

Diversifying PRSP

The Vietnamese Model for Growth-Oriented Poverty Reduction

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1. Introduction and Summary

The international community is accelerating efforts to reduce poverty in developing countries. The United Nations Millennium Development Goals (MDGs) and the World Bank-supported Poverty Reduction Strategy Paper (PRSP) are now linked as the end and the means and are exerting great influence on the development strategies of poor countries. Since poor countries are highly diverse in socio-economic structure as well as causes of poverty, policy measures and institution building efforts must be tailored to the needs of each country. Despite the great excitement over the lofty goal of poverty reduction, appropriate matching between alternative strategies and individual countries remains very weak. As PRSP enters into the implementation stage, we need to urgently strengthen intellectual inputs in this area to effectively translate the global targets into realistic and concrete actions at the country level.

We propose to classify poor countries by (i) relationship with donors; (ii) presence or absence of a national development strategy and its quality; and (iii) causes of poverty. We will discuss how these differences should be reflected in the formulation and implementation of PRSP, and call for greater flexibility in terms of its contents, modality, and procedures.

We also present the Vietnamese PRSP, driven by strong country ownership and aspiration for rapid growth, as one possible model for a growth-oriented PRSP. Vietnam's PRSP is inspired by the country's unique geographical and historical position, especially the surrounding Asian dynamism as an enabling environment for economic catch-up. However, even without such a regional advantage, *trade- and investment-driven growth and poverty reduction* can be pursued by individual countries outside East Asia as well.

Economic cooperation should be geared to the circumstances of each recipient country. For poor countries with aspirations and potential for growth like Vietnam, cooperation in the areas of infrastructure development, human resource development, technology transfer and industrial studies are particularly effective.

2. Global Development Trend and PRSP

Since the late 1990s, poverty reduction has become an overarching goal for all economic assistance to poor countries.

What is the PRSP?

At the center of this new approach is the Poverty Reduction Strategy Paper (PRSP). The PRSP initiative was launched by the World Bank and the IMF in late 1999 in connection with the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. In principle and ideally, the PRSP is (normally) a three-year roadmap for social and economic development of a poor country, produced under strong national ownership and broad partnership among various stakeholders. Initially, only a small number of poor countries seeking for special debt reduction under the original HIPC initiative were asked to prepare PRSPs. But the scope of PRSP was subsequently enlarged to include all poor countries (namely, all recipients of concessional assistance from the International Development Association (IDA) and the IMF-supported Poverty Reduction and Growth Facility (PRGF)).

The World Bank recently adopted a policy to strengthen the linkage between PRSP and Country Assistance Strategy (CAS), linking poverty reduction efforts with the access to IDA funding. Moreover, the Bank is also urging other donors to adopt PRSP as the vehicle for aid partnership efforts. For poor countries, PRSP is becoming the main tool for budgeting, prioritizing, project selection, evaluation, and donor coordination. Once agreed, PRSP may strongly bind the overall socio-economic policy framework of that country.

There are eighty countries eligible for IDA lending, of which seventy-six currently receive IDA support (either financial or non-financial) (World Bank data, July 2002). As of June 2002, more than sixty countries are engaged in the PRSP process, including those in the initial stage of formulation. Among them, eighteen countries (of which twelve are from Africa and four from Latin America and the Caribbean) have completed Full-PRSPs and subsequent joint staff assessment by the IMF and the World Bank [World Bank 2002b]. Forty-four countries have prepared Interim-PRSPs, with African countries accounting for more than half. Vietnam became the first East Asian country to complete a Full-PRSP in May 2002. The Boards of the IMF and IDA reviewed it at end-June and early July 2002, respectively.

To assess the PRSP experiences two years after introduction, the IMF and the World Bank undertook a comprehensive review in early 2002. As part of this process, the World Bank organized an international conference of various stakeholders including representatives of developing countries, donors, research institutions and NGOs in January 2002. The final review report was presented to the IMF/WB Joint

Development Committee in April 2002. The report states that “there is broad agreement among low-income countries, civil society organizations and their development partners that the objectives of the PRSP approach remain valid” and that the World Bank and the IMF “will play a catalytic role in launching PRSPs.” At the same time, the report recognizes that “the PRSP approach requires flexibility so that both the process and the content of poverty reduction strategies can vary across countries in light of national circumstances” [IDA/IMF 2002a].

PRSP and MDGs

Moreover, the United Nations Group has linked up with the World Bank in fighting poverty. Following the UN Millennium Summit in September 2000, the UN General Assembly adopted the UN Millennium Development Goals (MDGs) in September 2001. MDGs call for concrete social achievements by 2015, including halving the ratio of people in extreme poverty. After September 11th, the poverty-terrorism nexus was rediscovered and the international community hardened its resolve to address the poverty problem. In the ongoing global enthusiasm over MDGs, the UN International Conference on Financing for Development in Monterrey, Mexico in March 2002 adopted the “Monterrey Consensus” recommending further aid increase, debt reduction, and partnership between developing and developed countries to promote trade and investment for the benefit of developing countries.

In this way, MDGs have been set up as the development goal and PRSP is promoted as the procedural framework. World Bank economists estimate that an additional US\$40-70 billion—or doubling the global ODA—is required annually to achieve MDGs [Devarajan et al. 2002].

Japan and PRSP

While most of the Japanese aid officials and experts endorse the basic principles of PRSP, including national ownership and aid partnership, they express concern about its uniformity of approach, shortage of strategic contents, and increased budgetary and human resource burden on both donors and recipients. While the advocates of PRSP readily admit the crucial linkage between economic growth and poverty reduction at the general level, they tend to focus exclusively on *pro-poor measures* (e.g., education, health, environment, gender, rural infrastructure, etc.) in actual implementation. Serious discussion on the generation of economic growth is desperately lacking.

Shigeru Ishikawa, Professor Emeritus at Hitotsubashi University and leading figure in Japanese development economics, regards PRSP as “the World Bank’s new aid policy which essentially shifts the goal from ‘growth promotion’ to ‘poverty reduction’.” He further notes that it is “a highly deficient proposal

when viewed as a system of action plans to be properly supported by fiscal resources.” Ishikawa argues that, for poverty reduction efforts to be truly effective, it is necessary to deeply analyze the causes of poverty in each developing country and to design an appropriate mix of (i) measures directly targeting the poor; and (ii) support for broad-based growth, in which increased savings are channeled through the fiscal and financial systems to address specific needs including poverty reduction¹ [Ishikawa 2002].

3. Types of Poor Countries and Appropriate Responses

Poor countries are highly diverse in their social, economic and political conditions. In order to localize PRSP, the following three criteria are especially important: (i) relationship with the donors; (ii) presence or absence of a national development strategy and its quality; and (iii) causes of poverty.

