workers in difficult time. The taskforce held talks with enterprises and workers at every districts on a monthly basis, discussing the real problems they are facing and agreed on specific actions which would be taken by the local authorities. Separate dialogues are also held with different foreign business associations, e.g. with Taiwanese, Japanese or Korean business associations. With an official mandate from the People's Committee, the taskforce has the authority to monitor the implementation of commitments made by the line departments, e.g. the commitment for speedy VAT refund procedures by the Tax Agency, simplified procedures for social and health care insurance, etc.

Talks were held with the enterprises and workers almost on a two-week basis, at the district level or right at the factory site. Local governments mostly played the arbitration role, trying to come out a solution which were most acceptable to both enterprises and workers. MOLISA and the Provincial Trade Union were the two institutions most active in this process. In most of the case, the solutions worked out of the dialogue were mostly about how to mitigate the employer – worker disputes and how to prevent a massive lay-off. In the two provinces, the most common solution which were agreed upon were the reduction of working time and no or much less overtime work hour. Few enterprises took the form of open layoffs. Non-renewals of contracts and incentives for voluntary departures were more common.

Enterprises with strong labor force were allowed to delay the payable taxes and social insurance fees. They were also given higher priority in accessing to the subsidy loan scheme under the economic stimulus package of the Government. In reality, the taskforce proves to be a very effective mechanism for the province to get a grasp of what was happening with enterprises and workers and to work out the solutions which help to address the most imperative issues in the province.

b. Doubling the budget for vocational training and direct support for training to workers who lost jobs

One of the policies adopted by both Vinh Phuc and Binh Duong was to increased spending on vocational training. Despite the fall in provincial budget revenue, Vinh Phuc increased its spending on vocational training from US$ 0.5 million in 2007 to US$ 1.2 million in 2008 and US$ 2.2 in 2009. Most of these spending go directly to the vocational training schools which are based in the provinces or are transferred to job losers who participated in training courses to prepare for new jobs. It is estimated by DOLISA Vinh Phuc that 4,000 trainees have benefited directly from this increased budget spending.

Meanwhile Binh Duong, spending on new vocational schools was increased. An investment of US$ 6.5 million on a new vocational school was initiated in parallel with the vocational training programmes in support of job losers. It is strongly argued by the DOLISA in both of the two provinces that it is a wise choice to spend money on capacity building and skills improvement, especially in tough economic time.

> Vespa, an Italian motorcycle company was given the license to set up a US$ 45 million factory in Vinh Phuc at the end of 2007. Immediately after the license was given, the Job Service Centre of Vinh Phuc DOLISA started the discussion with the investors about their demand for local labor and about how the centre can support in labor supply. Unlike some other investors who put their project on hold as a result of the economic crisis, Vespa was very determined to construct the factory and put it into operation despite the crisis. Information about the demand for labor from Vespa was collected by the Job Service Centre and sent to all districts of Vinh Phuc through its labor market information system (email, fax and normal post) and were posted in most of the public places in the districts and villages of the province and hundreds of letter of interests were sent back to the Job Service Centre which use them as important inputs for the factory in the recruitment process.

c. More emphasis on the job bazaar, job-matching efforts and acceleration of labor market information projects

The economic crisis was really an important push for Vinh Phuc to launch the job bazaar project – an initiatives which had been delayed for different reasons long time before. The first job bazaar was held in Vinh Phuc in May 2008 and the province now make it a monthly bazaar which is held on the fourteenth day of every month. Since its launched, 17 job bazaars have been held with participation of 311 enterprises as recruiters and 12,622 job-seekers. 3,800 jobs were matched through the bazaars during this period.

Job bazaars were an extremely helpful mechanism in Binh Duong to support the 13.500 workers who lost their jobs due to economic crisis in Binh Duong. It was also amidst the crisis that the job bazaar in Binh Duong was set up (in July 2008) as part of the Department of Labor and Social Affairs. Most of the job losers are also introduced to the bazaars and join with 29,000 other job seekers to find jobs from 390 enterprises who were recruiting workers through the bazaars. As in Vinh Phuc, the bazaar is also organized once every month. It is reported by DOLISA Binh Duong that 95% of the workers who lost their job as a consequence of the crisis have found new jobs in new factories or new enterprises.

