

Japan's Development Cooperation in Vietnam

—Supporting Broad-based Growth with Poverty Reduction—

GRIPS Development Forum

May 2002

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This document was prepared by GRIPS Development Forum in collaboration with the Embassy of Japan in Vietnam, the Japan Bank for International Cooperation (JBIC), and the Japan International Cooperation Agency (JICA) to serve as background information for the Vietnam-2002 Informal Mid-Year Consultative Group Meeting (Ho Chi Minh City, May 23-24, 2002). While the views in the document are closely coordinated with the above authorities, their final responsibility rests with GRIPS Development Forum. The drafting team included: Izumi Ohno (team leader), Yumiko Niiya (researcher) and Asuka Suzuki (research assistant). Editorial support was provided by Karin Hillen.

Acronyms and Abbreviations

| | |
|---------|---|
| ADB | Asian Development Bank |
| AFTA | ASEAN Free Trade Area |
| ASEAN | Association of Southeast Asian Nations |
| CDF | Comprehensive Development Framework |
| CG | Consultative Group |
| CPRGS | Comprehensive Poverty Reduction and Growth Strategy |
| E/N | Exchange of Notes |
| FDI | Foreign Direct Investment |
| GoV | Government of Vietnam |
| IDCJ | International Development Center of Japan |
| IDTs | International Development Targets |
| IMF | International Monetary Fund |
| JBIC | Japan Bank for International Cooperation |
| JICA | Japan International Cooperation Agency |
| L/A | Loan Agreement |
| MDGs | Millennium Development Goals |
| MOFA | Ministry of Foreign Affairs |
| MOLISA | Ministry of Labor, Invalids and Social Affairs |
| MPI | Ministry of Planning and Investment |
| NEU | National Economic University |
| NGO | Non-Governmental Organization |
| NIES | Newly Industrializing Economies |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Cooperation and Development |
| PRGF | Poverty Reduction and Growth Facility |
| PRSC | Poverty Reduction Support Credit |
| PRSP | Poverty Reduction Strategy Paper |
| PWG/PTF | Poverty Working Group / Poverty Task Force |
| SME | Small and Medium Enterprises |
| SOE | State-Owned Enterprise |
| UNDP | United Nations Development Programme |
| VDT | Vietnam Development Targets |
| WTO | World Trade Organization |

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Table of Contents

Acronyms and Abbreviations

Maps

| | |
|---|-----------|
| Chapter 1: Overview and Introduction | 1 |
| Summary | |
| Main Features of Japan's Development Cooperation in Vietnam | |
| The Context of Asian Dynamism | |
| Long-term Orientation and Real-sector Concern | |
| Vietnam's Development Vision and Japan's ODA | |
| Toward Broad-based Growth with Poverty Reduction | |
| Chapter 2: General Overview of Japan's ODA to Vietnam | 9 |
| Overall Trends of Japan's ODA to Vietnam | |
| Country Assistance Strategy for Vietnam | |
| Japan's Approach to Development | |
| Chapter 3: Main Features of Japan's ODA to Vietnam | 12 |
| Human Resource Development and Institution Building | |
| Infrastructure Development in Transport and Power | |
| Support to Other Priority Areas | |
| Chapter 4: Vietnam's Development Vision and Japan's ODA | 20 |
| Key Aspects of Vietnam's Development Vision | |
| Partnership Platform for CPRGS | |
| Japan's Contribution to Vietnam's Development Vision | |
| Chapter 5: Toward Broad-based Growth with Poverty Reduction | 26 |
| — Future Direction of Japan's Contribution | |
| Partnership Framework for the Implementation of Vietnam's Development Vision | |
| Incorporating Real-sector Concern into Growth Strategy—The Case of NEU-JICA Joint Research on "Industrial and Trade Policies under Integration Age" | |
| Conclusion—Future Direction of Japan's Contribution | |
| Bibliography | 31 |

Boxes

- Box 3-1 Conditionality in Economic Reform Support Loan
Box 3-2 Views of Japanese Businessmen on Japan's ODA to Vietnam
Box 3-3 Three out of four surveyed Vietnam's business persons perceive that Japan's ODA projects have impact on their business.
- Box 4-1 Vietnam's Strategy for 2001-2010
Box 4-2 Comprehensive Poverty Reduction and Growth Strategy
- Box 5-1 NEU-JICA Joint Research Project

Figures

- Figure 2-1 Volume of Japan's ODA to Vietnam 1991-2000
Figure 2-2 Country Assistance Program for Vietnam
Figure 2-3 Japan's ODA to Vietnam by Priority Area 1991-2001
- Figure 3-1 Major Projects for Human Resource Development and Institution Building
Figure 3-2 Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in the Socialist Republic of Viet Nam
Figure 3-3 Top 10 ODA Sectors in 2000
Figure 3-4 Japan's Contribution to Vietnam's Total Power Generation Capacity
Figure 3-5 Japan's Contribution to Growth of Vietnam's Power Generation Capacity
- Figure 4-1 Vietnam's Achievement in Poverty Reduction
Figure 4-2 East Asia Reduced Poverty Despite Currency Crisis
- Figure 5-1 High Performing Asian Countries
Figure 5-2 Japanese Firms as Builders of Asian Production Network

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Chapter 1 Overview and Introduction

Summary

As the top ODA donor in Vietnam, Japan has been strongly supporting Vietnam's transition to a market economy and its socio-economic development. The purpose of this document is to highlight the principal features and basic philosophy of Japan's development cooperation in Vietnam and to outline a road map for Japan's continued active engagement in Vietnam's sustainable development in the future. In so doing, we pay due attention to the past experiences of East Asia's development and Japan's contribution to it through ODA, as well as the strengthened coordination and partnership among donors in the last few years.

Since its full-scale resumption in 1992, Japan's ODA in Vietnam has placed high priority to the achievement of balanced economic growth with two clear goals: (i) creating the basic conditions for sustainable growth; and (ii) supporting poverty reduction efforts ("*Country Assistance Program for Vietnam*" by the Government of Japan, June 2000). To pursue these inter-related goals, the following areas of assistance are specified:

- human resource and institutional development, in particular the support for the transition to a market economy;
- infrastructure development with special attention to transportation and power;
- agriculture and rural development;
- education and health; and
- environmental conservation.

Among these five areas, support for the transition to a market economy and infrastructure development are the outstanding features of Japan's development cooperation in Vietnam when compared with other donors' assistance. They reflect Japan's consistent philosophy in development cooperation in Vietnam, which is as follows: recognizing the three strategic tasks facing Vietnam, namely, (i) long-term development as a latecomer country; (ii) systemic transition to a market economy; and (iii) active and meaningful participation in East Asia's dynamic production network, and respecting the will and determination of the People and Government of Vietnam, Japan wishes to support Vietnam's balanced development process consisting of the realization of high economic growth and coping with emerging social problems which such growth tends to bring.

The key official documents embodying the medium- and long-term visions of the Vietnamese Government are the *Strategy for Socio-Economic Development in the Period 2001-2010* and the *Five-Year Plan for Socio-Economic Development 2001-2005* (both of which were approved by the Ninth Communist Party Congress in April 2001). These documents articulate the areas in which policy efforts must be exerted over the next decade in order to attain the national goal of "Industrialization and Modernization" by the year 2020.

Apart from this, the Vietnamese Government has since 1999 been actively engaged in the aid partnership process featuring the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Paper (PRSP). The latter was later renamed the “Comprehensive Poverty Reduction and Growth Strategy” (CPRGS) by the Vietnamese Government. The Ministry of Planning and Investment (MPI) has assumed a central role in this process and closely collaborated with other related ministries and agencies. Progress in this area has been fairly smooth, with the following milestones: the preparation of Interim-PRSP (March 2000), the presentation of the draft CPRGS at the CG Meeting (December 2001); the organization of four regional consultation workshops (plus NGO-organized six commune consultations) to discuss the draft CPRGS (February-March 2002); and the finalization of CPRGS (May 2002). Throughout this process, the Vietnamese Government has exercised strong ownership and made an impressive effort to ensure broad participation of various stakeholders. This excellent performance has been well recognized by the international community, and Vietnam’s partnership experience is now regarded as “good practice.” Vietnam’s CPRGS is nationally owned, comprehensive with a long-term vision, and growth oriented. These features are consistent with the basic philosophy behind Japan’s development cooperation in Vietnam.

Japan, from the perspective noted above, has made important intellectual contributions to the establishment of Vietnam’s development vision. These include: (i) advice on the recent two Five-Year Development Plans (Sixth and Seventh) and the current Ten-Year Socio-Economic Development Strategy during their formulation and implementation stages; (ii) active participation in the Poverty Working Group/Poverty Task Force (PWG/PTF) in the process of CPRGS preparation; and (iii) leadership role in such partnership efforts as the Transport Sector Working Group, SME Promotion and Private Sector Development Partnership, and Ho Chi Minh City ODA Partnership. It is hoped that the Vietnamese Government will deepen its balanced growth strategy, taking into account the country’s specific circumstances in East Asian dynamism and building on the two-tiered approach that combines broad-based growth with poverty reduction. The Japanese Government is determined to provide continued support to such efforts by the Vietnamese Government.

The rest of this chapter discusses the ideas of real-sector concern and long-term orientation which characterize Japan’s development cooperation in Vietnam, and stresses the importance for Vietnam to formulate a realistic and outward-oriented growth strategy in the context of East Asia’s dynamic production network. Lastly, it clarifies Japan’s intention to make continued intellectual contributions, where it has comparative advantages, to the upgrading of Vietnam’s development vision through the donor-coordinated partnership process.

Main Features of Japan’s Development Cooperation in Vietnam

Since the full resumption of its aid to Vietnam in 1992, Japan has made important contributions to the country’s transition to a market economy as well as to its economic and social development. In ODA volume, Japan has been the top donor in Vietnam since 1995. Simultaneously, Vietnam is considered one of the most strategically important recipients for Japan’s economic cooperation. Vietnam ranked fourth (after Indonesia, China, and Thailand) in 1999 and second (after Indonesia) in 2000 among the recipients of Japan’s ODA (net disbursement base)[MOFA 2001, OECD 2002].

The most notable features of Japan’s assistance to Vietnam, when compared with other donors,

are: (i) intensive cooperation for infrastructure development in the transport and power sectors; and (ii) strong support for the transition to a market economy with long-term developmental vision, through policy research, institution building and human resource development. Japan has been the largest donor in the transport and power sectors, exceeding the aid extended by the World Bank and the ADB in volume. Regarding (ii), in addition to a large number of technical cooperation projects such as expert dispatch and development studies, Japan has conducted a series of large-scale, policy-oriented programs including:

- JICA-supported “Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in the Socialist Republic of Vietnam” (“Ishikawa Project”);
- JICA-supported “Judicial System Support”; and
- JBIC-financed “Economic Reform Support Loan” (“New Miyazawa Initiative”).

This aid menu in Vietnam is unique even for Japan, because Japan provides no similarly concentrated intellectual assistance to a single country anywhere else in the world.

The Japanese Government’s “*Country Assistance Program for Vietnam*” (June 2000) echoes the importance of such an aid strategy. In it, Japan expresses its continued commitment to support Vietnam’s human resource development and institution building, industrial development, and infrastructure development which improves the efficiency of private investment. These will help Vietnam to further enhance the achievements of the *Doi Moi* reform and raise income nationwide.

At the same time, it is necessary to address new social problems that emerge in the process of rapid economic growth, such as the widening of regional and income inequalities, and environmental degradation associated with rapid urbanization. To promote equal and shared growth, the above country assistance program also stresses the importance of focused attention to these social problems. Thus, the program highlights the specific areas of pro-poor support including: (i) agriculture and rural development (based on the fact that 60 percent of the farmers belong to the poor); (ii) improving education and health; (iii) addressing the regional disparities among North, Central, South, Highlands, and Mountain areas; and (iv) protecting the environment which is deteriorating in the growth process.