Relationship with donors

The first determinant is the relationship between the developing country and its donors. This affects the degree to which the developing country can maintain ownership vis-à-vis donors, as well as the scope of PRSP’s influence on the overall policy framework of that country. Three specific points are given:

- The existence or absence of direct linkage between PRSP and debt relief: For many poor countries in Sub Saharan Africa and Latin America, the preparation of a PRSP is the precondition for obtaining debt relief under the Enhanced HIPC Initiative (see Figure 1). Equally for donors, it is an important tool for aid resource management and evaluation of development impact. By contrast, in the case of poor countries in East Asia including Vietnam, debt forgiveness is not intended. For them, PRSP is primarily motivated by the country’s desire to access IDA and PRGF financing (which is less acute than the need for debt forgiveness). PRSPs in such countries are produced with less urgency and more concern for national ownership than in the case of the former group.
- Aid dependency and donor composition: Vietnam’s aid dependency is lower than the average of Sub Saharan African or Latin American countries (see Figure 2). Naturally, a higher aid dependency is associated with a stronger pressure from the donor group². Moreover, the development strategy can

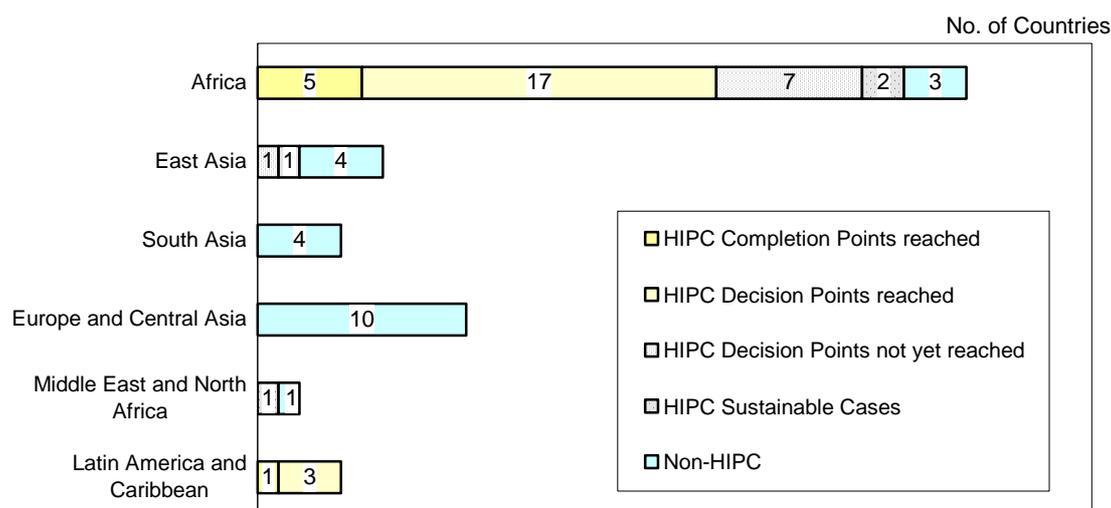
¹ Ishikawa stresses the need to balance the two sets of expenditures for poverty reduction, namely, (i) “pro-poor targeted” and (ii) “broad-based growth.” Here, broad-based growth expenditures contribute to GNP growth first and then to poverty reduction by way of increased savings, which are channeled through fiscal resources or banks to particular uses targeted at poverty reduction.

² The degree of aid dependency varies even among Asian countries. For example, Mongolia (per capita ODA \$79; ODA/GDP ratio 20.6%), Lao PDR (\$57, 23%) and Cambodia (\$29, 11.9%) are more aid dependent than

also be affected by the views of the largest donor(s). In Sub Saharan Africa, prominent donors are the World Bank (IDA) and Europeans, while in Latin America and the Caribbean, the World Bank (IDA) and the Inter-American Development Bank (IDB) are of primary importance. In East Asia, principal donors are Japan, the World Bank, and the Asian Development Bank (ADB).

- The relationship between donor composition and aid modality: Donor composition also affects the proportions of loans and grants, which in turn have a bearing on aid modality discussion. Vietnam receives about two-thirds of ODA in the form of concessional loans while 70 percent of ODA to Sub Saharan Africa is in the form of grants. The corresponding ratios for Latin America and the Caribbean are somewhere between the above two groups (see Figure 3). These differences must be taken into account in determining the desirability of harmonization of aid modality.