In both of the two provinces, job bazaars are organized by the Job Service Centre under DOLISA. Acting like a middleman, the Job Service Centres organize face to face meetings between the enterprises based in the province and job-seekers either at the centre's office or at a public space. Prior to each of the bazaar session, a lot of preparatory works were carried out by the centre, especially in introducing the programmes to enterprises and in information campaign to keep job-seekers informed about the bazaars. A computer-based programmes and database on job demands, employers and job seekers are also under the construction in both of the province. In Binh Duong, the bazaars in some case are also organized in the form of a trade fairs where enterprises set up job information booths with recruiters providing information about the enterprise and jobs to visiting job-seekers. Either enterprises or job-seekers have been charged by the Job Service Centres for using the service and the funding mostly come from the local government or from national programmes funded by MOLISA. Both of the two job centres have established a website to support the operation of the job bazaars and to provide job information on them[11]. All over the countries, 30 provinces have organized job bazaars of this type and Vinh Phuc and Binh Duong are two of them.

The concept of labor market information project has been adopted in both of the two provinces. Both of the two provinces have taken the first steps towards a labor market information systems which are run by DOLISA. The system will set up a database on the demand for jobs and the supply of jobs in the provinces and will link up all of the districts in the province through an Internet-based system. Binh Duong has decided to invest US$ 0.2 million into computer and software for the labor market information system in the province. Through the system, DOLISAs expect that they can share all the information on job availability, demand for labor from new investment projects, especially from the big ones.

d. Doubling the efforts to promote the development of small enterprises

It seems that the crisis is an opportunity for the local authorities to strengthen their belief in the vitality of the domestic private enterprise. It was obvious that domestic enterprises were less affected by the economic crisis than bigger foreign invested enterprises which are more reliable on the export market in the US, Japan, EU and elsewhere outside Vietnam. Some provincial government official even said that it was the domestic enterprises and

[11] See more on www.vieclamvinhphuc.net for the case of Vinh Phuc and www.vieclambinhduong.net and www.vieclambinhduong.vn for the case of Binh Duong.

household businesses which were the buffer which lessen the impact of the world economic crisis into Vietnam and which help to lead the local economy out of the crisis.

Vinh Phuc and Binh Duong were very active in creating even more favourable for the formulation of private enterprise, especially more simplified administrative procedures for business registration, one-stop-shop in business registration. Vinh Phuc also introduced their computerized and online business registration system which make business registration faster than ever.

Entrepreneurship training was also introduced by business association in both Vinh Phuc and Binh Duong. On the basis of the SIYB training material and SIYB trainers introduced by VCCI, Vinh Phuc Business Association has been offering entrepreneurship courses to an increasing number of participants in the province. They also strengthen the provision of legal advice on business start up and advisory services on existing enterprises to improve their business efficiency. Binh Duong Provincial Cooperative Alliance (PCA) also offered similar services to local business. However, innovative ideas for entrepreneurship development like business plan competitions were not tried out.

It is estimated that in 2008, 570 new enterprises were established with total registered capital of US$ 200 million as compared with roughly US$ 300 million in FDI inflow into the country in the same year. This figure is even more impressive in Binh Duong with more than 1.300 new enterprises being set up in 2008 with total registered capital of US$ 650 million. It is estimated by the Departments of Planning and Investment in the two provinces that these newly domestic enterprise have created nearly 3,000 new jobs in Vinh Phuc and 7,000 new jobs in Binh Duong – a trends which are really valuable especially in the context that the FDI are even considering laying off workers.

