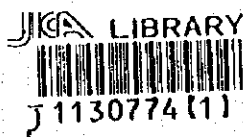


**THE ECONOMIC DEVELOPMENT POLICY IN THE TRANSITION
TOWARD A MARKET-ORIENTED ECONOMY
IN
THE SOCIALIST REPUBLIC OF VIET NAM**

**PHASE 1
FINAL REPORT**

**OPINIONS OF THE FIVE-YEAR PLAN FOR SOCIAL AND
ECONOMIC DEVELOPMENT 1996-2000
IN VIET NAM**

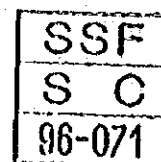
VOL.1 GENERAL COMMENTS



AUGUST 1996

Ministry of Planning and Investment
THE SOCIALIST REPUBLIC
OF VIET NAM

Japan International Cooperation Agency
JAPAN



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Preface to the Final Report, Phase 1

This study was proposed after consultation with Viet Nam's Prime Minister Vo Van Kiet and Vietnamese officials when a high level Mission of the Japanese government on Economic and Technical Cooperation visited Viet Nam in October 1994. A formal agreement was reached during Party Secretary-General Do Muoi's official visit to Japan in April 1995 to carry out the study as part of Japan's official development aid (ODA) to Viet Nam. It was agreed that the Study would be implemented under the Social Development Studies Program of the Japan International Cooperation Agency (JICA) and a Scope of Work Agreement defining the details of the Study was officially signed in August 1995 between Vice Minister Mr. Vo Hong Phuc of Viet Nam's Ministry of Planning and Investment and Councilor Mr. Norio Hattori of Japan's Ministry of Foreign Affairs Economic Cooperation Bureau.

The project was agreed to be conducted as a joint study between Japan and Viet Nam and the research groups for that study was organized on both sides with the participation of first rate scholars and experts. Professor Shigeru Ishikawa headed up the Japanese Research Group, Dr. Nguyen Quang Thai the Vietnamese project team. Under the Agreement, the project is to be pursued in two phases. During the first phase, the over-arching goal is to study the Five-year Plan for Social and Economic Development in Viet Nam (covering the years 1996 to 2000). This phase was planned to end in June 1996 with the submission of a Project Report to the leadership of Viet Nam via the Ministry of Planning and Investment. The research of the first phase includes, in addition to the study for the general commentary on the draft Five-year Plan, four specific studies relating to the following four selected topics respectively which are to be conducted at the four separate Sub-Research Groups as "in-depth" studies of the draft Five-year Plan.

- (1) Macro economic growth and the its relationship with inflation and stability;
- (2) Capital mobilization in the fiscal and monetary domains;
- (3) Industrial development and industrialization policies; and
- (4) Policies on agriculture and rural development.

During the course of the research, both sides agreed to add the three topics below, though the research on them has not yet been organized:

- (5) Development gaps among domestic regions;
- (6) Unemployment and underemployment problems; and
- (7) Relieving starvation and mitigating poverty.

This research project has attracted the attention and interest of Viet Nam's leaders. Party Secretary-General Do Muoi and other senior officials have received reports on on-going research findings from the scholars involved in the project. Scholars on both sides have revised their reports in light of the leading opinions provided by Party Secretary-General Do Muoi in September 1995 and March 1996, and at his request they have prepared an Executive Summary Report (March 1996) earlier than the Final Report so that

their opinions may be incorporated in the document "Orientations and Tasks of the 1996-2000 Five-year Plan for Socio-Economic development in Viet Nam."

The Executive Summary Report was written solely, and the Final Report was written mainly, by the Japanese Research Group but it reflects the findings of joint research conducted by both sides of Japan and Viet Nam. This joint research was deepened through five seminars of various sizes, two in Hanoi (the Start-Up Seminar in August 1995 and the Seminar to hear opinions on the Draft of the Final Report in March 1996) and three in Tokyo in October and November 1995 and January 1996.

The method this research project desired at its planning stage to follow was a "joint study" of the Vietnamese and Japanese Research Groups by way of identification of research topics and determination of research methods and data on the basis of joint discussion, proceeding of the joint study with frequent contacts, meetings and field surveys, and writing (as much as possible jointly) of the research findings and derived policy options. We are pleased that this desire was achieved at least preliminarily, especially toward the end of the first phase.

The Final Report consists of five parts, and is printed correspondingly in five volumes. Part One is on general commentary on the draft Five-year Plan*, and the following Parts on in-depth studies of specific issues of the draft Five-year Plan conducted by the four Sub-Research Groups. In each of these Parts (or Volumes), that summary of the research results either for general commentary or at each Sub-Research Group which was written for the Executive Summary Report, is reproduced (with some revisions) and, together with the comments on it by the Chief Sub-Research Group of the Vietnamese side, constitute the Introductory Chapters. They are followed by papers and notes, each written by either Japanese or Vietnamese member, and joint field-survey reports.

The research tasks (or topics and sub-topics) selected for the five Parts are summarized as follows.

First, the research tasks of the General Comment Part (Volume I) are the interpretation and evaluation of the contents and outcomes of the Doi Moi policy, the leading strategy principles which was initiated in 1986 and is still effective and governing the new Five-year Plan (draft), and the analyses, from a more operational view-point, of the policy-systems contemplated in the new Five-year Plan (draft). The latter questions, firstly, from the aspect of economic system reform, what is the structure of blue-prints of marketization designed for the Vietnamese economy is, and, secondly, from the aspect of productive force restructuring, what type of the economic "development model" for industrialization or its variant available in development economics is suitable as a guideline for the Viet Nam economy taking into consideration the initial conditions of her economy. The answers to these questions should be useful as clues for exploring the policy options for Viet Nam.

* In this Final Report, the term "Draft Five-year Plan" refers to either one of the following documents which were sent to the Japanese Academic Group directly from the Ministry of Planning and Investment. Specific reference of either of these is made in our report only when it is necessary.

(1) *1996-2000 nen gokanen no keizai shakai kaihatsu keikaku no shuyou naiyo no shoki soan* (This is the Japanese translation version of the original in Viet Nam language which was sent to the Japanese Academic Group at the end of June 1995 so that opinions on it may be presented at the Start-Up Seminar in August 1995. In English, this is *Initial Draft of the Five Year Socio-Economic Development Plan in 1996-2000: Main Contents*. Later in August 1995, the document, *Some Issues on Industrialization and Socio-Economic Development in Viet Nam from Now Up to the Year 2000* was sent to the Japanese Academic Group. This appears to be a version with minor revisions of the "Initial Draft.")

(2) *Socio-Economic Development and Investment Requirements for the Five Years 1996-2000*, Government Report of the Consultative Group Meeting, Paris, 30 November to 1 December 1995, Hanoi, October 1995. (This was transmitted to the Japanese Academic Group on October 3, 1995 so that opinions on it may be presented at the Seminar in Tokyo in January 1996.)

In our earlier general comment on the "Initial Draft" of the Five-year Plan, four items of policy options were suggested, which in fact were made the research topics of the four Sub-Research Groups at its start. It is possible to locate these four policy options within the overall framework we have just shown for the analysis on the policy-systems of the Five-year Plan (draft).

The study task of the Part for Macroeconomy Sub-Research Group (Volume 2) is to attempt a simulation analysis of the issue in a hypothetical situation where the Viet Nam government wants to attain the degree of a high rate of growth of GDP which is enabled only by a considerably high rate of domestic investment, considering the fact that the present level of domestic saving ratio is still very low, not significantly higher than zero, and both the debt service payment obliged by the large accumulated external debts and the minimally required government social service expenditures amount large, how strong would be the pressure for domestic inflation and external balance of payment deficit. The statistical indicators used for simulation are taken from the figures in the Five-year Plan draft.

To this Part is added a study on the environmental issues: how important it is for such a country as Viet Nam where industrialization is at its initial stage to take measures to minimize the "environmental degradation" and "industrial contamination" as early as possible.

The research tasks of the Part for the Fiscal and Monetary Policy Sub-Research Group (Volume 3) are firstly, a systemic analysis to clarify the transformation of fiscal and monetary mechanism of the Vietnamese economy accordingly as the economy changes its resource allocation formula from the one in the planned economy of basing itself on the centralized material planning and, with it, material allocation to the one in the transitory economy where the government intervenes partly by material allocation and partly through the fiscal and monetary policy instruments that are conventional in the market economy. The research tasks are, in addition to it, to investigate the *modus-operandi* of the present fiscal and monetary system, from the point of view of the effectiveness of the domestic saving mobilization and to explore the measures to improve them. As priority items, the issue of how to adjust the fiscal relationship between the central and provincial governments so that the total government revenue could be raised and the regional income disparity be reduced and the issue of how to raise and enhance the financial system which may facilitate the preservation of the long-term and medium-term investment funds for industry, in particular, to the private sector are taken up.

From the point of view of foreign saving mobilization, studies are made with respect to the sources from FDI, ODA and others and the issues involved in these source.

The research tasks of the Part for Industrial Policy (Volume 4) are firstly to make surveys not only on the existing production and export-import statistics of industry, but also on the not-yet well covered or organized statistical information and data on industry on the by firm or by establishment, by ownership, by size or by regional bases, and thereby to clarify the present situation and its characteristics as well as the issues to be

(3) *Directions, Planning Tasks of Socio-Economic Development for 5-Year 1996-2000, Report of the Central Executive Committee of the Party, Section VII to be Submitted to the Eighth Congress of the Party, Viet Nam Communist Party Central Executive Committee, Hanoi, November 14, 1995.* (This was sent to the Japanese Academic Group in March 1996 so that opinions on it may be presented at the Final Seminar in Hanoi.)

(4) *Political Report of the Central Committee (VIIth Tenure) to the VIIIth National Congress of the Communist Party of Viet Nam* (This was published in Viet Nam dated April 10, 1996. Comments for this was in time only for including them in Postscript to the Executive Summary Report.). The finally adopted version of this document at the Party National Congress is the following. Communist Party of Viet Nam VIIIth National Congress, *Orientations and Tasks of the 1996-2000 Five-year Plan for Socio-Economic Development, Report of the Central Committee, the VIIth Tenure, to the VIIIth National Congress, Hanoi, 28th June-1st July, 1996.* It was sent to the Japanese Academic Group on July 12, 1995.

solved of the Vietnamese industry. Exploration should be made on that basis, and taking into consideration the experiences of East Asian economies as a predecessors of Vietnamese industrialization, with respect to the order of industry-by-industry development in terms of the dynamic shift of comparative advantage position. The use of FDI and the way of participation in the regional integration schemes of AFTA and APEC are also to be explored. Lessons must be learned also from the experiences in the East Asian countries with regard to the matter of establishing the oil refining, petro-chemical, iron and steel, cement and chemical industries, which are capital lumpy and intensive, yet the government was anxious to build earlier, capturing the advantage in rich resource endowment.