Figure 1. Countries in PRSP Process by Region and HIPC Status *

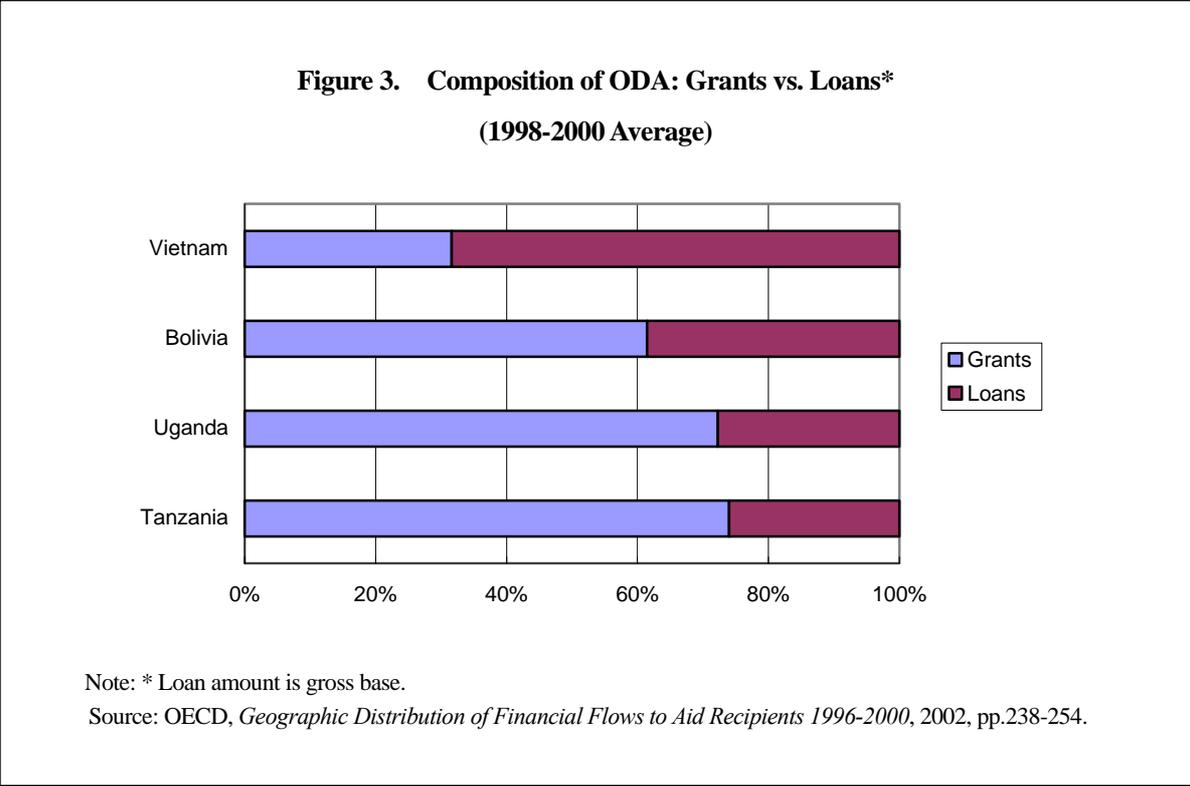
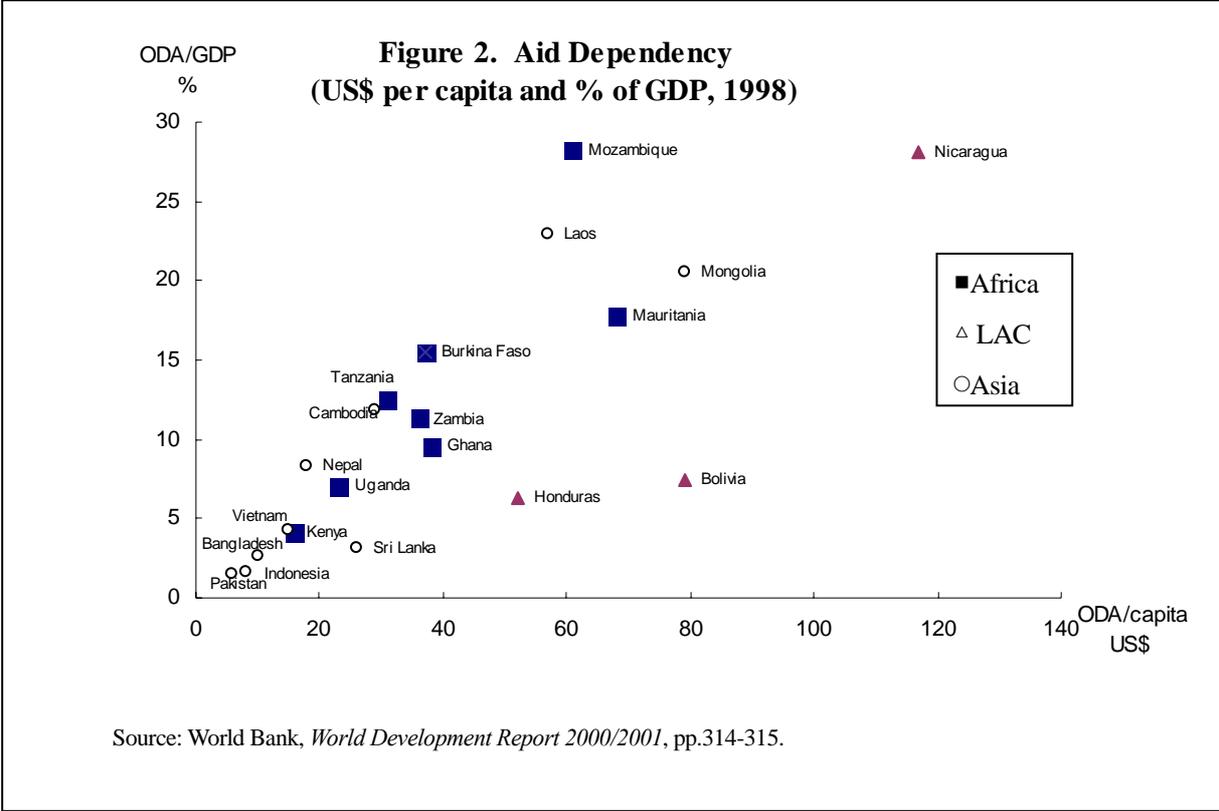


Note: The selected 60 countries in PRSP process and the HIPC status are figured based on the data at March 2002 and July 2002 respectively. These statuses are subject to constant revision as each country makes progresses.

Source: World Bank, "Country Timelines for I-PRSPs, PRSPs, CASs, PRGF, and HIPC Decision and Completion Points," April 2002 [at <http://www.worldbank.org/poverty/strategies/index.htm>];

World Bank, "HIPC Initiative: Status of Country cases considered Under the Initiative," July 2002 [at http://www.worldbank.org/hipc/progres-to-date/status_table_july02.pdf].

Vietnam (\$15, 4.3%) and Indonesia (\$6, 1.5%). Such differences could also affect how these countries approach PRSP.



The presence of a national development strategy and its quality

Does a developing country have its own development plan? If so, to what extent does it effectively govern budget allocation and investment programs? This greatly affects how PRSP, imported from without, is treated domestically. This issue is closely related to the strength of country ownership as well as “the extent to which the PRSP is integrated within existing decision-making processes” as mentioned in the PRSP review of the World Bank and the IMF. Although the relationship between the existing development plans and PRSP is complex and highly specific to each country, we present the following two prototypes for simplicity of argument (see Figure 4).

● ***PRSP as a supplementary document***

In Vietnam, the core planning documents defining the national vision are the “*Strategy for Socio-Economic Development in the Period 2001-2010*” (the so-called Ten-Year Strategy) and the “*Seventh Five-Year Plan for Socio-Economic Development 2001-2005*” (the so-called Five-Year Plan). These were reviewed by the Communist Party and concerned ministries and approved by the Party Congress. They tower above numerous other official documents in terms of legitimacy and accountability. All sector plans, public investment plans, and annual budget allocation are guided by them. Under this framework, the role of PRSP is at best supplementary as one of the “other” documents. From the Vietnamese viewpoint, PRSP is never intended to dictate overall budget allocation. *Certainly, PRSP can reinforce the existing development plans with special attention to poverty reduction in a cross-cutting manner and the participatory process. However, it is not expected to become an overarching document by replacing the existing core documents.*

