

**Country Study for Japan's Official Development
Assistance to the Socialist Republic of Viet Nam**

March 1995

**The Committee on the Country Study for Japan's Development
Assistance
to The Socialist Republic of Viet Nam**

**Organized by
Japan International Cooperation Agency**

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This report is based on the discussions and findings of the Committee on the Country Study for Japan's Official Development Assistance to the Socialist Republic of Viet Nam organized by the Japan International Cooperation Agency (JICA). Opinions expressed in the report are those of the members of the Committee and do not necessarily reflect those of JICA and of its affiliated organizations.

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Preface

This report is a compilation of the conclusions reached by the Committee on the Country Study for Japan's Official Development Assistance to the Socialist Republic of Viet Nam on the basis of research work commissioned by Japan International Cooperation Agency (JICA) in January 1994 and extending for over one year. Consisting primarily of university scholars recognized as authorities in their fields of expertise, our committee was assigned the task of investigating the issues confronting Viet Nam in its transition to a market economy, as well as the challenges of achieving macroeconomic stability and the long-term development issues for extricating Viet Nam from its current status as a low-income country. Further, on the understanding so obtained, we also had the task of exploring suitable approaches to the formulation of Japanese aid strategy for Viet Nam.

The report is broken into two sections: an introduction with a summary of conclusions, and the main body. The prefatory material outlines the key observations gleaned from our study of Viet Nam's economy in general, as well as the scope and limits of our analysis. The comments therein focus primarily on our interpretation of the two chief features distinguishing Viet Nam today: namely, its status as an economy in transition and as a low-income country.

The main body of the report is built upon three sequential themes: development trends and issues, development scenarios, and aid strategies. That construction was in keeping with our own views regarding desirable procedural flows for studies having to do with Japan's aid strategies. This procedure involves three steps. The first step is to closely examine development trends in the recipient country and identify issues demanding solution as a condition for serious new development headway. The second is to draw up several scenarios portraying the solutions to these issues by a target year (in this case, 2000). Finally, the third step is enunciate, after giving full attention to current conditions in the recipient country, the best possible aid strategy. Aid strategy should give consideration to the policies employed for the selection of actual aid projects, and the basic trends in economic development expected to derive therefrom. Our committee did not concern itself with the steps leading up to project selection, which is achieved through policy dialogue with the Vietnamese government itself.

Each of the three themes comprising the main body of the report were

further divided into three subsections that respectively dealt with topics in stabilization, structural adjustment, and long-term development. As it happens, many developing countries faced crisis conditions in their balance of payments. In response, from the beginning of the 1980s, the international aid community concentrated its efforts on two new forms of aid in its assistance to developing countries, as complements to its technical assistance, investment projects, and other, conventional forms of aid (i.e., aid for long-term development). Specifically, it gave central roles to programs to achieve balance-of-payments equilibrium and fight inflation (stabilization); and programs designed to eliminate economic distortions and boost efficiency in the process of strengthening a market mechanism (structural adjustments). Viet Nam regained access to international aid at a time when its economy still faced dangerous conditions of instability. For that reason, it seemed easier to study aid strategies for Viet Nam in terms of the three general forms of aid described above.

Each and every one of our committee members devoted themselves tirelessly to their assigned research duties and to the production of this report. In addition, though, we also received immeasurable outside assistance and support from related bureaus and divisions of the Ministry of Foreign Affairs, JICA, and especially the Institute for International Cooperation, which put together a task force of experts and support staff to assist us in our work. (Their research findings are slated for release in a separate document, the “Country Study for Japan’s Development Assistance to Viet Nam, Analysis of Present Condition.”) Numerous experts shared their views with us in hearings conducted during the course of our research in Japan. Furthermore, the Japanese Embassy in Viet Nam was tremendously helpful in aiding our research work within Viet Nam. Finally, we were also fortunate to receive invaluable advice and guidance from central and regional Vietnamese government offices, as well as from the local missions of the World Bank, UNDP, ADB, and other national and international aid institutions. On behalf of the committee, I wish to extend my heartfelt gratitude to all.

March 1995

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Introduction with Summary of Conclusions

1. Introduction

This paper presents the findings hitherto reached by the Committee on the Country Study for Japan's Official Development Assistance to the Socialist Republic of Viet Nam in three steps: namely, in terms of development conditions and issues, development scenarios, and aid strategies. This three-step format essentially corresponds to the six-stage approach to aid strategy formulation adopted in the Country Study for Japan's Official Development Assistance to the Arab Republic of Egypt (issued in April 1992). Each step, moreover, is further broken down into three dimensions with an analytical focus: macroeconomic stabilization, structural adjustments (policy and institutional reforms), and long-term development (an area of relevance to most current efforts in loan and grant aid).

2. Summary of Conclusions

A. Long-Term Development

The Committee considered rural economic restoration, rural industrialization, industrial policy formulation and implementation (including the arena of economic infrastructure), and human resources development to be among the chief issues and aid-strategy priorities of concern to long-term development, per se.

In agriculture, the biggest issues confronting Viet Nam are the impoverishment of its rural economy and a lack of stability in food security. The former is an end-result of the population explosion and a breakdown in basic infrastructure stemming from several decades of war. The latter is characterized by the fragility of rice exports, which are immediately endangered any time harvests in the north and central regions are poor, and despite any sustained production of an export-oriented surplus in the south. Indeed, solutions to these two issues alone will be prerequisite to any improvement in conditions of social or political stability. We believe the agricultural and rural issues confronting Viet Nam today command substantially more urgency than many of the problems in agrarian development commonly witnessed elsewhere in the developing world.

The country's efforts in rural industrialization have just begun to get off the ground. Were Viet Nam to emulate China's track record in this regard, rural industrialization could effectively trigger heightened activity across the economy at large. For now, though, it will count as one of the chief means of rescuing Viet Nam's beleaguered rural economy. Still, breakthroughs in productivity backed essentially by institutional reforms and innovations in technology in the agricultural sector must serve as the driving force for rural industrialization itself. Owing to the exceptionally diminutive scale of acreage in cultivation on a per-farmer basis (especially in the north), those breakthroughs will not be easily forthcoming. Achieving such breakthroughs with policy supports and innovations within the rural sector itself, expanding rural industrialization, and on that basis ultimately revitalizing the rural and farm economies together stand out as challenges of top priority for modern-day Viet Nam.

Industrial policy as expressed in its context here has to do with more than the maintenance and expansion of infrastructure in such areas as power generation, transportation, and communications; it also has to do with the selection of industrial fields deserving priority development under a fairly strong government interventionist hand in the direct production sector, and with the provision of resource- and policy-based supports for that undertaking. In policy documents released to date, Viet Nam has not articulated its development policies on an industry-by-industry basis, except in the arena of infrastructure restoration. That silence appears to be in deference to the position taken by the IMF and the World Bank, namely that the market mechanism should guide the selection and operation of direct production industries other than those in areas of infrastructure (i.e., social overhead capital) that, given the prospects for increasing returns, are considered viable targets for public investment.

Nonetheless, it seems essential that industrial priority lists backed by preparations for domestic and foreign-led investment be drawn up in developing countries where the market mechanism has yet to fully manifest itself, especially countries like Viet Nam that face an uncertain outlook in their trade balance. In Viet Nam, there are two issues in this regard, one of which will be deciding how much energy to pour into export-oriented industries, i.e., not only labor- and skill-intensive fields such as apparel, consumer appliances, and electronic product assembly, but also more technology- and capital-intensive ventures. The other issue will have to do with formulating programs for the

cultivation of entirely new industrial fields that draw on Viet Nam's reserves of oil, gas, and other resources as their raw inputs.

Viet Nam today would seem to have limitless demand for new investments in infrastructure. It will be critically important, though, to think about properly balancing available resources between the interests of infrastructure development and the cultivation of the direct production sector such as those in the fields cited above. To be sure, this attention to industrial policy has become increasingly apparent in new policymaking resolutions passed by important Communist Party gatherings since the start of 1994 (when the terms "industrialization" and "modernization" found new popularity in party slogans). Accordingly, it has become much easier to engage in a dialogue with the Vietnamese government on these issues.

Human resources development counts as an extremely serious issue spanning practically every dimension of economic and social endeavor. In fact, its scope is so broad that efforts to set priorities for action seem difficult, and for that reason, we feel additional study is required. Given the widespread implementation of compulsory education and the comparatively high literacy rate, efforts in vocational training, and education and training especially of mid- and high-level managers, are probably more urgent. During the war years, opportunities for, and the level of, higher education and vocational training were rather poor. Further, Viet Nam has not been fast enough in training its labor force in the skills and knowledge needed to adapt to the rapid transition from the regulatory frameworks of a centrally planned economy to those of a market-driven economy. Measures to deal with these disparate issues will naturally demand different approaches.

B. Macroeconomic Stabilization

At first glance, it would appear Viet Nam has shown a significant measure of success in the arena of policy management following the broad-based price liberalization reforms it introduced in 1989. As it happens, those reforms compared closely with the "shock therapy" model of sweeping price liberalization Russia launched in 1992. At least on paper, the IMF and World Bank alike have showered Viet Nam with praise in this area. Especially noteworthy are the improvements witnessed in GDP and inflation. Though GDP growth declined to a level of around 5 percent following the reforms of 1989, it has

since recovered and is today running in the 8 percent range. Also, while inflation did demonstrate some volatile spikes in turn, it has since fallen steadily from a high annual rate of close to 100 percent and is now down in the 5 percent range. In tandem with these stabilizing trends, the domestic savings rate has risen substantially from the conspicuously low level it traced through the 1980s.

All told, these accomplishments were an outcome of state policies pursued from 1990 to 1991 and aimed at reining in aggregate demand chiefly through cutbacks in fiscal expenditure (e.g., cuts in public investment and real cutbacks in civil-servant pay). Those policies, however, exacted a heavy price at the expense of the country's potential for sustainable growth. Accordingly, in a bid to remedy the situation, in 1993 the government sought fiscal expenditure increases aimed at lifting levels of public investment and improving civil servant pay. The hastiness of that policy reversal, however, effectively contributed to a sharp surge in the fiscal budget deficit the same year, and other foreboding signs began to set in as well. In particular, the current-account deficit in the balance of payments began expanding once again, and prices for consumer goods moved back into an uptrend (Table 1). What these developments suggest for conspicuously low-income economies like Viet Nam is that stabilization policies essentially cannot take root without a steady rise in per-capita GNP and a real increase in savings and investment rates (particularly in savings rates, as seen in the period leading up to 1992, when Viet Nam had no influx of foreign savings).

One noteworthy factor of relevance to the stabilization process is the dual nature of Viet Nam's economic structure, which currently consists of a dong economy and a gold and dollar economy. According to a survey of household income, savings, and credit conducted jointly by the UNDP and the State Planning Committee (SPC) in 1994, Vietnamese households maintained 47.5 percent of their tangible and financial assets in gold and dollars (of that share, 44 percent was in gold), and only 10.1 percent in dong currency. Only 12.2 percent of all holdings in bank deposits, stocks, and bonds were dong-denominated. (UNDP and State Planning Committee: *The Reports on Income, Savings, and Credit for 1994 in Viet Nam*. Hanoi, 1994.) In addition, estimates are that the total amount of dollar currency in circulation has reached an equivalent of Dong 8 trillion, or roughly half the amount of dong in circulation (Dong 16 trillion).

Table 1. Key Macroeconomic Indicators for Viet Nam

	1986	1987	1988	1989	1990	1991	1992	1993
<u>GDP</u>								
Nominal GDP (in billions of dong)	636	3099	13266	28135	41848	76707	110535	125076
(annual change)	385	387	328	112	49	83	44	24
Real GDP (annual change)	3.4	3.9	5.1	8.0	5.0	6.0	8.6	8.1
<u>Prices(annual change)</u>								
GDP Deflator	370.0	370.0	310.0	70.0	49.7	73.0	35.0	13.2
Consumer Price Index	387.2	301.0	308.2	95.8	36.4	83.1	37.8	8.3
<u>Sectorial Share of GDP(%)</u>								
Agriculture & Forestry				40.8	37.3	39.5	33.0	29.3
Mining, Manufacturing & Construction				22.9	24.1	23.8	27.1	28.4
Services				35.1	37.9	35.7	34.6	41.2
<u>Labor Force(in thousands)</u>								
Population	60249	61750	63263	64774	66233	67774	69405	70918
Employed Labor Force	27399	27968	28477	28941	26915	31094	31815	32718
Public Sector	4028	4091	4052	3801	3418	3144	2975	2923
Non-public Sector	23371	23877	24425	25140	26197	27950	28840	29793
<u>Trade(in millions of US\$)</u>								
Trade Balance	-627	-575	-679	-350	-41	-63	-60	-655
Exports	494	610	733	1320	1731	2042	2475	2850
Imports	1121	1184	1412	1670	1772	2105	2535	3505
Current Account Balance	-655	-624	-751	-586	-259	-132	-8	-869
<u>Money Supply</u>								
Dong in Circulation (in billions)	55	205	1024	2352	3735	6419	10579	14218
Dong in Deposits (in billions)	54	237	1303	4127	3943	5528	8352	10665
Demand Deposits	N.A.	N.A.	N.A.	1615	1578	2707	4232	4870
Time Deposits	N.A.	N.A.	N.A.	1357	2365	2821	4120	5794

	1986	1987	1988	1989	1990	1991	1992	1993
Foreign Currency Deposits (in billions of dong)	1	29	242	2096	3680	8354	8213	7406
M1 (in billions of dong)	N.A	N.A	N.A	3967	5313	9126	14811	19088
M2 (in billions of dong)	111	471	2569	8575	11357	20301	27144	32289
As a percentage of GDP	10.3	9.4	11.5	20.5	24.6	22.6	23.2	23.8
(annual change)	461.0	324.0	445.4	188.8	53.1	78.8	33.7	19.0
Dong/US\$ Exchange Rate (end of period)	80	368	3100	4415	6689	13252	10717	10845
Fiscal Budget (as a percentage of GDP)								
Revenue (including grants)	13.2	12.2	11.3	13.8	14.7	13.5	19.0	22.3
From State-Owned Enterprises	9.5	9.2	7.2	8.0	8.7	8.1	10.8	11.8
From Crude Oil	N.A	N.A	N.A	1.0	2.0	2.8	3.8	3.8
Expenditure	19.0	16.7	18.6	24.1	22.8	17.2	22.7	28.5
Current Expenditure (excluding interest)	12.9	12.7	14.0	15.4	14.7	11.4	14.0	18.8
Capital Expenditure	5.9	3.9	4.4	5.8	5.1	2.8	5.8	7.0
Interest Payments	0.2	0.1	0.2	2.9	3.0	3.0	2.9	2.7
Primary Balance	-5.7	-4.3	-7.0	-7.2	-5.1	-0.7	-0.8	-3.5
Balance (including interest)	-5.8	-4.4	-7.2	-10.2	-8.1	-3.8	-3.7	-6.2

Notes: Vietnamese statistical data have long been MPS-based; SNA-based data are therefore still limited in their availability. Further, the data have often been subject to sweeping revisions aimed at rectifying serious computational errors. For instance, by World Bank accounts, calculations of nominal GDP since 1989 have been significantly revised upward, forcing downward revisions in fiscal and monetary indicators as percentages of GDP.

Sources: World Bank, Public Sector Management and Private Sector Incentives, 1994. IMF documentation.

As these statistics demonstrate, gold and dollars currently play a vital role in the Vietnamese economy as units of account, means of payment, and— even more effectively— as store of value. We as yet do not have an adequate understanding of how these features of the dollar and gold economy and the dong economy manifest themselves in the real economy, nor how they interact with each other. The data do suggest, however, that the gold and dollar side of the economy could in reality be supporting the stabilization trends that have surfaced in terms of economic indicators on the dong side of the economy. They also indicate that current monetary policies will have limited effectiveness on the total economy should monetary authorities concentrate their efforts in macroeconomic management on the dong side of the economy alone. Furthermore, there is a comparatively large amount of evidence to suggest that Viet Nam's financial markets are still in their earliest stages of development.