Finally, the research tasks of the Agriculture and Rural Development Sub-Research Group (Volume 5) are to identify the policy instruments for further increase in agricultural production for the sake of promoting economic development, on the basis of the analyses on the changes in the institutions and organizations of agricultural production as well as in the production incentives during the 1980s and in the first half of the 1990s. Among these research tasks, especially important are the clarification of the roles of the factors like the potentiality of increasing the area under rice planning, the production incentive effect of institutional changes and price increases, research and development and irrigation investments. Investigations are also to be made on the way to improve agricultural finance and farmers' organizations in the way consistent with the market-oriented economic reform.

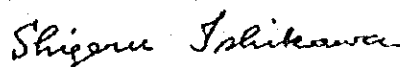
In pursuance from the Final Report, the joint research of the second phase will start on the basis of a new agreement between the two parties.

In addition to submitting this Final Report to the leadership of Viet Nam, we have sent it to you in hopes of soliciting your opinions for more effective start of the second phase joint study.

July 1996, Hanoi and Tokyo



Nguyen Quang Thai
Vietnamese Cochair of the Research Group
Doctor of Economics



Shigeru Ishikawa
Japanese Cochair of the Research Group
Doctor of Economics

Summary Report of Opinions on the “Draft of Directions, Planning and Tasks of Socioeconomic Development for 5-year 1996-2000”

Shigeru Ishikawa
Hitotsubashi University

One could attempt to comment on the latest version of the Draft Five-year Plan for Social and Economic Development in Viet Nam entitled as *Directions, Planning and Tasks of Socioeconomic Development for 5-year 1996-2000* (Central Committee, November 14, 1995)¹ from a number of different angles, but in this “general commentary” chapter we will confine ourselves primarily to the methods of economic analysis in evaluating the results produced by Doi Moi policies so far and exploring the possibilities for the future.

“Doi Moi policies”² refer to the supreme course of leadership for rebuilding the state of Viet Nam adopted by the 6th Congress of the Viet Nam Communist Party in December 1986. Our comments assume that this course will continue unchallenged.

I. Assessing the results of Doi Moi policies

From the perspective of economic analysis, there are two aspects to Doi Moi policies deserving of comment: reform of the economic system (institutions and organizations) and restructuring of productive forces.

In the former-Western countries, Doi Moi's reforms to the economic system are almost always interpreted as a transformation from a centralized, planned economy to a decentralized, market economy. While this market economy is not inseparable from the mode of production practiced in “capitalism,” Western commentators often point out that the marketization that Viet Nam is seeking is equivalent, as a system, to capitalism. However, the real meaning of Doi Moi as used in the 6th Party Congress' decision has nothing to do with the abandonment of socialism in favor of capitalism³. It refers to “reforming outdated, irrational, and inefficient ways of thinking” that had been adopted in the name of social development. This point is made repeatedly in later Party documents as well so as not to leave any room for doubt. References to policies to marketize the economy, or to introduce market mechanisms, have been appearing with increasing frequency in party documents, but this does not mean that the government expects the economic system to be transformed into a market economy, merely that market mechanisms will be one means used to “reform and update” the socialist system. In relation to systemic transitions, the term “market economy” is always used in the restricted sense of “a market economic system controlled by the state.” The expression “multiple sectors in which the state economy plays the leading role” is also used. This refers to an

1) Viet Nam's first Five-year Plan covered 1961-1965. The plans have been renewed every five years without interruption. The 1996-2000 plan is the 6th in the series, though Viet Nam has to my knowledge never referred to by number.

2) The official English translation of “Doi Moi” is “renovation,” or occasionally “renewal”.

3) This point is made by Tadashi Mio in “Another Perspective of Doi Moi: Analysis of Current Conditions and Observations on the Future” in the Japan International Cooperation Agency (JICA) *Report of Research on Aid Recipients: Viet Nam*, March 1995.

abandonment of policies to quickly destroy the sector led by private capital so as to run the economy only with the state sector and, as an appendage to it, the collective-economy sector. Instead, all existing sectors will be allowed to continue, and "state capitalism" (joint ventures and alliances with domestic private companies and foreign companies) will also be made use of. Even here, however, the leadership remains with the state sector.

Thus from the perspective of the Party, marketization was only a means of reforming and reinforcing socialism. In reality, however, it has had a much more drastic effect on the nature of the economic system. Of particular note is the fact that the principal factors in capital accumulation (or the function of resource allocation, for that matter) are shifting from government-prepared command-style economic plans to something midway on the road to the free interplay of market forces. This change has been reinforced by the obligation to meet the conditionalities imposed on financial support from the World Bank and IMF. It is these real-life issues that are behind the tendency of commentators at international organizations and in former-Western countries to see Doi Moi policies as being equivalent to marketization policies.

Turning to the aspect of "restructuring productive forces," one notes that after two important Party meetings⁴⁾ in the first half of 1994 there has been more explicit discussion of step-by-step plans to achieve the "Industrialization and Modernization" of the state as a concrete goal for Doi Moi policies in the area of productive force formation. "Modernization" refers to the use of modern science and technology as a method of achieving "industrialization." Given the international environment in which developing countries find themselves today, "industrialization" and "modernization" are deeply intertwined issues, if not entirely overlapping. What must be further emphasized in this regard is that for countries like Viet Nam which in the past enjoyed broad land frontiers but now are virtually unable to sustain the development of the primary export goods (in this case, rice) upon which the development of those frontiers was predicated, "industrialization" is almost synonymous with "escape from poverty."

Development economics sees poverty in low-income countries as the product of a number of factors that are structurally linked in a "vicious circle." It being difficult to halt that circle, it is also difficult to escape from poverty, economists explain. The links in the vicious circle take the form of low income, low savings, low investment, and therefore low income again. From the demand side, the links are low income, low purchasing power, low investment, and therefore low income⁵⁾. Development economics also see another vicious circle at work in making it particularly difficult for low-income agricultural countries that have exhausted their land frontiers to industrialize. One of the things that sets farmers apart in these countries is their low productivity (there is not enough land to work, so there is much hidden unemployment and at the same time low per capita food production). This leads to such food as is produced being almost entirely for personal consumption, so that there is little surplus left over for sale on the market. Were industrialization to be achieved, it would absorb the hidden unemployment among farmers, correcting both their low productivity and their low incomes, but because there is little food surplus and therefore little on the market, even were the industrial sector able to attract the hidden jobless, it would be unable to feed them. As a result, industrialization fails to progress, and agricultural productivity fails to improve⁶⁾. The issues on the productive capacity side are how to halt these vicious cycles and make

4) The Communist Party representative Conference in January 1994 and the 7th Plenum of the 7th Party Central Committee in July of that year.

5) This is the theory advocated by Ragner Nurkse in *Problems of Capital Formation in Underdeveloped Countries*, Basil Blackwell and Mott Ltd., Oxford, 1953. (In Japanese translation by Rokuro Tsuchiya, *Koshinsyokoku no shihenkeisei*, published by Genshodo.) The method that Nurkse advocates for breaking out of the "vicious cycle of poverty" is to realistically tap into the latent savings that are included in the latent unemployment within agriculture. To do that requires shifting surplus agricultural labor to local manufacturing and construction sites. If, having done this, one can shift to the manufacturing sites an amount of food equivalent to what the laborers had been consuming without incurring additional costs in the process (for example, by using taxation to effect the movement), then latent unemployment could be transformed into savings. In point of fact, however, the use of taxes to transfer food is difficult to achieve. What is necessary instead is to improve agricultural productivity. For a discussion concerning this vicious cycle, see my *Economic Development in Asian Perspective*, Kinokuniya Co., 1967, pp. 348-356.

6) This version of vicious circle is formulated by myself, taking into consideration the discussion of the Nurkse version.

industrialization possible.

The *Doi Moi* policies must not be assessed merely in terms of pure economic analysis. We must also keep in mind the evolving and developing circumstances amidst which policies must be formulated. Wars, which continued in Viet Nam ever since the Second World War, have destroyed the country's production and the lives of its people, and policies must be seen in the context both of postwar economic (and social) restoration and of political and social reunification of what has been a divided land (particularly between north and south). We have been unable to organize this context or obtain sufficient information about it and so there are many events on which we must suspend judgement. As just a couple of examples, agricultural liberalization measures date back to 1970, far earlier than the official adoption of *Doi Moi*, but it is not clear what their relationship to *Doi Moi* policies is⁷⁾. Likewise, we are unable to gauge the seriousness of the corruption spawned by marketization. In cases where we do render specific opinions, we must recognize the possibility that, for the reasons discussed above, our judgements may be flawed.

<General evaluation>

The stabilization and growth of the Vietnamese economy during the five years from 1991 to 1995 was, as the latest draft of the new five-year plan notes, "remarkable." As a result, it appears that the Vietnamese economy has begun to shift from the "postwar recovery" stage to the stage of long-term development for national rebuilding in terms of both policy formation and productivity restructuring. We date this change in orientation to somewhere around the time that the "Industrialization and Modernization" policy was adopted in the first half of 1994. Many factors have been responsible for these results, but the role played by the formulation of *Doi Moi* policies has been predominant. Nonetheless, we feel the need to make a few comments in this regard.

(1) The largest contribution made by *Doi Moi* policies in this regard was in the area of reforms to the economic system. As already noted, this involved what is in effect (not just name) the interchangeable adoption of two objectives: the internal reform of socialism as a political principle, and the transition to a market economy as an economic fact. It was this, more than anything else, that enabled the Vietnamese economy to achieve economic restoration and maximize its growth under existing political constraints and using the market forces available to it. Other than petroleum, the industries that made the largest contribution to GDP growth were food, fertilizer, and exports. Steady growth for the agricultural sector appears to have finally brought the country back to the levels of the fifties for per capita food and rice production.

