

# Regional Economic Potential Analysis: A Case Study from Vietnam

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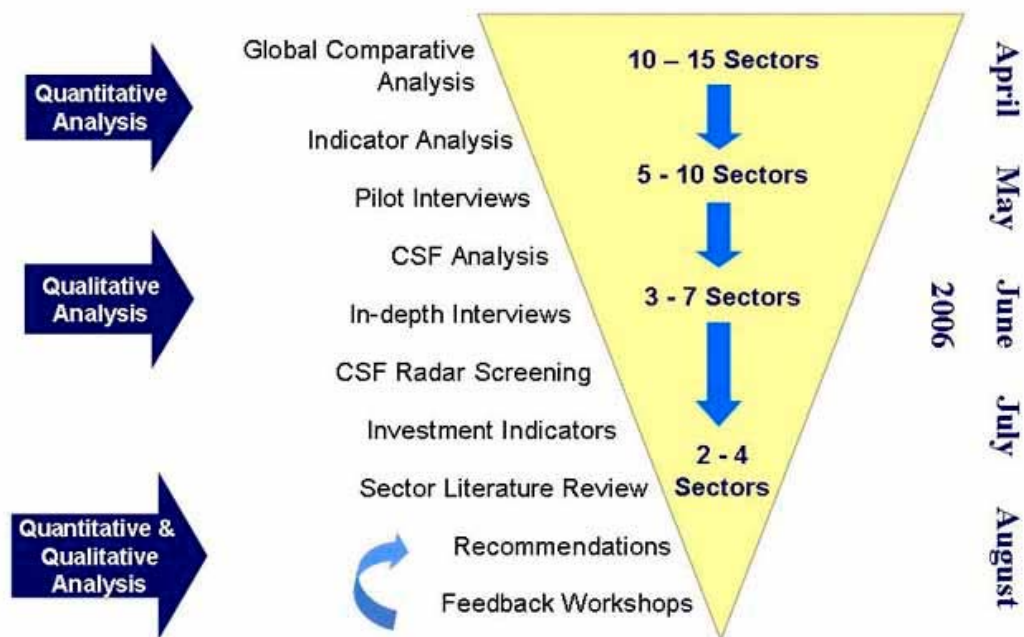
## 1 Context and structure

Since early 2006 mesopartner has been involved in consulting services for the European Union–Vietnam Private Sector Support Programme (VPSSP). VPSSP is executed by a consortium of West Midlands Enterprise (UK), GTZ International Services (Germany) and MCG (Vietnam). One of mesopartner’s tasks within the programme is the development of a methodology for Regional Economic Potential Analysis and the supervision of its first application in the three pilot provinces of component 1 (enabling environment) of VPSSP: Hai Phong, Da Nang and Can Tho. The methodology was developed in cooperation with the MCG team, who was in charge of putting this methodology into practice. The newly developed methodology was expected to be rapid and – as far as possible – participatory. The Regional Economic Potential Analysis involves three phases:

- Phase 1a - Quantitative Analysis (desk research): Collecting and analysing economic trade and investment data of the respective provinces in international context (province vs. world market development) and national context. The result is a picture of the revealed competitive advantage of the province, highlighting the sectors with the strongest performance in terms of growing or shrinking world market shares (global comparative analysis).
- Phase 1b - Qualitative Analysis (field research at national level): Interviews with a small group of key informants, i.e. international buyers and intermediaries of pre-selected sectors mainly in Hanoi and Ho Chi Minh City (Saigon), to identify critical success factors (CSF) for each sector/product (*what are buyers looking at when assessing the quality of their suppliers?*). Next, a wider circle of buyers and intermediaries are asked to assess the relevant sectors in all three locations according to the CSF. The result is a radar screen that summarizes the strengths and weaknesses of the high potential sectors in the province, thus further narrowing down the number of sectors that have a strong potential for international competitiveness. The qualitative analysis is based on the “learning from global buyers” approach as described by IDS Sussex in its Working Paper No. 100 <http://www.ids.ac.uk/ids/bookshop/wp/wp100.pdf>.
- Phase 2 - Qualitative Analysis (field research on provincial level): Interviews in the provinces with supporting institutions as well as with local producers in the pre-selected sectors (e.g. tourism, textile/garment, fishery etc.). The latter were asked to assess their own performance along the radar screen and to evaluate the general framework conditions in the province.