In September 1994, the World Bank, the IMF, and the Vietnamese government struck an accord on a policy framework paper for the formulation of a medium-term program of stabilization and structural adjustments (1995-1997). That arrangement appears to be aimed at offsetting the structural weaknesses we described above and at placing the country on a path of sustainable growth. As such, and in tandem with prescribed structural adjustments discussed in the next section, it calls for annual GDP growth of a strong 8 percent through the period in question, yet conditioned on reining in the corresponding annual inflation rate to 6 percent (considered equivalent to the expected inflation rate among Viet Nam's key trading partners). To that end, it also calls for keeping the current surplus in the government's fiscal budget to a level equivalent to 3.75-4.25 percent of GDP (a 4.25 percent deficit overall), and for bringing the current-account deficit in the balance of payments within a level equivalent in value terms to inflows of concessionary foreign financial resources. In line with these goals, the World Bank in October 1994 agreed to furnish Viet Nam \$150 million in structural adjustment credit (SAC) as support for its medium-term program. The following month, moreover, witnessed agreement on an IMF enhanced structural adjustment facility (ESAF) worth \$535 million, for a combined total of \$685 million.

C. Structural Adjustments

In the arena of structural adjustments, also, at first glance it would

appear Vietnamese policies implemented since 1989 have produced exceptionally favorable results. In particular, success has been seen with the ban on fiscal-deficit financing through extensions of central-bank credit to the government (i.e., through the so-called process of monetization, or printing of new money); the protection of central-bank autonomy in the issuance of bank notes, and so forth; ceilings on total lending by state-owned banks; a ban on lending to companies with operating deficits; and the dismissal of redundant employees at state-owned enterprises. These measures have been placed into effect with a degree of determination unparalleled even in China. Despite their effectiveness to date, though, they could face immediate retraction depending on trends in the macroeconomic indicators discussed earlier.

As structural adjustment conditionalities attendant to the provision of the credit facilities they approved in October and November 1994, the IMF and World Bank have prescribed and urged the implementation of measures in tax reform, budget control, state-enterprise reform, financial-sector reform, and the liberalization of foreign trade. Further, as targets that should be achieved through the satisfaction of these conditionalities, the World Bank has called on Viet Nam to lift levels of national savings and gross domestic investment in the overall economy (Fig. 2 on page 40). This is consistent with our own views, and a position with which we accordingly concur. Nonetheless, as a complementary strategy toward attaining those goals, we recommend that the scope of action be extended from the context of structural adjustments to long-term development, that the Vietnamese government assume a suitable leadership role, and that Japan provide assistance to that end.

3. Basic Research Stance behind Study Conclusions

A. A Comparison of Three Economies in Transition: Viet Nam, China, and Russia

This three-country comparison of economies in transition provided the broad-based perspective for our research. “Economies in transition” is essentially a generic phrase for countries in the process of moving from centrally planned economies to market-oriented economic systems. Three dimensions shape the three-country comparison outlined here.

(1) First of all, regarding data for the comparison, it deserves noting that whereas Russia was already a fully industrialized and mature socialist state, Viet Nam and China counted as developing socialist countries, which, for the most part, were still focused heavily in agriculture. (As Table 2 illustrates, the public sector, led chiefly by state-owned enterprises (1), accounted for 86 percent of total employment in Russia, compared with only 18 percent in China and 10 percent in Viet Nam.) Further, in Russia's case, the challenges of transition have been limited to systemic reforms (for a market-oriented economy) and stabilization efforts along the way. For China and Viet Nam, on the other hand, systemic reform has been compounded by the challenges of economic development itself; further, pressures for action in the arena of stabilization have also factored in, whatever the differences in their magnitude.

For Russia, the development process has essentially ended. That is to say, its division of labor is already advanced enough for production even under a centrally planned economic system, and it has a fully developed distribution infrastructure. In other words, it has already satisfied latent conditions for the adoption of a more advanced market-driven economic system than would normally be the case. China and Viet Nam, though, have not met those conditions yet, and to do so they still have to make further progress in the arena of industrialization itself. Without that requisite step, it will be quite difficult if not impossible to power the transition to a market economy on the strength of institutional reforms alone. As noted earlier, Viet Nam's financial markets are still quite underdeveloped. Remedying that situation in the absence of parallel development undertakings on the real side of the economy will be an exceedingly difficult task. This is one of the reasons for the earlier assertion that issues of economic development have been compounded by the challenges of transition to a market economy.

(2) To be sure, though, there are also certain advantages to facing lingering development problems in the transition to a market economy, and the reasons are as follows. Full development under a centrally planned system places most of the economy in the hands of state-owned enterprises, leaving little to other, non-state sectors. (Refer to Table 2.) In a centrally planned economy, there are vast differences between the degrees of economic control over state-owned and non-state-owned sectors. Control of the state-owned sector must be stern if the goals of planning and command are to take shape; on top of that, it has the

Table 2. Sectorial Share of Employed National Work Force

	Russia (1988)	China (1992)	Viet Nam (1991)
A. Employment Composition by Key Sector			
(1) Public Sector	86.1	18.3	10.2
Government	-	5.4	4.0
State-owned enterprises	-	12.9	6.2
(2) Collective Sector	5.3	23.9	58.7
Township and village enterprises	-	17.8	-
(3) Private Sector	8.6	57.8	31.2
B. Employment Composition by Industry			
(1) Industry	25.9	17.2	11.0
(2) Agriculture and Forestry	20.2	58.6	73.0

Source: Jeffrey Sachs and Wing Thye Woo, "Reform in China and Russia," Economic Policy, April 1994. China Statistical Yearbook 1993. General Statistical Office, Viet Nam Statistical Yearbook.

Notes: 1. Urban collectives and township and village enterprises account for the collective sector in China. Self-employed workers in urban and rural communities and other units comprise the private sector. Workers in township and village enterprises, however, do not count among self-employed workers at the rural level.

effect of altering corporate-unit organization and modes of conduct. In the non-state sector, control is limited chiefly to regulations on distribution and pricing, and typically does not extend to corporate-unit organization or modes of conduct. Consequently, in moving to a market-driven economic framework, the state-owned sector will face difficulties even when privatization is the formula of choice. By contrast, efforts based on deregulation alone have the potential to succeed in the non-state sector. This is chiefly the reason why reforms have failed in general to show much success in Russia, where state-owned enterprises account for most economic activity, but are at least working effectively beneath the surface in Viet Nam and China, where state-owned ventures do not carry much economic clout. (Harvard University Professor Jeffrey Sachs, who supports Russia's shock-therapy program, draws the same distinctions in explaining the divergent Russian and Chinese track records in economic reform.)

(3) A more in-depth comparison between Viet Nam and China is possible within the same general context outlined above. As already noted, the non-state sector is relatively large in both countries. Both, moreover, have the potential to spur a leap in productive activity throughout the economy by allowing market-oriented economic reforms in that sector to furnish the necessary critical mass. China, in fact, has already translated that potential into reality, and since 1991 has continued to register strong GDP growth averaging 13 percent in annual terms. The stages of that process went as follows. First, China registered breakthroughs in productivity in the agricultural sector led by institutional reforms and innovations in production technology. That triggered a boom in rural industrialization (led by township and village enterprises), and this boom, in conjunction with foreign direct investment, catalyzed a sharp expansion in the production of labor-intensive export goods.

Viet Nam, however, has yet to harness its potential. Though the extremely diminutive scale of acreage in cultivation on a per-farmer basis has been cited as one reason, the fact is that essentially the same constraining conditions characterized those districts in China that have demonstrated dramatic breakthroughs in productivity in the agricultural sector. On this point, therefore, it would be worthwhile to pursue more-intensive research to determine whether some other, more-decisive constraint has been in play, and if not, to ask what lessons Viet Nam can glean from the Chinese experience.

(4) Viet Nam, China, and Russia are also distinguished by differences unyielding to explanation within the above comparative framework. For one thing, Viet Nam stands out as a country heavily impacted by conditions of war on its territory for over three decades running from the closing days of World War II to 1975. To be sure, though, China and Russia, too, have been disadvantaged. In Russia, for instance, the defense sector accounted for 60 percent of total industrial output in value terms. Farmer ignorance of market-oriented management practices has been blamed, moreover, for the languishing state of Russian agriculture. Farm-collective management was long divorced from ownership of farm machinery under the state-run MTS (machine tractor station) system established during Stalin's rule. The emancipation of Russian serfs (in 1861) furnished the regulatory framework for Russian agriculture prior to the debut of farm collectives. Even then, though, land ownership was a right accorded only to rural communities known as "mirs."

B. Development Assistance Strategies for Low-Income Countries

Drawing on comparisons with Russia and China, the foregoing presented perspectives that should help in understanding Viet Nam's development challenges as an economy in transition. But while Viet Nam is an economy in transition, it is also a developing country, and a prime example of a low-income country at that (by World Bank definition, any country with a per-capita GNP of less than \$675 in 1992 dollars). In that connection, we now turn to an explanation of a thought currently gaining gradually broader support as the Japanese position on economic development policies and strategies for developing countries. This position would seem particularly applicable to Viet Nam as a low-income country.

(1) Economic System Reform

Market economies have been slow to take shape and thrive in many countries of the developing world. Dirigisme-based government-controlled economic systems (of which centrally planned economies count as one variety) are often a factor behind the distortions that distinguish developing market economies of this kind. Nonetheless, removing that factor alone will not cure underdevelopment attributable to other, pre-existing distortions. (We term these "innate distortions" and distinguish them from the "artificial distortions" attributable to state control.)

In such instances, efforts must be made to cultivate or reinforce market-driven economic activity if a market economic system is to take root. But what exactly should be done? Fostering the development of a market-based economy involves work to promote the social division of labor and establish physical infrastructure (e.g., networks for trade and commerce, transport, and communications) as well as institutional infrastructure (e.g., rules for entrepreneurial activity, contract relationships, and protection of the right to ownership). Therefore, efforts to build up the nation's infrastructure and bolster productive forces, instrumental in bringing about the division of labor in society, and especially efforts to promote industrialization, must be considered essential preconditions for headway in all these areas.

(2) Bolstering Productive Forces

In addition to the objectives listed in (1) immediately above, steps by developing countries to boost industrial capacity will naturally have their own primary objectives: namely, increasing national vitality and levels of domestic production. Steps to lift levels of savings and investment will, of course, be an essential element of policies to that end, but alone they will not be enough to foster a substantial climb in industrial capacity, for most developing countries still lack a fully functional market mechanism. This is where the importance of suitable industrial policy tends to receive heavy emphasis. It is more important, though, to identify development paths suited to a country's endowment of resources and stage of development, and to steer savings and investment flows in that direction.

Development models based on past experience will be useful to the task of selecting suitable development paths. One is a dual economic development model, which calls for creating new industrial sectors and supplying them with labor from the farm sector in countries where heavy population densities effectively leave no more land available for cultivation. Another is the model for economies driven by the export of primary commodities, as patterned on development in countries that had substantial expanses of as-yet uncultivated territory but suffered shortfalls in their supply of labor. In countries that suffer shortages of certain "natural" factors of production, i.e., of either land or labor, yet have a surplus in other factors, capital, as a "artificial" factor of production, will be invested in a manner aimed at compensating for the deficiencies while putting the surplus factors to productive use. (Consider the differences, for instance, behind investments in flood control and irrigation on the one hand, and in tilling and threshing machinery on the other.)

To be sure, though, both the "dual economy" and "primary commodity exports" models of development constitute abstractions from historical experience. As such, in the developing countries to which they readily apply, development experiences to date would seem to call for modifications or extensions to the principles or concepts underlying each model. For instance, under the dual economy model, this would include experience with the sub-stages of effective agricultural development and rural industrialization, and with opening the economy to foreign trade in parallel with the domestic development process. Under the primary commodity exports model, it would include experience in shifting to intensive agriculture on existing farmland under cultivation after

the arable frontier has been fully developed, and then pursuing industrialization through cross-industrial linkages. (References to such development models in the following sections will be concerned with extended variants that take these factors into account.)

(3) Policy Tools for Economic Transition

The IMF and World Bank refer to the transition in a developing country from a state-controlled economic system to a market-driven one as a “structural adjustment.” As their means of implementing structural adjustment policy, they essentially strive to replace structures for state control at all levels of the economy with market-driven counterparts from countries that already have a substantially developed market economy. Though it should seem more or less obvious, surveys (conducted three times—in 1988, 1990, and 1992—by the Country Economics Department of the World Bank) illustrate that structural adjustments effective in middle-income countries tend nonetheless to be of little help in low-income countries.

Developing countries, and especially low-income ones, do not necessarily have to rely on market mechanisms in order to cultivate and strengthen market economies. Such countries should utilize state intervention in line with appropriately designed programs for action. Assistance from the industrialized world, moreover, should be utilized as support for state intervention of that kind.

The above three strategies form the basis for our position on development approaches. That position will serve as the framework for the approach to economic development in Viet Nam. Now, we shall offer some supplemental background in applying strategies (1) and (2) to Viet Nam. First, regarding economic system reform, it should be noted that Viet Nam’s market economy is one of the least-developed in the world, as should be evident from its per-capita GDP of \$150. One direct indicator of this is Viet Nam’s low 20-percent reading in M2 to GDP, a ratio that effectively expresses the degree of monetization and financial intermediation in the economy.

In reality, barter exchange is considered to be the dominant form of commerce in the central highlands and northern floodplain. What is more, bank deposits and check-based methods of settlement (especially between separate regions) are practices that have yet to take root even in transactions

among state-owned enterprises. The main section of this paper will draw on historical observations to further highlight the backwardness in Viet Nam's market economy.

On the issue of improving productive capacity, it should first be noted that heavy population densities have left no more land open to potential cultivation in the northern half of Viet Nam, whereas more-recently opened regions in the south remain poorly populated. Given these differences, the dual economy model of development would seem more appropriate to the north, and the primary commodity exports model to the south. However, as will be shown later in the main section of this paper, the southern districts of the country are characterized not only by intensive multiseason forms of agriculture on new delta farmland, but also by extensive lowland tracts of reclaimed farmland still plagued by poor soil quality and poor drainage.

Developing the agricultural sector in the south will thus basically demand a modernization drive backed by expanded infrastructure development in the belts where intensive agriculture has already become established, together with large-scale projects in farmland improvement and a shift to intensive agriculture in the lowland areas. As this work is undertaken, the task of agrarian development will be accompanied by the challenge of industrialization. Given that prospect, we feel that study concerning itself with the economic development of Viet Nam as a whole would not be mistaken to adopt something resembling the dual economy model as its guide.

C. The Distant Shape of Viet Nam's Market Economy

Vietnamese economic policy documents are notable for their frequent use of "state-controlled" or "socialist" as modifiers of the phrase "market economy," one objective of the government's policies for transition. However, it is perhaps better not to read too much meaning into such expressions. Viet Nam is still a communist-controlled country. No doubt, its Communist Party faced various hurdles in making market orientation the centerpiece of official economic policy. To ensure a smoother transition, perhaps one was the need to explain to the rank-and-file leadership that the shift was not a break with past policy, but rather, a continuation. Also, if there was any internal controversy over the issue, then the party likely would have faced the need to resolve it through compromise, not confrontation.

To be sure, it is important to pursue such questions through a perusal of the available literature, and we would respect any responsible conclusions drawn therefrom. Nonetheless, our intention has been to focus from an analytical economic perspective on the deeper significance of the “market economy” itself. That has also been the guiding principle behind our interest in policy documentation in general. Accordingly, in this paper, we intend to limit our observations about such matters to the purview of development economics or the political economics of development.

As to the designs behind the market economy Viet Nam is now working to build, we see no reason to be concerned with how it ultimately differs from systems based on models of laissez-faire capitalism, whether such differences are good or bad, or about the shape it could take at some point in the future. Given current conditions, Viet Nam’s leaders appear to be doing their best to win understanding of, and bring into being, the model market economy proposed by the IMF and World Bank. What is more, it is essentially impossible at this juncture to predict the eventual shape of Viet Nam’s market economy after it has undergone the test of economic realities over an extended period of time.

Three types of market economies are widely recognized to dominate the industrialized world: the U.S. laissez-faire model, the strongly interventionist Japanese model with its heavy emphasis on industrial policy, and the continental European model, which fits somewhere in between. Which of these models Viet Nam’s market economy ultimately emulates, or whether it ends up patterning itself on some other model altogether, are not questions demanding serious concern at this time.