(2) Marketization has, in many cases, exacerbated factors for instability, including inflation and balance of payments disequilibrium. Viet Nam was able to eliminate these factors in a relatively short period of time, and the biggest reason for this was again the process of marketization. Rapid growth in its foreign trade and increases in FDI helped improve its balance of payments. Meanwhile, market-oriented fiscal and monetary policies—for example, the ban on monetarizing fiscal deficits and stricter controls on credits extended from the central bank to state commercial banks and from state commercial banks to state enterprises—were successful in keeping inflation in line. More recently, the increase in FDI has helped the dong to appreciate against the US dollar in real terms, which has led to the entirely unprecedented phenomenon of reductions in foreign currency deposits and increases in dong-denominated time deposits.

(3) Nonetheless, from the perspective of long-term development it would be wrong to conclude that these achievements are the result of a solution to the issue of restructuring productive force ("Industrialization and Modernization"). There is not even much evidence that they should be attributed to the beginning of steady long-term development driven by the marketization of the economic system. In the next two sections we will discuss these unresolved long-term challenges in more detail.

7) The use of terms such as "reconstruction" stage or "development" stage is a qualitative interpretation of the attitude of the government of Viet Nam towards economic policy rather than a quantitative interpretation based on comparisons of any aggregative indicators for a base year prior to the Second World War (usually 1939 is used) or for an arbitrary year in the forties or fifties. Such statistical research will have to be left for a future paper.

II. Reforming the economic system: how to use market mechanisms

The long-term challenge in reforming the economic system is to articulate the way in which marketization will be used to further *Doi Moi* policies, and to elaborate in a concrete fashion on the methods that will be used to move in this direction. The best way to meet this goal is for a country that has started to introduce market mechanisms to create a "blue print" for marketization based on its experiences with marketization so far and listing both specific target years and interim benchmark years for its realization. This blue print should evolve as more experience in marketization is gained and as objective conditions change. Thus, while it will be difficult if not impossible to create an ideal blue print from the very beginning, the preparation of blue prints that are acceptable for each specific point in time will nonetheless enable them to be used as the "compasses" steering systemic reforms. We are informed that the government of Viet Nam is making efforts to produce such blue prints in the course of formulating its economic and social development plans.

Unfortunately, the full scale of the blue print is not to be found in publicly available literature. There are discrete parts of it that are clear, but it would be hoped that steps would be taken so that the full picture behind them could be seen. One of the means we have used to do this is to refer to the blue print for marketization (see "Decisions Regarding Several Issues in the Establishment of a Socialist Market Economy") adopted by the plenary session of the Party Central Committee of China on November 14, 1993. Obviously, there are problems in terms of circumstantial and cultural differences in referring to a Chinese blue print to elucidate a Vietnamese blue print, but the government structure and economic conditions of Viet Nam (particularly its stage of development, type of resource endowments, and breakdown of industrial structure by form of ownership) far more closely resemble China's than those of the former Soviet Union or the countries of Central and Eastern Europe, as do its policies and guidelines for marketization. If used with caution, therefore, such references can be expected to facilitate this goal.

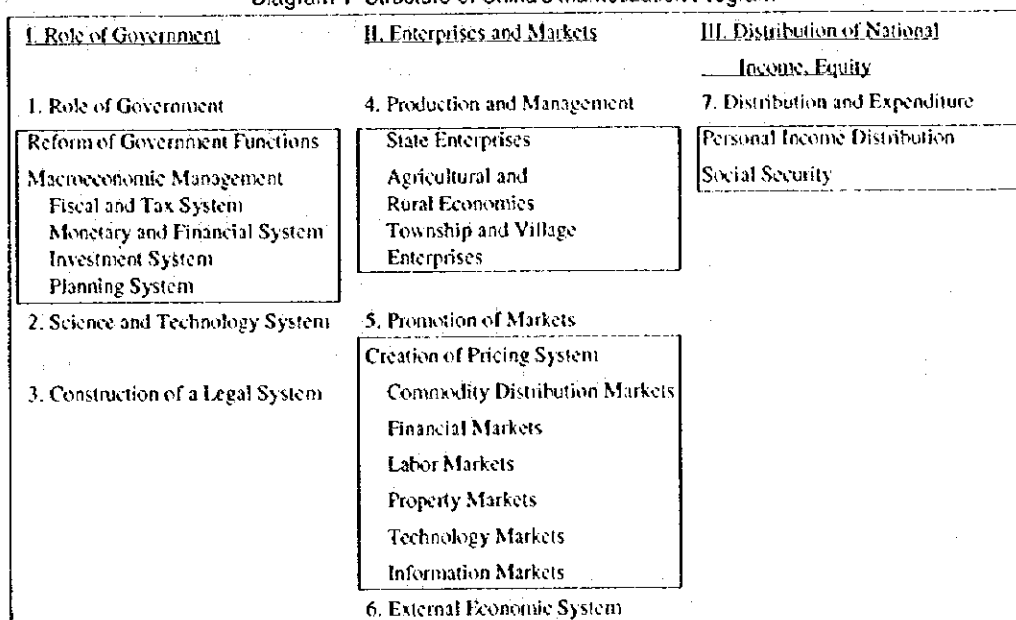
1. Comparison with the Chinese marketization model

The Chinese blue print was originally described as something to be "preliminarily achieved" by about 2000, but on September 28, 1995, a plenary session of the Central Committee set the target year at 2010, with a goal of 2050 for "basic achievement of modernization" of the systemic base. Modernization is apparently considered a higher goal than marketization.

The blue print states specifically that the over-arching goal of marketization policies is to establish a "socialist market economy." The meaning of "socialist" in this context is defined as "joint development of a multi-sector economy led by the state sector." It does not differ significantly from the Vietnamese concept of "controlled by the state." The content of "marketization" does go a step further than in Viet Nam, however, as the Chinese plan says that "the market shall have the function of basic resource allocation within the framework of state macroeconomic control."

Diagram 1 classifies the marketization goals of the Chinese blue print into three main groups, seven sub-groups, and several specific items under them. These are my own personal classifications. The first main group concerns the changes in the role of the government as a result of marketization and hence changes in the government's relationship with the market. Under the past command-style approach to economic planning, the government played the role of principal actor in running and developing the economy because it was the government's job to give production and management orders to state enterprises. Marketization will certainly alter this relationship. We would note that this group is the most basic of the three main groups. The new functions of the government will center around 1) providing macroeconomic management using fiscal monetary policy as its main tools (the aim in this will be "stabilization," which will be realized by achieving internal and external economic equilibrium) and 2) providing public goods to the economy. Because of this, both government activities and, consequently,

Diagram 1 Structure of China's Marketization Program



government budgets will be downsized in comparison to command-economy days. In the "investment system," the principle of taking responsibility for one's own risks will apply in corporate investments and bank lending, though the government will formulate "industrial policy" and attempt to attract private-sector investment to priority areas. In the "planning system," state plans will provide a foundation for market-based allocations, but in general must be only "guide posts" for the private sector.

The structure of the Vietnamese marketization program generally resembles that shown in the table, no doubt because of the similarity in ultimate goals. This structure can therefore be used without modification in discussions of Vietnamese policy. For example, Viet Nam's reforms in the first main group broadly resemble those of China at this time in that their over-arching goals are similar. However, Viet Nam retains much of the resource allocation function in government hands, particularly in industrial policy and state planning. On the other hand, Viet Nam is much more rigorous than China in its implementation of the major aspects of market-oriented fiscal and monetary policy-based macroeconomic management (cessation of subsidies to government organizations and enterprises, ban on loans by state commercial banks to enterprises running deficits, etc.). This has resulted in a marked hardening of the "soft budget constraints" on state enterprises. In China, "soft budget constraints" continue to be the norm.

The second main group deals with 1) reforms in the major enterprises that, under normal market mechanisms, serve as independent decision-making units in production and management (Sub-group 4) and 2) the domestic and foreign markets that provide the external enabling environment for their activities (Sub-groups 5 and 6). One of the things that sets apart the reform of China's state enterprises is that while the country follows for smaller state enterprises the normal prescription found in World Bank structural adjustment programs of immediate "divestiture" (sale, liquidation, merger) and ultimate "privatization," for larger state enterprises it probably will not. Chinese policy for larger enterprises is to maintain the status quo while improving efficiency. This will require giving managers more autonomy and gradually moving towards more modern forms of organization. There are many different forms this could take—wholly-owned state enterprises, limited liability companies, joint-stock limited liability companies, and groupings of these companies—but in all cases China separates the ownership rights of investors from the property rights (management rights) of the corporation, working on the one hand to maintain and increase the value of state assets and on the other hand to achieve efficient management that is not subject to interference from line

ministries.⁸⁾

In agriculture, dismantlement of "people's communes" in the early stages of reform has created a de facto family farm system as the unit of production and management, but the blue print targets, as a basic organizational system for agriculture, the "two-tiered management" that began to be introduced around 1994. Under this system there is both the unit of the individual farmer who is directly involved in agricultural production and the unit of territorial organizations (formerly the "Production Teams" and "Production Brigades") that provide production and management services (flood control, irrigation, insect and disease control, agricultural experiments, dissemination to individual farmers, joint purchasing, and joint marketing). Township and village enterprises, which are the principal actors in China's rural industrial sector and began their spread around 1984, were based on the local territorial organizations, but the blue print allows for the introduction of new "management subcontracting systems" and "joint-stock cooperative systems."

In marketization policies, China notes the need for measures to "foster" and "develop" market systems as reforms take place. This emerged out of recognition of the fact that the market economy in China is essentially immature and underdeveloped and would be unable to restart just by making formal changes in socialist systems. This recognition deserves special mention because it is not found in the policy proposals of the World Bank and IMF (and our understanding basically agrees with the notion of the underdeveloped market).

The differences between Viet Nam and China in the second main group are slight when it comes to the reform of state enterprises. (However, China has more concrete regulations on whether they are to merely be incorporated or to be turned into joint-stock corporations). The biggest difference is probably in system for agricultural and other rural economic organizations. Chinese agricultural production now supports the individualistic farming activities of farm households with production services provided by the collective units of the "natural villages." The township and village enterprises were created out of this same natural village solidarity, and have achieved strong growth. But in contrast to what has been happening in agricultural production activities, since the nineties, China has attempted to change the system in ways that increase personal incentives (mainly the ambitions of managers) so that talented managers are not recruited out by other companies⁹⁾. There is much that is unclear for us about conditions in Viet Nam's rural villages, but it would not appear that "common and collective ties" or "natural village solidarity" in agriculture enjoy much support or use. Rather, there seem to be more cases of collectives quite suddenly shifting to systems that respect personal incentives.