New Domestic Enterprises Registered in 2008 – the Peak Year of the Economic Crisis

	New enterprises	Total Capital Registered	Job created by these enterprises*
Binh Duong	1.238	US$ 650 million	7,000
Vinh Phuc	550	US$ 190 million	3,000

Source: DPI Vinh Phuc and Binh Duong

** estimated by provincial Department of Planning and Investment in Vinh Phuc and Binh Duong*

e. Public administrative reforms to cut cost for business

In an efforts to cut the cost in doing business for domestic and foreign investors, the National Project on Administrative Reforms was launched in 2008 and were actively implemented in both Binh Duong and Vinh Phuc. Both of the two provinces started with the process of reviewing all existing administrative procedures which are applicable to business and investors. In each of the province, nearly 300 administrative procedures have been fully taken stock and were announced on the provincial websites.

Using the "regulatory guillotine approach"[12] and under the National Taskforce on Administrative Reform, the two provinces aim at cutting 30% of existing administrative procedures which are applicable to the business community by mid 2010. At this stage, this administrative reform initiative is ranked high in the agenda of local departments with clear political will and commitment of the local authorities. Among the administrative procedures to be cut and simplified, focus is laid on procedures related to business start-up, investment procedures, accessibility to land, tax and customs.

f. Restructuring the FDI Portfolio and the local economy

Binh Duong now have 1.820 FDI projects with total investment capital of US$ 12.8 billion while Vinh Phuc have 110 projects with USD 2.2 billion. In Binh Duong, Taiwan and South Korea are the two leading foreign investors in terms of the number of the project.

The economic crisis has revealed many problems which labor-intensive and low-technology foreign investment projects have brought to the two provinces: strained infrastructure, acute social problems, heavy burden on the provincial social, school and public health system, abuse of natural resources (especially land) at the expense of farmers and local residents. Officials at both Vinh Phuc and Binh Duong DPIs disclosed that the crisis might be a good opportunity for them to be more selective in attracting investors and to review their development plan and vision.

The Vietnam Singapore Industrial Park in Binh Duong

Binh Duong and Vinh Phuc have both announced their priority list of FDI investment project. Most visible of them are projects in biotechnology, telecom, green technology, banking, electronics, car, food processing, etc. Though tax incentive or land rental reduction is not offered to priority project, the incentive to priority projects now mostly take the form of faster accessibility to cleared land, faster administrative procedures. Meanwhile, low skill and labour intensive projects are less welcome. In 2008 and 2009, both Binh Duong and Vinh Phuc have declined more than 50 FDI projects which were considered not in line with investment vision of the two provinces. Most of these projects are in chemical industry, natural resource exploitation, steel industry, etc[13].

The provinces have become tougher with long-delayed FDI projects which were registered without being implemented. Environmental regulations are also tightened with stricter enforcement. Some factories are even asked to be shut down temporarily because of environment concerns and due to the protest of local inhabitants. The provinces also made efforts to simplify the procedures to enable foreign investors to transfer or restructure the

[12] "Regulatory gullotine approach" is a means of rapidly reviewing a large number of regulations, and eliminating those that are no longer needed. It counts the regulations that exist, and then reviews them against clear criteria, using an orderly and transparent process built on extensive stakeholder input. To know more about this approach, see more on www.regulatoryreforms.com.

[13] See more on www.vinhphucdpi.gov.vn and www.binhduong.gov.vn

ownership in FDI projects in a more flexible manner, making sure that more competent and committed investors will accelerate the implementation of investment projects.

The policy has been accompanied with the investment into the education and vocational training, and stronger emphasis on the preparation of the human resource for further development in the provinces. According to its overall development plan, Vinh Phuc set aside nearly 400 ha of land for the development of vocational training school and universities. Binh Duong has particularly encouraged private sector to establish vocational school, improve the quality of the existing vocational school.

Restructuring FDI portfolio, strengthening the role of domestic private enterprises and an increasing emphasis on domestic market reflect the first concrete steps taken by Vinh Phuc and Binh Duong to further restructure its local economy. Facing the limitation in land available, in supply of housing and basic social services for migration workers, and especially the labor issues and the weaknesses of the FDI sector which the crisis helped to reveal, the two provinces are currently working on a new plan to restructure its economy. The restructuring of the local economy is currently being discussed between all departments of the local authorities and will be reflected in the next five year social economic development plan of the provinces (2010 and 2015).