The Context of Asian Dynamism

Vietnam’s international integration has been proceeding rapidly. With the restoration of diplomatic relationship with the United States and entry into ASEAN in 1995, Vietnam normalized its economic relations with major donors and international organizations by the mid-1990s. Vietnam became a full-member of APEC in 1998 and signed a bilateral trade agreement with the United States in 2001. Negotiations for WTO accession are continuing. In a relatively short period, the Vietnamese economy has become deeply integrated into the global economy through trade, investment, and aid. Proper management of the integration process has thus become a key to Vietnam’s development strategy.

During 1996-2000, the aggregate inflows of foreign direct investment (FDI) into Vietnam amounted to as much as US\$9.9 billion (implementation base). This was higher than US\$6.9 billion of the total ODA disbursements for the five years and equaled approximately 70 percent of the total public investment mobilized by the state sector (not including ODA and

FDI) in the same period [GoV 2002]. Although many transition countries are making strenuous efforts to attract FDI by providing a better legal framework, infrastructure and so on, very few countries have succeeded in catalyzing FDI as an engine of growth shortly after the beginning of global integration. Vietnam is one such exceptions. Although Vietnam's investment climate is improving, it remains highly deficient compared with its Asian neighbors. Therefore, rapid FDI inflows so far can be attributed to a large extent to the country's favorable geographical location at the heart of East Asia's dynamic production network.

There have been many studies aiming to uncover the secrets of sustained high economic growth in Asian NIES and ASEAN in the recent decades. For example, the World Bank's *East Asian Miracle* attributed their successes mainly to the "market-friendly approach," namely, the combination of prudent macroeconomic management, human resource development, export promotion, public-private coordination and so on, while also admitting the contribution of selective intervention in a few countries [World Bank 1993]. However, assessment of individual policies pursued by each of the high-performing Asian economies is not enough. We must recognize East Asia's dynamic regional context that has provided a role model as well as an economic environment in which latecomers were challenged to "catch up" with the region's more advanced economies. East Asia's developing economies are closely linked to advanced economies in Japan, the United States and Europe through trade, investment and markets. At the same time, they have deepened economic ties among themselves through competition and intra-regional division of labor in industrial production. Through this complex relationships of competition and cooperation inside and outside the region, dynamic structural shifts have occurred which continuously transferred industries from one country to another.

For Japan, East Asia has been the most important developing region. For East Asia too, Japan has been a particularly important partner as the largest donor, a very large trade and investment partner, and the chief architect of the East Asian production network. Because of this close mutual linkage, Japan's official aid and private sector activities have had synergy effects in East Asia. Japan's ODA particularly in infrastructure stimulated East Asia's further trade and investment relations with Japan as well as with the rest of the world. In turn, private-sector interests of Japanese and East Asian enterprises have strongly guided the direction of Japan's aid projects.

Transactions vis-à-vis developed countries normally dominate the external economic relations of developing countries, while interaction among themselves is often very weak. East Asia is highly unique in that interaction among developing countries has been a key factor in regional industrialization. In the design of Vietnam's development vision, it is important to properly address the task of "importing" this regional dynamism and use it to the advantage of Vietnam's sustained growth.

Long-term Orientation and Real-sector Concern: "Ishikawa Project," "New Miyazawa Initiative," and Transport and Power Infrastructure Development (Chapters 2-3)

As noted above, the salient features of Japan's development approach are: (i) long-term orientation; (ii) real-sector concern (i.e., attention to individual industries); and (iii) strong interest in trade and investment (with greater attention to "ingredients" rather than

“framework”). These can be further summarized as a keen interest in the dynamic structure of the real economy. This perspective strongly influences the way Japan extends its support to Vietnam, through intellectual aid and advice on development strategy and plans, human resource development and institution building aimed at market transition, as well as infrastructure development in the transport and power sectors.

A good example of Japan’s intellectual ODA to Vietnam is the Joint Japan-Vietnam Research Project of “Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in the Socialist Republic of Vietnam” (so called “Ishikawa Project”). The project was officially agreed upon by the two governments when former Communist Party General Secretary Do Muoi visited Tokyo in April 1995. The Japan International Cooperation Agency (JICA) and the Vietnamese Ministry of Planning and Investment (MPI, previously the State Planning Committee) were the implementing bodies; and Shigeru Ishikawa, professor emeritus of Hitotsubashi University became the leader on the Japanese side. The research project was implemented jointly by the Vietnamese and Japanese teams over six years (in 3 main phases plus additional studies, from August 1995 to March 2001) and covered various areas including agriculture and rural development, trade and industry, fiscal and monetary issues, SOE reform, and SME development. In particular, major efforts were made in the following areas:

- assisting in the drafting process of the Sixth Five-Year Plan 1996-2000 (in the first phase);
- providing timely advice on the implementation issues of the Sixth Five-Year Plan (in the second phase);
- coping with emerging issues such as how to prepare for economic integration (e.g., the AFTA deadline of 2006 and WTO entry negotiations), how to respond to capital account and financial liberalization in light of the Asian crisis in July 1997 (in the third phase); and
- assisting in the formulation of the Seventh Five-Year Plan 2001-2005 and the Ten-Year Strategy for 2001-2010 (in the third phase).

Compared to the approach of the IMF and the World Bank, the “Ishikawa Project” is highly unique in its long-term orientation. As the project was initiated, three main tasks of the Vietnamese Government were identified: (i) macroeconomic stabilization; (ii) systemic transition to a market economy (“structural adjustment”); and (iii) design and implementation of long-term development strategy. The Ishikawa Project declared to place the highest priority on the third task of long-term development. This is partly because the former two tasks had already been supported by the IMF and the World Bank and the Vietnamese authorities had recognized and begun responding to these challenges. But more importantly, it was because the problems faced by Vietnam were fundamentally different from those of Russia and Eastern Europe where industrialization had been achieved to a large extent under the previous communist governments. In Vietnam, by contrast, the economy remained seriously underdeveloped, and its main task was not systemic transition but economic development. Therefore, strong emphasis was placed on long-term development and poverty reduction through industrialization.

The Economic Reform Support Loan (“New Miyazawa Initiative”) was Japan’s first, free-standing structural adjustment loan, whose conditionality was designed through bilateral policy discussions between Japan and Vietnam. This was a quick-disbursing loan, aimed at

relieving the balance of payments pressure and supporting the economic reform efforts by the Vietnamese Government. The Exchange of Notes and the Loan Agreement were concluded in September 1999, and the loan amounting to 20 billion yen was fully disbursed in 2000. The Japan Bank for International Cooperation (JBIC) was the executing agency for the Japanese side. Based on the agreements at bilateral policy discussions, the “New Miyazawa Initiative” supported a reform program covering three areas: (i) the formulation and publication of a program to promote private sector development; (ii) the diagnostic auditing of the selected large-scale SOEs; and (iii) the conversion of all non-tariff barriers into tariffs. In particular, reflecting Japan’s real-sector concern, the private sector development program ((i) above) aimed to promote private business activities in three areas (financial access, business environment, and institutional support) and published a detailed action plan.

Infrastructure development focusing on the transport and power sectors has been primarily supported by ODA loans (“Yen Loan”) in order to create an enabling environment for industry and business activities. In transport, Japan’s ODA financed the construction of principal road networks, bridges and ports throughout the country. These infrastructures connect the major centers of Vietnam and have helped establish a solid base for the distribution system in Vietnam. In power, Japan’s ODA has contributed to the building of an additional 1,865MW of power generation capacity. This corresponds to more than 20% of Vietnam’s current total generation capacity, or about 40 percent of the increase in total generation capacity over the last ten years (1992-2001) [IDCJ 2002]. Infrastructure development has been accorded the highest priority in Vietnam’s national development plan. Its positive impact on economic growth and poverty reduction has been widely recognized by both the Vietnamese Government and the private sector. Japan’s aid priority on infrastructure development is consistent with Vietnam’s development goal, and such prioritization has also been supported by the donor community as a whole.

Vietnam’s Development Vision and Japan’s ODA (Chapter 4)

In the recent years, the Vietnamese Government has made serious efforts to design a new development vision for the twenty-first century. Such effort has led to the creation of the key official documents for medium- and long-term development plan and strategy, sector plans, as well as the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) under the donor-coordinated, partnership framework. Since 1999, the Vietnamese Government has become actively engaged in partnership activities including the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Paper (PRSP) which has developed into CPRGS. Through this process, the partnership framework has been strengthened, and more than twenty partnership groups—including the Poverty Working Group/Poverty Task Force (PWG/PTF) charged with cross-cutting poverty agenda and the other sector-specific thematic groups—have actively discussed wide-ranging issues. The Ministry of Planning and Investment (MPI) has played a central role in the preparation of CPRGS, coordinating closely with the other line ministries. CPRGS has been prepared under the strong ownership of the Vietnamese Government, building on broad partnership with various stakeholders. Such a nationally owned participatory process has been highly appreciated in the donor community.

The Vietnamese Government regards CPRGS as an action plan that translates the Ten-Year Strategy for 2001-2010, the Seventh Five-Year Plan 2001-2005, and sector policies into specific concrete measures to realize economic growth and poverty reduction. As its title

suggests, CPRGS is built on two pillars: (i) promoting economic growth (doubling GDP in ten years, with an average annual growth rate of 7.5% during the first five years and so on); and (ii) achieving poverty reduction and social equity. This is consistent with the basic direction of Japan's ODA to Vietnam over the past years. It is also consistent with the two goals set in the Japanese Government's country assistance program for Vietnam.

The economic goals and overall budget allocation under CPRGS are based on the country's Ten-Year Strategy for 2001-2010 and the Five-Year Plan 2001-2005. At the same time, to complement these growth-oriented, medium- and long-term plan and strategy, CPRGS pays due attention to the "quality" of growth and proposes ways to minimize income and regional disparities, reduce poverty and achieve social equity in the rapid growth process.

The importance of growth as a prerequisite for poverty reduction is confirmed by East Asia's development experience and also corroborated by various empirical studies [Ravallion & Chen 1997, Dollar & Kraay 2000]. CPRGS properly recognizes the growth-poverty nexus in the sense that: (i) poverty reduction cannot be attained without growth; and (ii) poverty reduction should be based on broad-based growth so that the poor and the poor regions can share the fruits of growth through expanded supply-side activities.

Japan has been assisting Vietnam through a number of schemes including grants, technical cooperation, and financial cooperation. Japan is committed to continued support of the two pillars of Vietnam's development vision articulated by the Vietnamese Government and the donor community.

Toward Broad-based Growth with Poverty Reduction: Future Direction of Japan's Contribution (Chapter 5)

In the coming months, active discussions are expected concerning how to ensure the effective implementation of Vietnam's development visions (the Ten-Year Strategy, the Five-Year Plan, and CPRGS etc.). Topics for discussion will likely cover budgetary allocation and public investment plan, sectoral action plans, and mechanisms for monitoring and evaluation. Moreover, the roles and responsibilities of individual donors, based on their comparative advantages in assistance, will be determined.

Japan is willing to make a continued contribution to the design of a concrete and pragmatic growth strategy, one of the pillars of Vietnam's development vision. Japan can provide intellectual aid so that the real-sector concern, reflecting East Asia's development experience and Japan's own aid experience, can be firmly incorporated into Vietnam's growth strategy while respecting its specific circumstances. How can Vietnam achieve industrialization while promoting economic integration? What kind of long-term strategy does Vietnam need to penetrate into East Asia's production network? Up to now, the Vietnamese Government has not presented sufficiently pragmatic and realistic answers to these questions. Japan wishes to make a meaningful contribution to Vietnam's economic growth and poverty reduction—not only through infrastructure development but also through intellectual aid.