In terms of the circulation of national income, the third main group represents the "distribution" phase in contrast to the second group, which is the "production" phase. More specifically, this group deals with the question of fair distribution among individuals and regions of the national income that is allocated as personal revenue. The major factors in this are the development of wage policies and social security systems. The latter is, in one sense, a prerequisite for the successful reform of state enterprises. There appear to be no significant policy difference between Viet Nam and China in this group.

8) One of the interpretive problems involved in the transformation of state enterprises to joint-stock companies is whether there are tangible and intangible limits to the amount of shares that can be directly or indirectly owned by the state from among the total capital of reorganized into joint-stock companies, thus enabling the state able to maintain its control over the companies. (The state assets in the pre-reorganized state enterprises are transformed into state-owned shares in the reorganized entity, but the state shares are only for the direct investments of the state in the enterprise, and reinvested funds by the state enterprises become "corporation shares.") The Companies Law of December 1993 contains no clear provisions with respect to this problem. If these restrictions are not in place then it is possible that by way of the transformation into joint-stock companies the state enterprises will be gradually and quietly privatized. However, the Companies Law does mandate in Article 7 that "statutes shall be consulted when reorganizing state enterprises into companies ..." This may in fact suggest the way a limit on de facto privatization will be imposed.

9) As of the end of 1994, the "joint stock collective system" encompassed 12-13% of all township and village enterprises.

2. Problems in reforms to the economic system

This review suggests that, in a general sense, the blue print for marketization published by China shows one possible direction that marketization could take in Viet Nam. One of the most important differences between Viet Nam and China is on how state enterprises are reformed and a means of macroeconomic control established. This is not an essential difference, however. It merely reflects the degree to which reform plans have been refined (China has a bit longer a history of reform) and different relationships with the World Bank and IMF (China does not receive financial support under structural adjustment programs). The other important difference is in the stance towards reforming agricultural and rural economic systems. Here there appear to be fairly essential differences in dependence on traditional community organizations in rural villages and gradual introduction of personal incentives. However, we are not well versed in the history of Vietnamese agricultural collectives, so these difference may be because Vietnamese agricultural organizations are still in the process of realignment.

One of the lessons that can be learned in comparisons between Viet Nam and China is that systems must be built quickly in order to further development in non-agricultural sectors in Viet Nam. Another is that there may be a need for some innovations of a general sort in the creation of systems for the rebuilding of rural agricultural villages. In the context of the latter, we feel it necessary to sound a warning regarding the optimistic forecasts for agricultural and rural economic development voiced by many institutions and researchers in the former-Western countries, and to note what in many cases is a lack of coverage for agricultural and rural issues.

In this regard we would refer the reader to a recent paper published in the United States to much acclaim, particularly from international scholarly associations interested in economic reform in former planned economies¹⁰. The paper argues that there are two important reasons why economic reforms in the former-Soviet republics have encountered grave difficulties while those in Viet Nam and China are proceeding smoothly. The first is that while reform of state enterprises is always difficult no matter the country, reform of the agricultural sector is not. All one must do is move low-productivity labor to the high-productivity non-state sector. The second is that Viet Nam and China had large agricultural sectors while relative weight of the agricultural sector in the Soviet Union was already small, so the country could not take advantage of these possibilities. While interesting, this argument is also unrealistic, first because it discounts the difficulty of reforming the agricultural sector and second, because it oversimplifies the conditions that must be met for the movement of agricultural labor to take place. This is the subject of the next section.

III. Agriculture as the basis for industrialization and the restructuring of productive force

One of the long-term challenges in the "restructuring of productive force" aspect of the Doi Moi policies is how to industrialize Viet Nam. This is equivalent to asking what the main methods will be for breaking out of the vicious circle of poverty.

1. Two models of industrialization

There are two models of industrialization used in development economics that are particularly relevant to Viet Nam's situation.

10) Jeffrey Sachs and Wing Thye Woo, "Reform in China and Russia," *Economic Policy*, Spring 1994. For my comments on this paper see my "Open Door and Internal Development" (Taigai kaiho to kokunai kaihatsu) in Fumio Ito, ed., *China in the Twenty-first Century* (21seiki no chugoku), Simul Publishing, 1995.

(1) The "planned economy" industrialization model¹¹⁾

This model was created by G.A. Feldman, an economist who worked on the early stages of the Soviet Union's Gosplan. It is based on the "law of priority development of the primary sector" found in the "reproduction scheme" of *Das Kapital*. In this model, the factor determining the speed of industrialization under directive-style plans is the relative size of the total output of the "investment goods production sector" that is allocated back to itself when the output of the sector is distributed among all economic sectors (known as the γ coefficient). These differences are thought to result in differences in the growth path. The larger the γ coefficient, the faster the pace of industrialization and, over the long-term the larger the extent of national consumption. In other words, a large γ coefficient will result in a compression of consumption and a reduction in wages over the short term. Both the former-Soviet Union and China pursued policies designed to increase the γ coefficient (to nearly 50%), which robbed workers of any incentive to work harder and eventually brought on the systemic rigidity and inefficiency inherent in planned economies. What current economic reforms in former command economies essentially are is an attempt to eliminate these damages. After market reforms have been completed it is hoped that the autonomous investment, savings, and consumption decisions of enterprises and households (and government consumption) will take precedence and, through the fiscal and monetary systems, determine capital accumulation and consumption rather than the other way around. This is in contrast to the capital accumulation mechanism of planned economies in which the γ coefficient and other factors are determined first. As this happens, this mechanism will determine the pace and form of industrialization. The γ coefficient will cease to function as a planning variable.

(2) The "dualistic economy" (agriculture/industry) model of industrialization¹²⁾

This model was developed by Nobel Prize-winning economist W. A. Lewis. It starts by recognizing that in the industrialization of what have been predominantly agricultural countries, a new industrial sector appears as part of the process of transferring to the industrial sector the surplus labor in the agricultural sector (hidden unemployment) and the surplus food needed to nourish it, and tries to model this process. The original model was rather unclear about the mechanism by which food surpluses would be created, but those coming after Lewis have done much to improve this aspect. In addition to the transfer of labor and food, there are also inputs of industrial consumer goods and transfers of funds between both sectors. Later analysis has also refined these aspects. Nonetheless, the basic premise of the model is how to make it possible to simultaneously tap labor and food. (Empirical studies done by us seem to show that the "theory of primitive socialist accumulation" advocated by Preobrazhensky and others in the former-Soviet Union does not apply to the process of industrialization in China.)¹³⁾

A comparison of the two models (for this we will use only the post-reform version of Model 1) quickly reveals differences in the sector divisions that underlie the analysis. Model 2 employs only two sectors: agriculture and industry. Model 1 also has an investment goods sector and a consumer goods sector. In fact, the agricultural sector is merely one subsector within the consumer goods sector. These differences point to the different assumptions behind the models, particularly Model 2's assumption of the unique nature of the agricultural sector (existence of hidden unemployment, family economies, collective ties among the rural population etc.). On the other hand, Model 1 treats the industrial sector with its complex internal structures as if it were homogenous.

11) E. Domar, *Essays in the Theory of Economic Growth*, 1957, Oxford Univ. Press, Ch. IX "A Soviet-Model of Growth." See my *Capital Accumulation Mechanisms in China* (*Chugoku ni okeru shihon chikuseki kiko*), Iwanami Shoten, 1960, for observations regarding the application of this model to the development process in China. See also my "Medium- and Long-term Outlook for the Chinese Economy: Preparatory Explorations" (*Chugoku keizai no chuchoki tenbo—yobiteki tankyu*) in Japan-China Economics Association, *Medium- and Long-term Outlook for the Chinese Economy* (*Chugoku keizai no chuchoki tenbo*), 1984.

12) See my *Basic Issues in Development Economics* (*Kaihatsu Keizai gaku no kihon mondai*), Iwanami Shoten, 1990, Chapters 1 and 2.

13) See my *Basic Issues in Development Economics*, Chapter 5.

2. Lessons for Vietnamese Industrialization

It is impossible to make any firm pronouncements on which model is better, but generally Model 2 is used as a basis of analysis for countries in the initial stages of industrialization, while Model 1 is used to analyze the growth structures and transitional processes of new industrial sectors. From this perspective, there are two lessons that the models have for industrialization and modernization under Doi Moi policies:

1) Pay as much attention to the development of the agricultural sector and rural economy as possible; and

2) In developing modern industrial sectors, pay particularly close attention to choices of industry, size and structure, and technology.

Appendix 1: Seven individual issues

The paper "Comments on the Directions, Planning and Tasks of Socioeconomic Development for 5-year 1996-2000" presented by Shigeru Ishikawa at the Hanoi Workshop on September 6, 1995 and his "Japanese and Chinese Experiences: Relevance to Issues in Viet Nam's New Five-year Plan (Provisional Draft)" presented at the Tokyo Workshop on January 28, 1996 contain comments on a total of seven individual issues related to the draft versions of Viet Nam's Five-year Plan. The former is based on an early draft of the plan from July 1995 and comments on four issues (this paper is included as Chapter 2 of this report). The latter is based on a draft submitted to the Paris CG Meeting in December 1995 and comments on three issues. These are specific comments in contrast to the general comments contained in the body of this report, and an outline of them has been provided below. For the four comments on the early draft, a bare outline should suffice since they have since been taken up as topics by four special sub-research groups involved in the research project. For the latter, we have included a summary with additional points raised as the prior version of the paper was in "provisional draft" form.

(I) Comments on the early draft

Below are the four comments made regarding the early draft.

1) Agriculture and rural economics

The reconstruction and development of the agricultural sector and rural industry are factors that are vital to the success of Viet Nam's Five-year Plan. Some argue that there are limits to the productivity gains that can be expected in north Viet Nam where production conditions are unfavorable, particularly because the average land under cultivation per farmer is tiny (0.04-0.06 hectares). The experiences of southern China, where land availability conditions are similar, do not bear this out, however. Among the prerequisites of rural industrialization are that agricultural productivity improve enough so that it is possible to raise the savings and investment funds necessary for industrialization, and that there be an increase in purchasing power so that products may be marketed.