D. Basic Goals Underlying Aid Strategy

In contemplating aid strategies for Viet Nam, it is essential to objectively study Viet Nam itself and have an awareness of the basic goals of Japanese aid to that country. Traditionally, Japan’s goal has been to promote economic cooperation with the countries of Southeast Asia, a cornerstone of Japan’s international economic policy. We believe the core goal today now lies specifically in providing assistance aimed at helping Indochina achieve lasting peace and prosperity. In light of that objective, we should have focused our attention on Viet Nam’s relationships with its two Indochinese neighbors and with the

other countries of Southeast Asia, and explored aid for Viet Nam within that broader context. In fact, from that same perspective, Viet Nam's relations with China and the NIEs also would have warranted attention. While these factors are borne in mind, this paper focuses on Viet Nam.

1. Development Trends and Issues

A. Development Trends

The period that concerned our discussion of development trends and issues can be expressed chronologically in terms of official Vietnamese decisions on political and economic strategy. It begins in 1986 with the Communist Party's 6th National Congress, which launched the country's Doi Moi policies; continues through 1989 (specifically, the 6th Plenum of the 6th Central Committee of the Communist Party, held in March), which saw those policies systematically set out and pursued as fast-track reforms for stabilization and structural adjustment; and concludes in 1994, by which time the reforms had begun to show some results.

The Party's 7th national congress, which met in 1991, reviewed the achievements thus far demonstrated by the Doi Moi reforms and based on that review set forth an economic plan to last to the year 2000. The Party representatives' conference that gathered in January 1994, as well as the 7th plenum of the 7th Central Committee the following July, expanded the reforms somewhat and also revised the aforementioned economic plan.

If they are to be properly identified, development issues and development strategies should be framed within the context of the country's development course to date, albeit from a broad perspective that addresses Viet Nam's political and economic history over an extensive period. Indeed, that historical perspective is essential if one is to develop an accurate understanding of the initial conditions modern-day Viet Nam has faced in pursuing its economic development (e.g., the country's level of productive capacity, resource endowment, the stage of development and other features of its market economy, and the features distinguishing its domestic political climate and international relations), as well as the features of the development strategies successive administrations have chosen to follow. To that end, the following presents a summary of tentative conclusions that have been drawn from observations of Viet Nam's development course to date.

(1) Viet Nam became a colony of France in the second half of the 19th century. This counted as but one episode in the massive push into East Asia by

European nations in search of raw materials for their own capitalist-driven industrial development and captive markets for their products. In 1861, the French made the southern provinces of the country a new colony, Cochin China, and then went on to transform the northern and central regions into protectorates respectively named Tonkin and Annam. By 1887, all these regions had been consolidated together with Cambodia and Laos into the Union of Indochina under the jurisdiction of the French High Commissioner.

(2) France's primary objective in colonizing Viet Nam was to cultivate an economy for the export of rice. Initial undertakings (some security-oriented) to lay road and rail networks, dig canals, and build harbor facilities, as well as subsequent projects to drain and open up cultivable areas in Cochin China's western and eastern zones (the Mekong delta) all served that objective. Total farmland in cultivation expanded fourfold from 1880 to 1930; further, rice exports rose in parallel, from a total of 284,000 metric tons in 1870 to a peak of 1,797,000 tons in 1928. In many ways, this drive to establish an economy for the export of primary goods resembled the pattern followed in Thailand. It differed, though, in that the areas newly placed under cultivation were held not by local peasants, but by French-run plantations (in western Tonkin) and large Vietnamese farmers who were cooperative with the French. Only the actual farming activities were left in the hands of tenant farmers and sharecroppers. The French did, however, extend their control to rice exports and the collection of export rice. Following World War I, French investments widened to the mining of Hongai coal and the extraction of zinc, tin, and other nonferrous metals, as well as to textiles, cement, and other manufacturing ventures.

(3) The interruption in imports of industrial goods during World War I helped set the stage for the debut of an indigenous capitalist class, in Saigon. However, their investment in the manufacturing sector was focused primarily in light industrial ventures, including small-scale factories and operations driven by manual labor. Also, the level of investment in other industries and the financial sector proved marginal. Compared with the ethnic Chinese capitalist class that emerged in foreign concessions in the late 19th century and expanded during the first world war, the indigenous Vietnamese capitalists appeared relatively weak. Nonetheless, together with French investments, they

succeeded in developing a modern industrial sector, which in turn fostered the rise of a modern worker’s class after World War I. In time, the capitalist and worker classes would establish the Constitutional Party, the Nationalist Party, and, ultimately, the Communist Party.

(4) The Japanese military occupied Viet Nam throughout World War II. The end of that conflict, however, marked the start of three successive periods of war on Viet Nam’s soil. The First Indochina War, from 1946 to 1954, pitted the French military against the forces of the Democratic Republic of Viet Nam (DRV). The Second Indochina War, lasting from 1962 to 1973, was fought by the U.S. in alliance with the Republic of Viet Nam against the DRV. The DRV eventually reunified the country in 1975. The Third Indochina War began in

**Table 3. Long-Term Changes in Per-Capita National Income:
A comparison of Viet Nam and Other Asian Countries**

	Per-Capita Income(\$) in Early 1950s (ECAFE)	Per-Capita GDP(\$) in 1992
Viet Nam	117 (1954)	150
The Philippines	173 (1954)	770
Thailand	108 (1952)	1,840
Indonesia	88 (1952)	670
(Japan)	193 (1954)	28,190

Population of Viet Nam 22.61million (1958)
67.70million (1991) An almost threefold increase

Source: Asia Foundation(1957) Handbook of Southeast Asian Politics and Economics, Vol. 1, p. 438, 485; Diamond. Data for 1992 from World Bank(1994) World Development Report 1994. However, 1992 data on Viet Nam, from World Bank (1994) Viet Nam Public Sector Management and Private sector Incentives.

Notes: Price indices for U.S. producer and consumer goods climbed approximately fourfold in the period from 1950 to 1990. Based on comparable adjustments for inflation, Viet Nam’s per-capita GDP in 1992 measured only one-third its level in 1954.

1978 with the Vietnamese intervention in Cambodia, an action taken against a backdrop of increasingly complex relations between Viet Nam, the Soviet Union, and China. As a result of these conflicts, much of Viet Nam was left in a state of ruin, or allowed to deteriorate. On top of that, efforts to rebuild made slow progress. Table 3 compares Viet Nam with several other countries of the region in terms of national income, as measured in the early 1950s and in 1992. At the start of the 1950s, the level of industrial output in Viet Nam was much the same as in the other countries compared here (though the Philippines was somewhat ahead). As the data in the table illustrate, during the period it was engulfed in war, Viet Nam was effectively ignored by the South-east Asian surge in per-capita income growth (though its population continued to grow unabated)*¹.

(5) From the reunification of north and south by the DRV in 1975 up to the initiation of the Doi Moi reforms in 1986, Viet Nam sought to introduce or reinforce Soviet-style socialist economic structures nationwide. Partly due to repercussions from the Third Indochina War, though, that drive ultimately failed, thus forcing the government into an official policy shift led by the Doi Moi reforms. Development trends in this preparatory phase are summarized below on the basis of official documents released by international institutions as well as the Vietnamese government itself.

a. The reforms of 1989 consolidated the government's policies following the Doi Moi initiative. According to IMF documentation, they included measures for sweeping price deregulation backed by efforts to boost competition and put market systems in place. As a result of the action in price deregulation, only a few goods were left subject to price controls. Complementary actions included the following: (i) Agricultural cooperatives were broken up, and land-use rights conferred to farmers. (ii) Most decision-making powers concerning production, employment, and investment were transferred to state-owned enterprises. (iii) Private-sector companies were legitimated and accorded broader flexibility in pursuing their business activities. (iv) The government decided on steps toward the creation of an effective commercial code. In particular, it scrapped state monopolies on foreign trade and reinforced its pricing policies by devalu-

*¹ The following were references for sections (1) through (4) above. Sakurai, Yumio and Ishizawa, Yoshiaki (1977), Modern History of South East Asia III, (in Japanese) Yamakawa Publishing, Tokyo; Post, Ken (1989) Revolution, Socialism and Nationalism in Viet Nam, Dartmouth Publishing Company, Hants, England.

ating the dong and establishing uniform exchange rates. (v) On the budgetary front, it pursued far-reaching reforms in the arena of expenditures (e.g., by scrapping price supports) and the tax code (by replacing the profit remittance system for state-owned enterprises with a profit tax, turnover tax, and capital-user fees). (vi) In addition, it abandoned the monobanking system, sought to transform the specialized state-owned banks into full-service commercial banking institutions, and approved the extension of loans to private-sector firms.

(The 1989 reforms were far-reaching in their content and implemented on a fast-track basis. Harvard University Professor Jeffrey Sachs has placed them in the same category with the radical “shock therapy” reforms he urged for stabilization and structural adjustment in Latin America, Russia, and Eastern Europe.)

b. While acknowledging that the Doi Moi drive, together with the 1989 reforms, had produced some initial yet important successes, a report by the Communist Party’s 7th national congress noted that Viet Nam had yet to surmount the fundamental conditions of social and economic crisis that had confronted it for so many years. In effect, those conditions included rampant inflation, unstable industrial output, climbing unemployment, salaries and wages below subsistence levels, an inability to guarantee social stability or public security, and the pervasiveness of corruption and other chronic social evils.

In affirming the need to continue along the Doi Moi policy path, the congress set forth several national policy goals for realization by the year 2000, and put together a program aimed at achieving those goals and doubling GDP by that same year. In particular, it called for extricating the country from crisis, stabilizing social and economic conditions, redressing conditions of poverty and underdevelopment, improving living standards, strengthening the country’s defense and security, and setting the stage for more rapid national economic development early in the next century.

c. At the Party representatives’ conference in January 1994, explanations in the aforementioned report concerning “crisis” conditions were partially revised, echoing the favorable turnaround in macroeconomic trends since the 7th national congress. This was especially clear with respect to those sections concerning steps to rein in inflation and stimulate the economy. Inflation has fallen from 67 percent in 1991 to 17.5 percent the following year, and dropped even further to 5.2 percent in 1993. GDP, moreover, had widened at an annual

rate averaging 7.2 percent in the three years to date, effectively surpassing the government's official target of an average 5.5-6.0 percent increase for the five-year period from 1991 to 1995. Industrial production, moreover, hit 13 percent, topping the targeted 8-10 percent average for the same five-year span. In agriculture, Viet Nam has been a rice-exporting nation since 1989 (Table 1).

d. The important policies established by the July 1994 party representatives' conference, which were to be given tangible form by the central committee plenum, incorporated measures aimed at pursuing economic transition and restructuring in line with party slogans calling for industrialization and modernization^{*2}. In his report to the central committee plenum, the Party's secretary general listed several fields deserving priority under the country's industrialization drive: farm-, forestry-, and marine-product processing; the manufacture of consumer goods; machinery, electronics, and communications; raw materials extraction and energy generation; tourist services; national defense industries; and infrastructure. In addition, the target of the plan for doubling GDP by the year 2000 was changed from total GDP to per-capita GDP.

B. Development Issues

Given the aforementioned undercurrents in Viet Nam's development course, it would seem possible to define several development issues demanding solution by the target year (i.e., 2000 in the development scenario). Development issues for Viet Nam can be divided into three areas for study: long-term development (linked to project assistance), stability (linked to balance-of-payments supports and programs for the liquidation of accumulated debt), and institutional and policy reforms (structural adjustment programs).

Long-Term Development

(1) Agriculture: The Impact of War and Population Growth

Vietnamese farming belts centered chiefly in the Red River delta and the

^{*2} Our Study Committee mission to Viet Nam sought clarification on the differences between "modernization" and "industrialization" as used in party slogans. SPC Vice-Minister Vo Hong Phuc explained that "industrialization" amounted to a drive to boost the contribution by industrial output to the national economy, whereas "modernization" covered advances in such fields as transportation, communications, banking, and commerce, and also called for technological and structural reforms in the economy at large.

central highlands are characterized by standards of living close to the subsistence level. At one time, the traditional agricultural base and farming techniques in these areas had attained a fairly high level of development (as witnessed in irrigation and double or triple cropping). Nonetheless, population growth during the protracted era of war, coupled with a breakdown in accumulated agricultural assets (stemming from war devastation or from insufficient maintenance and repair), transformed these regions into severe, low-productivity zones. That state of affairs stands out as one of the central challenges to Viet Nam in the arena of agricultural and rural development^{*3}.

How should these regions be assisted and rebuilt? More specifically, what options exist for lifting farm productivity and otherwise advancing rural industrialization, thereby stimulating local economies in regions of this kind where the amount of land in cultivation per farm household is so small, and land and labor productivity so notably low? Further, what can be done at the local, regional, or national level to ensure that efforts along these lines are self-propelled? All these questions deserve ample study.

By contrast, the Mekong delta counts as a more recently opened region, in that it was placed into cultivation in the 19th century to grow rice for export. In fact, it is distinguished for its rich arable lands today and boasts substantial potential as a region geared to the production of surplus rice chiefly for export. In reality, though, the Mekong delta faced mounting population pressures during the war years. Accordingly, it has been observed that the farm economy there is not doing that well. Additional study is needed to develop a firm grasp of the actual situation. In any event, reviving and rebuilding the agricultural base, and on that foundation striving to introduce advances in farm technology and sharply boost farm productivity through injections of chemical fertilizer, capital, and other inputs could be expected to lift farm household incomes and in turn provide support for economic reforms as well as heightened economic growth through expanded surpluses of farm produce and savings. As such, that drive would appear to command top priority as a challenge for Viet Nam in the arena of long-term development.

^{*3} A conclusion based on the reports and arguments presented by Study Group members Yumio Sakurai and Hikaru Tsutsui.

(2) The Urgency of Infrastructure Development

One point on which practically all papers, reports, and recommendations tend to agree is the urgency Viet Nam faces, following the neglect of the long years of war, in meeting strong pressure for development efforts in social, economic, and soft infrastructure. The necessity of soft infrastructure is something we wish to emphasize here. Human resources count as one element of that, and will be discussed elsewhere. Currently, Viet Nam's market and distribution systems and organization (e.g., the emergence of entrepreneurs and rules covering contract relationships and protection of ownership rights) remain in a distinctly backward state; further, transportation and communications infrastructure also is still underdeveloped. These deficiencies have become a drag on economic growth; hence, the question now is how to redress them.

(3) The Value of Industrial Policy

The World Bank, among other institutions, has in the past strongly opposed government policies aimed at cultivating priority industries down to the sub-sectorial level as excessive market intervention by the state. That position has been based on the view that it is enough for governments to strive to expand infrastructure through public investment, strengthen macroeconomic fundamentals, and pursue structural adjustments that pave the way for the introduction of market-based systems, but to leave developments in the direct production sector or industrial structure up to the forces of the market. However, the structural problems Viet Nam faces are those of a country that until the start of the 1990s was a member of the former Soviet economic bloc, and that is currently striving to reorient its trade and industrial structure toward the West. As such, their solution will demand heavy investments, long-term planning, and deliberate design. This is the reason industrial policy is an essential. As to industries that should receive priority, China's own experiences in putting together industrialization programs to extend until the year 2000 highlight the fact that foreign markets are fast losing their ability to absorb the output from conventional labor- and skill-intensive light industry (e.g., apparel, consumer appliances, and electronic components assembly). For that reason, China is now working to cultivate new export-oriented growth industries (and is striving to lure in and focus foreign investment in such

fields) that fuse together advanced technologies in machinery and electronics assembly (e.g., automobiles and auto parts, shipbuilding, plant construction, and machine tools). But is Viet Nam itself in a position to set priority sub-sectors in this fashion? Considering that it lags China significantly in terms of its stage of industrialization, Viet Nam might not yet seem ready to adopt new policies modeled on the Chinese approach. In any event, there is little room for easy solutions if the factor of export potential is kept squarely in mind. (As it happens, industrial policies along these lines were proposed at the July 1994 central committee plenum.)