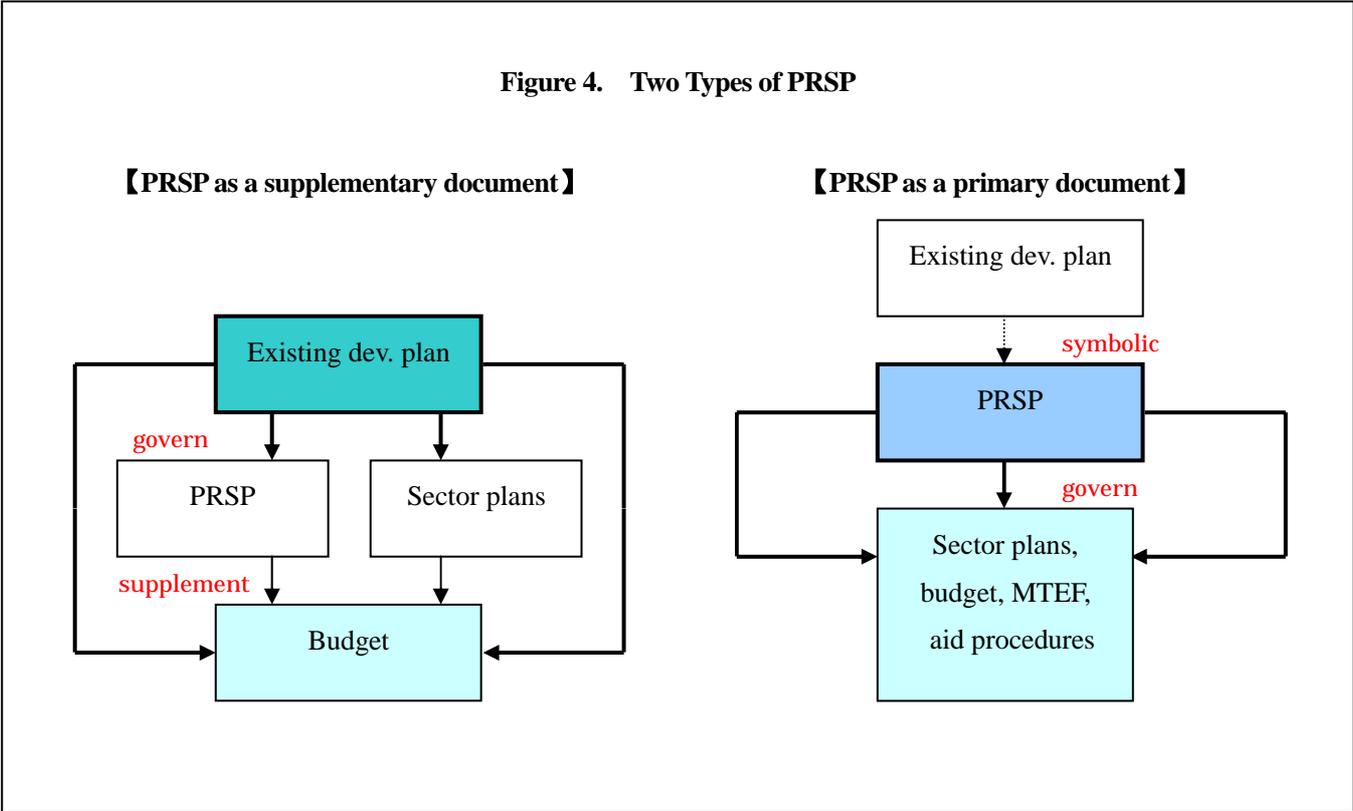
● ***PRSP as a primary document***

This is the case where PRSP co-exists with the national development strategy, but where the newly-introduced PRSP exerts a stronger influence than the existing plans over the budgetary and legal framework. Tanzania has its own long-term development vision (“*Vision 2025*”) and poverty eradication strategy (“*National Poverty Eradication Strategy 2010 (NPES)*”). In reality, however, these documents are merely symbolic and have little impact on the actual budget and policies. Uganda also has its own vision document (“*Vision 2025*”) and poverty reduction strategy (“*Poverty Eradication Action Plan (PEAP)*”). The Ugandan PEAP has evolved into PRSP, unlike the Tanzanian NPES which did not. Regardless of this difference, in both countries, PRSP plays a decisive role as a planning and aid coordination document dictating sector plans. PRSP is also linked to the Medium-Term Expenditure Framework (MTEF)³ which is

³ MTEF sets out the medium-term expenditure priorities and hard budget constraints against which sector plans can be developed and refined. It also contains outcome criteria for the purpose of performance monitoring. MTEF together with the annual Budget Framework Paper provides the basis for annual budget planning. Throughout the 1990s, Uganda and Tanzania have developed MTEF and sector plans starting from health and

a rolling three-year expenditure plan that guides all public expenditures (including investment and recurrent budgets, as well as aid money). Moreover, Uganda’s PRSP refers to the desirability of certain aid modality, including budget support, sector-wide approach, and the use of Poverty Action Fund (PAF) to mobilize donor funds for pro-poor support. Tanzania’s PRSP has no reference to aid modality, but this matter is dealt with separately in the Tanzania Assistance Strategy (TAS). For highly aid-dependent countries, aid modality and procedures critically affect how development projects are actually delivered.

It is conceivable that the latter type (“PRSP as a primary document”) may further evolve into the third variation, which can be called “PRSP as an exclusive document.” This is the case where PRSP is formerly installed as the national development strategy itself or, for some reasons, the national strategy has ceased to exist and PRSP is treated effectively as the core planning document. Here, PRSP has exclusive authority to govern overall policy, sector plans and budgetary allocation. Such a case may emerge, particularly if the next planning cycles of PRSP and national development strategy coincide.



education sectors, on which basis the newly-introduced PRSP now provides the overall policy framework for poverty reduction. Ideally, PRSP as the core planning document is expected to guide the overall expenditure, sector policies (and aid modality) through its linkage to MTEF and sector plans. Where the introduction of MTEF is relatively recent, however, the linkage between MTEF and PRSP is not necessarily strong.

The Bolivian PRSP offers an interesting case because, on paper, it belongs to the third variation but, in reality, it should rather be classified as the second variation (even a weak one at that). The Bolivian PRSP, together with the “National Dialogue Law 2000” (which is a legal framework for defining the basic principles and operational procedures of PRSP), guides the budget allocation and implementation mechanism of pro-poor measures administered by local governments (i.e., municipalities), but the strong link between PRSP and the overall budget system is yet to be established⁴.

In the first type, the role of PRSP is confined to complementing and reinforcing the existing national development strategy and sector plans, by offering in-depth poverty analyses, a cross-cutting approach to poverty reduction and broadening the participatory process. In this case, the most desirable and practical involvement for donors would be to respect and support the existing policy configuration rather than denying or replacing it. Areas of assistance do not have to be constrained by PRSP; donors should be encouraged to support high priority areas in the country’s overall development regardless of PRSP.