2) High growth and macroeconomic stability

While it is perfectly understandable why the Vietnamese government demands high growth, when one considers Viet Nam's very small savings capacity and its enormous accumulated foreign debt, one should be particularly wary of the potential for policies that aim at sharp growth to exacerbate inflation and balance of payments problems.

3) Raising the savings rate

When savings rates are used as barometers of growth potential in low-income countries, it is advisable to use a net savings rate that subtracts from gross savings the depreciation of fixed capital. For "take-off" to occur, negligible net savings rates must jump to levels well in excess of 10%. This was the case in South Korea and Taiwan.

4) The path to dual-economy-type industrialization

Vietnamese industrial development is still in the very infant stages. To start from this level and begin the process of industrialization it is recommended that alongside fostering the development of modern

industries, the country also foster the development of smaller companies that make use of use existing organizations, existing technologies, and local resources.

(2) Comments on the CG version

The following comments were made on the draft of the Five-year Plan presented to the CG:

1) Regional development plans

I was impressed that the new draft includes detailed regional development plans for urban centers and industrial districts (Zone 1), mountainous areas (Zone 3), and intermediate areas (Zone 2). (We were not able to obtain a copy of the new draft for the January Tokyo Workshop.) Looking primarily at Zone 1, these regional development plans closely follow what in economic theory is known as the "theory of Growth Poles." To give this more precision it would be advisable to create a master plan (or long-term space plan), primarily for the industrial zones, that would include the sequencing of industrialization, the building of related agriculture, industries, and infrastructure, and the steps for their building. It is also recommended that Viet Nam refer to Japan's experiences in creating four successive "National Land Development Plans" after the Second World War.

2) Unemployment and underemployment issues

The population explosion in developing countries since the end of the Second World War has created serious employment problems (which take the form of hidden unemployment in rural areas and explicit unemployment in urban areas) in most developing countries (particularly low-income countries). It has been postulated that relief from and resolution of these problems requires the absorption of workers first by a modern industrial sector (this is the most traditional path followed), then by a related small business sector, and finally by the rural off-farm sector. However, it is becoming more important than ever that we search for unorthodox ways of absorbing workers as well, and I would draw your attention to the fact that in Japan and Southeast Asia, an increase in inside-farm jobs played an important role in absorbing workers. This increases the labor input per hectare of cultivated land. In the 1930s and 1950s in Japan, about 300-400 man-days were spent per hectare of rice cultivation; for other crops, some 400-500 man-days per hectare, when second and third crops (in addition to rice) are included. Both were around 100 man-days for Southeast Asia in the sixties. Since the introduction of high-yield rice varieties, there has been a slight increase.

3) Poverty

I was impressed by the government of Viet Nam's basic stance towards relief from poverty as shown in the most recent draft Five-year Plan. In recent years, there has been something of an international consensus that, in parallel with GNP growth, the most important way to alleviate poverty is to increase public spending so that growth will provide each and every citizen with access to the opportunity to benefit from economic growth. Particular emphasis is placed on elementary education, health, family planning, and nutrition, though spending should also be made to increase geographical access to growth centers by building roads and telecommunications facilities. The antipoverty programs of the government of Viet Nam provide much in the way of this sort of spending. What I would like to add is that there is also a need to resurrect and aid the de facto social security functions provided by traditional organizations in rural communities (rural cooperatives), especially at the current stage in which these spending measures will not be able to exert sufficient effect and the social security system has yet to spread. These system are more than just mutual relief in time of need among neighbors and acquaintances in rural villages, they also involved work sharing and income sharing during normal times.

Appendix 2: Comments on the Draft Political Report

The draft of Five-year Plan which I of this report has considered refers to the document "Directions, Planning and Tasks of Socioeconomic Development for 5-year 1996-2000" (Draft), prepared signed on November 14, 1995 by the Communist Party of Viet Nam Central Committee, and transmitted to us by the

Vietnamese Planning and Investment Ministry. On April 10, as the first chapter was being written, the Viet Nam News out of Hanoi announced a Draft Political Report of the Central Committee (VIIIth Tenure) to the VIIIth National Congress of the Communist Party of Viet Nam. The content of this document appears to include the latest draft of the New Five-year Plan. I have read through the report very quickly and feel only it necessary to add two or three comments to the first chapter of this report regarding the relevant parts of the Vietnamese document (Section 1 "Viet Nam After a Decade of Renewal," Section 2 "Targets for 2020 and 2000," and Section 3 "Directions for Development in Reconstruction Areas").

1) This draft Political Report appears to have been announced in order to solicit a broad range of public opinion, which is an excellent step to have taken in the preparation of the Five-year Plan. However, there does not appear to be much change between the November 1996 version and the Political Report in terms of the 1) general direction of transformation for the economic system, 2) the steps of reform in individual areas and the basic policies to rebuild productive force designed to achieve this, and 3) the numerical macroeconomic targets for 2000.

2) What is new in the draft Political Report is that the Five-year Plan to 2000 has been supplemented with a glimpse of a long-term plan to 2020 that was drafted in parallel to it.① During the thirty years from 1990 to 2020, the plan targets an 8-10-fold rise in per capita GDP. ② The breakdown of GDP by ownership sector looks for development of entire multi-sector economy that is spoken of in Viet Nam's public documents (the state economic sector, the collective economic sector, the individual and small owner economic sector, the private capitalist economic sector, and the state capitalist economic sector), but "the state economic sector will perform the leading role and, together with the collective economic sector, constitute the foundation of the economy, accounting for about 60% of GDP".

A comment on ① is about per capita GDP growth. The target of an 8-10-fold growth multiple for the 1990-2010 period is equivalent to forecasting an average annual per capita growth rate of 7.2-8.0% over this same period. Borrowing the broad but famous concept of "take-off to sustainable growth" advocated by W.W. Rostow, this could very well mean that the achievement of take-off is guaranteed. If indeed it does occur, then the large gaps in per capita GDP that exist between Viet Nam and its neighbors in Southeast Asia could be closed to a considerable extent within the space of a single generation. (The projections for world economic growth between 1995 and 2004 published by the World Bank are representative of this sort of work and look for average annual per capita GDP growth of 6.6% for the developing countries of East Asia and the Pacific.)

On the other hand, we should also consider what an 8-10-fold increase in per capita GDP over a thirty year period will mean for annual GDP growth rates during the first twenty years of the twenty-first century. We will employ the following data and assumptions to do this: (i) average annual GDP growth for the 1990-1995 period was 8.2%; (ii) average annual GDP growth of 9-10% is planned of the 1996-200 period, which we will assume is achieved; (iii) average annual population growth for the 1990-1994 period was 2.14%; (iv) average annual population growth for the 1995-2000 will decline to 1.8% as planned and will maintain that rate thereafter. These assumptions result in a GDP growth rate of 9.3-10.3% for the 2000-2020 period. This growth rate appears to represent an attempt by the Vietnamese leadership to restrain the desires of the people for an even higher rate of growth. That still leaves the question of whether a developing country can maintain growth rates this high for this long a period. International experience points to South Korea and Taiwan as the best examples. (Annual average growth rate of GDP of Korea for the 1960s, the 1970s and the 1980s were 8.4%, 9.6% and 11.5%, respectively. Those for Taiwan were 9.4%, 10.1% and 7.9%, respectively. However, in natural resource-poor Korea, the economy encountered a serious balance of payment crisis during the first half of the 1980s, resulting from the high-growth oriented policy.)

Turning to the ②, a question may be raised: what are the prospects for the sectional structure of the economy by ownership in 2020 which are held by the government when it sets the goal of increasing the weight of the combined output of the state and collective economy sectors to the extent of about 60% of GDP? There are three possibilities conceivable.

The first is the possible case in which the government considers the weight of the current output of the collective economy in GDP will remain unchanged even in 2020. The current weight is, as examined in Addendum below, very small indeed. Since the weight of the state economy sector output in GDP was 32.5% in 1990 and 40.2% in 1994, this case implies a further significant increase in the same weight toward 2020. Existing policy documents state that the reason why weight of the state economy sector has increased by now is due to the fact that the availability of private entrepreneurs is quite low. Hence an significant expansion of the state economy sector. But, how far can this reasoning be applicable to the possible further increase in the state economy weight toward 2020?

The second possibility is a steady increase in the weight of the collective sector output. In Addendum, the experience of the collective economy development in China, including the development of the Township and Village Enterprises, is shown as an example for considering the issue of collective economy development in Viet Nam. If Viet Nam could follow this example it is indeed feasible for Viet Nam to achieve the goal of the 60% of GDP as the combined weight of the state and collective economy sectors. However, the following fact should be kept in mind that in China, the development of the collective enterprise has been made possible, since the start of the marketization reform, by the policy which respected the initiatives of the local community governments for promoting common welfare and development in the locality, but that after the 1990s, as a result of the market economy development, a new tendency has arisen in which many collective enterprises are now converted to a joint-stock cooperative type. This tendency appears to indicate the further change toward a joint-stock corporation type in the future. However, the evolutionary process of collective economy in Viet Nam seems to have been very much different from that in China.

The third possibility is the increase in the weight of the output of joint state enterprise either with the domestic private or foreign private enterprises. The statistical classification in Viet Nam of these joint enterprise output, are said to treat them as the state enterprise output, and therefore this case also would make feasible the achievement of 60% of GDP weight by the combined output of the state and collective economy sectors.

In any case, it would be desirable for the Vietnamese government to publish more detailed information on what they consider the prospects for the weight of both state and collective economy sectors toward 2020 and the effective policies to realize them.

3) Another new point in this Draft Political Report is in regards to the "major perceptions of new mechanisms" found in Parts II and III of Section 3, "Economic Sector Policies" and "Continue to Renew the Mechanisms of Economic Management," respectively. It was noted in Chapter 1 of this report that only bits and pieces of Viet Nam's marketization guidelines have been made public and there is as yet no discernible overall blue print, though the Chinese blue print provides a means of envisioning what will be entailed. However, it would appear that these "major perceptions" are in effect the first publication of a blue print for Viet Nam. Even still, upon reading it, there would not appear to be much need to modify the observations made in Chapter 1.

First, the blue print is not dated. It is discussed in relation to plans to 2000, but it is difficult to believe that what is contained therein is really meant to be reforms to be completed by the 2000 benchmark. It seems to be a much broader vision of the future.