g. Promoting domestic consumption

With 2.2 million people living and working in Binh Duong and 1.2 million people in Vinh Phuc, the per capita GDP of the people in the two provinces are of approximately year 1,250/ annum - much higher than the national average. In Binh Duong, total retail revenue of the province is estimated at US$ 1.45 billion in 2008 and this figure is estimated at US$ 550 million in Vinh Phuc. It is interesting that the total retail revenue in the province posted an increase of 39.9% in 2008 as compared with 2007 despite the on-going global economic downturn. Local government proactively worked on policy to encouraged local bank to lend more to consumptions, direct money transfer to the poor. On the occasion of Tet (Vietnamese New Year Festival) alone, Vinh Phuc made a cash transfer equivalent to US$ 1.5 million to the poor in the provinces, while Binh Duong made more than US$ 2 million[14].

As part of the economic stimulus package, the provinces also encouraged banks to lend to farmers to purchase farming equipments, e.g. tractors, harvesting machines, small food processing machines, fruit dryers, etc. Farmers or agro-business purchasing equipment to improve the production capacity also benefited from the soft loans programmes at subsidized interest rate of 4%/ year. Implementing this programme, Vinh Phuc and Binh Duong expected to meet both the target of boosting consumption for equipment produced by local manufacturers, improving the production capacity of agro-business and farmers and effectively implementing the economic stimulus package of the Government.

[14] According to the Department of Social Protection (Ministry of Labor and Social Affairs), the total direct transfer to the poor in support of their spending during The Vietnamese Tet Festival in end of 2008 reached approximately USD 250 million all over the country. Much of the amount was reported to be spent on food and clothes by the poor themselves.

Also in support of boosting domestic consumption, dozens of trade fairs were held in both Binh Duong and Vinh Phuc, especially in rural areas to promote the purchase by local consumers. Trade fairs were held at district centres with participation of hundred of local enterprises – a move which few could see before the crisis[15]. All of a sudden, consumers at the rural areas were brought to the centre stage. Both of the Department of Trade and Industry in the two provinces have accelerated the elaboration of the Strategy to Development the Domestic Market. The strategy focus on the construction of new markets or commercial centres, organization of trade fairs, improving the quality and trade market of locally produced products. It also encourage the investment into roads which link to remote areas to improve the accessibility to market of rural farmers and producers and improve transportation of goods to them. The two province also pushed forwards for the actions plan to develop wholesale and retail centres, all with the objective of increasing domestic consumption in the province at the rate of at least 15% per annum continuously in the next 10 years.

This response also reflect a change in the mindset of the local authorities – a stronger emphasis on the local consumption as an important drive for local economic development.


Reaching out to buyers in rural areas

h. Catering to Big-Spending Public Projects Implemented by the Government in the Provinces

As an effort to stimulate economic growth, the central Government decided to increase fiscal spending in on-going or new infrastructure projects. The funding to the big infrastructure is either as part of the 8 billion stimulus package or through fast-track state budget spending on hydropower plants, highway projects, social housing projects, schools, rural infrastructures. Many of these projects are being implemented in both Binh Duong, Vinh Phuc and in its neighbouring provinces.

Given the increased spending in large infrastructure projects, the two provinces encouraged locally based enterprises and institutions to catch the opportunities, either by selling more of goods (e.g. construction materials) to these large scale infrastructure projects. Leaders of the two provinces even visited large company with infrastructure projects being implemented in the provinces to discuss the possibility of purchasing more goods from locally based enterprises and the recruitement of workers which are laid off as a consequence of the crisis. Both DPI and DOLISA in Vinh Phuc have been very proactive in meeting with large companies like Vinaconex, Lilama or large state-owned companies, looking for sub-contracting opportunities for local enterprises. Job Service Centre in Vinh Phuc reported that thanks to additional fiscal expenditure by the national Government on infrastructure projects in the province, hundreds of jobs have been created. Enterprises in the construction sector in the provinces seem to have benefited the most with the

[15] Before the crisis, trade fairs were mostly held at provincial level and rarely had they been organized at district levels.

opportunity to supply more materials to the construction of roads or bridges being built in the province. Though not doing the business on behalf of the enterprises, this has provided important inputs for local enterprises and institutions to look for new opportunities and new way to get out of the crisis.