By contrast, in the latter types, the operational procedures of the budget, sector plans and receiving aid are all governed by PRSP. In this case, donors should fully utilize PRSP and related systems, and build local capacity in strategic planning and budget management around PRSP. In Uganda, such capacity building efforts seem to be already bearing fruits with a strengthened linkage between MTEF and PRSP (which evolved from the national document PEAP).

An international comparison of PRSP is shown in Table 1.

Causes of poverty

Although the goal of poverty reduction is shared globally, aspects of poverty differ from country to country. The common goal must be achieved by various means that fit the reality of each country. Poverty situations vary even within a country, depending on age, gender, family, occupation, region, social strata, and so on. As noted above [Ishikawa 2002], deep insight into the country-specific causes of poverty is crucial if we are to succeed in reducing poverty.

⁴ In Bolivia, the five-year development plan (*National Action Plan 1997-2002*) was formulated in 1997 through the participatory process (i.e., the first National Dialogue). Later, the formulation of PRSP replaced the existing National Action Plan. The Bolivian government completed a Full-PRSP in June 2001 and issued a supplementary document called the “National Dialogue Law 2000,” which specified the procedures for the implementation of decentralized, pro-poor targeted measures. The Bolivian PRSP also expects that the public investment plan almost exclusively finances the priority projects designated by PRSP. However, unlike the above African cases, MTEF is yet to be established in Bolivia; and PRSP has not fully developed into a document to dictate the overall budgetary allocation.

Consider the following possible causes of poverty:

- Low productivity of the economy which limits income opportunities and the national budget
- Insufficient concern for social equity and income gaps at the level of policy design
- Inefficiency and corruption in the administration of social service delivery
- Absence or disappearance of a mutual assistance and risk-sharing mechanism against illness, disasters and other contingencies at the community level
- Uneven economic opportunities due to social discrimination (e.g., gender, racial and ethnic discrimination)
- Economic stagnation resulting from policy failure (e.g., economic planning, big-bang liberalization)
- New poverty arising from economic crisis, both internal and external, or inappropriate policy response to it (e.g., excessive macroeconomic tightening, untimely “structural adjustment”)
- War, civil conflict, racial dispute, political oppression, and others

Some of these are related to the nature of the base society, while others are caused by policy and administrative failures. These causes are often mutually related and overlapping. One can easily imagine that more than one cause are contributing to the impoverishment of any particular country.

Different causes call for different responses. Without correct matching between diagnosis and prescription in each country’s specific context, even a big increase in aid money is unlikely to yield results. Understanding these causes and attacking them properly is the core task in poverty reduction. However, this is precisely the knowledge that is lacking in the PRSP process so far.

If poverty is caused by insufficient delivery of social services, major efforts should be directed to its improvement. If poverty results mainly from the pro-rich bias in the fiscal system or a deep-rooted ethnic discrimination, political initiative is required to address these problems. If economic crises or uncontrolled globalization is producing new poverty, relevant policies should be reconsidered. But if the primary cause of poverty is low productivity and an underdeveloped market economy, resources must be mobilized to build infrastructure, upgrade technology and create industries.

In this connection, the recent UNCTAD report stresses the importance of a broad approach to poverty reduction. In particular, to cope with *generalized poverty* associated with underdevelopment, the report recommends measures to enhance productive capacities, including (i) promoting rapid and sustained economic growth; (ii) establishing dynamic investment-export nexus; (iii) elaborating development policy options; and (iv) assuring that no social groups or regions are left behind as growth takes place [UNCTAD 2002].

Growth promotion versus pro-poor targeting

Many official documents declare that poverty reduction and economic growth are positively related. However, in the current drive to cut poverty, details of this relationship have rarely been spelled out in the country-specific context. This question is an important subset of the investigation into the causes of poverty in each poor country.

Suppose a poor country already basically equipped with policies to promote social equity and a network for social service delivery. For such a country, there is no need to introduce a new poverty reduction framework such as PRSP from outside. What is lacking is the purchasing power of the population, not the mechanism to channel it into poverty fighting measures. General improvement in living standards (including poverty reduction) is possible through a rise in private income—and with that, an increase in the government revenue. In this case, the right way to reduce poverty is to have a good growth strategy.

On the other hand, as observed in some countries, growth alone may not solve entrenched poverty or lift marginalized groups to share the fruits of growth. For such a country, the most pressing task is to establish a workable poverty reduction mechanism, including political consensus for the pursuit of social justice and systemic improvement in social service delivery. If domestic capability for this is lacking, it may be a good idea to embrace totally or partially (with necessary amendments) the policy framework provided by the international organizations, such as PRSP. In this case, in addition to a growth strategy, efficient formulation and implementation of pro-poor measures will be the key to socio-economic development.

Admittedly, the above examples are oversimplified for the purpose of illustration. The reality facing each developing country is undoubtedly far more complex.

Where Vietnam stands

In light of the three criteria presented above, Vietnam's experience with PRSP (renamed to the *Comprehensive Poverty Reduction and Growth Strategy*, or CPRGS) is noteworthy in the following senses: (i) the country's relatively low aid dependency; (ii) the existence of a national development strategy embodied in the two core documents; and (iii) strong concern for social equity and the possession of policy tools to offset social problems arising from economic growth (although their efficiency must be improved, as many donors point out). These features in turn strongly influence the contents of Vietnam's CPRGS. It was compiled under the strong ownership of the Vietnamese government as a document subordinate to the core documents which embraced a growth-oriented development vision.

Table 1. PRSP: An International Comparison

	Aid dependency	Relationship with existing development plan	Strategic focus
Vietnam	<p>Low</p> <ul style="list-style-type: none"> • Per capita ODA: \$15 • ODA to GNP ratio: 4.3% • HIPC: sustainable case, debt forgiveness not requested 	<p>Supplementary document</p> <ul style="list-style-type: none"> • Budget is formulated under the general guidance of national development plans. • CPRGS and sector plans also supplement. 	<p>Equitable growth</p> <ul style="list-style-type: none"> • The overall framework is promoting growth with social equity. • PRSP specifies social policies and pro-poor measures.
Uganda	<p>Relatively high</p> <ul style="list-style-type: none"> • Per capita ODA: \$23 • ODA to GNP ratio: 7.0% • HIPC: debt forgiveness requested 	<p>Primary document</p> <ul style="list-style-type: none"> • Budget, MTEF and sector plans are guided by PRSP. • PRSP is the revised version of PEAP, the national action plan for poverty eradication. 	<p>Growth and equity</p> <ul style="list-style-type: none"> • Growth promotion measures and pro-poor measures are both specified in PRSP.
Tanzania	<p>Relatively high</p> <ul style="list-style-type: none"> • Per capita ODA: \$31 • ODA to GNP ratio: 12.5% • HIPC: debt forgiveness requested 	<p>Primary document</p> <ul style="list-style-type: none"> • Budget, MTEF and sector plans are guided by PRSP. 	<p>Social equity</p> <ul style="list-style-type: none"> • Main focus is on pro-poor measures, while also recognizing the importance of growth promotion.
Bolivia	<p>Relatively high</p> <ul style="list-style-type: none"> • Per capita ODA: \$79 • ODA to GNP ratio: 7.5% • HIPC: debt forgiveness requested 	<p>Primary document</p> <ul style="list-style-type: none"> • PRSP guides pro-poor programs administered by local governments. • Operational procedures are legally specified in the National Dialogue 2000. 	<p>Social equity</p> <ul style="list-style-type: none"> • Main focus is on pro-poor measures.