Second, regarding the reform of state enterprises, it discusses the experiences of pilot cases in creating joint-stock companies and advises that this program be actively moved forward (while at the same time banning privatization). Unfortunately, there are no specific policies for joint-stock company creation. All it contains are comments on the purpose of creating joint-stock companies and the need both to recruit necessary funding and to give managers incentives.

Third, there is no discussion of systems or organizations for the agricultural and rural sectors.

Addendum : The state economy sector and the collective economy sector

For assessing the long term goal of the Draft Political Report to raise the weight of the combined output of the state and collective economic sectors to the extent of about 60% of GDP by 2020, it is useful to attempt a comparison with the Chinese experience as was done a few times in this project study.

To begin with, both Viet Nam and China consider that these two sectors will develop to renovate the traditional planned economy system and build the foundation of a new economic system. While in the traditional system the two sectors combined to constitute a "uni-sector national economy," the new system aims at building a "multi-sector economy" and these two sectors would become the principal sectors of this multi-sector economy. In China, the two sectors are combined to be called a "public sector," and are both expected to be developed under a modern corporation system.

At present, the weight of the collective economy sector output in the entire national economy is significantly large in China, whereas in Viet Nam it is very small. However, no statistics are available by which to compare directly the same weight between the two countries. The above observations are in fact estimates based on attached table 1 and 2, which compare the relative weights of various economic sectors by ownership between the two countries in the scope of industry and retail sales, respectively. Yet, considering the importance of these two industries, these observations are probably not far off the mark. The collective economy consists of the production and business units of the cooperative or collective nature which are organized by the members of the rural community with their contribution of own labor and money. In Viet Nam, the cooperative movement failed over the wide regions and toward the end of the 1980s many cooperatives were disbanded. (Nguyen Sinh Cuc, *Agriculture of Viet Nam 1945-1995*, Statistical Publishing House, Hanoi, 1995.) In China, the People's Communes were disbanded in the early 1980s, but the same community solidarity which had contributed to establish the People's Commune system worked afterwards to establish rural collective enterprises ("Township and Village Enterprises"), which in turn spread to the urban areas to create the urban collective enterprises. (In attached table 1, the statistics of Guangdong Province and Jiangsu Province are shown, which are the provinces where collective enterprises developed most in China.) It seems that the difference in the relative importance of the collective economy in Viet Nam and China is originated at least partly from this difference in the historical background.

Table 1 Structure of gross value of industrial output by sectors of the different ownership type (Unit: %)

	Viet Nam		China			
	1989	1993	Whole nation 1987	1993	Guangdong 1992	Jiangsu 1992
State enterprises	66.3	71.3	59.7	43.1	32.5	28.2
Collective enterprises	11.9	2.5	34.6	38.4	39.7	41.4
Private enterprises	1.0	3.1	na	na	na	na
Individual enterprises	20.7	23.1	3.6	8.3	0.3	0.7
Joint enterprises	na	na	2.0	10.2	27.3	29.7
Others	na	na			neg.	neg.
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources : GSO, Socialist Republic of Viet Nam, Statistical Yearbook 1994, Hanoi 1995. SSB, China Statistics Yearbook 1994, Guangdong Statistics Yearbook 1993, Jiangsu Statistics Yearbook 1993.

Table 2 Structure of retail commodity sales by sectors of the different ownership type (Unit: %)

	Viet Nam			China			
	1980	1990	1993	1957	1965	1992	1993
State enterprises	29.2	30.4	21.8	37.2	53.0	54.6	39.7
Collective enterprises	8.3	2.7	0.8	41.3	43.1	43.2	26.3
Joint enterprises	na	na	na	16.0	-	-	0.9
Individual enterprises	62.5	66.9	75.6	2.7	1.9	0.1	22.6
Peasants trade	na	na	na	2.8	1.9	2.0	10.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources : The same as Table 1.

Table 3 Composition of the joint enterprises sector between the state collective and private sectors and the foreign enterprises
(indices as gross value of industrial output taken 100,1992)

Joint sector between state enterprises	and collective enterprises	1.03
	and individuals in the continent	0.02
	and overseas-Chinese etp. in Hong Kong, Macao and Taiwan	10.02
Joint sector between collective enterprises	and individuals in the continent	0.10
	and overseas-Chinese etp. in Hong Kong, Macao and Taiwan	5.91
Joint ventures between China and foreign		7.09
Direct investment enterprises by overseas China and businessmen		2.41
	of Hong Kong, Macao and Taiwan	
Direct investment enterprises by foreign capital		0.73

Sources : The same as Table 1.

In attached table 3 are shown statistics of Guangdong Province of the joint state, collective and private (either domestic or foreign) economy sector as well as the foreign direct investment sector in terms of relative output weight to total gross output of industry. The statistics has the relevance to the topic of this Addendum as it is reported that in Viet Nam the output of the joint sector between the state and private (either domestic or foreign) enterprises are treated as the state sector output. The attached table indicates that this joint sector has already come to occupy almost an equivalent weight as that of the state sector in Guangdong Province.

Comments on the Draft Final Report and on Professor Ishikawa's Postscript

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Macroeconomic policy formulation is of utmost significance to a country's long-term development and is also a very complicated task. Within a short period of time, both the Vietnamese and Japanese experts have worked together and the Japanese experts, on the basis of the information collected and the surveys conducted in Viet Nam, have written up the main substance of the Final Report (executive summary Final Report and full Final Report). Following are some comments on the general comments and additional comments (postscript) made by Professor Ishikawa.

The part on "Assessing the Results of Doi Moi Policies" in the summary report (General Comments) is condensed and accurate.

The "General Comments" have defined the nature of the comprehensive renovation (Doi Moi) course in Viet Nam in both economic and political aspects, especially in economic aspect.

The definition of an economy which has not yet reached the stage of full development of production forces and where factors of a market economy have not completely established has enabled the authors to come up with a correct awareness of the way to conduct reforms in the country which obviously cannot be an imitation of the models used by the countries having experienced a fully-developed market economy. Therefore, it can be said that marketization under new conditions is the mean to conduct reforms while modernization is the way to realize the country's industrialization. On the other hand, marketization and reform, and industrialization and modernization are closely interrelated and interconnected in a single, integrated whole and constitute the way to realize the goal of "rich people, strong country, and equal and civilized society".

The achievements recorded by the Doi Moi policies have been obvious and therefore numerical illustrations are not needed to be shown as those achievements have been already mentioned in a very condensed and succinct manner in the part on "General evaluation" (Paragraph 8). It is also clear that the achievements recorded are not sufficient to ensure a long-term and sustainable development of Viet Nam and challenges to the Doi Moi course will always exist. Why so? There are many reasons for this, but the main one is the fact that factors of a fully-developed market economy have not been completely established in Viet Nam. One should further emphasize that the Doi Moi course in Viet Nam has been conducted mainly on the basis of a summarization of Viet Nam's own development experience without having an overall leading point of view or a clear "road map", in other words, to guide the process. In this regard, even China has been only able to map out its blue print step by step after 15 years of reform. Viet Nam has been conducting its Doi Moi course under the conditions of a very poor country which was heavily destroyed by continued wars, and tied with the old economic mechanism for many years while its imagination of a new one has not been completely clear.

As a result, the analytical comparison between Viet Nam and China in terms of situation and policies deserves attention and can be used as a good reference material. However, both the conditions in Viet Nam and those in China, and the condition of the former and those in other low-income developing countries in general should not be considered as identical.

The analysis of the two models for industrialization is quite clear and has contributed to explaining the reason why Viet Nam should study the second model of "a dual economy" which is appropriate for the industrialization process in countries at the stage of low development of productive forces. Particularly, the authors have placed a proper stress on the foundation-serving role of agriculture in the industrialization process in a country where 2/3 of the labor force work in agriculture and 80% of the national population live in rural areas. Obviously, industrialization can only be realized successfully unless a linkage between agriculture and industry has been established and there is a gradual shift of surplus labor and food from agricultural sector to industrial sector. This is exactly one of the major ways to break the vicious circle of poverty.

The analysis of the important role played by agriculture and rural areas is valuable and has help to reaffirm the rightness of the policy to transform the agricultural and rural economic structure and to conduct rural industrialization. It can be said that the first and foremost factor contributing to the success of the Doi Moi policies over the past several years has been the stimulus created for agricultural and rural development. Actually this point was further mentioned by the authors in the Paragraph 30 concerning the need to improve agricultural productivity so as to increase rural savings and to expand rural market.

As regards industrial development, the author is right to emphasize the role of modern industries and to attach importance to smaller firms, and the utilization of the available organizations, technologies and domestic resources for development. This enables the improvement of investment efficiency and the creation of a large number of jobs in the coming time.

Probably, the author should add and explain about two factors of contemporary nature affecting the industrialization of "late-comers" like Viet Nam, namely the scientific and technological revolution, and regional and international economic integration which will obviously help shorten more or less the development path of Viet Nam. This has been seen clearly in the case of East Asian countries and this opportunity has not moved away from Viet Nam. It has also been analyzed in a number of previous studies made by Professor Ishikawa.

A further stress (in the Paragraph 32 under (3) Raising the savings rate) on the need to increase the net savings of the economy of Viet Nam of more than 10% of GDP, which was already thoroughly explained previously, is of great importance to the allocation of funds for the country's industrialization. Attention should be paid to the decisive role of domestic capital in terms of both impact and size of sources so as to avoid too much reliance on external resources. Thus, the role of external resources should be clarified in terms of provision of additional resources, technology transfer, creation of new markets and particularly their role in the export-oriented policy.

The emphasis (in th Paragraph 35 under (2) Unemployment and underemployment issues) on further increase of the savings capacity through better use of labor resources is completely right as the increase in the number of man-days per hectare will certainly lead to increased production in agriculture and rural areas even under the conditions of low productivity and insufficient investment. Importance should be attached to this way of creating savings from better use of labor under the conditions of an agricultural country with low rate of savings.