Though the time is too short to gauge the impact of these infrastructure projects on local economy or on the accessibility to market of local farmers, it is strongly believed that social housing projects, rural infrastructure projects and schools will bring about positive social impacts in the two provinces in two or three year timeframe.

2.3. Key features in the responses of local government to the crisis

It is worth to be noted that the responses by Vinh Phuc and Binh Duong show that the local governments have taken proactive steps to counter the economic downturn. While emphasizing on the implementation of the national stimulus package, the two provinces have proactively taken its own actions. There was a good coordination between the implementation of national policy and the local initiatives. The coordination has been manifested especially through the implementation of the national fiscal stimulus package at the provinces, the flexible use of regulations on tax breaks, tax exemption or policies which allow enterprises to defer tax payment, fees and charges or social insurance obligations to support enterprises to mitigate employer-worker disputes. Additionally, provincial stakeholders have been trying to coordinate the job creation or economic development initiatives with the increased fiscal spending by the national government in big infrastructure projects in the province.

During the crisis, inter-agency cooperation was strengthened in both Vinh Phuc and Binh Duong. The political will of the People's Committee to counter the impact of the crisis was the driving force behind this stronger inter-agency cooperation. As a result, different inter-agencies taskforces were set up with different specific objectives, e.g. to address labour issues or to effectively implement the national fiscal stimulus package in the province. This stronger cooperation between agencies also result in stronger linkage between different responses and initiatives to mitigate the impacts of the crisis in Vinh Phuc and Binh Duong. For example, one can see a strong link between the job bazaar initiatives and the labour market information project, the implementation of national stimulus package with effort to mitigate employer – worker dispute, vocational training and the initiative to create new enterprises in the provinces. Despite this, it should not be understood that the two province had a comprehensive plan or a well-articulated action plan to concert all of their efforts to counter the economic downturn. Rather, they are still actions implemented by different agencies in the province. The positive points are the actions are well informed and were coordinated by the People's Committee. This is also reasonable in the sense that it is not possible to wait for a complete action plan to be issued in order for actions to be taken. This might be not appropriate in crisis time.

While the implementation of the policies and initiatives to counter the economic crisis has been strongly consulted with the business community, e.g. in discussing on how the funds can be best lent to enterprises through dialogues between the State Bank of Vietnam branches, DPI in the two provinces, the business community was not involved directly in the design of the initiatives by the province to counter the crisis. The argument given was too little time for the actions to be consulted. Business associations or enterprises met in Binh Duong disclosed that they did not know anything about the provincial plans until they were announced.

But the most positive point is the strengthened and very active dialogues and interaction between local governments and the business community in dealing with labor issues (strike, unpaid or delayed payment salary to workers, rising cost of living, housing, etc.) in the difficult time. In Binh Duong and Vinh Phuc, local authorities, especially DOLISA, Department of Planning and Investment held talks and meetings on a weekly basis with the business community. Visits to enterprises and dialogues with workers at the workplace are held more often. Local government were fasters in implementing their commitments, partly due to the acuteness of the problem and partly due to the increased budget which the province made available for the purpose.

At provincial level, the most active agencies involved in the design and implementation of these responses are the Department of Planning and Investment and the Department of Labour and Social Affairs. On the business side, locally based banks and the Vietnam Bank for Development also had a busy time in increased their lending under subsidy interest scheme. Important decisions are made through a limited consultation between local line department of the local government.

It is not that easy to judge which of the two province has responded better in the crisis. The dynamism and responsiveness of the local leadership have been highly appreciated in the country. While Binh Duong had to address more the issue of labour strike, immigration workers and proved to be more successful in this respect, Vinh Phuc was not less effective in terms of increasing domestic investment and inter-agency coordination to address the crisis.