The ongoing National Economic University (NEU)-JICA Joint Research on "Trade and Industrial Policies of Vietnam in the Age of International Integration" is one such example. This is one of the follow-up projects of the Ishikawa Project which was completed in March

2001. The project closely examines a limited number of industries (electronics, textile and garment, steel, software, etc.) and presents concrete policy recommendations. The work is conducted jointly by Vietnamese and Japanese researchers, and the results are being widely disseminated to policy makers in Vietnam. Another purpose of this project is to convey the research methodology based on East Asian real-sector concern to the Vietnamese authorities and experts. However, this does not mean that Japan's past industrial policies should be copied to Vietnam; simplistic importation of policies into different domestic and external circumstances will never work. The project also stresses that domestic economic development should be designed and implemented under the internationally committed constraints of free trade obligations, especially AFTA and future WTO.

Such concrete growth orientation should be addressed not only in the bilateral context but also under the CPRGS framework. Although CPRGS recognizes that economic growth and poverty reduction are two sides of the same coin, it has not presented sufficiently detailed and operational growth strategy. It is necessary to conduct in-depth research on broad-based growth strategy within the CPRGS framework and align international support according to its results. For this endeavor, areas for study can include industrialization, trade, agriculture and rural development, SME and supporting industry promotion, private sector development, and human resource and infrastructure development in support of industrialization. Specific operational modalities should be also examined within the CDF-derived partnership framework, including a possibility to create additional group(s) specializing in the growth agenda.

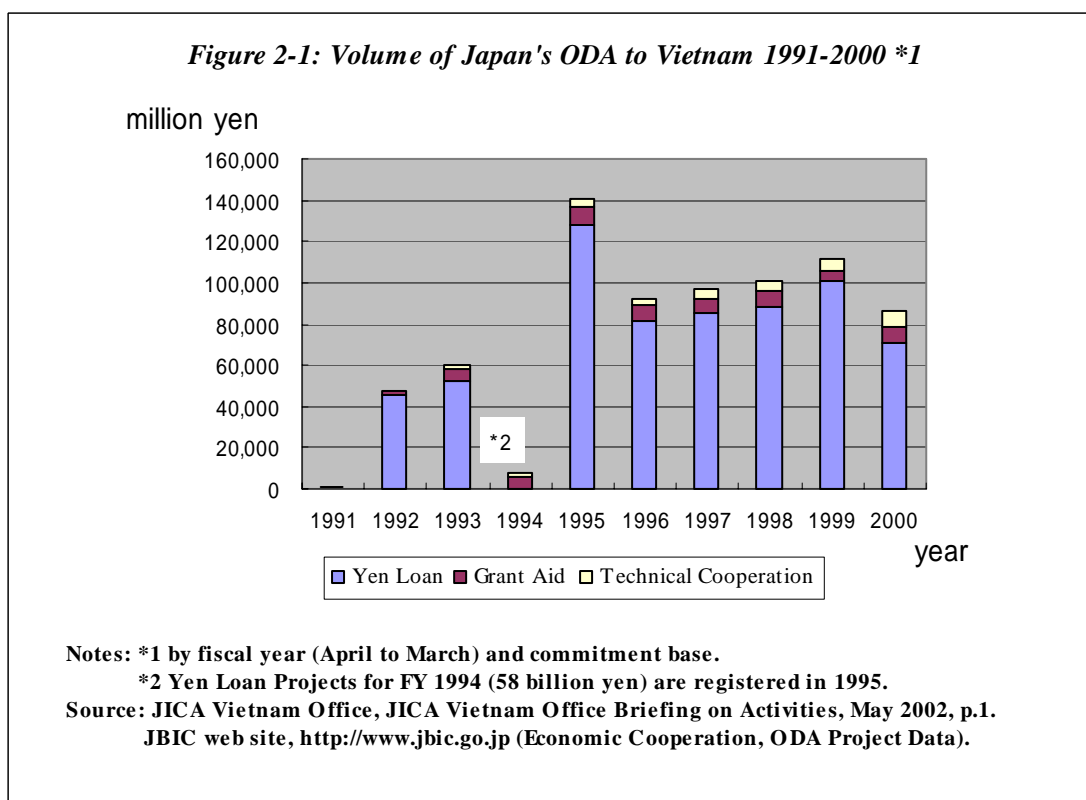
The current global development trend regards poverty reduction as the supreme goal as well as the most effective means of development. Nobody doubts that poverty reduction is a noble goal in development. However, there should be multiple paths to achieve that goal. From the menu of possible strategic options, the most appropriate path should be chosen by each developing country with strong ownership. East Asian development has been driven by a national fever for "catching up" and serious concern for industrial competitiveness, which cannot be captured by the framework of "poverty reduction" alone. Vietnam's social and economic development, if it is to succeed, must also incorporate the perspective of such Asian dynamism.

Chapter 2 General Overview of Japan's ODA to Vietnam

Since its full-scale resumption in 1992, Japan's ODA to Vietnam has increased steadily, and Japan has been the top donor in Vietnam since 1995. (For example, Japan accounted for over 57 percent of total disbursements made by top ten donors in 2000, disbursing US\$870 million [UNDP 2001].) Simultaneously, from the Japanese viewpoint Vietnam ranked fourth (after Indonesia, China, and Thailand) in 1999 and second (after Indonesia) in 2000 among the recipients of Japan's ODA (net disbursement base)[MOFA 2001, OECD 2002]. These data suggest that Vietnam is considered one of the most strategically important recipients for Japan's economic cooperation. This chapter provides the general overview of Japan's ODA to Vietnam.

Overall Trends of Japan's ODA to Vietnam

As Figure 2-1 shows, since 1992 Japanese aid to Vietnam has grown constantly. The total volume of ODA amounted to 744 billion yen during the period of FY1992-2000 (commitment base). This consists of Yen Loan (or ODA Loan, 652 billion yen), Grant Aid (59 billion yen), and Technical Cooperation (33 billion yen).



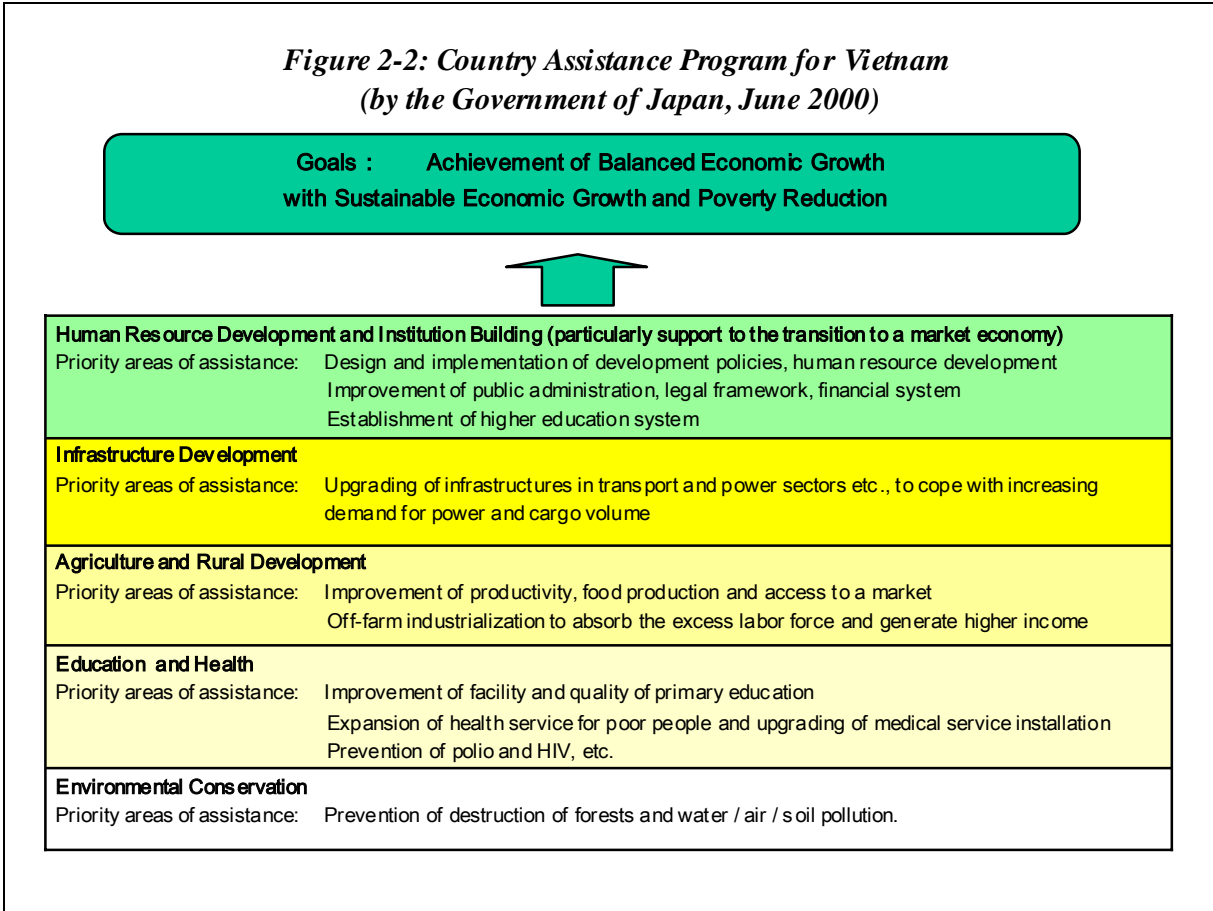
Country Assistance Strategy for Vietnam

The Japanese Government published its first assistance policy for Vietnam in 1994, and taking account of the recent socio-economic developments and the newly emerging challenges, it formulated the “*Country Assistance Program for Vietnam*” in June 2000.

As indicated in the “*Country Assistance Program for Vietnam*,” Japan’s ODA in Vietnam has given high priority to the achievement of balanced economic growth with two clear goals: (i) creating the basic conditions for sustainable growth; and (ii) supporting poverty reduction efforts. To pursue these inter-related goals, the following five areas of assistance are specified:

- human resource and institutional development (particularly, support for the transition to a market economy);
- infrastructure development (particularly, in the transportation and power sectors);
- agriculture and rural development;
- education and health; and
- environmental conservation

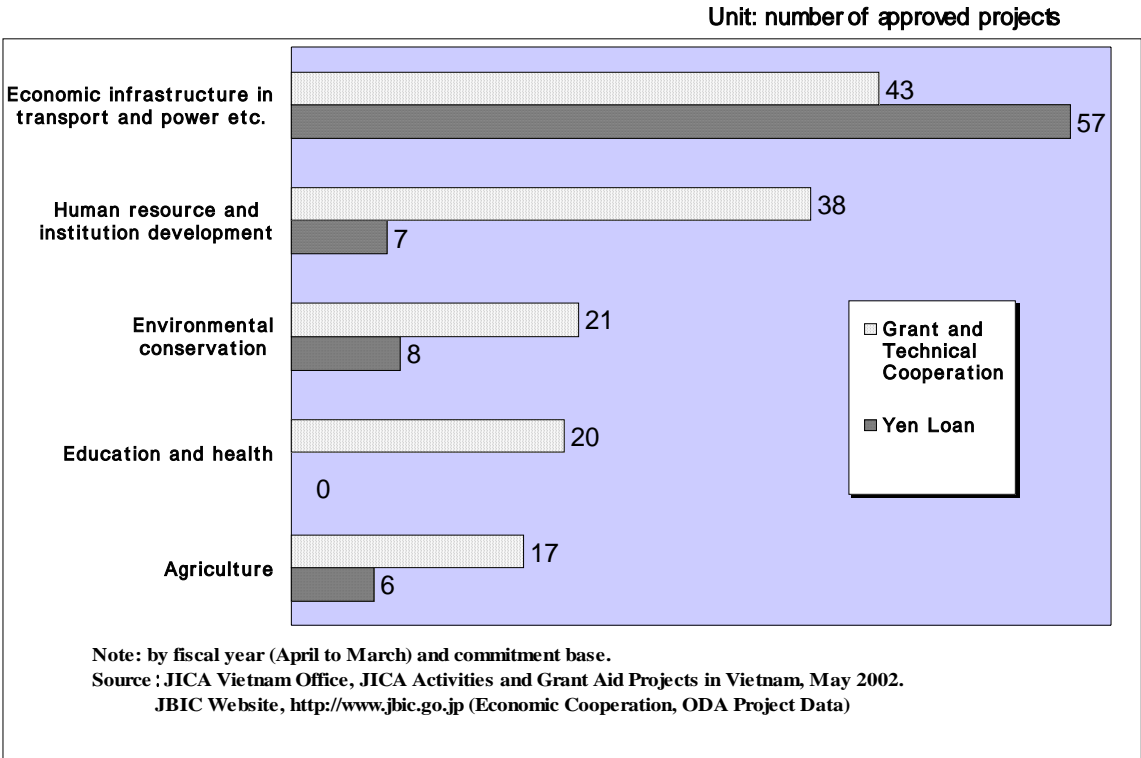
Among the five areas of assistance, the first two stress the importance of Vietnam’s human resource development and institution building, industrial development, and infrastructure development so as to create an attractive environment for private investment. This will help Vietnam to further enhance the achievements of the *Doi Moi* reform and raise income nationwide. On the other hand, it is necessary to address new social problems that emerge in the process of rapid economic growth, such as the widening of regional and income inequalities, and environmental degradation associated with rapid urbanization. Recognizing the importance of balanced equitable growth, the remaining three areas pay attention to