The short comments on the draft "Political Report" have many points to be noted and in general, we agree with what was mentioned in this part. First, as regards the target of growth. According to the analysis in the Final Report, none of the countries in the world has ever achieved an average annual growth rate of more than 10% in 25-30 consecutive years as estimated in the draft Political Report. Therefore, it would be more reasonable to revise the target to be one of increasing the national GDP to 8-10 times during the 1990-2020 period. This will help avoid making excessive investments in the economy which in turn will

make the ICOR of 3 rapidly increase to 3.5-4.0. Moreover, if the economy becomes "overheated", then ICOR will go up sharply to 4-5, meaning that a continuous high level of investment of about 40% of GDP will be needed. With the domestic savings rate of about 20% of GDP at present and expectedly 30% in the years to come, the gap of investment must be financed by external resources. This is a good chance that Viet Nam should take advantage. However, from 2005 onwards Viet Nam will have to repay its external debts in an increasingly large amount; these debts consist of not only ODA loans, but also commercial loans as well as the return of part of FDI funds. Thus, a shortage of capital will have many serious consequences on the country's sustainable development. The target of 8-10-fold rise in GDP during a 30-year period from 1990 to 2020, which is equivalent to a continuous average annual GDP growth rate of 7-8% during the same period, is already a relatively high target. Right policies for the whole development period and for each stage of the development period, and good and quickly responsive management are required to achieve or probably surpass the set target, thus narrowing the gap in development level between Viet Nam and other countries.

Multi-sector economic development is a consistent and longterm policy of Viet Nam. The importance attached to the state economic sector is also a necessity not only for Viet Nam, but also for every country as far as public welfare is concerned. At the same time, it is necessary to clarify what specific roles the state economic sector should play in the economy so as to ensure a rapid and sustainable development of the country, and in what areas the participation of other economic sectors other than the state economic sector is required.

The policy to develop the cooperative economic sector is a right policy, as the individual household-based economy itself has more or less brought into play its effect in the transitional period, especially in agricultural and rural sector, but there are certain restrictions to a rapid development of this cooperative economic sector. The economy with high productivity by itself requires cooperative labor and thus importance should be attached to the development of the cooperative economic sector in the long run, as clearly stated by the National assembly of Viet Nam in the newly promulgated 1996 Law on Cooperatives.

All the analyses on the important role of the state and cooperative economic sector are not sufficient to prove the argument for a 60% combined share of these two sectors in GDP. The rationale for this share is not clearly justified, especially in the long run. Moreover, in practice, the co-existence of different forms of ownership is of necessity. It would be therefore better if this indicator is not mentioned in the Political Report.

The executive summary report by its condense nature cannot discuss in detail many issues. Furthermore, the two study groups of both the Japanese and Vietnamese sides have not got enough time to conduct in-depth analyses as they wished. Therefore, it is recommended that a number of topics be selected for more indepth analysis during the second phase of the Japan-Viet Nam Joint Research Project, such as Viet Nam's membership in APEC as Viet Nam is at present preparing actively for this.

Comments on the Initial Draft of Viet Nam's Five-year Plan

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I. Preface

We have the utmost respect for the government of Viet Nam, which continues to make earnest efforts to tackle difficult economic reconstruction and systemic reforms and, as a result, has been able to successfully, albeit painstakingly, move forward with development. For this reason, we were honored when, during the meetings to establish the "General Policy and Aid Development Survey" (a project undertaken under an agreement between the governments of Japan and Viet Nam) on June 1 and 2, we were requested to submit comments on the "Outline of the New Five-year Plan" prior to the scheduled start-up of Phase I of the project. While not knowing exactly how much we would be able to accomplish due to time constraints, we nonetheless promised to do what we could.

On July 13, we received a copy of a document entitled "Initial Draft of the Major Content of the 'Directions, Planning and Tasks of Socioeconomic Development for 5-year'" (referred to in this paper as the "Initial Draft"). The document consisted of two parts: "Evaluation of Results from the 1991-1995 Five-year Plan" and "Targets for the 1996-2000 Plan." We were deeply impressed by the fact that top priority was given to agricultural and rural economy promotion in the policy area and sector-specific development plans of the Initial Draft. This is the same priority that was used to define areas of strategic priority in aid in the document Country Study for Japanese ODA to Viet Nam (JICA, March 1995), which forms the background to this survey project. However, the process of preparing comments has not been easy, both for the reasons anticipated and for others as well, and in this paper we have avoided making general comments on the Initial Draft or even recommending specific policy measures and have instead extracted six priority topics, providing opinions on them that may be consulted when making policy choices. In some cases, our discussions also refer to international experiences. There are two reasons for adopting this strategy, which are discussed below.

II. Lack of information

The Five-year Plan provides (generally in fragmentary fashion) targets and related variable values, but it is unclear what methodology and processes were used to arrive at them, or even the fields for which adequate statistical data was available to base them upon. To be a bit more concrete, models using values in the Initial Draft or planned rates of growth noted in recent public documents seem to be following the growth equations of Robert Domar that are most commonly used in the projection models of the World Bank and IMF, but one wonders whether supplementary work was done to flesh them out. The planning methodology of command economies has consisted of calculating "national economic balances" by adding

up "material balance sheets," but it is unclear to what extent Viet Nam has done this or continues to do it.

The wording in the Initial Draft is fragmentary and in memorandum style, which often makes it hard to grasp the tenor of policy.

We have three basic questions:

(1) There are detailed descriptions on industrial construction in the Initial Draft. Are we justified in considering them to be concretization of the decisions on industrialization and modernization taken by the January 1994 mid-term Party Representative Conference and the Plenum of Party Central Committee in July of that year? At the same time, however, two different aims are given equal emphasis, export promotion (the target for industrial products to account for 70% of exports by value) and import substitution (generally to be accomplished by FDI), and it appears that the scope of rural industrialization is to expand beyond the processing of agricultural products (particularly with the introduction of the concept of a "rural economic sector" and the setting of industrialization targets for it, as is done in China). Is this a new development in these decisions?

(2) The planned rates of growth for GDP and industrial output from now until 2000 are considerably higher than those previously announced. Common sense says that this invites macroeconomic instability. Has this been taken into account? Viet Nam is currently achieving growth of about 8%, which is quite high already. Has there been a change in policy to seek even higher growth?

(3) The Initial Draft contains wording such as "the unhealthy autonomy and competition in market mechanisms has been laid bare" and "what is impeding development is the fact that state enterprises are frail and unable to exert true leadership over other sectors." But yet the weight of the state sector in total GDP increased all the way through the 1990-1995 period. What are the implications for this vis-a-vis the ultimate goal of a "market economy under state control?"

III. Our vantage point and limitations in commenting on the Initial Draft

We (a group of 16 researchers) have discussed these comments to some extent, but have not had enough time to dig down to fundamental policy issues. All that can be done at this time is that I relate my opinions, for which I am solely responsible. The vantage point from which I will do so is that of the analysis in *Country Study for Japanese ODA to Viet Nam* and the strategy proposals referred to earlier (this does not apply to sections 8 and 9). Research into the Vietnamese economy is conducted according to the reference framework illustrated in matrix form below, and it is from this that we have arrived at our development strategy (which does not extend to proposing individual projects)¹⁾. (This matrix also served as the frame of reference from which the Initial Draft was considered.)

1) Below is a description of the essential points of the "Development strategy" line in the matrix:

- 1 In a low-income debtor country like Vietnam, it is dangerous to rely only on fiscal and monetary policy measures (for example, measures to reduce total demand) to achieve stability. Rather, there must also be structural adjustment and development measures that will increase income and savings levels.
- 2 Structural adjustments do not mean merely replacing the systems and policies of the centralized planned economy and with the standard, uniform systems and policies of the well developed market economy. Rather, they must provide in each policy area these measures of "fostering" the development of a market economy which vary according to the stage of market economy development, and guide the economy in that direction.
- 3 Development only becomes possible when the government directly or indirectly intervenes in markets as guided by development models that differ in content according to the country's endowment of resources and the stage of development. Behind these policy recommendations lie the basic assumptions of our development economics, which are predicated on confirmation of the low stage of market development and the need for multiple development models.

Research step \ Policy aspect	Stabilization (short-term)	Structural adjustment (medium-term)	Development (long-term)
Analysis of information and identification of issues			
Scenarios			
Development strategy			

Lack of time has also influenced the nature of the comments made. It will not be until Phase I and Phase II that we are able to cover many of the areas handled in the Initial Draft and delve into policy options.

We have chosen the following six topics to comment upon:²⁾

- (1) Agricultural and rural development in the new Five-year Plan
- (2) High growth and macroeconomic stability
- (3) Raising the savings rate
- (4) Two paths to industrialization
- (5) Company reform (see paper by Hiroshi Haruta)
- (6) Viet Nam and its relationships with ASEAN and APEC (see papers by Shujiro Urata and Kenichi Ohno).

IV. Agricultural and rural development in the new Five-year Plan

Early on in these comments, we noted that the Initial Draft gave agricultural and rural development top priority in the sector development plans of the new Five-year plan. The Initial Draft goes on to elaborate what this will entail, putting the development of rural industries and services on par with the development of the agriculture, forestry, and fishing industries themselves — in short, it advocates the primacy of rural industrialization. Next on the list in the area and sector development plans is “industrial development in line with industrialization and modernization,” which contains more detailed explanations of industrial policies for individual industries. In all of these aspects, the Initial Draft operates from the same standpoint as *Country Study for Japanese ODA to Viet Nam*.

There are, however, several questions that are not explicitly dealt with in the Initial Draft. First among them is the relationship between agricultural and rural development as outlined here and the national industrialization and modernization promotions elaborated by the Central Committee in July 1994 as mandated by a decision of the Mid-term Party representative Conference in January of that year. Second is in what sense agricultural and rural development and is of greater priority than industrial development. A hint at what might be the answers to these questions comes from documents related to the Central Committee Plenum. The decision of the same Plenum represents a departure from the Party and the government's preoccupation with crisis management and systemic reforms (“structural adjustment”) at both the macro and micro economic levels that can be seen in the 6th Party Congress of 1986 (where the decision on *Doi Moi* was made), the 6th Plenum of the Central Committee of 1989 (on fundamental reforms to create a market-oriented system, including full price liberalization), and the 7th Party Congress of 1991. It is now turning its energy towards rebuilding (developing) productive forces. “Industrialization and modernization” is the process of “reforming our outmoded agrarian society and creating an industrial society based on the formation of progressive productive relationships.” This entails “seeking greater efficiency in social labor by changing from a situation in which all labor in all fields of social activity, including production, management, and economic management, is done by hand to one that employs more progressive and modern methods of labor.” These industrialization and modernization policies appear to apply to even agricultural

2) However, this paper contains only my own comments (topics 1-4). As for topics 5 and 6, refer the proceedings of the second Hanoi workshop.

and rural economies. "Agriculture cannot by itself reform its material and technological base. It must be strongly influenced by industry and services."