2.4. Challenges

Though it was mentioned that there has been good policy coordination in Vinh Phuc and Binh Duong with national programmes in response to the crisis, the crisis also reveal many issues which need to be addressed. Apart from the stimulus package, at the time when the economic hit the hardest, local governments mostly did not receive any guide or advice from national government agencies or from any donor on how to deal with the crisis the best. Vinh Phuc and Binh Duong or some other might be exceptions thanks to their institutionally stronger local governments, many other provinces have mostly adopted a wait and see attitude and looked for instruction from the national Government. It is therefore important that apart from the stimulus package, timely guide to local governments is also an important factor to mitigate the impact of the crisis on local economy. Capacity, dynamism and responsiveness of local governments have again proven to be an important factor in both growth and crisis time and they need to be strengthened.

The crisis also strengthened the argument for regional coordination and cooperation in economic development, FDI attraction and also for concerted action between province in response to crisis. There were very few, if any, coordinated actions to respond to the crisis between provinces since each of the province was too preoccupied with the problems in their own boundary. A perspective of regional cooperation is lacking in Vietnam and is being addressed by the central government. But building up such a vision seems to be a time consuming and challenging process.

Apart from the national stimulus package, local governments also increased their spending too on community infrastructure projects, vocational training programmes or local public works out of their own budget. Combined with a declined in local budge expenditure, both of these factors have strained the local budget. Vinh Phuc had to increased its spending by more than 35% in 2008 as compared with 2007 and is planning to bring its spending down to the level of 2007 in 2010. Binh Duong also increased it spending by 25% in 2008, thus could not contribute as it used to do in previous years to national budget. There is also a concern that lack of monitoring mechanism might risk that the funds are mismanaged and are not put into proper use.

Subsidy lending was removed in Vietnam a decade ago and was reintroduced during the crisis. While it is said to be an instrument needed during the crisis, it risks to distort market principles if it is used for too long.

Job bazaars organized by Job Service Centres under MOLISA have proven an effective mechanism for job matching in the two provinces. However, it is important that they be organized on the basis of market principles with fees charged to cover the operational expenses. Subsidized services provided by the job service centres risk to dampen competition and push private sector job matching service providers out of the market. It is reported that in Vinh Phuc, 5-7 private job matching service providers have had to close their business since the first job bazaar was organized by the Job Service Centre of the province.

While both of the province has articulated a desire to restructure their economy, a clear strategy towards this vision is still under making. Both of the two provinces aimed an economy which is more knowledge-based, higher value added, better job quality, more environment-friendly, it is also a challenge on how to work out a feasible roadmap to achieve it, especially in terms of how to deal with its existing strong contingent of low-skilled labour and how to develop the skill and the high quality labour force to meet the demand of a more sophisticated and more knowledge-based economy.

III. INITIAL RESULTS OF POLICY OR INITIATIVE

1. Description of initial results from the policy or initiative.

According to latest statistics, Vietnam’s economy is expected to growth at more than 5% in 2009, higher than the forecast of 3% at the beginning of the year. In the first nine months of 2009, the GDP grows at 4.6% and industrial output posted a growth rate of 6.5%. New FDI registered in Vietnam reaches US$ 12.5 billion. However export is still suffering from the world slump and experience a decrease of 14% as compared with 2008. At the beginning of the year, it was predicted that 300,000 workers would lose their job as direct consequence of the economic turmoil. However, the loss is reported to be less than 106,000 as of September 2009.

Positive signs of economic recovery are also seen in Vinh Phuc and Binh Duong. It was reported by DOLISA Binh Duong that of the 13,600 workers who lost their job, 90% of them have been recruited by new factories in the provinces. This relatively high figure is mostly thanks to the high density of enterprises (foreign and domestic) located in the province and a high mobility of job market of the province. The fast economic recovery also contributed to this figure. Besides, it is estimated that in 2009, 40,000 new jobs will be created in Binh Duong and 20,000 new jobs will be created in Vinh Phuc, mostly thanks to the new enterprises to be established, to the expansion of existing factories and the recovery of enterprises which suffered from the crisis.