pro-poor support including: (i) promoting agriculture and rural development (based on the fact that 60 percent of the farmers belong to the poor); (ii) improving education and health; (iii) addressing regional disparities among North, Central, South, Highlands, and Mountain areas; and (iv) protecting the environment which is deteriorating in the growth process (Figure 2-2).

Figure 2-3 shows Japan’s ODA to Vietnam by priority area of assistance. This clearly suggests that Japan has intensively supported: (i) Vietnam’s transition to a market economy with long-term developmental vision, through policy research, institution building and human resource development, as well as (ii) infrastructure development in the transport and power sectors, etc.

Figure 2-3: Japan's ODA to Vietnam by Priority Area 1991-2001



Japan’s Approach to Development

As shown in its assistance strategy and operational results, Japan’s development approach is unique in: (i) long-term orientation; (ii) real-sector concern; and (iii) strong interest in trade and investment. These can be further summarized as a keen interest in the dynamic structure of the real economy. Furthermore, respecting country-specific circumstances and national ownership, the following three strategic tasks facing Vietnam are clearly recognized:

- long-term development as a latecomer country;
- systemic transition to a market economy; and
- active and meaningful participation in East Asia’s dynamic production network.

This direction is consistent with Vietnam’s desire to achieve the sustainable growth through transition to a market economy and industrialization and modernization.

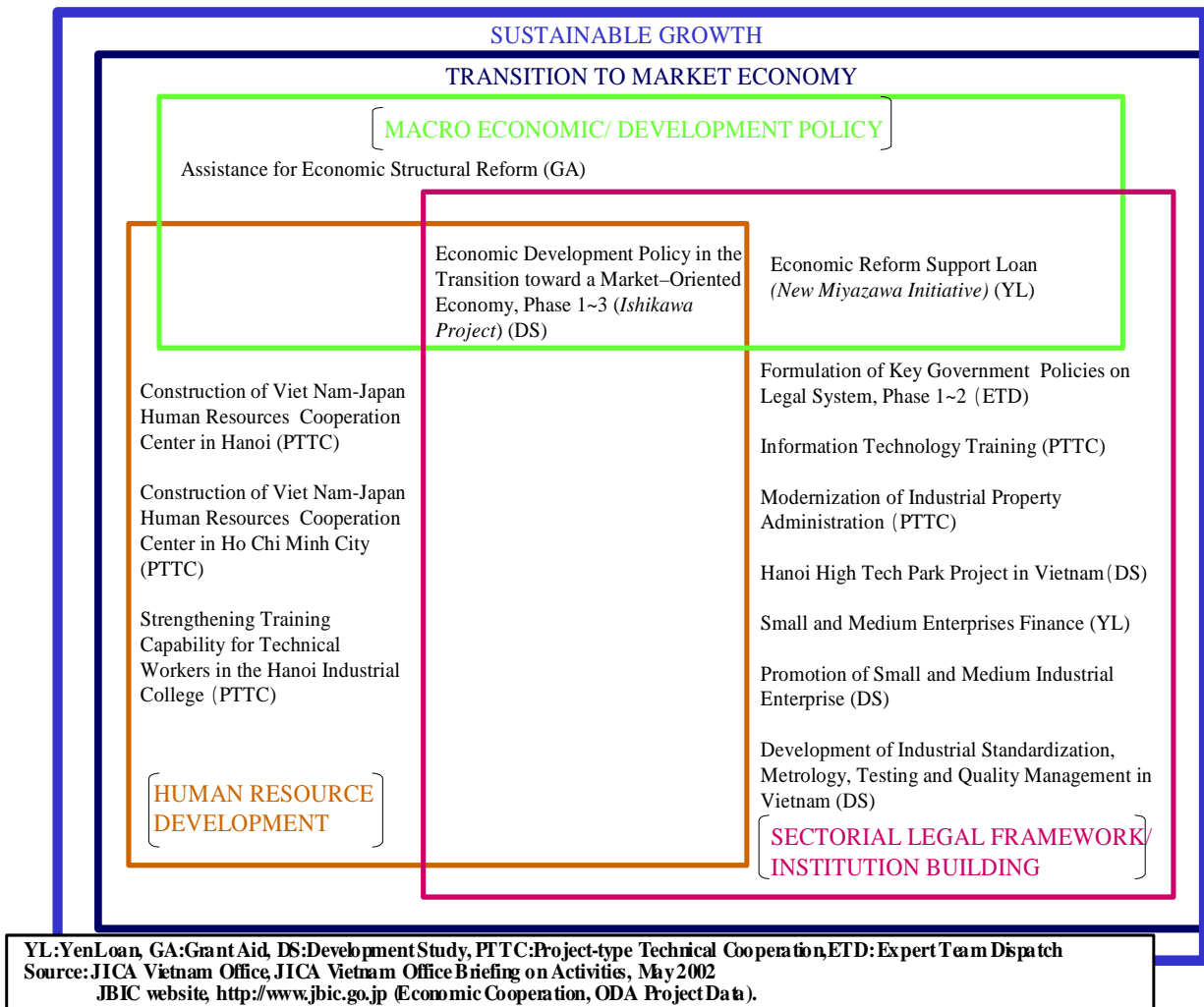
Chapter 3 Main Features of Japan's ODA to Vietnam

This chapter highlights the outstanding features of Japan's ODA to Vietnam and explains major projects in the two priority areas (i.e., human resource and institution development, infrastructure development) and their contributions to Vietnam's strategic tasks.

Human Resource Development and Institution Building

One of the most notable aspects of Japan's ODA to Vietnam is comprehensive and intensive cooperation in the areas of human resource development and institution building. Figure 3-1 explains three different types of intellectual assistance provided by Japan (i.e., policy advice on development vision, development of the legal system/institutional framework, human resource development). Such aid menu is unique even for Japan, because Japan provides no similarly concentrated intellectual assistance to a single country anywhere in the world. The following section highlights some of the major projects.

Figure 3-1: Major Projects for Human Resource Development and Institution Building

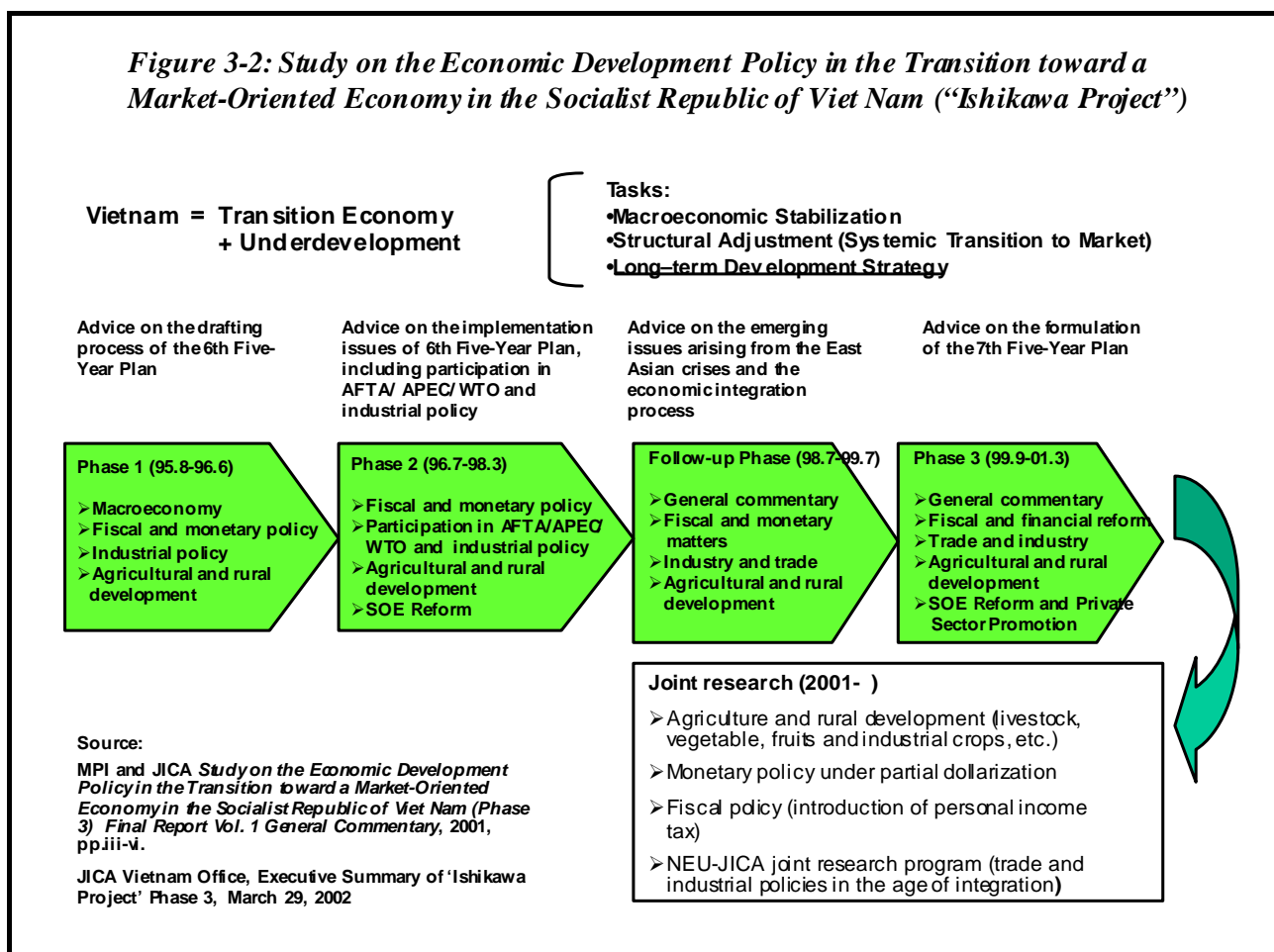


1. Study on the Economic Development Policy for the Transition toward a Market-Oriented Economy in the Socialist Republic of Vietnam (“Ishikawa Project”):

The project was officially agreed upon by the two governments when former Communist Party General Secretary Do Muoi visited Tokyo in April 1995. The Japan International Cooperation Agency (JICA) and the Vietnamese Ministry of Planning and Investment (MPI, previously the State Planning Committee) were the implementing bodies; and Shigeru Ishikawa, professor emeritus of Hitotsubashi University was appointed as the leader on the Japanese side. The project was implemented jointly by the Vietnamese and Japanese teams over six years (in 3 main phases plus additional studies, from August 1995 to March 2001) and covered various areas including agriculture and rural development, trade and industry, fiscal and monetary issues, SOE reform and SME development (see Figure 3-2).