However, donors are divided over the role of CPRGS in policy planning and resource mobilization. Several donors (e.g., the World Bank, UK, Denmark) hold the view that CPRGS should be treated as the core document, suggesting that the public investment plan and donor support be aligned to CPRGS. CPRGS has been finalized without resolving this matter (see Table 2). Ishikawa also reports a critical remark by a high-ranking Vietnamese official, expressing strong reservation about making poverty reduction an exclusive national goal [Ishikawa 2002].

It is true that not all poor countries are like Vietnam. But at the same time, Vietnam is not the only poor country which aspires to growth-based poverty reduction. The majority of the poor countries in East Asia do not intend to avail themselves of debt relief, and they do have development plans to guide their budgets. In Sub Saharan Africa, too, many countries have national development plans. Vietnam's CPRGS should be studied as one of the possible models for other countries or regions.

We may even ask a more fundamental question. *Is it really necessary to require all poor countries—including those equipped with planning capacities above a certain minimum level—to formulate PRSPs as standard documents?* For these countries, it is important to: (i) assess the capacity and institutional arrangements of the existing system; (ii) ask if some elements of a potential PRSP can enhance the existing system; and (iii) decide whether a formal PRSP is useful or the same effects can be realized through partial modification of the existing system and without a PRSP.

Table 2. Major Donors' Views on Vietnam's CPRGS

	Japan, France, Germany	World Bank, UK, Nordic
The role of CPRGS (i.e., relationship with existing development plan)	<ul style="list-style-type: none"> · A useful tool to reinforce the core planning documents (i.e., 10-Year Strategy and Five-Year Plan), dealing with poverty reduction in a cross-cutting manner. · One of many (sector) plans; not expected to become an overarching document by replacing the existing core documents. 	<ul style="list-style-type: none"> · The only planning document, accountable for donors and subject to external monitoring.
Relationship with budget process and donors' assistance strategies	<ul style="list-style-type: none"> · Inappropriate to align all the resources (budget, aid) to CPRGS. · Prepared to support the other high priorities in overall development strategies (e.g., network infrastructure, higher education and technology transfer, private sector development), while respecting CPRGS priorities. 	<ul style="list-style-type: none"> · Desirable to align all the resources (budget, aid) to CPRGS. · Plan to align respective country assistance strategies to CPRGS priorities.
Growth vs. poverty reduction	<ul style="list-style-type: none"> · Appreciate a balanced approach to broad-based growth and pro-poor measures. 	<ul style="list-style-type: none"> · Appreciate proper attention to pro-poor support measures.

Note: Prepared by the author, based on the findings of two missions in March and May 2002.

4. Vietnam's PRSP Experience—Strong Ownership and Growth-Oriented

East Asia's development driven by trade and investment

The world has seen the polarization of developing countries in the last half-century: one group which succeeded in poverty reduction through sustained growth, and another group which did not. The majority of East Asian countries belong to the first group. Viewed from a long perspective and as a regional phenomenon, there is no denying that East Asia has made impressive strides in income levels, economic equity and social indicators despite frequent wars, crises and stagnation.

The outstanding feature of East Asian development is the staggered participation in the dynamic production network created by private firms via trade and investment. One by one, countries in different stages of development joined this regional network by each becoming a link in the international division of labor with clear order and structure. For East Asia's latecomers, economic development is a process of constant upgrading of industrial capability from low-tech to high-tech under competitive pressure from as well as complementary relations with its neighbors. Through this complex relationship of rivalry and cooperation, structural shifts have occurred which continuously passed industries from one country to another. No other developing region has formed such dynamic interdependence as in East Asia.⁵

The World Bank's *East Asian Miracle* report attributed the region's success to the combination of prudent macroeconomic management, human resource development, export promotion and effective public-private coordination, even admitting the positive role played by selective intervention in a few countries [World Bank 1993]. The World Bank's more recent diagnosis of the region in the aftermath of the Asian financial crisis called for redoubled efforts to improve policies and institutions in order to restore growth [World Bank 2000a]. However, evaluation of policies pursued by individual countries is hardly enough to understand the sources of dynamism in this region. East Asia as a region provides a powerful model and an enabling environment in which latecomers are constantly challenged to catch up with the region's more advanced economies. East Asia's future prosperity also depends very much on the maintenance of this regional dynamism, which in turn hinges on the vitality of transnational private activities as well as the regional cooperation to support it, both of which are beyond the scope of individual countries alone.

For the Japanese economy, East Asia is the most important developing region. For East Asia, too, Japan has

⁵ For more details, see Kenichi Ohno, "Development with Alternative Strategic Options: A Japanese View on the Poverty Reduction Drive and Beyond" GRIPS Development Forum Policy Note No.1, May 2002; and the forthcoming *information module* "East Asian Experience in Economic Development and Cooperation," GRIPS Development Forum (at <http://www.grips.ac.jp/forum-e/>).

been a particularly important country as the largest donor, the principal partner in trade and investment, and the chief architect of the East Asian production network. East Asian dynamism has also been supported by trade and investment relationship with the EU and the US, as well as the extensive business network of Taiwan, Hong Kong, and overseas Chinese.

As the dominant ODA provider in East Asia, Japan has mobilized its extensive tools for economic cooperation mainly to spur and complement the market-based economic linkage. The majority of Japan's ODA projects placed high priority on assisting the self-help efforts of the East Asian developing countries to attain a suitable status in the region's production network and, through it, catch up with the forerunners and improve living standards. Japan's ODA in infrastructure, human resource development and industrial cooperation has greatly contributed to reinforcing East Asia's dynamism by removing bottlenecks and creating new private trade and investment. In fact, Japanese ODA projects have often been initiated in response to the needs of the private sectors in Japan or the East Asian developing countries. The resulting economic prosperity and social stability in East Asia have in turn brought significant benefits to Japan.