(4) Disparities between Southern and Northern Viet Nam

Disparities between the northern and southern halves of the country have for some time been interpreted as problems having to do more with political stability than investment efficiency or equality, per se. For over 90 years prior to reunification with the north, the southern half had experience with the early stages of capitalism and democracy, first as a French-controlled colony, and later on as the Republic of Viet Nam. As such, it has suffered relatively minimal breakdown in accumulated social infrastructure and is economically the more-affluent half of the country. Given that it has comparatively more to gain from the economic liberalization track, there has been broad concern throughout officialdom that growing disparities between north and south could spark heightened domestic tensions on a variety of fronts. However, according to the World Bank, the northern half of the country has witnessed a sharp surge in foreign direct investment since 1993; that development can be interpreted as anecdotal evidence that problems stemming from the geographical disparities need not grow any more pronounced, provided the government takes the proper lead. This is a problem that must be addressed in tandem with the issues of industrial policy and the government's function in redistributing income.

(5) Poverty

Poverty in Viet Nam is a structural issue affecting all areas of the country, not just certain regions. Buoying the overall economy through growth will

accordingly be an essential precondition to the eradication of poverty (Fig. 1). Headway in the transition to a market economy, together with the pronounced economic growth of recent years, has actually widened the regional disparities as well as the gulf between rich and poor. In fact, inequalities in opportunity and access to services have rapidly widened, effectively distancing certain segments of the population from the benefits of development and driving others into even harsher conditions of poverty. According to World Bank projections concerning the pace of poverty alleviation (Viet Nam Public Sector Management and Private Sector Incentives, 1994), a sustained and strong annual economic growth pace of 10 percent would be expected to trim the percentage of Viet Nam's population living below the poverty line from its current 51 percent^{*4} to 25 percent by the year 2000. (Refer to the note accompanying Fig. 1 for the World Bank's definition of "poverty line.") However, the implication here is that fully one-fourth of the total population will still be living in poverty even if the country sustains such rapid growth. This suggests it will be critically important to examine poverty as a problem engendered by the structural transition under way in the economy, and also as one that for some time to come will not be amenable to alleviation through sheer economic growth alone. Experiences in other developing countries also support this view.

In other words, study must be devoted to the question of dealing with forms of poverty that will likely persist in spite of economic growth or headway in the transition to a market economy.

Above all, this perspective suggests that the Vietnamese government is expected to accurately grasp current conditions of poverty and social change. The Viet Nam Living Standard Survey, recently conducted with World Bank support, should be understood within that context. Identifying poverty conditions will demand improved strengths in information-gathering and analysis. But what policies will Viet Nam be called on to craft in line with the stronger understanding of poverty issues that more effective surveys afford? To be sure, the government still lacks experience in formulating poverty-alleviation measures, as demonstrated by its degree of attention to the impoverished classes in each sector, the scale and scope of measures in livelihood protection and basic forms of support for the impoverished, and the ambiguity of criteria used in

^{*4} By the same definition, the share of the population living below the poverty line is 9 percent in China, 15 percent in Indonesia, 21 percent in the Philippines, and 16 percent in Thailand. Also, the UNDP's Human Development Report, 1994, notes that data available on the period from 1980 to 1990 suggest the percentage of the population living below the poverty line measured 54 percent in Viet Nam, 60 percent in Nepal, and 78 percent in Bangladesh.

selecting who will benefit. Consequently, in terms of dealing with the problem of poverty itself, bolstering the ability of the central and regional governments to draft and implement effective policies now looms as a major challenge.

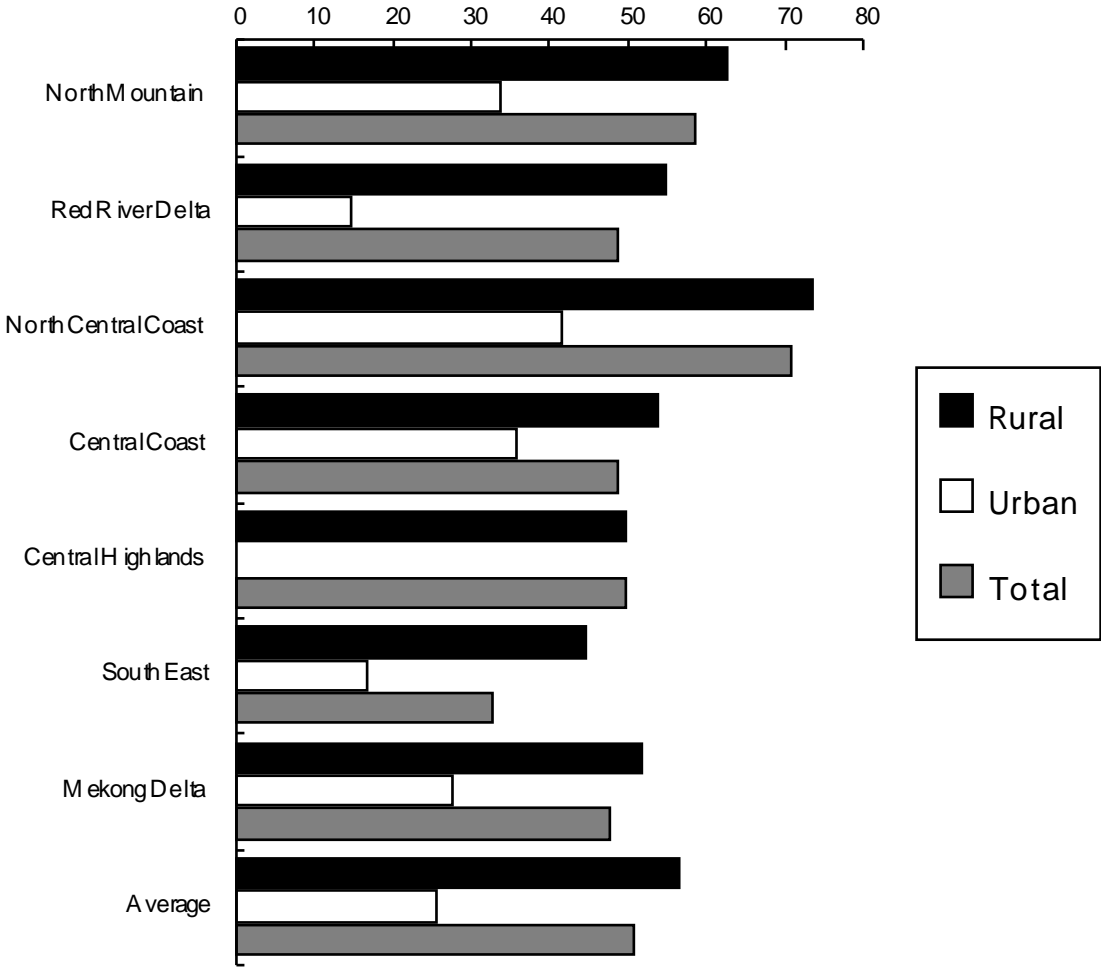
In implementing effective poverty-alleviation measures, the next question will lie in apportioning responsibility among the various offices of central government and between the central and local governments. In its poverty-alleviation projects, the World Bank has cited budgetary shortfalls among the governments implementing poverty-alleviation measures, particularly in those regions where such measures are most needed. Further, as factors behind these shortfalls, it has pointed to the strong central government hand in fiscal relations between central and local governments and to inefficiency in the operation of the budget allocation system. Efficiently reallocating scarce fiscal resources to regions in need, and finding government role-sharing strategies suited to the effective implementation of poverty-alleviation measures adapted to the features and needs of each region, together count as another poverty-related challenge deserving study.

Another question of relevance to this subject is, what types of frameworks should Viet Nam build in order to protect the livelihoods of impoverished citizens and guarantee access to basic social services? The country as yet has no social security system to speak of. On top of that, with the turn to Doi Moi-led reforms, inequities have increasingly colored access to health care, education, and other basic services ostensibly provided free under its socialist system. Also, the traditional community-based social safety net provided to date mainly by cooperatives is now in the process of falling apart, the degree of which may differ by region. Given this state of affairs, Viet Nam, in pursuing its economic growth, faces yet another challenge in re-engineering and providing safety nets aimed at protecting the livelihoods of the impoverished and socially disadvantaged and guaranteeing their access to basic social services.

The three challenges described above count as issues with relevance to the task of building necessary frameworks aimed at alleviating conditions of poverty. However, given its obligation to furnish opportunities for an improved standard of life to citizens already suffering, or on the verge of plunging into, the depths of poverty, or who stand to benefit little if at all from the development process, it seems imperative that the Vietnamese government also launch tangible projects in poverty alleviation at an early date and in conjunction with the above framework-building efforts. The fact remains, however, that the

background causes of poverty vary widely at the regional level even if their manifestations bear a close resemblance. Accordingly, taking note of distinctive regional features, motivating impoverished citizens to seek a better life, and pursuing highly sustainable projects must all be recognized as critical challenges in their own right.

Fig%1 Incidence of Poverty (Head count measure)



Note: The World Bank defines the poverty line in Viet Nam as the income level necessary to maintain the required daily per-capita intake of 2100 Calories.

Source World Bank(1994) Viet Nam Public Sector Management and Private Sector Incentive

(6) Environment

In centrally planned economies, most state-owned enterprises have typically operated without antipollution facilities. Furthermore, due to the problems in monitoring state-owned ventures, environmental standards have rarely been respected or enforced. Compared with Russia or the nations of Eastern Europe, Viet Nam has not made as much progress in building a heavy chemical and industrial complex, and as such, it has not faced pollution problems as severe. Still, Viet Nam does suffer its own special problems; in particular, the heavy use of defoliants by U.S. forces during the Viet Nam War has been linked to human deformities, the destruction of mangrove and inland forests, and contamination of the soil.

Though not as extensive as what has been witnessed in Eastern Europe, polluted conditions have been cited in the industrial belts of Hanoi in the north and Bien Hoah in the south. Due to the use of outmoded facilities and manufacturing processes, levels of pollution appear to be extremely high compared to the level of output. Worker sanitation and occupational health inside factory facilities has become an especially pressing matter.

Water pollution is relatively worse around Hanoi and Ho Chi Minh City. The dumping of garbage and the drainage of untreated household and industrial wastewater effluent into waterways is the chief reason, but this in itself stems from a lack of sewerage and wastewater treatment facilities. What is more, the quality and volume of tap water is poor.

Slash-and-burn farming practices, along with logging for fuelwood, have sharply depleted Viet Nam's forest resources. This in turn has had a serious impact on the country's water sources as well as the biodiversity. Viet Nam has demonstrated strong economic growth for some years now. Accordingly, in addition to taking action toward dealing with its existing problems, it is essential that it also establish preventive measures against pollution problems expected to confront it in the years ahead.

Reorganized in 1992, Viet Nam's Ministry of Science, Technology, and Environment is the government body chiefly responsible for environmental affairs. Viet Nam put together "National Plan for Environment and Sustainable Development" in 1989, and in 1993 enacted "Law on Environmental Pro-

tection” incorporating provisions for environmental impact assessments. As these developments indicate, the country is working to erect a far-reaching policy and legal framework. Nonetheless, government projects are themselves not as yet subjected to satisfactory environmental impact assessments. Consequently, efforts to strengthen mechanisms for enforcement now stand as a future challenge.

(7) Human Resources

Human resources-related issues span practically every facet of development in Viet Nam. Aside from issues in education, which will be discussed later, four specific problems in the arena of human resources development can be cited here^{*5}. First, Viet Nam faces a decisive shortage of all kinds of specialists who could be expected to lend momentum to its market-oriented economic transition and its drives in industrialization and modernization. Second, its human resources remain disorganized; it urgently needs to establish an effectively organized state bureaucracy and institutions as well as teams of corporate managers and field technicians. The third problem has to do with development assistance and appears to be an expression of the first two; in effect, Viet Nam is not always fully prepared to effectively utilize foreign aid, owing to a shortage of personnel and institutions capable of running the affairs of development project administration. (Human resources-related problems with a bearing on development assistance are discussed elsewhere). Fourth is a problem that could ultimately become a roadblock to closer ties and exchange with Japan: namely, the extreme shortage of qualified Japanologists and Japanese-language-proficient individuals in Viet Nam.

The high educational standards of its people have often been described as a vital asset in which Viet Nam can take pride. Nonetheless, persistent education budget shortfalls have eroded the scale and quality of education over the years. Also, it has been noted that the current educational system is unprepared to meet the array of new educational needs that have emerged with the rapid social and economic changes following the Doi Moi reforms. The first problem has become particularly manifest in shortages of facilities, equipment,

^{*5} While human resources development addressed here is considered from a broader, general context which includes the dimensions of promoting policy goals and according mastery of occupational skills, education is considered as more institutionalized human resources development based on conventional administrative practices.

and educational materials, and also in the declining quality of educators. As to the second, it seems essential that action be taken particularly in the fields of higher education and vocational and technical training to offset shortages of teachers qualified to offer instruction in new fields of educational demand, reshape the school system into one more efficient and attentive to society's needs, and modify school curriculums, as necessary. In fact, it seems the country should pursue a complete overhaul of the educational system at large.

(8) Health Care

Health-care problems in Viet Nam can generally be framed within the context of two larger issues. The first is that the causes of death and disease in Viet Nam are typical of a developing country. The other is one of disparities and inequity: essentially, recent years have seen headway in decentralization and the transition to a market economy widen regional disparities in health-care service content; further, the growing gulf between the rich and poor classes of society has aggravated inequalities in access to health care. In attempting to deal with these two key issues, Viet Nam will conceivably face several hurdles, as described below.

The first hurdle has to do with studying approaches to public-private sector role-sharing in this field, and reinforcing the public sector's capabilities in line with new role-sharing responsibilities. Given the fiscal constraints, yet in view of the public value of health-care services and the comparative advantages of public-private sector role-sharing, it will be necessary to partition activities in this field. The public sector, for instance, should support public health activities and human resources development, and assume responsibility for control and guidance in those areas left up to the private sector.

The second hurdle has to do with bolstering central government initiatives, particularly in the quest to close regional gaps in health-care services: for instance, in balancing regional budget subsidies, and over the longer term, building universal national health-insurance system.

The third hurdle will be in introducing a health-care system that covers all citizens. This will, of course, involve action to establish universal national health-insurance system, as noted above. Until that system is in place, though, it will be necessary to ensure the public uninterrupted access to basic health-

care services and erect complementary systems particularly at the rural level to offset government fiscal shortfalls.

Fourth, given the widely recognized value of primary health care in fighting common causes of death and disease in the developing world, Viet Nam faces the urgent task of enlarging and qualitatively improving its primary health-care programs. Promoting primary health care has become one of the core strategies behind government policy in the health-care field. In reality, though, lagging infrastructure development and deficiencies in physical and human resources currently prevent the country from offering an adequate array of services.

(9) Women in Development

In Viet Nam, employment and literacy rates point to comparatively smaller disparities in the status of men and women than in other Asian countries^{*6}. Nonetheless, in recent years those disparities have been growing in tandem with the steady transition toward a market-driven economy. Though women already contribute significantly to the economically productive and reproductive activities of Vietnamese society, they bear an increasingly excessive burden of labor in both those areas. Estimates now are that the percentage of households headed by women has grown relatively high in real terms due to the protracted era of war and the recent trend among adult men to leave the home in search of employment in urban areas. Such households, along with women belonging to ethnic minorities, count as groups deserving special attention, given their heightened exposure to conditions of poverty.

To better address this situation, the primary challenge will be to reinforce work aimed at gathering information and exploring the conditions and needs of women as well as the impact of Doi Moi reforms. Initiatives designed to alleviate the excessively heavy burden of labor performed by women, along with studies of policies and programs that will help to guarantee women access to basic social services, together count as a second challenge. Yet a third challenge will be to craft and implement programs focused exclusively on women-

^{*6} The employment rate for men is the percentage of men in the national labor force who are actually employed. If that rate is expressed as a pure base value of 100, the corresponding employment rate for women measures 88 in Viet Nam, compared with 88 in Thailand, 66 in Indonesia, 59 in the Philippines, 76 in China, and 64 in Cambodia. Likewise, if the literacy rate for men is also expressed as a pure value of 100, the corresponding literacy rate for women is 91 in Viet Nam, compared with 96 in Thailand, 85 in Indonesia, 99 in the Philippines, 73 in China, and 46 in Cambodia. These statistics are from the UNDP's Human Development Report, 1992, and are valid for 1990.

led households and minority women.