- **Basic principle:** The “Ishikawa Project” is highly unique in its long-term orientation, compared to the approach by the IMF and the World Bank. As the project was initiated, three main tasks of the Vietnamese Government were identified: (i) macroeconomic stabilization; (ii) structural adjustment (systemic transition to a market economy); and (iii) the design and implementation of long-term development strategy. In the project, the highest priority was given to the third task of long-term development. This is partly because the former two tasks had already been supported by the IMF and the World Bank and the Vietnamese authorities had recognized and begun responding to these challenges. But more importantly, it was because the problems faced by Vietnam were fundamentally different from those of Russia and Eastern Europe where industrialization had been achieved to a large extent under the previous communist governments. In Vietnam, by contrast, the economy remained seriously underdeveloped, and its main task was not systemic transition but economic development. Therefore, strong emphasis was placed on the task of long-term development and poverty reduction through industrialization. Attention was also paid to the appropriate role of the government in the development process.
- **Approach and methodology:** Based on the above principle, main research topics were selected and task forces were organized. Each task force provided policy options, based on the deep understanding of the existing situations and constraints of Vietnam which were assessed through intensive field surveys and quantitative analyses. The experience of Japan and other East Asian countries, especially P. R. China, was frequently referred to. Moreover, major efforts were made in assisting the drafting process of the Sixth Five-Year Plan 1996-2000; providing timely advice on the implementation issues of the Sixth Five-Year Plan and other emerging issues (e.g., the AFTA deadline of 2006 and WTO entry negotiations, response to capital account and financial liberalization in light of the Asian crisis in July 1997); and assisting the formulation of the Seventh Five-Year Plan 2001-2005 and the Ten-Year Strategy for 2001-2010.
- **Team composition:** From the Japanese side, about twenty academics participated in the research team, and almost the same number of government officials was involved from the Vietnamese side. At various stages of research planning, implementation, and analysis of policy options, intensive discussions were held so that both sides could gain sufficient understanding of the issues and reach consensus.

Figure 3-2: Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in the Socialist Republic of Viet Nam (“Ishikawa Project”)



The “Ishikawa Project” is a good example of Japan’s intellectual ODA that shows the Japanese development approach based on long-term orientation and real-sector concern. The project made important contributions in three areas: (i) advice on strategic policy options for the long-term development agenda; (ii) production of various academic research papers including analytic assessment and key development issues facing Vietnam; and (iii) technical assistance to Vietnamese policy makers in research methodology and Japan’s development approach, through a collaborative process. While the project was completed in March 2001, most of the task force activities have developed into independent, joint research projects. Greater emphasis is put on the design and implementation of concrete measures, which are necessary for Vietnam to reach the targets of the development vision as envisaged in the Seventh Five-Year Plan and the Ten-Year Strategy.

2. Economic Reform Support Loan (“New Miyazawa Initiative”):

This is Japan’s first, free-standing structural adjustment loan, whose conditionality was designed based on bilateral policy discussions between Japan and Vietnam. This was a quick-disbursing loan, aimed at improving the balance of payments pressure and supporting the economic reform efforts by the Vietnamese Government. The Exchange of Notes and the Loan Agreement were concluded in September 1999, and the loan (20 billion yen) was fully disbursed in 2000. For the Japanese side, the Japan Bank for International Cooperation (JBIC) was the executing agency of the loan. Based on the agreements reached through bilateral policy discussions, the “New Miyazawa Initiative” supported a reform program covering

three areas, i.e., (i) the formulation and publication of a program to promote private sector development; (ii) the diagnostic auditing of selected large-scale SOEs; and (iii) the conversion of all non-tariff barriers into tariffs. In particular, reflecting Japan's real-sector concern, the private sector development program ((i) above) aimed to promote private business activities in three areas and published a detailed action plan (see Box 3-1). In light of the importance to sustain these efforts, Japan has carefully monitored the reform progress, including the implementation of the action plan.

3. *Judicial system support:*

To advance market transition, Vietnam urgently needs to establish a modern legal framework. While the Vietnamese Government enacted the new Constitution in 1992 and the Civil Code in 1993, it still needs to develop a commercial code as well as other laws and regulations including a civil procedural code. Under the JICA project "Support to the Formulation of Key Government Policies on Legal System" Phase I (1996-1999), Japan dispatched experts and supported the drafting and implementation stages of the laws as well as judicial reform. Currently, under the Phase II project (1999-2002), the support has been broadened to cover other relevant organizations including the Supreme People's Court and the Supreme People's Prosecutor.

***Box 3-1: Conditionality in Economic Reform Support Loan ("New Miyazawa Initiative")
(Exchange of Notes/Loan Agreement concluded in 1999, 20 billion Yen)***

General principles to promote the private sector

- (1) Improvement of financial environment
 - Establishment of a new credit facility that will provide credit to private enterprises;
 - Creation of a partial guarantee scheme for small- and medium-size private enterprises;
 - Improvement of collateral system;
 - Other measures.
- (2) Improvement of business environment
 - Removal of entry barriers against private enterprises;
 - Improvement of customs system;
 - Improvement of business environment for foreign enterprises;
 - Enhancement of transparency of rules and simplification of procedures;
 - Other measures.
- (3) Reinforcement of organizations to promote the private sector.

Diagnostic audit of the 100 large SOEs to be conducted under the international accounting standard by independent auditors with international standard.

Convert non-tariff barriers into tariffs, accelerating the schedule of tariffication, and introducing new instruments consistent with the WTO rules to protect domestic industries.

The Government of Vietnam will continue to consult with the Government of Japan, international financial institutions, and other donors on the schedule of tariffication.

Source: Japan-Vietnam Joint Press Release dated May 16, 1999, *Japan's Financial Support for Vietnam's Economic Reforms.*

4. *Human resources development:*

To facilitate economic integration and a smooth transition to a market economy, Vietnam needs to upgrade the knowledge and skills of entrepreneurs and technical staff engaged in manufacturing. Through JICA, Japan has supported the establishment of the “Vietnam-Japan Human Resource Center” (including the organization of business courses) at both Hanoi and Ho Chi Minh branches of the Foreign Trade University. Japan has also supported training courses for mechanical engineers at the Hanoi Engineering College, which is regarded as the core training facility (mechanical engineering) in northern Vietnam.

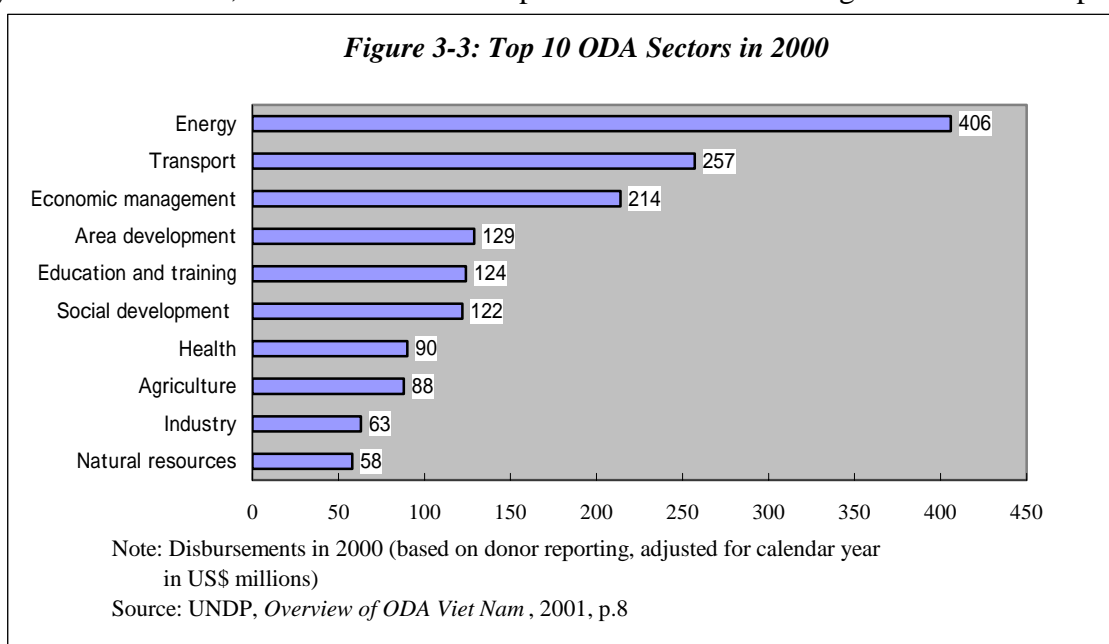
Infrastructure Development in Transport and Power

Both in terms of volume and number of projects, infrastructure development accounts for the largest share in Japan’s ODA to Vietnam. In particular, high priority has been given to the transport and power projects to create an enabling environment for industry and business activities. Such prioritization has also been supported by the donor community as a whole. As Figure 3-3 shows, in terms of ODA disbursements in 2000, the energy sector is the largest recipient of donor assistance (accounting for 26 percent of the total disbursements) followed by the transportation sector (17 percent) [UNDP 2001].

Among Japan’s ODA scheme, Yen Loan has been the principle tool to support these sectors. Yen Loan Projects are often complemented by technical cooperation (e.g., elaboration of Feasibility Study and Detailed Design, expert dispatch to executing agencies, and training of counterpart staff), in order to facilitate the smooth implementation of the Projects (see map “Japan’s ODA Projects in Vietnam (Infrastructure) Since 1991”).

1. *Transportation:*

In the transport sector, the construction of principal road networks, bridges and ports throughout the country has been supported through Yen Loan. These infrastructures connect the major centers of Vietnam and have contributed to building a solid base for the distribution system in Vietnam, which is vital to the promotion of economic growth. For example, with

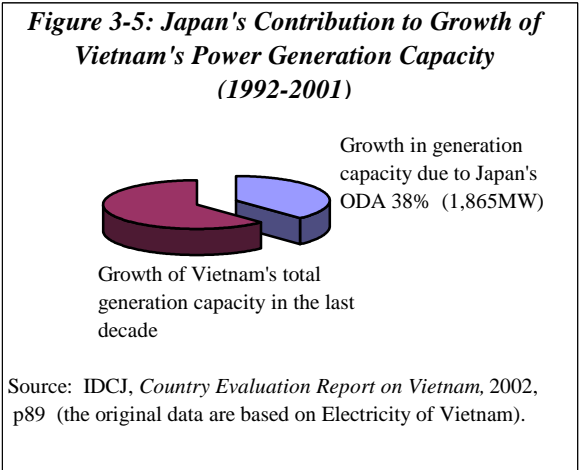
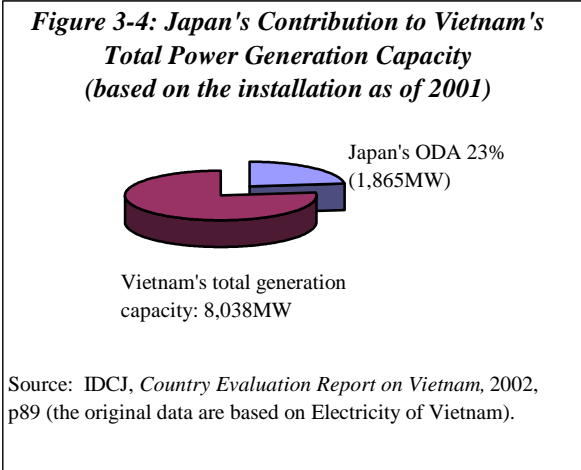


the development of the National Highway Route 5, the 5-hour long drive from the major port Haiphong to the capital Hanoi was reduced to 1.5 to 2 hours [IDCJ 2002]. Moreover, Japanese ODA supported the development of the northern transportation network surrounding Hanoi, which has contributed to the expansion of foreign direct investment to the area (see Boxes 3-2, 3-3).