Vietnam's aspiration to catch up

In its policy aspiration and growth mechanism, Vietnam is a typical East Asian developing country. With a per capita GDP of US\$390 in 2000 (World Bank data), it ranks as one of the poorest countries in the world. Despite its location at the heart of East Asia, years of wars and central planning had left Vietnam far behind its ASEAN neighbors in economic performance. Domestic enterprises desperately lack competitiveness, and its market economy is severely underdeveloped.

Vietnam's political system and public administration have been relatively stable. While there remain a large number of unsolved problems including inefficiency, corruption and institutional rigidity, the government machinery certainly exists to assume the responsibility for economic policy making and implementation.

In 1986, Vietnam launched a domestic economic reform called "*Doi Moi*." Around 1992, it initiated a vigorous process of international integration vis-à-vis the Western countries and international organizations. The country restored diplomatic relation with the US and joined ASEAN in 1995, joined APEC in 1998 and signed a US bilateral trade agreement in 2001. Negotiations for WTO accession are continuing. Within a relatively short period of ten years, the Vietnamese economy has come to be deeply integrated into the global economy through trade, investment and aid. The synergy of domestic liberalization and external opening provided the engine for high economic growth, which has averaged at 7 to 8 percent per year. The country also underwent a process of dramatic social transformation. By the end of the 1990s, Vietnam had

already achieved the principal goal of MDGs, namely halving the ratio of people in extreme poverty between 1990 and 2015.

As mentioned earlier, the core official documents embodying the medium- and long-term visions of the Vietnamese government are the Ten-Year Strategy and the Five-Year Plan. These documents articulate the areas where policy efforts must be exerted over the next decade in order to attain the national goal of *Industrialization and Modernization* by the year 2020 (see Box 1). These documents attest to Vietnam’s aspiration to catch up, promote foreign direct investment (FDI) and industrial development, and participate in East Asia’s production network.

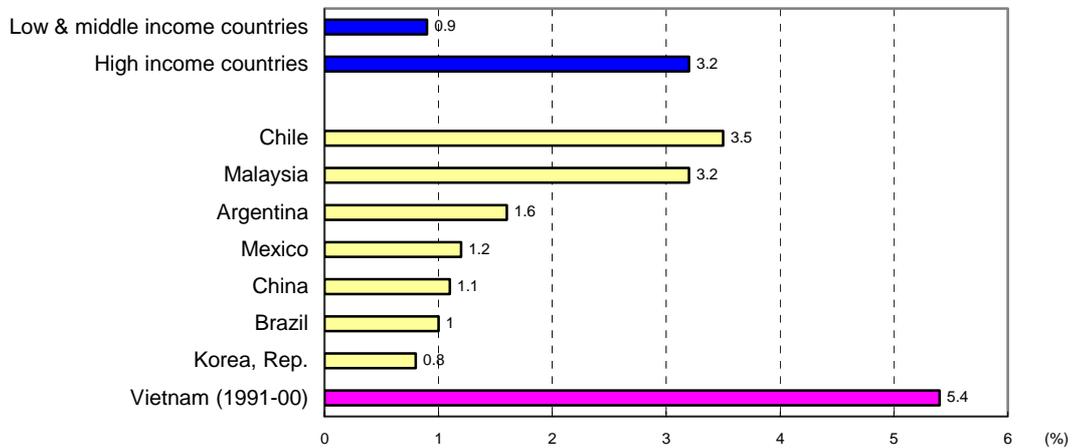
During 1991-2000, the average inflow of FDI into Vietnam amounted to 5.4 percent of GNP (see Figure 5). This level far exceeds the average of lower-middle income countries (0.9 percent of GNP), and it is even higher than those in some high-performing middle-income countries such as Chile (3.5 percent) and Malaysia (3.2 percent) [World Bank/ADB/UNDP 2000]. While many transition countries make strenuous efforts to attract FDI, very few succeed in activating FDI as an engine of growth shortly after the initiation of international integration. In this regard, Vietnam is a rare exception. Although improving, Vietnam’s investment climate remains deficient in comparison with those in the neighboring countries. Therefore, the relatively large inflow of FDI so far can be attributed mainly to the favorable opinions of foreign investors on the future prospects of Vietnam, as a country starting to participate in East Asia’s dynamic production network.

Box 1. Vietnam’s Strategy for 2001-2010

Vietnam’s 10 Year Socio-Economic Development Strategy expresses a strong commitment to rapid growth, employment creation, poverty reduction and achievement of 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 in GDP to decline from 25% to 16-17%; the share of industry to increase from 35% to 40-41% and the share of services to increase from 40% to 42-43%;
- The share of agricultural employment to decline from two-thirds to half; and
- The share of urban population to increase from a quarter to a third.

Figure 5. Vietnam's FDI attraction has been exceptionally successful
Gross Foreign Direct Investment (% of GDP, average 1991-1999)



Source: Government of Vietnam and World Bank, SIMA database, (cited from *Vietnam 2010 Entering the 21st Century*, Joint Report of World Bank, Asian Development Bank and United Nations Development Program (UNDP), November 2000).

Vietnam's industrialization over the past ten years has followed more or less the same pattern as the experiences of East Asia's more advanced economies. Its industrial structure has shifted rapidly from primary commodities (e.g., crude oil, rice and marine products) to manufacturing of labor-intensive products (e.g., garments, footwear and electronic parts). In the years to come, the principal objective of Vietnam's policy makers will be to continue to "import" the regional dynamism to accelerate growth, while simultaneously avoiding the potential risks associated with such international integration.

Strong concern for social equity

Vietnam has long accorded high priority to social equity. Although the problem of quality and efficiency remains, the country has a vast network of social service delivery down to the village level. When compared with other countries at the similar level of income, Vietnam's social achievements are far superior, as seen by the adult literacy rate of 93 percent and the infant and child (under five) mortality rate of 42 per 1,000 live births [1998 data, World Bank 2000b]. The data also suggest that public social expenditures are more equally distributed than household expenditures, playing an important re-distributive role (for example, the poorest quintile receives 26 percent of primary education expenditures [World Bank et al. 2000]). Moreover, the Vietnamese government has the tradition of implementing poverty reduction programs targeted at ethnic minority groups in the mountainous areas and poor families in remote areas.

To cut poverty further, it is necessary to improve the existing policy and institutions. But additionally and more importantly, the best way to reduce poverty under Vietnam's circumstances is to enhance the productivity and competitiveness of the entire economy and provide job and income opportunities to the population. In Vietnam, the positive association between economic growth and poverty reduction is clearly felt and understood by the people as well as the policy makers. The reduction of absolute poverty by half during the 1990s was largely due to the growth impetus ignited by economic liberalization and opening.