Stabilization and Structural Adjustments

The foregoing discourse on issues in long-term development essentially concerned itself with the key problems confronting work to speed up the development process, and the alleviation of poverty in particular, by focusing on channels of capital accumulation in the real economy. As such, those issues spanned beyond the scope of economic transition, *per se*. This section, however, will be concerned with the task of smoothly replacing mechanisms of capital accumulation with minimal disruption in the transition from a centrally planned to a market-driven economy. Suffice it to say, then, that the phrase “structural adjustments” refers here to this very process of replacement, while “stabilization” has to do chiefly with controlling those disruptive forces that could easily surface or flare up in that process. Since these factors appear not to be that well understood in general, an introductory overview seems appropriate, prior to any discussion of the issues themselves.

(1) Replacing Mechanisms of Capital Accumulation: an Overview

a. Mechanisms in a Planned Economy

State-owned enterprises (SOEs) that operate on the basis of “directive planning” regarding the active allocation of materials and the pursuit of production quotas count as the organizational backbone of a centrally planned economic system. Under such central planning, the proportion of capital goods allocated to different sectors of the economy will determine the pace and form of capital accumulation itself. Usually, the larger the proportion of produced capital goods reinvested in the production of new capital goods—and not consumer goods—the higher the rate of growth and future consumption. (This is known as Marx’s “the law of priority growth of the production of the means of production”, or as Feldman’s theory of planned growth, which re-expresses Marx’s principle in modern theoretical terms.) However, as the central condition for this pattern to emerge, the question is whether a process of monetary capital accumulation can be spurred without disrupting the above-mentioned material processes.

To that end, standard procedure typically involved the following: (i) In order to generate an amount of savings equivalent to the level of capital goods produced every term, an amount of savings equivalent to that level was taken from gross output each term and placed in the fiscal budget. (ii) Through the budgetary process, savings was then allocated to various sectors at a ratio corresponding to the planned output of capital goods. To achieve the goals of (i), in distributing the income produced by the SOEs among various production factors, central planners sought to hold down allocations to labor while boosting allocations to capital (SOE's revenue) to a level equivalent to the above-noted desired amount of savings, and then had that paid into the fiscal budget as a profit remittance of state-owned enterprises. To achieve (ii), they maximized the role of fiscal budget-driven public investment.

Ultimately, the banks ended up serving as little more than repositories for state funds. Most planned economies in the developing world also comprised sectors of varied scale yet not owned by the state (e.g., farming, self-employed businesses, and private companies). The total in labor income flowing into these sectors, however, was constrained through state controls on prices and distribution. Such monetary expedients were adopted chiefly for two reasons: first, because the government found it wiser to rely on the most certain fiscal tool rather than the private savings and consumption behavior of households and companies to obtain its required amount of savings; and second, because of a lack of developed fiscal or monetary frameworks or systems of corporate finance that would allow it to absorb and redistribute potential sources of savings once they had been allocated as household or corporate income. (This is one of the manifestations of a poorly developed market economy.)

b. Inherent Inefficiencies of the Capital Accumulation Mechanism in a Planned Economy

Heavy emphasis on rapid growth in a centrally planned developing economy tends to smother consumption, and inadequate monitoring of that pressure amounts to the single largest cause of inefficiency in the capital accumulation mechanism. In an economy where "directive planning" is legally mandated, the state must subsidize any financial deficits that arise in the state-owned sector. This factor has been behind the emergence and eventual entrenchment of practices that J. Kornai terms "soft budget constraints," which

in turn tend to produce monetary disruptions. Further, low-pricing policies in non-state sectors can easily have a disincentive impact. Once the negative influences of these inefficiencies outweigh the benefits of the capital accumulation mechanism in a centrally planned economy, the system itself will begin to collapse from the inside.

c. The Capital Accumulation Mechanism in a Market Economy

The government can set the stage for market-based mechanisms of capital accumulation in the state-owned sector in a number of ways: for instance, by abandoning central planning, turning from soft to hard budget constraints, leaving decisions on production and investment up to market forces for all goods and services other than those characterized as externalities or public goods, and leaving decisions on wages and employment up to the labor market. Other actions would include diminishing the role of government fiscal spending, expanding the role of private financing, pursuing macroeconomic management, and intervening in the economy when required. In the non-state sector, such mechanisms can be fostered by deregulating prices and distribution. The scale of voluntary savings by the household, corporate, and government sectors, along with the financial institutions that intermediate between savings and investment, play a decisive role as elements of the capital accumulation mechanism familiar to market economies.

d. The Importance of the Transition Process

Adequate attention should be given to the backward nature of the market in less-developed economies in transition. Before abandoning “directive planning”, at the very least, such countries must establish considerably efficient markets for producer goods and consumer goods and subject state-owned enterprises to hard budget constraints (market and financial discipline). Prior to scrapping the profit-remittance system, the government must pursue tax reforms aimed at establishing alternate sources of fiscal revenue. Further, before cutting back on programs of public investment financed by the national budget, steps must be taken to improve the ability of banks to better intermediate between savings and investment. The end to central planning could pave the way for a return to traditional markets in the non-state sector. That,

however, must at least be preceded by work to create a market for effective retailing and distribution. In lieu of these preparations, shock-therapy-styled reforms that in a single step do away with all the structures of central planning and completely deregulate business practices, prices, and distribution would make it more difficult to avoid spiraling inflation or deficit trends in the country's current account. In fact, the pace of economic growth itself would likely slow.

To be sure, even if it successfully shifted to market-driven mechanisms of capital accumulation without experiencing the above-noted disruptions, a country would still face the prospect of a downtrend in levels of voluntary savings and investment. In particular, low-income countries could find themselves unable to meet the public's immediate expectations of an improved standard of life. These risks are the reason why systemic reform must be conditioned on intervention-backed policies aimed at fostering capital accumulation in the real economy.

(2) Replacing Mechanisms of Capital Accumulation: Hurdles for Viet Nam

This section follows up with an assessment of Vietnamese efforts to adopt new mechanisms of capital accumulation while bearing in mind the aforementioned points concerning less-developed economies in transition.

a. We consider Viet Nam to have entered a transition phase in 1986, when it launched its Doi Moi initiatives. It should be noted, however, that North Viet Nam had explored ways of liberalizing its state-owned enterprises much earlier to deal with inefficiencies that had already surfaced before 1975, the year the country was reunified and frameworks of central planning extended to the southern half. In particular, the reforms the country implemented in 1971 and 1979 comprised action to lift the wages of workers employed by state-owned enterprises, boost subsidized sales of essential consumer goods, raise purchase prices of farm produce (in 1979, by a margin of fivefold in a single hike), and liberalize their post-delivery disposal. These measures were intended to reverse the deep, central-planning-inflicted decline in industrial- and farm-sector production incentives, which was worsened by the volatile conditions of that

wartime era.

As might have been expected, such measures had to be subsidized by the government budget. Those outlays, however, were offset by Soviet aid. (According to IMF records, the annual scale of aid extended to Viet Nam by the Soviet bloc's Conference of Mutual Economic Assistance measured between \$600 million and \$1.0 billion through the 1980s. Further, arrears of up to \$20-30 million were tolerated year after year.) The scale of the non-state sector, which was concentrated primarily in the south where central-government controls had little if any effect, was far larger than that of the state sector. In the meantime, prices on the free market soared at an annual rate of around 50 percent. Though the economic growth rate turned negative in both 1979 and 1980, in other years it widened from 2-3 percent to 7-8 percent by the end of the respective periods.

b. After moving into its transition phase, Viet Nam pursued systemic reforms with the close cooperation and guidance of the World Bank and IMF. The Doi Moi policies of 1986 were launched in a climate of rampant inflation. (By IMF statistics, the year-on-year rise in Viet Nam's consumer price index measured 487 percent in 1986, 317 percent in 1987, and 394 percent in 1988.) By 1992, the country finally calmed inflation with shock-therapy-styled curbs on aggregate demand it had placed into effect in 1989 (i.e., cuts in budget outlays for public investment and civil-servant salaries). The question, however, was how sustainable the stabilization trend established in this manner would be. As the World Bank also noted in its report on structural adjustments, Viet Nam was not thoroughgoing enough in pursuing the above-cited steps required for successful transition to a market economy. Consequently, the headway by that stage achieved in trimming the fiscal and current-account deficits on the basis of shock-therapy stabilization measures began to unravel as early as 1993. In citing reasons for this reversal, the World Bank termed the shock-therapy-induced cuts in public investment and civil-servant salaries "untenable." The World Bank and the IMF together have thus urged Viet Nam to pursue basic improvements through structural adjustment policies patterned on standard prescriptions for action.

c. Growth Rates and Levels of Savings and Investment

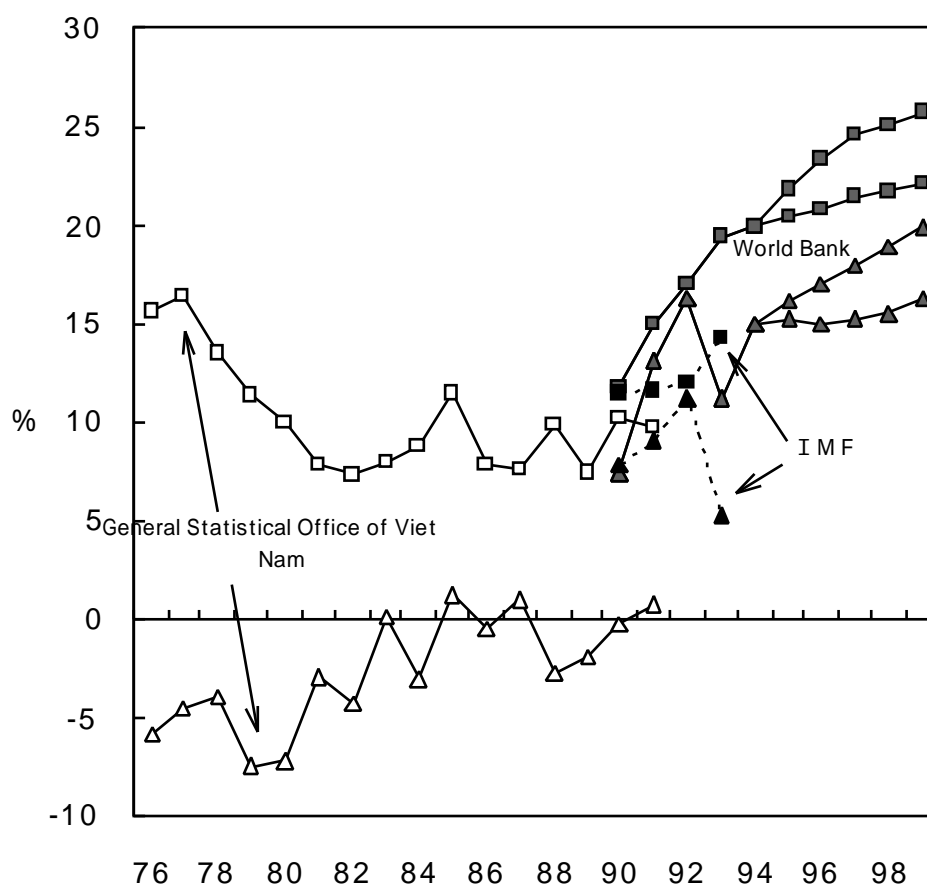
What conditions must be met in Viet Nam to achieve lasting stability and its complement, sustainable growth? As Table 1 illustrates, Viet Nam maintained considerably strong economic growth even through the deflationary period following 1989. Reflecting that trend, it also maintained a high investment rate, but that is not at issue. The sustainability problem is that most of the growth in investment was financed with aid from the Soviet bloc; in effect, the contribution from domestic savings was insignificant. (Figure 2 presents statistics that predate Viet Nam's efforts to thoroughly systematize data collection and analysis. The gaps between IMF and World Bank figures are unadjusted. Furthermore, the uptrend in the savings rate since 1987 has not been fully explained. In any event, the data do provide a general idea as to where the problems lie.)

Findings from the survey of Vietnamese living standards undertaken by the UNDP and the State Planning Committee provide the most convincing evidence yet that the savings rate has been rather low (Table 4). One of the principal conclusions to be drawn from those findings is that the ratio of household savings to income is extremely low, especially in rural districts. In terms of median values, savings apparently measured zero in the first and second income quintiles (and the first, second, and third quintiles in the rural sector). As to the ratio of liabilities to income, it is difficult to compare with savings, as most borrowing is used for building or to finance productive undertakings in agriculture and other industrial sectors. Again, though, in terms of median values, attention is drawn to the zero values for practically all income quintiles in rural and urban zones alike. This state of affairs is thought to stem from a mix of two factors: namely, the inability of many people to borrow, together with a lack of access to credit itself. Efforts to drastically increase the low savings rate thus will be the foundation for policies aimed at achieving sustainable stability and growth.

(3) Issues in Stabilization and Structural Adjustment

a. This section discusses issues or challenges confronting Viet Nam in the arenas of stabilization and structural adjustment, based on the observations set forth above. The issues noted here were taken up in recognition of the fact that Viet Nam has already pursued a number of transitional measures differing from those steps toward new mechanisms of capital accumulation that we felt to be elements of a more desirable approach.

Fig.2 Viet Nam's National Savings and Domestic Investment Rate



- Notes:
1. The square blocks represent domestic investment rates, and the triangles national savings rates.
 2. gross domestic investment=I,
gross domestic savings=Y-C=S,
and gross national savings=S+F+T.
See the note accompanying Table 6 for a definition of other variables.
(F is net factor income, T is net current transfer)
 3. In the branching World Bank curve from 1995 forward, the upper branch plots projections for the base scenario, while the lower branch plots projections for the moderate scenario.
 4. For Viet Nam, calculations of Y, I and C utilized the MPS formula. Also, the domestic savings rate was used instead of the national savings rate.
- Sources: Viet Nam(1992) Economy of Viet Nam: Reviews and Statistics, Hanoi.
World Bank(1994) Viet Nam: Public Sector Management and Private Sector Incentives: An Economic Report.
IMF, IMF documentations.

Table 4-1. Ratio of Household Savings to Income (1994)

(%)

	By Expenditure Quintile					All Groups
	1	2	3	4	5	
<u>Averages</u>						
Rural Sector	7.5	9.0	10.0	17.1	40.4	18.5
Urban Sector	2.9	5.7	19.4	17.9	78.7	61.1
Total	7.3	8.8	11.3	17.3	63.1	32.4
<u>Median Values</u>						
Rural Sector	0	0	0	1.3	8.9	1.6
Urban Sector	0	0	0.7	5.9	21.7	16.1
Total	0	0	0.1	2.5	16.5	6.6

Table 4-2. Ratio of Household Liabilities to Income (1994)

(%)

	By Expenditure Quintile					All groups
	1	2	3	4	5	
<u>Averages</u>						
Rural Sector	12.3	11.3	11.7	11.4	17.5	10.9
Urban Sector	8.7	30.9	9.4	23.9	33.7	27.1
Total	12.1	12.6	11.4	14.6	24.7	17.6
<u>Median Values</u>						
Rural Sector	0	0	0	0	0	0
Urban Sector	2.5	10.0	0	0	0	0.8
Total	0.1	0.7	0	0	0	0.2

Source: UNDP, State Planning Committee, The Reports on Income, Savings and Credit for 1994 in Viet Nam, Hanoi, 1994

First of all, macroeconomic stability counts as an essential condition for market-oriented economic development in Viet Nam, and for that reason, stabilization policies designed to rein in aggregate demand will be indispensable. However, to ensure sustainable growth in the process, those policies must be pursued on the condition that Viet Nam maintain minimum levels of domestic savings and investment. Yet, bearing in mind that Viet Nam is a low-income country, achieving those minimum levels will demand long-term development policies aimed at bolstering levels of income and productivity in turn.

The second question for undertakings is related to structural adjustment, i.e., how new capital accumulation mechanisms should be fashioned so that Viet Nam will be able to achieve the above-noted necessary minimum levels of savings and investment.

b. (i) Viet Nam's financial system and the interrelationships concerning that system, fiscal policies, and state-owned enterprises (SOEs) together pose additional challenges.