2. Power:

In the power sector, Japan’s ODA has supported the construction of power plants and grids, with a special focus on large-scale facilities with a view to accommodating the country’s rapidly increasing demand for electricity. Japan’s ODA has contributed to the establishment of an additional 1,865MW of power generation capacity. This corresponds to 23 percent of the total power generation capacity in Vietnam (8,038MW), or about 40 percent of the increase in total generation capacity over the last ten years (1992-2001) (see Figures 3-4, 3-5).

Many infrastructure projects are currently being implemented and, therefore a greater development impact can be expected when these projects start operations upon their completion.



Support to Other Priority Areas

In addition to the above two areas, it is important to note Japan’s contribution to assist Vietnam’s efforts in achieving social equity and poverty reduction, as well as rural and regional development. Although the projects concerned are smaller in volume and number, such assistance is essential to ensure that the benefits of growth can be evenly distributed among the population (see map “Japan’s ODA Projects in Vietnam (Agriculture and Rural Development/ Education and Health/ Environment) Since 1991”).

- **Agriculture and rural development:** Japan has been providing technical cooperation to agrarian universities in research and extension. Such support has contributed to institutional strengthening and technology transfer, resulting in the improvement in agricultural productivity. Moreover, through a series of Yen Loan Projects, Japan has supported the development of rural, basic infrastructure covering the roads, electric power, and water sectors etc. in order to strengthen the productive base and to raise the

living standards at the province level.

- **Education and health:** In education, 195 primary schools were constructed by grant aid. As for health care, Japan has supported the upgrading of medical facilities and services (including those of principal referral hospitals) through grant aid and technical cooperation (e.g., expert dispatch and equipment supply), and has thus contributed to improving the quality of and access to local health care services.
- **Environment:** The recently started Yen Loan Projects are expected to improve the water supply and sanitation systems and enhance the living conditions of the densely populated, urban areas.

Box 3-2: Views of Japanese Businessmen on Japan's ODA to Vietnam
—based on a survey among the Japanese representative offices in Vietnam

Attractiveness of Vietnam from investors' viewpoints

- Investing in Vietnam is part of the overall business strategy to avoid excessive concentration in P.R.China (i.e., as the second production location outside China to safeguard against risks). Within the ASEAN countries, manufacturing firms have already started to move from Thailand and Malaysia (due to their high costs) to Indonesia, the Philippines, and Vietnam. However, with the political instability in Indonesia and the Philippines, Vietnam has advantages with its low manufacturing costs and the fairly developed infrastructure. [*financial and trading companies]
- In 2001, Japanese FDI in Vietnam increased, especially in the North. At the newly developed Tanglong Industrial Park near Hanoi, 9 companies (including Canon and Denso) plan to do business, and the entire lot for the first-phase development was sold out. The Haiphong Industrial Park (opened in 1995) was facing difficulties in its initial four years with only 7 firms operating, but this year 4 additional Japanese firms (including Yazaki) decided to move in—attracted by the development of surrounding infrastructure. [*manufacturing firms]

Assessment of the contribution of Japanese ODA in promoting FDI

- A notable aspect of the investment trend in 2000 is that large-scale investment increased not only in Ho Chi Minh, but also in the Hanoi and Haiphong areas which now have fairly developed infrastructure, built with the support of Japanese ODA. In recent years, the Vietnamese Government has become more proactive in promoting FDI and creating an enabling environment for private business. This change in the government's attitude is favorably viewed. [*financial and trading companies]

Expectations from Japanese ODA

The following issues were suggested as the areas where Japan's ODA can make important contributions. [*finance and trading companies]

- SME development for the promotion of supporting industries;
- Training in business management and engineering skills;
- Technical assistance in quality control and improvement; and
- Infrastructure development and human resource development.

Note: Underlined by the authors.

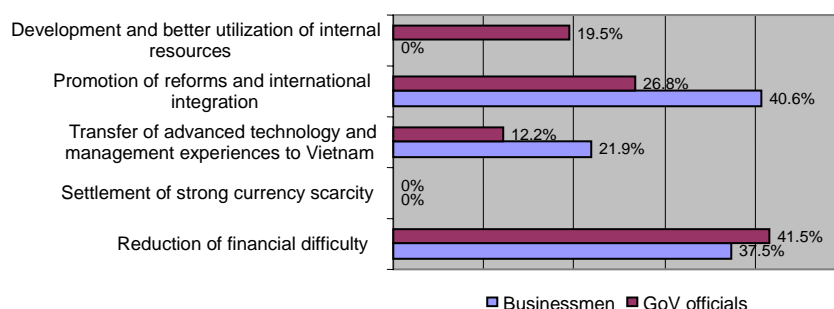
Source: IDCJ, *Country Evaluation Report on Vietnam, 2002*, pp.149-155.

Box 3-3: Three out of four surveyed Vietnam's business persons perceive that Japan's ODA projects have impact on their business.

The survey was conducted by CONCETTI (a Vietnamese consulting and research firm) in 2001-2002 to understand perceptions of business persons and government officials toward the impact of Japanese ODA. The survey was targeted business persons and Government official mainly in Hanoi and Ho Chi Minh City who were, directly or indirectly, involved in Japan's ODA. Out of 100 questionnaires distributed to each, 68 and 72 were sent back and analyzed. The followings are the main findings of the survey.

● **Impact on general development of Vietnam**

Areas most impacted by Japan's ODA



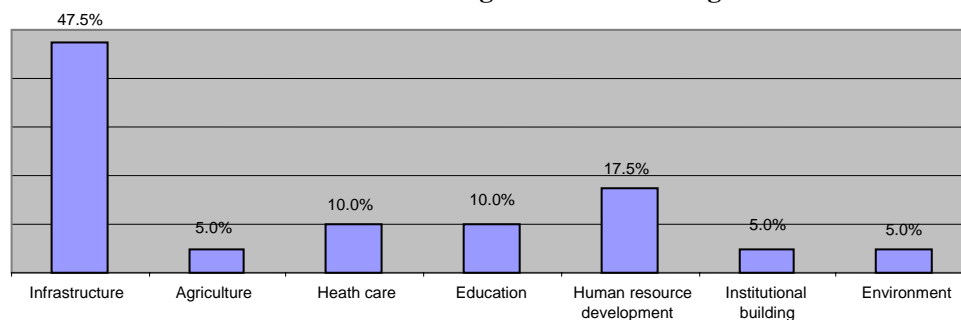
● **Impact on businesses**

The way Japan's ODA projects benefit surveyed businesses (%)

| | |
|---|------|
| ▪ Your business is to enjoy better infrastructure | 50.0 |
| ▪ Your business has more opportunities to supply goods and services to Japan's ODA projects | 37.5 |
| ▪ Your business is to enjoy more "open" policies under the impact of Japan funded projects on mechanism, policy and institution reforms | 25.0 |
| ▪ Export to /import from Japan become easier | 25.0 |
| ▪ Japan Investment to Vietnam increases | 22.9 |
| ▪ Others | 8.3 |
| ▪ Your business receives direct support from Japan's ODA Projects | 6.3 |

● **Recommended funding area**

First recommended funding area in the coming time



Source: CONCETTI, *A Survey Report: Perceptions of Japan's ODA Impact in Vietnam*, February 2002.

Chapter 4 Vietnam's Development Vision and Japan's ODA

This chapter outlines the principal aspects of Vietnam's development vision and Japan's contribution to the design and implementation of this vision. It also pays due attention to the recently strengthened coordination and partnership among donors.

Key Aspects of Vietnam's Development Vision

In recent years, the Vietnamese Government has made serious efforts to design a new development vision toward the twenty-first century. Such efforts have led to the formulation of medium- and long-term development plan and strategy, sector plans, as well as the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) under the donor-coordinated, partnership framework. The Vietnamese Government's key documents—the *Strategy for Socio-Economic Development in the Period 2001-2010* and the *Five-Year Plan for Socio-Economic Development 2001-2005* (which is supposed to serve as a guideline for implementing the Strategy in the initial five years)—set ambitious goals such as the doubling of GDP in ten years and the achievement of average annual growth rates of 7.5 percent. These documents also articulate the areas in which policy efforts must be exerted over the next decade in order to attain the national goal of “Industrialization and Modernization” by the year 2020.

In the past ten years, Vietnam benefited greatly from the synergy effects of market transition (initiated under the *Doi Moi* reform) and economic integration. The economy grew rapidly; between 1992 and 1997 GDP growth did not fall below 8 percent per year. Vietnam's social indicators improved dramatically. Halving poverty during the 1990s, Vietnam has already achieved the International Development Targets (IDTs) and the UN Millennium Development Goals (MDGs) for poverty and hunger reduction (see Figures 4-1, 4-2). However, the East Asian financial crises affected negatively the Vietnamese economy, and in 1998 economic growth slowed sharply to 5.8 percent and decelerated further to 4.8 percent in 1999. After two years of slowdown, GDP rose by 6.8 percent in 2000 and 2001, mainly due to a rapid rise in exports and buoyant industrial growth [EIU 2001, IMF 2002].

Vietnam's international integration has been proceeding rapidly. With the restoration of its diplomatic ties with the United States and entry into ASEAN in 1995, Vietnam normalized its economic relations with major donors and international organizations by the mid-1990s. Furthermore, Vietnam became a full member of APEC in 1998 and signed a trade agreement with the United States in 2001. Negotiations for WTO accession are continuing. In a relatively short period, Vietnam has become deeply integrated into the global economy through trade, investment, and aid. At the same time, Vietnam has learned the lessons from the East Asian crises concerning potential risks of globalization; it also needs to recognize the challenges posed by the current global economic downturn. Proper management of the integration process has thus become a key to its development strategy.

Figure 4-1: Vietnam's Achievement in Poverty Reduction

As Vietnam has integrated it has had a large increase in per capita income and no significant change in inequality. Thus, the income of the poor has risen dramatically and the level of absolute poverty has been cut in half in 10 years. Among the very poorest households, survey evidence shows that 98 percent became better off during the 1990s. This improved well-being is not just a matter of income. Child labor has declined and school enrollment has increased. Vietnam's export directly provided income-earning opportunities for poor people: exports included labor-intensive products such as footwear and rice, which is produced by most low-income farmers.