- Phase 3 - Reporting and discussing findings, and defining recommendations for regional competitiveness initiatives. Here, the quantitative and qualitative data were digested to prepare a final analysis. Among others, the buyers' assessment of a production location was matched with the self-assessment of the producers in the three locations resulting in a consolidated radar screen that often shows strong differences and is expected to serve as an eye-opener for local producers and their supporting structure. The final assessment was enriched by screening sector-specific studies prepared in Vietnam to add expert opinion on the potential of selected sectors in the course of the world market integration of Vietnam. Finally, the analysis was topped off by presentation and feedback workshops in all three provinces. These workshops were supposed to result in a ranking of the pre-selected sectors by local public and private stakeholders and in a joint identification of obvious and most needed activities to strengthen those sectors.

**Figure 1: The Regional Economic Potential Analysis Approach**



## 2 Challenges and limitations

In the application of this methodology we faced – as expected – a couple of limitations that reflect the Vietnamese reality and may vary in future applications in other regions and countries. The most notable limitations were:

- Although the objective of the analysis was to identify the sub-sectors of each province having a potential competitive edge in global markets, some stakeholders envisaged that the consultants should identify newly emerging sub-sectors for the economic planning of the provinces. We had little choice but to start with some kind of official data to make a first selection. For newly emerging sub-sectors, however, data are usually not available.
- Most local enterprises interviewed were reluctant to provide information on their current international buyers. Consequently, the consultants had to select international buyers of respective goods produced somewhere in Vietnam (and not necessarily sourcing their goods specifically in the provinces we were studying) for interviews and assessment.
- The sector classifications on provincial, national and international level (ITC) do not match completely. Vietnam has modified its statistical system in 2002, and in most sub-sectors it is still impossible to use earlier data. Thus, local export trends were considered for 2002 to 2004 only. Accordingly, the international trends were also examined for the same period.

### **3 Results**

Despite these limitations the (mostly Vietnamese) consultants succeeded in elaborating comprehensive and significant studies on the economic potentials of all three provinces, including global comparative analyses of pre-selected sub-sectors, sets of CSF for those sub-sectors, the assessment of the CSF by international buyers and local producers (consolidated radar screens) and first draft recommendations on how to strengthen sub-sectors with economic potential. This was achieved in a period of only four months (April – August 2006).

Upon the completion of the first draft of the report, each province was requested to screen and provide comments and questions on the report. Subsequently, feedback workshops were organised with relevant local stakeholders including government agencies, chambers, and enterprises. A summary of the main findings and recommendations was prepared in a presentation format to send to all participants prior to the workshop. This has in fact proved to be extremely useful as local stakeholders had adequate time to study the materials resulting in interesting inputs and comments on the new methodology during the workshop.

Local government officials who typically use different analysis tools for their planning efforts at policy level stated that this approach has opened up a different way to look at economic sectors. Traditionally, policy makers at the provincial level in Vietnam are simply extrapolating development trends of sectors which

then serve as input for planning and allocating resources. With this new approach, the local authority could clearly see the level of development of their economic sectors in a bigger picture – the world market. The newly elaborated data had them reconsider the future potential of some sectors that are experiencing declining world market trends, though continue to expand in their province. Furthermore, the assessment of the general framework conditions by local enterprises generated important discussions among government officials. In one province, the representative of the Department of Science and Technology agreed with the assessment of enterprises that the access to technology in their province leaves much room for improvement. In another province, the representative of a local association explained that the poor assessment of the association’s quality was due to inadequate communication of the role of the association.

Local enterprises found the comparison of CSF assessed by themselves and by international buyers and intermediaries most interesting. They had never sought for a formal assessment by their buyers and hardly tried to identify the factors determining their success and how satisfactorily they meet those factors. The independent assessment revealed the gaps in meeting the CSF from both perspectives, local enterprises and international buyers. This clearly shows the areas to be improved in the future.

**Figure 2: Example of a consolidated radar screen (tourism in Da Nang)**



Following the analysis of each sector, local stakeholders were requested to rank the sectors due to their priority for project intervention. The consultants had proposed their own priority list based on three main criteria: relevance (size and importance), growth potential (competitiveness) and intervention potential (by VPSSP). The participatory facilitation technique metaplan was used for this

exercise. The participants discussed and prioritised two out of the four or five selected sectors in each province. The consultants then consolidated and presented the results. In all provinces, the sector selection by local stakeholders concurred with what was suggested by the consultants. In addition, local actors proposed one newly emerging sub-sector in each location, such as electronics in Da Nang.

Focusing on the prioritised sectors, the participants again used the metaplan technique to brainstorm on the activities mostly needed to strengthen the sectors. For instance, tourism is one sector selected by two out of three provinces. The suggested interventions are to assist the province in identifying and developing provincial tourism products, to develop a tourism promotion strategy and to strengthen the role of the local tourism associations. Fish processing is another sector prioritised by one province, where a value chain analysis for the fishery sector has been suggested by local stakeholders.