As it happens, Viet Nam has an exceptionally underdeveloped financial system, a conclusion borne out by several pieces of evidence. First, its citizens on average possess inadequate financial reserves, and in fact, are not in the habit of saving; what is more, those who have access to banking services account for less than 10 percent of the population. Second, albeit not a consequence of the system itself, per se, 44 percent of all private assets are in gold, and 4 percent in dollars. Holdings in dong currency are tiny by comparison. Gold and dollars have become highly important forms of currency in circulation; the outstanding balance in dollars, moreover, has grown quite sizable. Third, interest-free borrowings from relatives or traditional mutual-financing associations account for the bulk of private debt in the cities, and, together with borrowings from loan sharks, most of the private debt in rural districts.

Suffice it to say these circumstances highlight a level of immaturity unbecoming the kind of financial system presumed by reforms proposed to date by the World Bank and IMF. Indeed, this state of affairs poses a number of questions: namely, how should the various manifestations of inflation be interpreted? which strategies should be applied in striving to boost savings? and what steps should be taken to overhaul the financial system?

(ii) Among former centrally planned economies, actions to remodel fiscal poli-

cies, the financial system, and SOEs are moving forward with shared objectives and as part of one integrated process. The goals of this undertaking include cutting back public-sector activities, expanding the activities of the private sector, and placing state-owned and private-sector enterprises on an equally competitive footing, or level playing field. Expanded industrial output will be the end-result of such reforms.

Under central planning, the SOEs had all their investments as well as financial losses covered by the state budget. In return, though, they were obligated to remit any profit from their operations back into that budget. In Viet Nam, the reform process has already eliminated most fiscal budget financing for SOE investments and subsidies. Though SOEs still enjoy preferential government treatment compared with their private-sector counterparts, financing for SOE investments is now a matter dependent on commercial dealings with banking institutions. In addition, the profit-remittance system has been replaced by a profit tax and turnover tax (although a fraction of SOE profit still represents a kind of profit remittance). Making SOEs fully profitable counts as one objective of reform that most countries have found not to be easily attainable (and hence, that explains why certain so-called soft budget constraints remain in place). As one outcome of the reform process in Viet Nam, however, the connections achieved between the financial system, fiscal budget, and SOEs appear to be a significant exception to this general rule. This fact deserves to be more broadly recognized and its features subjected to closer scrutiny.

c. Considering the low level of income in Viet Nam, structural adjustments must also address the issues of political and economic continuity if they are to foster steady progress in systemic reforms without major disruptions. The inability of society to endure the hardships associated with fast-track systemic reforms is already recognized as one of the reasons for ineffective structural adjustments. The World Bank terms these hardships the “social costs of adjustment,” and since the late 1980s has worked to integrate countermeasures into its structural adjustment programs.

As economies in transition, the countries of the former Soviet bloc were confronted with hardships stemming from rapid changes in the quality and scale of public and social services that had been provided under their former, state-run systems. This begs the question as to how Viet Nam has fared in that respect. In pursuing its own structural reforms, Viet Nam has made

substantial headway in trimming the scale of its civil service and military in terms of personnel. Also, there is little doubt that the dismantling of its agricultural cooperatives has had an enormous impact on rural society, for such cooperatives were until then responsible for administrative affairs, production, and the provision of a social safety net at the rural level. The most pressing issue, however, concerns actions to accommodate the poor and socially disadvantaged. (Solving this issue will demand extended programs of long-term development in the social sector.) In many cases, it is still difficult to develop an accurate grasp of real conditions of poverty at the rural level.

It is worthwhile here to consider the issue of social security frameworks as addressed by World Bank structural adjustment programs for Viet Nam, and with attention to World Bank arguments.

Compared with the former Soviet republics, countries in Eastern Europe, China, and other economies in transition, the social costs of adjustment have been relatively light in Viet Nam, and for a variety of reasons. For one, only a small percentage of the national work force (about 15 percent) has been employed in the public sector. Second, the country has offered ample compensation packages to dismissed public-sector employees. Third, the country's SOEs never played a very important role in the provision of social services to start with. And fourth, informal, mutual-aid practices at the commune level remain rather strongly entrenched.

Nonetheless, some developments in the transition to a market economy have made life harder for the socially disadvantaged and poorer classes of Vietnamese society. One is the widening trend in disparities between different regions and income levels, and yet another is the introduction of frameworks requiring payments from the beneficiaries of education and health-care services, which had been free up to that time. At present, Viet Nam has virtually no social security system in place capable of guaranteeing a minimum standard of living for the socially disadvantaged and poor who have been adversely affected by the above trends. Though the government pays compensation to dismissed civil servants as well as benefits to retired military personnel and physically handicapped individuals, systems of unemployment insurance, universal national health insurance, and livelihood protection remain absent. Moreover, the existence of a national pension system is also in doubt. Social security is yet another issue. In most countries, the central government fulfills a central role in the provision of social security. In Viet Nam, though, local governments and mutual-aid practices at the commune level have assumed

much of that role. Furthermore, broad gaps distinguish the content, quality, and amount of social security available in different regions.

2. Development Scenarios

There were hopes that our Study Group would present a number of alternate scenarios (e.g., Scenario A, Scenario B, Scenario C, etc.), each depicting different goals for the target year and a different course of development from base year to target year depending on the type of strategy chosen to address the issues described in the previous section. However, our work has not proceeded to a stage that would allow us to do this.

Alternate development scenarios can be expressed in terms of several factors; e.g., GNP growth rate from base year to target year, GNP by a given development path or point in time, or the amounts of investment (and of that, investment from abroad) necessary to achieve such levels of GNP. The Communist Party of Viet Nam 7th National Congress (1991) followed such an approach in putting together its plan for development to the year 2000, and accordingly came up with a scenario based on two different options. That scenario was later subjected to revisions by the Party representatives' conference and the Central Committee plenum. Table 5 lists details of the development plan, which calls for doubling GDP by the target year 2000, and in line with two varying options, beginning in the base year 1990. In effect, the plan projects annual GDP growth ranging from 6.9 to 7.5 percent. Assuming there is no change in the projected rate of population growth, however, the new target of doubling per capita GDP actually amounts to an annual GDP growth rate of 9.5 percent, or an increase in GDP of 240 million dong , over the full term.. Obviously, though, the savings and investment figures in Table 5 had to be revised in line with this ambitious turn in outlook, but we have no information about that.

Here, it is worthwhile to examine some of the main points of World Bank projections recently performed for the same period (Table 6). Though not as ambitious as the official Vietnamese projections cited above, in light of the fact that they form a basis for the provision of World Bank structural adjustment

**Table 5. Plan for Development to Calendar Year 2000
(Studied by 1991 Party Congress)**

	1990	1996	2000	Annual Growth Rate, in % 1990 - 2000
In 1990 dong				
GDP (billions of dong)				
Option 1	38,166		74,424	6.9 (195 million)
Option 2	38,166		78,240	7.5 (205 million)
National Population (millions)	67.6	73.2	80 - 81	1.8 - 2.0
Consumption(%)	91.9	82.0 - 86.0	70.0 - 77.0	4.5 - 5.0
Investment(%)	8.1	14.0 - 18.0	23.0 - 30.0	35 - 45
Domestic Savings	2.9	4.2 - 8.6	13.0 - 20.0	22 - 25
Foreign Savings	5.2	9.8 - 9.4	10.0 - 10.0	13 - 20
Exports/GDP(%)	14.0	24 - 26	27 - 30	— — — — —

Source: Viet Nam Foreign Languages Publishing House (ed.), Communist Party of Viet Nam 7th National Congress: Documents, Hanoi 1991

Table 6. Economic Projections for Viet Nam: 1990-1999 (World Bank)

	<u>Actual</u>		<u>Estimated</u>		<u>Projected</u>		
	1990	1993	1994		1995	1997	1999
1. GDP Growth Rate (%)	5.0	8.1	8.7	/ A	8.0	8.0	8.0
				\ B	7.4	6.6	6.0
2. GDP Ratios(%)							
Gross Domestic Investment	11.7	19.4	19.9	/ A	21.8	24.6	25.8
				\ B	20.5	21.5	22.1
National Savings	7.4	11.2	15.0	/ A	16.2	18.0	19.9
				\ B	15.3	15.3	16.3
Current Account Balance	-4.2	-8.3	-4.9	/ A	-5.6	-6.5	-5.9
				\ B	-5.3	-6.1	-5.7

Source: World Bank, Viet Nam Public Sector Management and Private Sector Incentives: An Economic Report, Sept. 1994.

Notes: 1. "A" and "B" refer to the Base Scenario and Moderate Growth Scenario, respectively.

2. Gross domestic investment

= gross national savings - current account surplus

= gross national savings - net foreign-earned income - net transfer revenue

- balance of merchandise trade in goods and services

= gross domestic savings - trade balance

3. The current account surplus here is the current balance prior to inclusion of public and other capital-transfer accounts. (See the notes accompanying Fig.2 on Page 40 for an explanation of other terms.)

lending, they do appear to be an outcome of sufficient discussions with the Vietnamese government. (The two sets of numerical data illustrated in Table 6 are plotted in Fig. 2 on p. 40)

One thing that should be noted about Table 6 is that the “actual” rates for gross domestic investment and savings in 1990 are substantially larger than official Vietnamese figures prior to extensive revisions performed by Viet Nam’s General Statistical Office in 1993. (That is, in Table 6, the investment rate measured 11.7 percent, compared with 8.1 percent in Table 5; also, the corresponding savings rate measured 7.4 percent as opposed to 2.9 percent in Table 5.) One reason for this disparity is that the Vietnamese government apparently sought to compensate for inadequate statistical coverage of private-sector investment and savings.

Reference to World Bank comments themselves is useful in exploring the implications of the projections portrayed in Table 6. In particular, it is pointed out that Viet Nam achieved the strong growth pace it has demonstrated to date on the basis of a comparatively low investment rate. This helps to explain extremely low readings witnessed in the incremental capital-output ratio (ICOR: investment rate divided by GDP growth rate; 2.3 in 1990, 2.4 in 1993). That, however, amounted to a phenomenon peculiar to the economic revival stage. The ICOR can be expected to climb to a reading of 3 or 4 in the years ahead even with parallel increases in investment productivity.

However, given that expectation, Viet Nam must nevertheless witness a rather substantial increase in the investment rate if it is to achieve the fast-paced growth its government is now hoping for. That in turn, though, will demand a broad increase in the savings rate (above and beyond the above-noted statistical gap between the Vietnamese government’s initial and revised projections). A swing to a surplus in government savings (the current account), together with the more-efficient mobilization of private-sector savings, will help to bring this about. Foreign savings commensurate with the balance in the current account will be supplied through foreign direct investment and foreign aid.

In terms of surmounting the array of obstacles confronting Viet Nam in its drives for stabilization, structural adjustment, and long-term development, the Base Scenario portrayed in Table 6 is considered to be the best approach under current conditions. It is possible, of course, to speculate on alternate scenarios in which Viet Nam is not able to effectively surmount all the obsta-

cles it faces. However, we have not attempted to offer any numerical projections to that effect here. Accordingly, though they lack a solid statistical foundation, several scenarios in which obstructive factors dominate are presented below.

(1) If household or government savings, or both, failed to grow and Viet Nam were thus forced to rely on deficit spending or expanded credit to attain the desired levels of investment, this could only lead to rekindled inflation and an unplanned expansion in the current account deficit, followed by an inevitable slowdown in economic growth. Stated differently, economic growth under these initial conditions and based on an attainable level of mobilization of domestic and foreign savings that does not spark inflation or unexpectedly upset the balance of payments, would fall below the pace of growth attainable under the Base Scenario. This effectively amounts, then, to a problem in the quest for stabilization.

(2) Next is a problem related to structural adjustments of the kind the World Bank has had in mind. Essentially, efforts would be made to bolster the economy's ability to mobilize savings while striving to minimize the pace of growth in the ICOR in the forecast period. The prescription for achieving these goals would rely almost entirely on structural adjustment. Under the scenario here, though, the effectiveness of structural adjustment programs for that purpose (discussed in the next section) would be incomplete.

(3) We have stressed repeatedly that achievements in long-term development led by state intervention will be the single largest determinant defining the Vietnamese economy's potential for the mobilization of savings and investment and, ultimately, its potential for future growth. Deficient headway in long-term

development would thus count as the basis for a third scenario.

3. Aid Strategies

A. Stabilization and Structural Adjustments

At first glance, Viet Nam appears to have done rather well to date in the arena of policy management. As of June 1994, it had already met all the criteria of stabilization policies put into effect under the standby arrangement worked out with the IMF in October 1993. As it happens, that standby program was succeeded by an accord between the Vietnamese government, the World Bank, and the IMF in September 1994 on a policy framework paper for the formulation of a medium-term program of stabilization and structural adjustments (1995-1997). As support for this new medium-term program, the World Bank in October 1994 agreed to furnish Viet Nam with \$150 million in structural adjustment credit (SAC). The following month, moreover, saw the IMF approve an enhanced structural adjustment facility (ESAF) worth \$535 million, effectively bringing the combined total in aid to \$685 million.

Over the program's three-year span, actions in stabilization, together with the prescription for structural adjustments described in the next section, will be aimed at helping Viet Nam achieve annual GDP growth of a strong 8 percent, on the condition that inflation during the same period be reined in to a level comparable to that prevalent among Viet Nam's chief trading partners (currently 6 percent). Another objective will be to boost gross public foreign reserves to a level equivalent to 11 weeks of imports in value terms by the end of the program period. To that end, the program calls for squeezing the total deficit in the government's fiscal budget to 4.25 percent (i.e., with a current account surplus equivalent to 3.75-4.25 percent of GDP). In addition, at least up until 1995, the total deficit is to be held within a level equivalent in value terms to inflows of concessionary foreign aid and certain domestic nonbank sources, such as issues of Treasury bills.

Given that macroeconomic stability is an essential condition for market-oriented economic development in Viet Nam, stabilization policies aimed at restraining aggregate demand will be indispensable. However, as we have emphasized, sustaining conditions of stability in a conspicuously low-income economy such as Viet Nam will basically be impossible without real increases

in rates of savings and investment and steady growth in per-capita GDP. Another issue of relevance to stabilization is the dual nature of Viet Nam's economy, divided as it is between a dong economy on the one hand, and a gold and dollar economy on the other. It must be kept in mind that due to the existence of the latter, government macroeconomic policies aimed at the dong side of the economy have limited impact on the economy overall. What is more, the gold and dollar economy also has a disruptive influence on measurements of the inflation rate.

At first glance, it would also appear that Vietnamese undertakings in structural adjustment have produced exceptionally favorable results. As conditionalities attendant to the provision of structural adjustment lending, the IMF and World Bank have prescribed and urged the implementation of a number of measures; namely, (i) tax reforms, including the phased introduction of a value-added tax; (ii) revisions to the fiscal system based on the adoption of a new budget law that establishes regulatory structures for intergovernmental and agency role-sharing in fiscal affairs, together with improved budget control, including the adoption of multi-fiscal-year programs of public investment; (iii) the formulation of action plans for reforms to state-owned enterprises; (iv) reforms in the financial sector, including cuts in the turnover tax rate assessed commercial banks; and (v) actions to liberalize foreign trade, e.g., by overhauling import tariff structures.

The social costs of structural adjustment have been less severe in Viet Nam than in other economies in transition. For that reason, other than concerning themselves with the proper allocation of budgetary resources between the central and local government, the World Bank has focused directly on the needs of the impoverished and socially disadvantaged by urging heightened access to basic education and health care. That is, it has urged that Viet Nam pursue extensive efforts aimed at addressing issues in long-term development, which are discussed in greater detail below.

As targets that should be achieved through the satisfaction of these conditionalities, the World Bank has called on Viet Nam to lift levels of national savings and gross domestic investment in the overall economy. This is consistent with our own, earlier-stated views, and hence, a position with which we agree. Nonetheless, as a complementary strategy toward attaining those goals, we recommend that the scope of action be extended from the context of structural adjustments to long-term development, that the Vietnamese government assume a proper leadership role, and that Japan provide assistance to

that end.