PRSP in the Vietnamese context

While the UN agencies and Sweden have a long history of assisting Vietnam, other donors including Japan, the World Bank, the ADB, Germany, France, Denmark, Australia and UK resumed full aid programs to Vietnam by the mid-1990s. Since 1999, the Vietnamese government has been engaged in aid partnership activities including the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Paper (PRSP) which later was renamed to the *Comprehensive Poverty Reduction and Growth Strategy* (CPRGS).

Vietnam became the first CDF pilot country in East Asia in 1999. This led to the establishment of more than twenty partnership groups, including the Poverty Working Group/Poverty Task Force (PWG/PTF), charged with cross-cutting poverty agenda, as well as other sector-specific thematic groups covering wide-ranging issues. The PWG/PTF assisted the government with analytical studies and process building such as poverty assessment, the development of monitoring indicators (particularly localizing the International Development Targets (IDTs) to create the "Vietnam Development Targets (VDTs)"), and the organization of a series of regional workshops.

Vietnam completed a Full-PRSP ahead of other East Asian countries. The Ministry of Planning and Investment (MPI), in coordination with other ministries, played a central role in the preparation of CPRGS. The process went pretty much on schedule, from the preparation of Interim-PRSP (I-PRSP) in March 2000 to the presentation of the draft CPRGS at the Consultative Group (CG) Meeting in December 2001, the organization of four regional consultation workshops (plus NGO-organized six commune consultations) to discuss the draft CPRGS in February/March 2002, and the Prime Minister's approval of CPRGS in May 2002. The final CPRGS was presented to the donors at the informal CG Meeting in May 2002. The Vietnamese government renamed PRSP to CPRGS after the completion of I-PRSP, adding the terms "comprehensive" and "growth."

The Vietnamese government regards CPRGS as an action plan that translates the Ten-Year Strategy, the Five-Year Plan and sector policies into concrete measures (see Box 2). The economic goals and budget

allocation are simply copied from the Ten-Year Strategy and the Five-Year Plan. However, to complement these plan and strategy with a strong accent on growth, CPRGS emphasizes the “quality” of growth and proposes ways to minimize income and regional disparities, cut poverty and achieve social equity in the process of rapid growth. The ownership and the participatory approach assumed by the Vietnamese Government were very highly noted by the international community. Vietnam’s CDF and PRSP experience has thus become “good practice.”

Box 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 for 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, May 2002.

5. Japanese Development Cooperation in Vietnam⁶

Infrastructure and policy advice

The general characteristics of Japan's development approach can be 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, 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 the 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.*

In ODA volume, Japan has been the top donor in Vietnam since 1995 (accounting for 45 percent of the total ODA during 1998-2000, net disbursement base). Simultaneously, Vietnam is considered one of the most strategically important recipients of 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 Japanese government's "Country Assistance Program for Vietnam" in June 2000 specifies the following five areas as key [MOFA 2000]:

- 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
- Environmental conservation

Among these 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. Japan has been the largest donor in the transport and power sectors, exceeding the aid extended by the World Bank and the ADB combined. Furthermore, 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,

⁶ For more details, see *Japan's Development Cooperation in Vietnam—Supporting Broad-based Growth with Poverty Reduction*, GRIPS Development Forum, May 2002.

policy-oriented programs including:

- “Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in the Socialist Republic of Vietnam” (the so-called “Ishikawa Project”), supported by the Japan International Cooperation Agency (JICA)⁷
- “Judicial System Support” by JICA
- “Economic Reform Support Loan” (the so-called “New Miyazawa Initiative”), financed by the Japan Bank for International Cooperation (JBIC)⁸

This aid menu is unique even for Japan. Nowhere else in the world does Japan provide equally concentrated intellectual assistance to a single country.

Concretizing Vietnam’s development vision

Japan has made important intellectual contributions to the establishment of Vietnam’s development vision. These include: (i) advice on the recent two Five-Year Plans (sixth and seventh) and the current Ten-Year Strategy in 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.

Vietnam’s preparation for industrialization under international integration still remains weak. In the near future, great effort will have to be exerted to translate Vietnam’s development vision into a set of realistic and concrete action plans for raising productivity and competitiveness. Industrial promotion strategies by latecomer developing countries must be adjusted to the age of globalization. It is hoped that the Vietnamese government will deepen its balanced growth strategy, taking into account the country’s specific position 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 through an appropriate mix of schemes including grants, technical cooperation

⁷ The project was officially agreed to by the two governments when former Communist Party General Secretary Do Muoi visited Tokyo in April 1995. Shigeru Ishikawa, professor emeritus of Hitotsubashi University was appointed as the leader on the Japanese side. The “Ishikawa Project” was implemented jointly by the Vietnamese and Japanese teams over six years (1995-2001) and covered areas including agriculture and rural development, trade and industry, fiscal and monetary issues, state-owned enterprises (SOE) reform and small and medium enterprises development as well as macroeconomic balance and responses to the Asian financial crisis.

⁸ The “New Miyazawa Initiative” supported a reform program covering private sector development, SOE reform, and the conversion of all non-tariff barriers into tariffs. This is Japan’s first, free-standing structural adjustment loan, whose conditionality was designed based on bilateral policy discussions between Japan and Vietnam (Exchange of Note and Loan Agreement signed in 1999, loan amount 20 billion yen).

and financial cooperation.

Japan is willing to make a meaningful contribution to the design and implementation of a concrete and pragmatic growth strategy—not only through infrastructure development but also through intellectual aid. Japan can provide intellectual aid so that the real-sector concern, reflecting East Asia’s development experience and Japan’s own aid experience, will be firmly incorporated into Vietnam’s growth strategy while respecting its specific circumstances. Moreover, such concern for growth should be addressed not only in the bilateral context but also under the multilateral framework, including CPRGS. It is necessary to conduct in-depth research on broad-based growth strategy and then align international support based on its results. Areas for study can include specific industries which are important for Vietnam, trade, marketing, FDI attraction, agriculture and rural development, promotion of small- and medium-enterprises as well as supporting industries, private sector development, and human resource and infrastructure development in support of industrialization.

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. However, there should be multiple paths to achieve that goal. From the menu of alternative 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 fervor for “catching up” and serious concern for industrial competitiveness, which cannot be captured by the framework of “poverty reduction” alone. Vietnam’s socio-economic development, if it is to succeed, must also be built on a concrete growth strategy incorporating the perspective of such Asian dynamism.

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