Foreign investors are coming back, though at a less hectic level as compared with 2007. Binh Duong estimates to attract US$ 1 billion in new FDI investment in 2009 and Vinh Phuc is aiming at the figure of US$ 250 million[16]. These are mostly new investors from US, Europe, South Korea and Japan. Domestic investors also registering new projects and new enterprises too. In 2009, DPI Vinh Phuc estimates that 570 domestic enterprises will be registered with total capital of US$ 198 million. The figures are estimated to be 1,800 enterprises and US$ 670 million in Binh Duong. It is also estimated that more than 12 thousands new job will be created by domestic enterprises in the two provinces. This also reflect the fact that domestic enterprises are playing an increasingly important role in local economies.

Local retail of goods and services – important indicator on the consumer confidence – are improving. Vinh Phuc aims at increasing its total retail of goods and services by 34.8% in 2009 to US$ 740 million and Binh Duong will increases this figure by 26.3% to 1.8 billion. The increase also reflect a shift in the focus to consumption in domestic markets and also the improved living conditions of the local inhabitants in the two provinces.

Ecouraged by the positive economic recovery signals, both of the two provinces are aiming high again. Target total output growth rate of the provinces are set at 12% to 14% for 2010 while total export is expected to reach US$ 500 million in Vinh Phuc and more than US$ 8 billion in Binh Duong in 2010.

2. Some lessons learnt/ implications to coherent local policy responses

It is obvious that these signs of economic recovery are not all attributed to the responses and actions taken by the local government in the two provinces. Much of the recovery as also attributable to external factors, especially to the improved market conditions in key export markets, e.g. the US, Japan, EU, China and ASEAN countries. This is obviously true for the case of Binh Duong where total export may reach US$ 7 billion in 2009 or 10% of the country's total.

However, the policy implementation and responses of local government in Vinh Phuc and Binh Duong really show the important of coherent local policy responses and the proactive actions by local government.

[16] In 2008, FDI registered was US$ 300 billion in Vinh Phuc and 1.9 billion in Binh Duong.

While national policy plays an important role, they cannot address the specific needs and context of each of the province. While there is some similarity between Vinh Phuc and Binh Duong, the difference is also huge between them. Facing the same issues, e.g. labor strike, Binh Duong and Vinh Phuc may choose the same policy of strengthened dialogues with enterprises and workers. But they did it in different manners.

Proactive actions by local government are indispensable in the sense that they are supplementary to national measures, e.g. the national stimulus programme. Prompt and proactive responses by local government is a sign about the business-friendliness of the local government and is a source of comfort and confidence for business and investors in the province.

A well-designed national stimulus package may fail if implementation by local government is far from satisfactory. With a strong emphasis on the effectiveness of the national programmes, Binh Duong and Vinh Phuc have actively consulted with the business community on how to implement the stimulus package effectively. An information campaign was also implemented by the local Government in support of the stimulus package. Information about the stimulus package is therefore more transparent and reached all type of enterprises, even the micro ones at remote areas.

The crisis could be seen as an opportunity for local government to look back and rethink about their development policy and strategy. The two provinces captured in this paper do have a vision to restructure their economy in a manner that emphasizes on the quality of growth with stronger emphasis on a knowledge-based economy, on environment and social concerns. Though “green jobs” might be a new term in the provinces, but environment-friendly businesses, eco-tourism projects, high-tech industries are now high in the economic agenda of local governments. However, it remains to be a challenge that how this vision will be translated into concrete action plans and effective implementation in the years to come.

Guide and timely support from central government are important too, especially in time of economic crisis. Good and effective responses from more proactive and advanced provinces should be documented by the central government and share with the less proactive ones. Very few national institutions in Vietnam has done this and this could be a lesson learnt out of the process.

While inter-agency cooperation was strengthened in time of crisis, it has been mostly limited to the province boundary. Inter-province cooperation were generally lacking. As a consequence, it hinder the concerted effort to counter the negative impact of the crisis, especially in the issues of migration workers, FDI attraction, etc.

The linkage between responses should be strengthened to maximize the efficiency and effectiveness of the resources used. For example, vocational training activities should be based on the demand for market and this should be linked with market intelligence programme or with job bazaar initiative.

Private sector should play an important role in formulating and implementing responses and actions to economic crisis. Public and private dialogue, social dialogues are all effective tools to get the private sector involved.

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