B. Long-Term Development

(1) Agricultural and Rural Development

Improving rural standards of living and alleviating conditions of absolute poverty are the two key goals of agricultural and rural development. To that end, strategies in this area will strive to strengthen the rural sector's production infrastructure, raise agricultural productivity, and create new opportunities for employment outside the agricultural sector. In order to achieve the two goals in parallel, Viet Nam will carry out programs typically incorporating the following four elements.

a. Infrastructure Development

Infrastructure development work would be aimed at establishing some essential minimum level of economic and social infrastructure. Economic infrastructure often serves much the same purpose as social infrastructure, namely, the fulfillment of basic human needs. Attention should also be given to the fact that social infrastructure is essential to the task of boosting a country's industrial strength. Though independent projects in these two areas of infrastructure will be of value, their effectiveness would be heightened if they were integrated as much as possible^{*7}.

b. Technical Assistance

Programs would incorporate technical assistance designed to help recipients capitalize on enhancements in infrastructure as noted above. Farm technology dissemination services aimed at boosting productivity and heightening crop diversification would count as a particularly valuable form of such assistance.

^{*7} Representative infrastructure-project themes: rural electrification, local road and farm feeder-road construction, small-scale irrigation, basic waterworks, health clinics, provincial and district hospitals, facilities for elementary education, and agricultural pilot farms.

c. Expansion of Non-farm Income (Rural Industrialization)

Though heightened agricultural productivity and agricultural diversification will be critically important, steps to boost non-farm income will also be of comparable value in furnishing stable livelihoods to people residing in rural areas. From that perspective, assistance in the cultivation of new rural industries seems urgent. Emphasis should be placed on fledgling rural industries that have begun to emerge in the food-processing and textile fields. In conjunction with work in these areas, and as programs aimed at improving job opportunities for rural inhabitants (and women in particular), we would recommend that the Vietnamese government provide technical assistance in sewing and handicraft skills, supply essential equipment and tools (e.g., sewing machines), and assist in securing sales channels for merchandise so produced.

d. Rural Credit

Shortages of capital have become a major bottleneck to agricultural modernization and the cultivation of rural industries. Providing rural inhabitants improved access to financial services will be a necessity if that particular problem is to be alleviated. It is therefore urgent that government financial institutions expand and strengthen their activities in the rural sector. Though the Vietnamese government is taking steps in this direction, there is a limit to what it can do on its own strengths alone. Accordingly, the expected role of aid has grown immense not only in terms of financing, but also in terms of enhancing the government's capacity for actual implementation. In particular, there is a pressing need for technical assistance aimed at boosting the abilities of the Agricultural Bank of Viet Nam. To that end, it would likely be worthwhile for Japan to draw on its experience in aiding Thailand's BAAC. In tandem with that, it would also be advisable to begin devising programs for arranging two-step loans.

Selecting target areas for aid in the northern, central, and southern districts of the country would seem to be one reasonable approach. Currently, though, Japan does not appear to have adequate information on hand to undertake programs of that kind. The projects could only be undertaken after selection of targets and formulation of a master plan. If the UNDP or other donors already have well-developed candidate projects of this kind, it would conceivably be possible for Japan to assist in their implementation and apply that

experience to the creation of master plans. The wise approach would be to begin with care at the implementation stage by first pursuing pilot projects.

Developing its extensive Red River and Mekong River deltas has become a matter of life-and-death importance to Viet Nam. Nonetheless, considering their economic and social differences, further study will be essential to the establishment of effective programs. In striving to develop the agricultural base in these two delta regions, special attention should be given to the following factors.

First, projects to build the agricultural base in the Red River delta^{*8} should be pursued from a perspective that places priority on the elimination of regional disparities and the establishment of economic infrastructural elements that contribute to stable food supplies. Though the Red River delta is known as a self-sufficient rice-producing region with an extensive history, it also consists of expansive areas of floodplain where rice production still faces various risks. On top of that, the region is still home to many impoverished rural communities that so far have not benefited from the transition to a market economy. Accordingly, steps to build flood-control, irrigation, and drainage systems in the Red River delta, and indeed, to complete drainage systems in the floodplain areas, count as one of the most pressing challenges in economic development now facing Viet Nam.

Actions to address this challenge would conceivably lead to flood-control countermeasures of relevance to the task of environmental engineering. On top of that, though, they could be expected to generate benefits of interest to the goals of social development. In particular, the steady production of rice in the north would allow Viet Nam to step up exports of its southern rice surplus in earnest; in addition, the mitigation of regional disparities would help contribute to improved social stability in the north.

By contrast, agricultural and fishery industry output has leaped in the Mekong River delta^{*9}, especially since Viet Nam embarked on its Doi Moi

^{*8} The discussion concerning projects to develop the agriculture base in the Red River delta is based on joint memos submitted by Committee members Yumio Sakurai and Motoo Furuta.

^{*9} The discussion concerning the Mekong delta is based on memo submitted by Committee member Hikaru Tsutsui.

reforms. In fact, that region now accounts for fully 60 percent of Viet Nam's total agricultural output and—in value terms—70 percent of its rice exports and 65 percent of its fishery-products exports. Productivity in the Mekong delta's agricultural and fishery-products sectors is extremely high; on top of that, land in cultivation per farm household averages 1.5 hectares, which amounts to over fivefold the average for northern Viet Nam.

However, a steady uptrend in the price of rice, along with irrigation-based cultivation in the dry season, will be essential if the country is to boost the Mekong delta's productivity any further. Deficiencies in transportation infrastructure, including a waterway network needing further improvement, have become a bottleneck inhibiting Mekong delta shipments of farm produce and the flow of farm implements and materials. Future projects to develop irrigation, drainage, and transportation infrastructure in the region should give attention to details of the Mekong delta master plan drawn up in 1993.

With Dutch technical cooperation, Viet Nam for the past 10 years has been researching ways to improve some 80,000 ha of acid sulfate soil in the northern part of the Mekong delta. Strategy has centered chiefly on steps to improve irrigation. It would thus seem worthwhile for Japan to set up pilot farms (concerning land utilization) aimed at researching and applying practical technologies for the improvement of acid soils. From a medium- and long-term perspective, the Mekong delta as a whole will demand work to promote economic and agricultural diversification, better marketing of farm produce, and the creation of higher added value.

An increase in the stable supply of chemical fertilizer would seem imperative if Viet Nam is to register significant gains in agricultural productivity. To that end, it would be advisable to explore the prospect of attaining an economically essential level of domestic self-sufficiency after fully assessing international trends in supply capacity and prices.

(2) Social, Economic, and Soft Infrastructure Development

This section is concerned chiefly with economic infrastructure and those elements of soft infrastructure considered essential to its development.

The key subsectors (electric power, transportation, and communications)

comprising economic infrastructure are outlined below. Subsectors demanding soft-infrastructure work in Viet Nam all share much the same regulatory and institutional dimensions. For one thing, administrative and project implementation functions remain intertwined; that is, the same government agencies tend to be in charge of both project implementation and administration. That factor, coupled with the lack of transparency in the delegation of power between such agencies and the public corporations they control, poses the threat of soft budget constraints and inefficiency at the project implementation stage. Accordingly, it seems advisable to separate administrative affairs and project implementation to the extent possible, strive to erect more-streamlined administrative structures, and improve the management of entities responsible for project implementation.

Second, undertakings in economic infrastructure typically require enormous amounts of capital and long periods of gestation; these features in turn call for extensive ability in the planning and coordination of timely and appropriate projects. Efforts to fortify Viet Nam's strengths in these areas will thus be indispensable. In effect, this is basically an issue of cultivating human resources capable of running the administrative affairs of development projects.

Third, Vietnamese government agencies responsible for administering the nation's economic infrastructure need to improve their abilities to effectively receive and apply foreign aid. Technical cooperation to that end would be desirable.

Certain elements of economic infrastructure should be developed with a focus on the regional features of Indochina itself. In fact, in some subsectors, efforts to coordinate projects along these lines are already under way. It will therefore be important to devote adequate attention to the direction such initiatives take.

a. Electric Power

Regional disparities distinguish the electrical power field in Viet Nam. Steps to boost generation capacity will be needed in the southern districts, where demand for electricity continues to rise. Though the northern sector by comparison will have ample capacity for some time to come, projects will nonetheless be required to renovate and expand its aging electric-power facilities.

Future study should also be devoted to related problems in the central sector of the country, which has long been wholly dependent on the other districts for its supply of electricity.

In the interest not only of improving the quality of life but also of fostering rural industrialization, actions in this area should be pursued with an eye on trends in demand for rural electrification. Viet Nam will continue to be confronted with the medium and long-term tasks of expanding generation capacity, improving its power transmission grid, and cutting transmission loss. Given the need to reinforce supply capacity, hikes in the now extremely depressed electricity rate level will likely become an issue for future study. That, however, will probably demand a comparative assessment of the potential social costs.

b. Transportation

Considering the burgeoning demand Viet Nam has demonstrated for renovation and improvement work on existing transportation infrastructure, project priority should probably be focused in that area for now. In the process, though, it will be important to bear in mind the implications for balanced national development and for internationalization (namely, attracting foreign investment and promoting foreign trade), as these goals will demand exhaustive work to establish direct links between manufacturing and infrastructure. What is more, heightened efforts will be needed in the arena of coordination and cooperation, for transportation infrastructure counts as one field in which international aid tends to be heavily concentrated.

Currently, Japanese projects in technical cooperation are focused in and around the capital, Hanoi. Regionally, it will be imperative to pursue transportation infrastructure projects (for port and harbor facilities, roadways, airports, and urban transit systems) aimed at supporting the internationalization of Viet Nam's northern sector. In the process, though, steps to simultaneously develop and coordinate different modes of transport will also prove crucial. In the interest of fostering rural development, cooperation is recommended in work to develop regional road networks that will connect regional urban centers and provide rural areas improved access to the national market. To that end, though, it will be necessary to screen and select potential targets for such cooperation first. One potential approach would be to draw on the findings of

surveys concerned with rural development needs and participate in pilot-project-type ventures in districts considered to deserve top priority.

c. Communications

Viet Nam has shown rapid headway in replacing telecommunications systems installed by the former Soviet Union with modern equipment from the OECD states. One drawback of that process, however, is that the country now has too many different types of phone exchange and switching facilities in operation. Also, while it has witnessed a sharp increase in installed phone lines, the total is still extremely small in absolute terms. This state of affairs calls for continued work to improve the quantity, quality, and capacity of international and domestic trunk lines. In conjunction with such undertakings, Viet Nam will also face the task of improving the skills and expertise of technicians at all levels, and of setting appropriate rate structures and in other ways improving the management of its telecommunications services. Japanese aid led by technical cooperation in these areas would thus be welcome.

(3) Drawing Up and Implementing Industrial Policy

As was indicated earlier in section 1. B. (3) under the “Long-Term Development” heading, the fundamental issues for Viet Nam in the arena of industrial policy are determining (i) how to allocate resources between social and economic infrastructure and ventures in the direct production sector; and (ii) which priority industrial fields within the direct production sector to select for promotion in view of current and future plans aimed at improving the balance of payments, and the trade balance in particular. In striving to cultivate new export industries, choosing between labor-intensive light industries and technically viable capital- and technology-intensive industries for production and capital goods will be another question with a bearing on this context. Addressing these issues will conceivably demand attention to such factors as the potential in each candidate industry for luring in foreign investment, creating new employment opportunities for the labor force, and contributing to the country’s technological advance. Japan needs to conduct adequate surveys, however, prior to assisting in the selection of priority industries on the basis of these criteria.

(4) Regional Development

Effectively allocating resources among its northern, central, and southern regions in the years ahead will be the central issue confronting Viet Nam in the arena of regional development. Vietnamese authorities responsible for the administration of aid are generally of the view that government assistance is not necessary in districts that have witnessed an influx of private-sector investment, but that public investments will be essential as incentives in other districts, given the gaps likely to arise in the pace of development otherwise. Further, they have expressed a desire to utilize foreign aid in providing such incentives. Regional difficulties in utilizing foreign direct investment count as a related problem. However, they should be recognized as having to do with the selection of priority fields on the basis of industrial policies that face the challenge of effectively bundling policy incentives to deal with infrastructure development and regional disparities in production and shipping costs, and—as one element of that undertaking—of siting industrial parks at the regional level. These issues should be explored in connection with studies of industrial policy.

Depending on the pace of economic development, there is a good chance that regional income disparities will widen even if the above-mentioned incentives are put into effect. Given that prospect, the central government's function in redistributing income could grow even more important. Accordingly, attention will be focused on the impact the new budget law and other slated administrative reforms have on local and central government role-sharing, especially in terms of the tax code (local and central-government allocation of revenue) and the central government's redistribution of income.

In any event, it will remain imperative to pursue development in and around key cities in the northern, central, and southern regions (e.g., Ho Chi Minh, Danang, Hanoi, Haiphong), heighten their functions as gateways of contact with other regions and as leading economic centers, and encourage their growth as hubs of regional development. The northern mountainous zone and the central highlands are comparatively impoverished regions with high concentrations of minority ethnic groups. Action should be taken to protect the autonomy of such minorities, promote social and economic development attentive to the needs of forest conservation, and encourage the development of the forestry sector as well as the widened cultivation of commercial crops that draw on local resources. (See the following section for a discussion of other poverty-related issues.)

(5) Poverty

Dealing effectively with widespread conditions of poverty in Viet Nam will demand steps to strengthen the government's abilities (including information-gathering and research capabilities) in policymaking and project formulation, and put together necessary institutional frameworks. Conditions of poverty in Viet Nam do not appear to be fully understood. Consequently, it would seem essential to pursue additional studies on a continuing basis, either as specific poverty-related studies or supplementary stages of other studies already in progress. Efforts to that end would conceivably consist of joint Japanese-Vietnamese studies, as well as assistance aimed at bolstering Viet Nam's ability to perform effective studies of its own. In particular, such assistance would include the dispatch of statisticians as well as programs for acceptance of Vietnamese trainees.

Further, through bilateral dialogue established on the basis of such study findings, it would be necessary to explore whether methods of assistance to specific groups or regions should consist of actions in health care, education, and other sectors, or instead be defined in terms of the poverty alleviation programs of the kind described below. In tandem with that investigative drive, it would also be necessary to consider deploying consultants specialized in poverty-alleviation-related policymaking and project formulation within appropriate Vietnamese government agencies (e.g., the General Statistical Office; the Ministry of Labor, War Invalids, and Social Affairs; and the Committee for Ethnic Affairs and Mountain Regions).

In striving to build a social security system, the realistic approach would be to proceed in stages, with attention to economic development, and work to establish other essential conditions. Implementing effective measures in poverty alleviation will be contingent on the establishment of efficient intergovernmental fiscal relations and budget allocation systems. As it happens, Viet Nam has already moved to establish those conditions, as exemplified by revisions to its Budget Law and the administrative and financial reforms it has been pursuing with World Bank assistance. It would seem sensible for Japan to take note of these developments and assist additional Vietnamese efforts in reform.

In parallel with the above undertakings, urgent action must also be taken to devise and launch substantive projects in poverty alleviation that target

specific segments of Viet Nam's impoverished^{*10} and socially disadvantaged classes. In the interest of establishing model poverty-alleviation projects adapted to local regional features, motivating the impoverished classes to seek a better life, and implementing realistic projects shaped from an awareness of the need for sustained progress, study of the following measures in assistance will be advantageous.

a. Assistance in Public-works Projects to Create Jobs during Slack Seasons

Due to the scarcity of opportunities for non-farm-related employment, rural income is subject to broad seasonal fluctuations. Rural conditions of poverty, moreover, tend to be more severe during slack seasons when reserves of food are at their lowest levels. To help improve the quality of life for the rural poor, Japan could assist in feeder-road and canal construction, well-digging, and other small-scale, public-works projects drawing chiefly on unskilled labor from which the poor classes will directly benefit during slack seasons. Such forms of assistance can simultaneously contribute to heightened employment opportunities, the development of basic infrastructure at the rural level, and an improved living environment.

It would be advisable to consider implementing such projects as tangible strategies for infrastructure development (as described in the earlier section on agricultural and rural development), or as independent poverty-alleviation projects^{*11}. In effect, because they would set targets on the basis of appropriately designated wage levels (levels unattractive to other social classes) or, alternatively, food provisions in-kind, and thereby furnish compensation as reward for work rendered, such approaches would have the advantage of obviating moral hazards among the impoverished class. Further, to increase the potential for sustained development, a portion of that compensation could be set aside in a stock fund for use by impoverished citizens as a source of small-scale financing (described in further detail below) or as a revolving fund designed to assist in improving their lives and ultimately, in enabling them to support themselves on their own.