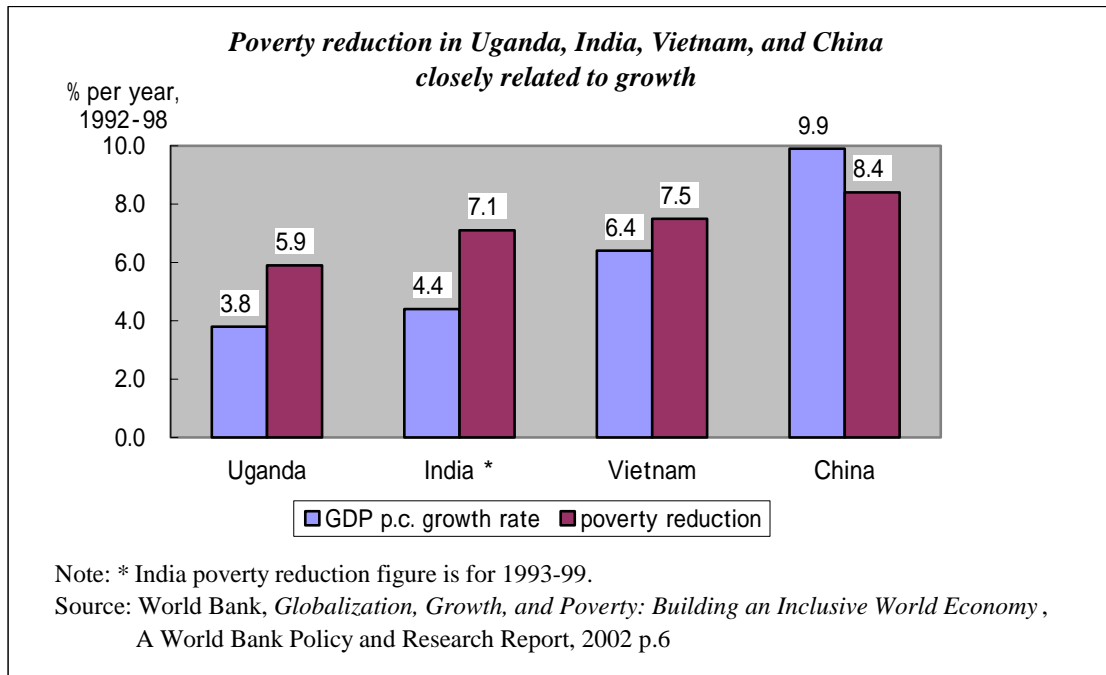
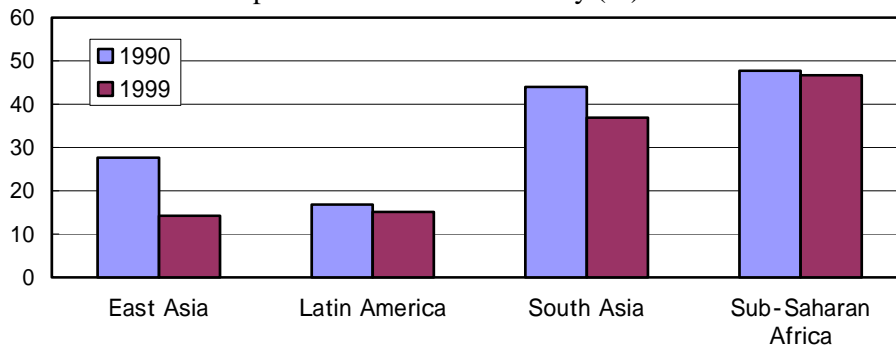


Figure 4-2 : East Asia Reduced Poverty Despite Currency Crisis

Population in Extreme Poverty (%)



Source: S. Devarajan, M.J. Miller and E.V. Swanson, *Goals for Development: History, Prospects and Costs*, World Bank Working Paper no.2819, April 2002.

Partnership Platform for CPRGS

Following the recent global development trend, particularly since 1999, the Vietnamese Government has been actively engaged in partnership activities as represented by the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Paper (PRSP) which has developed into CPRGS—in addition to the conventional strategic planning stated above. Over the last few years, based on the CDF/PRSP approach, the partnership platform was established with more than twenty partnership groups actively discussing wide-ranging issues. These include the Poverty Working Group/Poverty Task Force (PWG/PTF) focusing on cross-cutting poverty agenda, and other sector-specific thematic groups. The Ministry of Planning and Investment (MPI) has played a central role in the preparation of CPRGS, coordinating closely with the other line ministries. The basic principles of the CDF/PRSP approach are: (i) long-term and holistic vision; (ii) country ownership; (iii) broad partnership with various stakeholders; and (iv) focus on development results. The preparation of Vietnam's CPRGS has proceeded based on these principles.

Vietnam is the first pilot country of CDF in East Asia and is most advanced in the preparation of CPRGS. Thus, the Vietnamese experiences with CDF/CPRGS could have important implications for other Asian countries. The key elements of partnership and CPRGS process in Vietnam can be summarized as follows.

- Ownership: As commended by many donors at the last CG Meeting (December 2001), the Vietnamese Government has demonstrated strong ownership in CPRGS formulation. More specifically, the government has paid due attention to: (i) the linkage and consistency with the medium- and long-term development vision; and (ii) the inter-governmental coordination by creating an inter-ministerial team led by MPI and in collaboration with the Ministry of Labor, Invalids and Social Affairs (MOLISA) on the analysis of poverty and hunger. It should also be noted that the Vietnamese Government renamed PRSP as CPRGS between the stages of I-PRSP (March 2000) and the draft CPRGS (December 2001).
- Long-term and holistic vision: As stated before, CPRGS is based on the government's key vision documents, i.e., the Ten-Year Strategy for 2001-2010 and the Seventh Five-Year Plan 2001-2005. As its title suggests, CPRGS is built on two pillars: (i) promoting economic growth; and (ii) achieving poverty reduction and social equity, and follows the economic goals and overall budget allocation defined under these key documents. At the same time, to complement these growth-oriented, medium- and long-term plan and strategy, CPRGS pays due attention to the "quality" of growth and proposes ways to minimize income and regional disparities, reduce poverty and achieve social equity in the rapid growth process.
- Partnership: As a CDF pilot country, Vietnam has made important progress in broadening partnership activities with stakeholders. About twenty task forces have been established under the partnership framework, involving the government, donors, and NGOs. Among them, the PWG/PTF has played a central role in the preparation of CPRSP. They assisted analytical work and consultation process including: poverty assessment (*Vietnam Attacking Poverty*), the development of monitoring indicators (particularly, work related to localizing IDTs for poverty reduction and establishing "Vietnam Development Targets (VDT)"), and the organization of a series of regional

workshops.

Such a nationally owned participatory process has been highly appreciated in the donor community and is regarded as “good practice” in the partnership experience. The recent Joint Report of the Government-Donor-NGO Partnership Group (*Putting Partnerships to Work in Vietnam*) assessed Vietnam’s partnership experience in comparison with other pilot countries, in light of the four CDF/PRSP principles. The report ranks Vietnam’s performance “excellent ” in terms of both (i) long-term vision and strategy and (ii) enhancing country ownership, “above average” in (iii) partnership among stakeholders, and “average” in (iv) focus on development results [World Bank et al 2001].

Box 4-1: Vietnam’s Strategy for 2001-2010

Vietnam’s 10 Year Socio-Economic Development Strategy expresses a strong commitment to rapid growth, employment creation, and poverty reduction/social equity. The strategy articulates Vietnam’s development vision for the coming decade, namely, developing the country from an agriculture-based economy to an “industrialized economy by 2020”.

- A doubling of GDP by 2010 to be attained through 7.5% annual economic growth (2001-05);
- Investment to be increased to 30% of GDP from an average of 25% in the 1990s;
- Exports to grow at more than twice the rate of GDP growth;
- The share of agriculture GDP to decline from 25% to 16-17%; industry to increase from 35% to 40-41% and services to increase from 40% to 42-43%;
- The share of agriculture employment to decline from two-thirds to half; and
- The share of the urban population to increase from a quarter to a third.

Box 4-2: Comprehensive Poverty Reduction and Growth Strategy (CPRGS)

The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) Paper is an action plan that translates the Government’s Ten-Year Socio-economic Development Strategy, Five-Year Socio-economic Development Plan as well as other sectoral development plans into concrete measures with well-defined road maps for implementation. This is an action plan for realizing economic growth and poverty reduction objectives..... The CPRGS paper sees a harmony between economic growth and measures to solve social problems. The tasks and objectives contained in the poverty reduction and growth strategy not only calls for targeted measures to support specific poverty groups, but also sees important linkages within the matrix of policies that include macroeconomic policies, policies on structural adjustment, sectoral development policies and measures, to social safety net policies of all sectors and levels that must work in tandem to ensure sustainable development.

- Part I: Socio-Economic Setting, Current Poverty Situation, Achievements and Challenges
- Part II: Objectives and Tasks of Socio-Economic Development and Poverty Reduction for the Period up to 2005 and 2010
- Part III: Create Environment for Rapid, and Sustainable Growth, and for Poverty Reduction
- Part IV: Major Policies and Measures for the Development of Sectors and Industries to Ensure Sustainable Growth and Poverty Reduction
- Part V: Mobilization of Resources for Growth and Poverty Reduction
- Part VI: Organizational Arrangements for and Monitoring and Evaluation of the Poverty Reduction and Growth Strategy

Source: The Socialist Republic of Vietnam, *Comprehensive Poverty Reduction and Growth Strategy (CPRGS)* “Introduction,” pp.2-9, (approved by the Prime Minister on May 21, 2002).

Japan's Contribution to Vietnam's Development Vision

Japan has made important contributions to the formulation and implementation of Vietnam's development vision. Based on its comparative advantages in assistance, actively participated in the partnership activities as follows.

- Medium- and long-term vision: Through intellectual aid (including the “Ishikawa Project”), numerous experts advised the Sixth and Seventh Five-Year Development Plans and the Ten-Year Strategy at their formulation and implementation stages. These key documents provide the economic framework for CPRGS.
- Interim-PRSP: With special emphasis on the promotion of private sector development, the “New Miyazawa Initiative” provided complementary support to the economic reform program assisted by the IMF (PRGF) and the World Bank (PRSC) and laid the foundation for I-PRSP formulation.
- CPRGS preparation: As a core member of the PWG/PTF, Japan supported CPRGS preparation, particularly in both analytical work and regional consultation. For example, Japan played a leading role in assisting the development of localized, monitoring indicators for basic infrastructure—one of the eight topics for pro-poor support (i.e., poverty and hunger, social protection, basic education, health and inequalities, environmental sustainability, ethnic minority, basic infrastructure, governance)—as part of the donor-coordinated effort to establish “Vietnam Development Targets.”
- Partnership: In addition to the above PWG/PTF participation, Japan has assumed a leadership role in the Transport Sector Working Group, SME Promotion and Private Sector Development Partnership, and Ho Chi Minh City ODA Partnership. Japan has also participated in other groups where it has comparative advantages in assistance—such as Urban Forum (poverty); SOE Reform & Equitization, Banking Reform, Trade Policy, Public Financial Management (economic issues); and Forestry Sector Support Program & Partnership, Partnership to Support the Poorest Communes, Natural Disaster Mitigation, Water Resources (rural and regional development).

The Vietnamese Government regards CPRGS as an action plan that translates the Ten-Year Strategy for 2001-2010, the Seventh Five-Year Plan 2001-2005, and sector policies into specific concrete measures to realize economic growth and poverty reduction. CPRGS is built on two pillars: (i) promoting economic growth; and (ii) achieving poverty reduction and social equity. This is consistent with the basic direction of Japan's ODA to Vietnam over the past years, as outlined in the Japanese Government's “*Country Assistance Program for Vietnam*.”

The importance of growth as a prerequisite for poverty reduction is based on East Asia's development experience and is also supported by various empirical studies [Ravallion & Chen 1997, Dollar & Kraay 2000]. CPRGS properly recognizes the growth-poverty nexus in the sense that: (i) poverty reduction cannot be attained without growth; and (ii) poverty reduction should be based on broad-based growth so that the poor and the poor regions can share the fruits of growth through expanded supply-side activities.

During CPRGS preparation, the PWG/PTF mainly focused on the aspects of direct poverty

reduction or pro-poor targeting measures, e.g., by assisting poverty assessment (the diagnosis and analysis of causes of poverty) and the definition of social indicators (for monitoring and evaluation). For the future implementation, it will be also important to support the economic framework for poverty reduction and the achievement of economic indicators (which are only possible through the implementation of broad-based, growth-promoting policies and measures). Thus, a solid analysis of the growth agenda is necessary.

Japan has been assisting Vietnam through a number of schemes including grants, technical cooperation, and financial cooperation. Japan is committed to continued support of the two pillars of Vietnam's development vision articulated by the Vietnamese Government and the donor community.

Chapter 5 Toward Broad-based Growth with Poverty Reduction —Future Direction of Japan’s Contribution

This final chapter suggests specific ways of how Japan could contribute toward achieving Vietnam’s development vision, particularly by assisting in the design and implementation of a realistic outward-oriented growth strategy—taking advantage of Asia’s dynamic production network—and by mainstreaming the growth agenda into the donor-coordinated, partnership framework.