^{*10} Namely, citizens already suffering, or on the verge of plunging into, the depths of poverty, or who stand to benefit little if at all from the economic development process.

^{*11} For instance, implementing projects aimed at furnishing financial assistance under the Food for Work framework established by the World Food Programme (WFP), or projects incorporating comparable schemes. Under the WFP, one goal is to purchase southern surplus rice at market prices and use it in Food for Work projects; this poses little if any danger of sparking domestic rice-market disturbances of the kind witnessed in other countries.

b. Model Projects for Participatory Community/Rural Development

The causes and conditions of poverty in Viet Nam vary widely by region. Given this reality, attention to regional features will be critical to the formulation and implementation of effective poverty-alleviation programs. Communities in northern Viet Nam tend to be relatively more close-knit. Accordingly, model rural-development projects aimed at revitalizing rural economies and improving rural standards of living there would likely best be pursued on a community basis. This would be advanced as a package of programs comprising the provision of family planning, primary health care, improvements in nutrition, income-generation activities, and other activities with a strong bearing on the goal of raising living standards. In the northern mountainous zones and central highlands, such projects should devote special attention to the local environment and minority cultures. Sustained project operation and suitability to locale would be heightened by promoting active citizen participation from the formulation stage, particularly in projects for poverty alleviation. Linking these undertakings with the tandem deployment of experts and JOCV teams and with international NGOs already engaged in similar ventures would also likely be worthwhile.

c. Creating and Strengthening Institutions and Frameworks for Small-Scale Financing to Poverty-Stricken Groups

Poverty-stricken groups are especially vulnerable to spending contingencies and fluctuations in household income. Further, as they have literally no collateral assets to speak of, they cannot look forward to extensions of credit from the Agricultural Bank of Viet Nam or other public lending institutions. Accordingly, steps to set up small-scale financing systems and boost access to credit would be an effective means of helping the poor break out of poverty's vicious cycle. Success in that undertaking, though, will demand actions to systematically foster motivation by raising the consciousness of and organizing impoverished groups, as evident from the experiences of other countries in this area (e.g. Bangladesh's Grameen Bank and Indonesia's P4K). Currently, several organizations are involved in pilot projects along these lines. Nonetheless, Viet Nam still needs to build locally adapted frameworks for the provision of small-scale financing to the poor, in particular, to set up new or strengthen existing organizations with the requisite expertise in such financing-related

affairs, while in the meantime obtaining foreign assistance aimed at compensating for the lack of expertise at present. The deployment of experts, along with tripartite cooperation and South-South cooperation, would count as potential channels for the provision of such assistance.

(6) The Environment

Though Viet Nam has already drawn up a national plan and enacted an environmental protection law, the lack of essential frameworks for implementation has undermined their effectiveness. Above all, the country needs assistance in program formulation and personnel training that will help it draft enforcement regulations and technical guidelines and strengthen its framework for environmental impact assessments. To that end, action will be needed to strengthen the human resources not only of the Ministry of Science, Technology and Environment, but also the ministries of industry and all other government agencies concerned with environmental issues.

The transition to a market economy has fueled a population influx from rural areas into the cities. That trend is expected to place heavy new strains on urban water-supply systems and sewerage facilities that were already inadequate to start with. Accordingly, Viet Nam will need to move ahead with infrastructure work in this extremely urgent area.

Further, in the arena of natural resources, it will have to formulate programs for forestry resource management and to draft comprehensive coastal resource management programs (e.g., for the management of aquatic resources, mangrove forests, and land utilization). Afforestation projects will also be vital.

Preventing forms of pollution expected to accompany fast-paced economic growth will demand countermeasures of a soft dimension: namely, energy conservation, achieving cleaner factory operations through efficiency streamlining and rethinking of manufacturing processes, as well as establishing frameworks for environmental impact assessments, monitoring, and effective environmental regulations. Study should also be undertaken, however, to gauge the need for programs to install antipollution facilities at the end of the pipe in existing industrial facilities.

Effectively zoning industrial and residential belts and encouraging the

use of high-efficiency antipollution facilities will demand programs aimed at relocating small plants in residential areas to new industrial parks and installing shared wastewater treatment facilities.

(7) Human Resources Development and Education

a. Human Resources Development

Many foreign donors already provide Viet Nam assistance in the arena of human resources development. However, requests for such aid are typically submitted on a government-agency or research-institution basis, and for that reason, overall aid in this area tends to be spread rather thin. Another problem is that aid is sometimes overlapping, yet absent in other areas of importance. To offset these imbalances, we would recommend that the provision of assistance in human resources development be advanced in step with the pace in administrative reform and on a cross-sectional basis spanning all Vietnamese government agencies. First, though, it will be essential to strengthen dialogue with the Vietnamese government regarding its development strategies and programs aimed at supplying the human resources needed to put those strategies into action.

In the arena of human resources development, emphasis should probably be placed on cultivating management personnel and engineers (including civil servants) who will be responsible for steering the country's economic development and transition to a market economy; as well as Japanese-language-proficient individuals and professional Japanologists capable of serving as a bridge to improved ties with Japan. Many donors have already concentrated their assistance in the former area, that is, in educational and retraining programs for civil servants engaged in the management of macroeconomic, fiscal, and monetary affairs and the enforcement of market rules (e.g., regulations and frameworks for legal and business arbitration, fair trading practices, and accounting standards). For that reason, as noted earlier in this section, it will be imperative to pursue closer dialogue with the Vietnamese government and continue striving to furnish more effective assistance through coordination with other aid donors. Further, programs designed to effectively cultivate personnel in a broader range of fields also deserve study. On top of that, it will be vital to develop programs of higher learning and vocational and technical training in institutions engaged in the development of the nation's human resources.

In bygone years, various countries in Eastern Europe, along with the former Soviet Union, ran exchange programs for large numbers of Vietnamese students. Unfortunately, no alternate countries for such student-exchange arrangements have emerged to fill the current void. Japan has been urged to sharply expand its acceptance of Vietnamese exchange students and trainees in quantitative terms. In the meantime, though, it will probably be necessary also to establish and expand international-level programs of training and education in Viet Nam through tie-ups with Vietnamese institutions of higher education and research. In effect, this amounts to a field for active international cooperation: for instance, the building of large-scale human resources development centers for the three nations of Indochina.

b. Education

The Vietnamese government has recently recognized that human resources development and education will be key to the ultimate success of its Doi Moi reforms. Accordingly, we should devote studies to the question of how to reverse the decline in the quality and scale of education—a decline cited as having held back the reforms—and we must examine elementary and middle education, vocational training, higher education, and their administration with a view to accommodating new educational needs in the years ahead. The need for alternate forms of education (correspondence education, etc.) should also be explored.

Improving the quality and expanding the scale of elementary and middle education would conceivably involve assistance in the arena of educational infrastructure: for instance, construction projects to offset the severe deficiency in school structures and instructional facilities, together with the provision of teaching materials (including sample curricula) and support for educators. Now that Viet Nam is caught up in a phase of far-reaching change, its educational programs seem strongly in need of improvement. Japan should thus explore the potential for extending broad-based assistance in the provision of instructional materials, particularly in those scientific and mathematical fields where Japan commands a lead. To lift the quality of its educators, Viet Nam itself should pursue administrative improvements, for instance, in terms of pay scales and educator training programs. Demand will grow for assistance aimed at enlarging and improving teacher education facilities and retraining programs.

Economic development and the transition to a market economy are expected to fuel increasingly strengthened demand for improvements in programs of vocational and technical training and higher education. To that end, the reorganization of educational institutions, along with work to develop entrance qualifications and systems for awarding degrees, will be indispensable. Accordingly, Japan should explore the feasibility of assisting efforts to address these issues, and assist in improving education infrastructure, materials, and curricula, albeit with due attention to Viet Nam's level of readiness to effectively utilize such aid. Study should also be devoted to the idea of putting television-based college-level instruction and correspondence education to work in Viet Nam. Cooperation with the formation and development of comprehensive systems of occupational and technical training that combine the goals of infrastructure and instructional materials development and teacher training also deserve consideration.

In addition to assistance in teacher training programs and work to build institutional frameworks, cooperation on the administrative side would conceivably include steps to expand the compilation of educational statistics and conduct mapping surveys aimed at identifying an efficient distribution of school sites. It would also seem advisable to pursue a dialogue with Viet Nam on the decentralization of education administration.

(8) Health and Medical Care

Viet Nam has limited material and human resources available to devote to the provision of health and medical care. For that reason, it must give priority to combating diseases characterized by high mortality rates and morbidity. On top of that, it must choose the most cost-effective methods of care. To achieve these goals, it seems imperative that Viet Nam first effectively divide responsibility between the public and private sectors, and on that basis strive to reinforce its health-care policies and enlarge its health- and medical-care programs. Japanese aid in this area could include the deployment of policy advisers in Viet Nam's Ministry of Health. Given the relatively close-knit nature of Vietnamese communities, conditions that facilitate community-centered programs of health and medical care would appear to be in place. Bearing this factor in mind, the priorities of assistance should be focused on primary health care: the provision of clean water supplies, the spread of toilet facilities, and other undertakings in infrastructure aimed at preventing the spread of infec-

tious disease; improved public sanitation, improved nutrition and maternal and child health care, and health education; and—as advocated by the UNICEF Bamako initiative—the introduction and expansion of systems of community purchasing and management of essential drugs.

In promoting primary health care, it would also seem of critical importance to reinforce village health stations and polyclinics in logistics-related terms, through training programs and the supply of essential diagnostic equipment. Further, as measures to deal with population pressures and AIDS, it will be crucial to manufacture and distribute contraceptives, as well as produce and utilize IEC (Information, Education, and Communication) materials aimed at informing the public about population issues.

(9) Women in Development

Women contribute substantially to the productive and reproductive activities of Vietnamese society. That contribution should be highly commended. Further, it is imperative that all projects backed by Japanese assistance encourage the participation of women and give attention to their needs. To be sure, many women are already overworked; care should therefore be exercised to ensure that the implementation process does not confront women with an excessively heavy burden. To obtain a more-accurate grasp of women's needs and their conditions in society, joint Japanese-Vietnamese studies, as well as the deployment of project formulation specialists, would seem worth consideration.

In addition, it will be of critical importance to pursue projects aimed at alleviating the burden of labor on women (particularly in the agricultural sector), reinforce maternal and child health care (with support for family planning), and assist in improving the quality of life for households essentially run by women. The Viet Nam Women's Union^{*12} already has extensive networks and experience in educating and organizing women. Assisting efforts to strengthen the Union's organization would be an effective way of helping to accommodate the needs of women in general.

^{*12} Although the Viet Nam Women's Union is a nongovernmental organization, it is an officially sanctioned advisory body, and as such has the power to make policy recommendations to the government.

4. Management Frameworks for Development Assistance

There seems to be widespread consensus that Viet Nam possesses the potential for vast economic growth. At present, though, per capita GDP in Viet Nam is one of the lowest of any developing country, a reality suggesting it has yet to effectively harness its acclaimed potential. Government officials have expressed a strong desire to catch up with other developing economies of the region, or, namely, to see their country unlock and exploit its potential for growth. As things stand, Viet Nam in reality has little choice but to pursue extremely fast-track, intensive courses of action. However, should it strive to achieve its goals in that fashion, its administrative structures will likely be placed under heavy strain. The frameworks it establishes to bear that load thus will hold the key to success not only in terms of pursuing unruffled development, but in terms of providing aid for that purpose.

Here, we would like to consider the frameworks and human resources essential to the implementation of aid strategy (as discussed in this paper so far). At this point, it need not be emphasized that Viet Nam is in severe need of work to train the administrative personnel and engineers and erect the institutional structures that will be responsible for implementing numerous development programs and projects in various fields and industrial sectors. What we do want to emphasize, though, is the importance of frameworks and personnel for the total, coordinated management of that diverse array of development undertakings. Unless something is done to offset weaknesses in the area of comprehensive coordination, development efforts, not to mention development assistance, will not be very effective. Foreign aid accounts for a sizable share of the overall development effort in many developing countries. For that reason, abilities in coordinating development efforts will in good measure overlap with abilities in coordinating development assistance. In Viet Nam, the Ministry of Finance, the State Bank, and the State Planning Committee (SPC) count among the chief institutions expected to assume these two coordination roles.

Viet Nam basically has a wealth of human resources. On the downside, it still suffers notable shortfalls in the knowledge, techniques, expertise, and experience demanded for the agile management and operation of a modern market economy. Given that state of affairs, and, as pointed out in the earlier sections on development issues and aid strategies, human resources development now stands out as one of the highest priorities in Viet Nam's long-term development strategy. To be sure, efforts to develop its human resources have

already been launched in a number of forms, and on a bilateral, multilateral and private-sector basis. In fact, some progress has been registered in the country's ability to comprehensively coordinate its development programs. Yet even so, the gains in that area appear to be somewhat unbalanced.

On the macroeconomic management front, Viet Nam to date has received a substantial amount of support intended primarily to intensify its efforts in economic reform. A rather large number of foreign specialists from international organizations and industrial nations have been deployed primarily in the State Bank to assist in technology transfers. Staff in the Ministry of Finance and the State Bank now have relatively more opportunities to participate in long-term overseas training programs (including Japanese programs for the provision of technical cooperation).

Conversely, assistance has fallen behind in efforts to develop the human resources that will be responsible for comprehensively coordinating development programs of more-direct value to the real economy. In fact, though it should count as the nucleus of that coordination framework, the SPC, in contrast to the Ministry of Finance and the State Bank, has benefited comparatively little from technical cooperation programs to date. Consequently, in terms of putting the comparative advantages offered by its wealth of knowledge and expertise to better use, Japan, in extending aid to Viet Nam, would be advised to place priority on building the institutional structures and developing the core human resources that will be responsible for drafting and executing comprehensive development programs on the real side of the economy.

Many Japanese aid personnel resident in Viet Nam have been outspoken in expressing their concern that the shortage of SPC staff in charge of Japanese aid affairs will ultimately become a bottleneck to the smooth assimilation and implementation of aid itself. In other words, strong fears have been voiced about the capabilities of Viet Nam's core institution for the implementation of development and aid strategies advocated by this paper. Needless to say, it will be important to acknowledge and effectively act on such visceral perceptions of aid personnel resident in Viet Nam.

To that end, offering Viet Nam advice on ways to strengthen its institutional frameworks will be imperative. At the same time, though, and as a step toward translating its above-stated priorities in technical cooperation into action, Japan would be advised to do everything within its power to assist Viet

Nam in building needed frameworks and cultivating essential human resources: for instance, through training programs and the deployment of experts.

Still, even with all-out efforts in institutional building and human resources development, it will be quite some time before the benefits become manifest. Indeed, expecting significant improvements in the short term would be unrealistic. Hence, for now it will be essential for aid donors to offset the deficiencies in Vietnamese institutional frameworks through generous increases in their own personnel. We take pleasure in noting that efforts have been initiated to set up JICA and OECF offices in Viet Nam. Nonetheless, we would recommend that both offices continue with action to enlarge their operating frameworks in line with increases in the number of attaches in charge of economic and economic cooperation matters at the Japanese Embassy^{*13}.

As has been repeatedly underlined in this paper, future aid not only in economic infrastructure, but also in rural development, social sector (education and health and medical care in particular), the environment, and other fields will have an enormous role to play in Viet Nam's overall economic development. In contrast to aid in conventional areas of economic infrastructure, though, undertakings in these fields will be distinguished by a need for relatively heavy inputs of human resources compared with program scale and the amount of capital invested. Precisely for that reason, registering success with aid in these fields will be preconditioned on generous increases in Japanese aid personnel. To be sure, such personnel placements will be key to the success of Viet Nam's economic development drive in the years ahead, and to the effectiveness of Japanese aid to Viet Nam.

^{*13} The development activities of NGOs (industrial- and developing-country-based NGOs alike) in Viet Nam remain rather underdeveloped compared with the situation in other countries. For instance, in other countries, NGOs now fulfill a substantial role in leading efforts in social infrastructure development, yet in Viet Nam their role remains hard to discern. For this reason, the burden of responsibility on the government and aid institutions seems larger in Viet Nam than in other developing countries.