Partnership Framework for the Implementation of Vietnam’s Development Vision

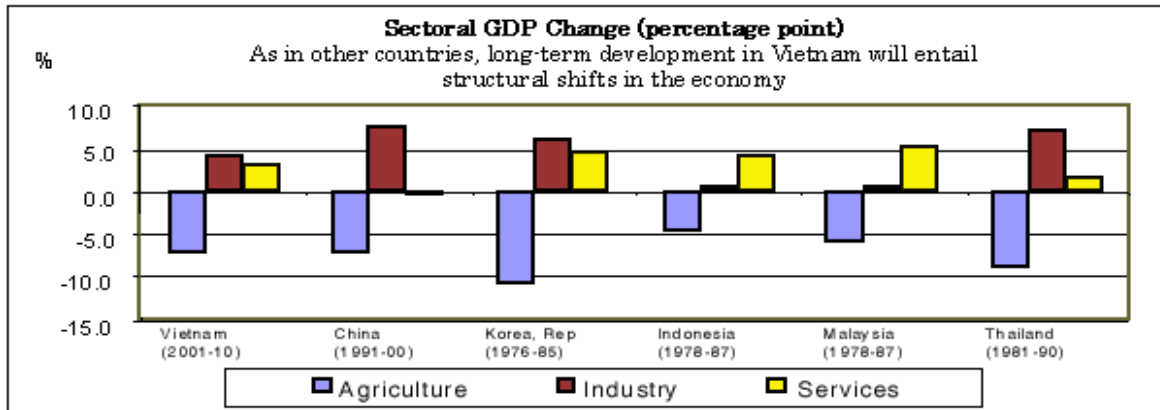
In the coming months, active discussions are expected concerning how to ensure the effective implementation of Vietnam’s development vision (the Ten-Year Strategy, the Seventh Five-Year Plan, and CPRGS etc.). Topics for discussion will likely cover budgetary allocation and public investment plan, sectoral action plans, and mechanisms for monitoring and evaluation. Moreover, the roles and responsibilities of respective donors will be determined, based on their comparative advantages in assistance. The PWG/PTF (which has been instrumental in CPRGS preparation) is expected to continue assuming an important role in the implementation stage.

Despite impressive progress in poverty reduction, as of 2000, 32 percent of the Vietnamese population still live under poverty, and Vietnam remains an underdeveloped economy with per capita GDP as low as US\$400 [GoV 2002]. Thus, “central to achieving virtually all of Vietnam’s development goals will be the maintenance of high overall growth rates” [World Bank 2001b]. For the effective implementation of CPRGS, a set of monitoring indicators are defined in CPRGS—in both economic and social spheres (with the latter including job creation). In light of the growth-poverty nexus and the vision articulated in the Seventh Five-Year Plan and the Ten-Year Strategy, the achievement of Vietnam’s development goals will require a balanced, comprehensive approach and should include both pro-poor targeting measures (which have so far been emphasized by the PWG/PTF) and broad-based growth promotion.

The Vietnamese Government foresees a drastic shift in the structure of the economy over the coming decade—as Vietnam attempts to follow the path of its successful East Asian neighbors (see Figure 5-1). The government wishes to reduce agriculture labor force and promote industry as the source to generate higher-paying jobs. To this end, Vietnam needs to make continued efforts to strengthen: (i) human resource development (in both public and private sectors) to adapt to the market economy; (ii) institution building to sufficiently prepare for the recently accelerating economic integration such as AFTA entry and WTO accession (e.g., the design and implementation of industrialization strategy and the development of a legal framework); and (iii) a strategic approach to infrastructure development to enhance the supply-side response. At the same time, it is important to maintain social equity so that the benefits of growth can be evenly distributed across the population. This requires measures to: (iv) address increasing disparities between urban and rural areas; (v) support the development of remote areas, with special attention to ethnic minorities; and (vi) cope with the emerging issues associated with urbanization.

Figure 5-1: High Performing Asian Countries

The transition envisaged in Vietnam's Strategy is consistent with what was achieved in other countries, provided appropriate policies are also implemented in Vietnam.



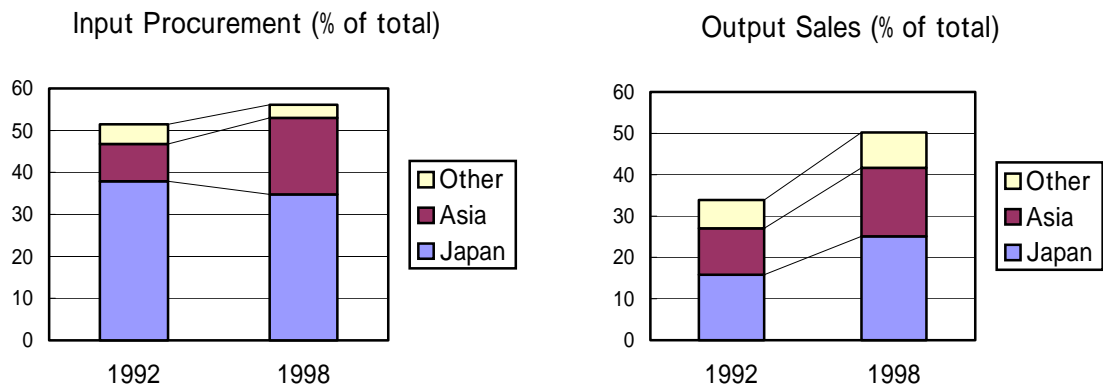
Source: World Bank, ADB and UNDP, *Vietnam 2010 Entering the 21st Century: Vietnam Development Report 2001*, December 2000 (Overview, p.4).

Japan is willing to continue its assistance in the design of a concrete and pragmatic growth strategy, one of the pillars of Vietnam's development vision. Japan can provide intellectual aid so that the real-sector concern, reflecting East Asia's development experience and Japan's own aid experience, can be firmly incorporated into Vietnam's growth strategy while respecting its specific circumstances. How can Vietnam achieve industrialization while promoting economic integration? What kind of long-term strategy does Vietnam need to penetrate into East Asia's production network? Up to now, the Vietnamese Government has not presented sufficiently pragmatic and realistic answers to these questions. Japan wishes to make a meaningful contribution to Vietnam's economic growth and poverty reduction—not only through infrastructure development but also through intellectual aid.

The salient features of Japan's development approach, compared to the other donors, are: (i) long-term orientation (i.e., developmental vision); (ii) real-sector concern (i.e., attention to individual industries); and (iii) strong interest in trade and investment (with greater attention to "ingredients" rather than "framework"). Building on such unique perspectives, Japan can provide pragmatic advice to Vietnam on the issues of how to "import" East Asia's regional dynamism and use it to the advantage of Vietnam's sustained growth. Such approach is also complementary to the pro-poor targeting measures which currently enjoy enthusiastic support from the donor community.

Figure 5-2 illustrates East Asia's production network through trade and investment. The supply linkage was first formed between Japan and NIEs, then expanded to include ASEAN 4 countries (Malaysia, Thailand, Philippines, and Indonesia). Recently, China and Vietnam have joined.

**Figure 5-2 : Japanese Firms as Builders of Asian Production Network:
International Transactions of Asian Affiliates of Japanese Firms**



Source: Shujiro Urata, A Shift from Market-led to Institution-led Regional Economic Integration in East Asia, presented at the Conference on Asian Economic Integration, RIETI/UNU, April 2002.

Incorporating Real-sector Concern into Growth Strategy—The Case of NEU-JICA Joint Research on “Industrial and Trade Policies under Integration Age”

The ongoing NEU-JICA Joint Research on “Industrial and Trade Policies of Vietnam under Integration Age” is an example of intellectual aid aimed at the design of concrete industrial strategies suitable for the age of integration. The project was launched in summer 2000, and until March 2001, it was conducted in parallel with the “Ishikawa Project” (1995-2001) as the research related to the Trade and Industry Working Group. With the completion of the “Ishikawa Project,” it has become a free-standing project.

The project closely examines a limited number of prospective industries (e.g., electronics, textile and garment, steel, software etc.) and makes concrete policy recommendations, including promotion measures and period, tariff reduction schedule etc. It is based on the premise that domestic economic development should be designed and implemented under the internationally committed constraints of free trade obligations, especially AFTA and future WTO. Moreover, the project is notable in the following approaches: (i) instead of discussing generalized, abstract questions (such as free trade vs. gradualism), it looks into selected industries and conducts in-depth studies; (ii) it makes an effort to convey the research methodology based on East Asian real-sector concern to the Vietnamese counterparts (but, this does not mean that Japan’s past industrial policies should be copied to Vietnam); and (iii) based on the established close relation between the Vietnamese and Japanese researchers, it further attempts to maximize policy impacts, by widely disseminating the results to policy makers in Vietnam (see Box 5-1).

While this project exclusively focuses on Vietnam’s industrial and trade policies, it can also be viewed—from the overall context of Japan’s intellectual aid—as an effort to demonstrate Japan’s development approach featuring real-sector concern (industry, trade, investment, and intra-regional division of labor in industrial production) and respecting the individuality of each country and sector.

Box 5-1: NEU-JICA Joint Research Project

Vietnam is willing to integrate, but preparation for it remains insufficient. The purpose of the NEU-JICA joint research is to produce studies that can help overcome this problem and make policy recommendations for Vietnam's industrial and trade promotion. While economic theory is useful as a general guideline, it is not concrete enough to answer the urgent and practical questions that the Vietnamese industries actually face. The project is built on the approach adopted since the "Ishikawa Project," which is labor intensive and relies heavily on detailed surveys on prospective individual industries. Thus it intends to supplement theory by in-depth and up-to-date studies of domestic industries as well as global market trends.

Up to 2001, the project primarily focused on the analyses of individual industries. Based on these results, in 2002 the project plans to pay greater attention to policy impacts. With active participation of the Vietnamese experts and policy makers, it intends to present future visions of Vietnam's industrial development and pragmatic policy recommendations for industrial and trade promotion.

- Implementing agencies: Japan International Cooperation Agency (JICA) and National Economic University (NEU). Currently, 8 academics/experts from Japan and 21 from Vietnam are engaged in research activities.
- Period: until summer 2003
- Topics: (i) general studies on AFTA, WTO and FDI; (ii) electronics industry; (iii) textile and garment industry; (iv) steel industry; (v) software industry, etc.
- Main events: (i) field surveys and analyses under the framework of "Ishikawa Project" (1995-2001); (ii) two intensive steel seminars in Hanoi (October 2000 and 2001); (iii) Hanoi Workshop of "Ishikawa Project" (December 2000); (iv) lectures by Japanese academics (September 2001); (v) Hanoi symposium (March 2002); (vi) report publication (expected in 2002).
- Website: <http://www.neujica.org.vn/>

Conclusion——Future Direction of Japan's Contribution

Lastly, it is important to stress that such concrete growth orientation should be addressed not only in the bilateral context but also under the CPRGS framework. Although CPRGS recognizes that economic growth and poverty reduction are two sides of the same coin, it has not presented sufficiently detailed and operational growth strategy. It is necessary to conduct in-depth research on broad-based growth strategy within the CPRGS framework and align international support according to its results.

For this endeavor, areas for study can include industrialization, trade, agriculture and rural development, SME and supporting industry promotion, private sector development, and human resource and infrastructure development in support of industrialization. Specific operational modalities should be also examined within the CDF-derived partnership framework, including a possibility to create additional group(s) specializing in the growth agenda.

The current global development trend regards poverty reduction as the supreme goal and the most effective means of development. Nobody doubts that poverty reduction is a noble goal for development. However, there should be multiple paths to achieve that goal. From the menu of possible strategic options, the most appropriate path should be chosen by each developing country with strong ownership. East Asian development has been driven by a

national fever for “catching up” and serious concern for industrial competitiveness, which cannot be captured by the framework of “poverty reduction” alone. Vietnam’s social and economic development, if it is to succeed, must also incorporate the perspective of such Asian dynamism.

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