For the second issue we can seek an answer in the following excerpt from a speech by the secretary-general for *Doi Moi*: "Industrial policies that seek industrialization and modernization ... place priority on processing and manufacturing in the machinery and electronic industries. In these areas ... we must reach world levels ... [However,] for the past several years our investment capacity has been limited and because of this and the demand for compulsory work, the lives of the people have been hard and our economic and social conditions unstable. Therefore, it is necessary ... to move forward with agricultural and rural industrialization." This speech emphasizes that rural communities are where the majority of poverty is found.

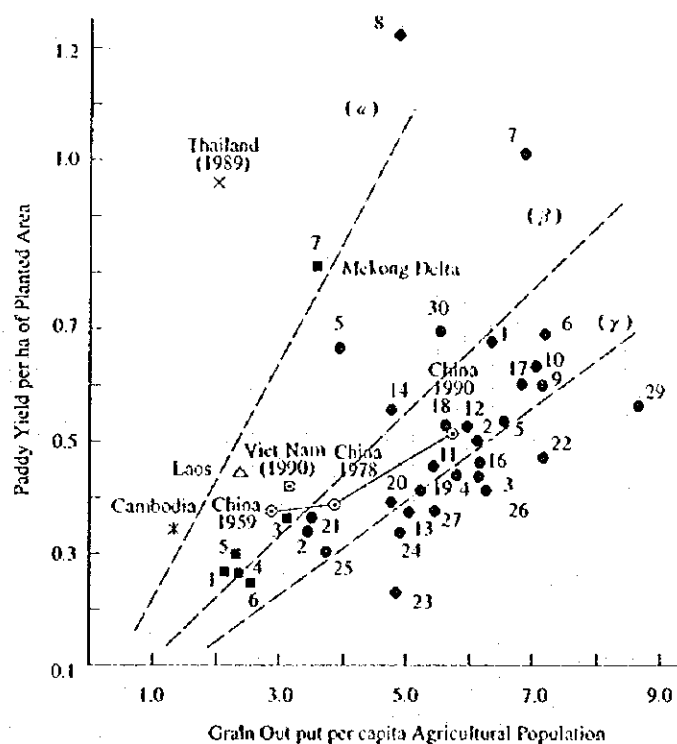
If the answers to our two questions are not mistaken, then this is the thinking behind the Initial Draft. The Initial Draft seems to be saying that overarching goal of "industrialization and modernization" is the guiding principle for rebuilding productive forces, a principle which even agriculture and rural economic development must ultimately follow. Agricultural and rural communities are extremely impoverished and their recovery is the most urgent challenge before the economy as a whole. We agree with this view and the ideas behind it. We would, however, like to make two comments.

(1) Methods of improving agricultural production itself: While it is desirable for the purposes of industrialization and modernization to diversify and commercialize agricultural production and introduce modern cultivation techniques (for example, hybrid varieties), there is little said about improving production capacity and stabilizing harvests per unit land to the extent possible with traditional local resources, traditional technologies, and small, family farms.

The agricultural and rural research cited in "Urgent Recommendation 3" discusses this in more detail. For our purposes here, we will include Figure 3, which uses lessons from China's experiences to underscore the importance of improving traditional resources, techniques, and organizations for agricultural production.

The figure uses grain output per capita agricultural population as its vertical axis and paddy yield per hectare of planted area (a proxy for grain yield) as its horizontal axis. The lines radiating out from the current point (α, β, γ etc.) represent area under cultivation per capita farm population (in this case, $\alpha > \beta > \gamma$). Existing research already demonstrates that a tendency that can be explained by a particular relationship between these three variables is operative in countries like Viet Nam and China where agricultural areas are densely populated. When there is an increase in the population of these kinds of areas, the plot on the graph representing a particular region will drop ($\alpha \rightarrow \beta \rightarrow \gamma$) unless there is a change in its per-hectare harvest. This will necessarily result in a reduction in grain production per capita farm population and therefore in grain intake. However, each community has the power to prevent further declines in living standards by increasing the harvest per unit area under cultivation to an amount corresponding to the increase in population so that grain production per capita farm population is maintained. If community solidarity is even stronger, it will achieve an increase in harvest per hectare, which will lead to gains in per capita productivity and therefore in living standards. This figure plots the positions of thirty Chinese provinces. The national average for 1990, which is shown with a double circle, represents the results of growth that has been seen from 1957 (the final year of China's first Five-year plan) through 1987 (the year in which market-oriented reforms were embarked upon) and on to 1990. It is clear, therefore, that all thirty provinces have experienced the same sort of shift upwards and to the right. Until the eighties, this shift was achieved almost entirely by productivity gains for traditional resources, technologies, and organizations. Chinese agriculture has more recently achieved "breakthroughs" in productivity by applying more modern

3) Figure 1 was first used in my keynote speech, "Salient Points of JICA's Country Study for Japanese ODA to Viet Nam," to the JICA-sponsored Symposium on Japanese ODA to Viet Nam held in Hanoi on June 1, 1995.



Remarks : 1). Numbers attached to the plots(■) in Viet Nam indicate the following regions:

1. North Mountain and Midlands, 2. Red River Delta, 3. Central Coast of Northland, 4. Central Coast of Southland, 5. Central Highland, 6. Northeast of Southland, 7. Mekong River Delta

For China, numbers for the plots(●) indicate the following provinces

1. Beijing, 2. Tianjin, 3. Hebei, 4. Shansi, 5. Inner Mongolia, 6. Liaoning, 7. Jilin, 8. Heilong, 9. Shanghai, 10. Jiangsu, 11. Zhejiang, 12. Anhui, 13. Fujian, 14. Jiangxi, 15. Shandong, 16. Henan, 17. Hubei, 18. Hunan, 19. Guangdong, 20. Guangxi, 21. Hainan, 22. Sichuan, 23. Guizhou, 24. Yunnan, 25. Tibet, 26. Shanxi, 27. Gansu, 28. Qinghai, 29. Ningxia, 30. Xinjiang

2. As for the vertical axis, agricultural population statistics are only available for China. For the rest of the countries, rural population is taken. For Cambodia and Laos the size of the rural population is estimated by multiplying the total population by the coefficient of 0.8. □, Δ, *, ○, × indicate national average figures.

Source : Viet Nam: GSO, So Lieu Thong Ke Cong Hoa Xhen Viet Nam(Statistical Data of the Socialist Republic of Viet Nam) 1986-1991; GSO, Kinh Te Va Tai Chinh Viet Nam(Economy and Finance of Viet Nam) 1986-1990.

China: Zhongguo Nongye Nianjian (Chinese Agriculture Yearbook) 1991.

Laos: Japan International Agriculture and Forestry Cooperation's materials.

Cambodia: The World Bank, Cambodia, Agenda for Rehabilitation and Reconstruction, June 1992.

Figure 1 Grain output per capita agricultural population and its determinants: Viet Nam and China

methods, but this would have been impossible had not the basis for improvement been created by traditional techniques. Figure 1 also plots the seven regions and national average of Viet Nam in way that facilitates comparison. One can observe the similarities between most Vietnamese areas today and most Chinese areas in 1957 as measured by these three variables. It would therefore be desirable to have more comments on the potential for agricultural production with exiting resources, technologies and organizations.

(2) General relationship between agriculture and economic development: We do not view solutions to agricultural and rural economic issues merely as a way to save farmers from poverty, urgent as that is. We view it as an absolute prerequisite to the Vietnamese economy's ability to overcome its low level of development. One expression of the low level of Vietnamese economic development that is commonly pointed to is the probable negative value for net (not gross) savings. Another is the Vietnamese industrialization projects are still uneven and that industrialization is in the extremely early stages of development. In parts 6 and 7 we make the case that the development of agriculture will be decisive in resolving both of these problems.

V. High growth and macroeconomic stability

The GDP growth rate is the most general development target to be found in the National Economic Development Plan. The 7th Party Congress (1991) originally targeted a doubling of GDP between 1991 and 2000 (average annual rate of 7.2%), but the 7th Plenum of the Central Committee of 1994 raised this target to 2.5-fold (average annual rate of 9.5%; the target values found in the attachment assume a doubling of per capita GDP; if the population growth rate is assumed to be 2.2%, then the figure is 2.46-fold). In the Initial Draft, the growth rate for 1996-2000 is given as 10-11% per year and, if conditions are advantageous, 11-12%. If the 8.3% growth that appears to have been achieved in the 1991-1995 period is taken as a given, then the 10-11% target appears to have been set in order to reach the goals of the 7th of the Central Committee. One can observe, however, a general trend to revise target growth rates higher and higher. The World Bank forecasts growth for East Asia (including China) to be 7.7% per year between 1995 and 2004, which means that Viet Nam's planned growth rate is far higher than that for East Asia in general. The track record shows that China is turning in the highest growth rates in East Asia, coming out of the consolidation period of 1988-1991 to produce growth of 13.0% in 1992 and 13.4% in 1993. Viet Nam's planned growth rates appear as if they want to catch up even to these Chinese figures.

We infer that the reason the government of Vietnam is looking for such high growth rates is that, having been restored to its position within the international community, it wants to be economically on par with its neighbors in Southeast Asia, considered to be the world's "growth zone," as quickly as possible. At the end of the First Indochina War (against France) in 1954, Viet Nam's per capita national income was roughly equal to that of Thailand, Indonesia and other ASEAN countries. But the Second Indochina War turned Viet Nam into rubble while the ASEAN countries, in spite of the difficulties encountered by many, were marching steadily down the path of development, and it is this that brought about today's large gaps in GDP (if Vietnam's 1992 levels are considered "1," Thailand was at 12.3, Indonesia 4.5, and the Philippines 5.1)⁴. Meanwhile, China's per capita GDP was at levels similar to Vietnam's in the fifties, and the gaps between them in 1992 were not as large as for the ASEAN countries (2.5). The gap with neighboring Guangdong Province, however, is a large 4.3 (and with the city of Shanghai, also a coastal province, it is 10.5). There will therefore be a great deal of interest in comparing Viet Nam's growth rates to those of China (in 1991, Guangdong Province grew 17.3%, in 1992, 2.0%)⁵.

4) JICA, *Country Study for Japanese ODA to Viet Nam*, March 1995, p. 13.

5) Figures from *China Statistical Yearbook 1994* and *Guangdong Statistical Yearbook 1993*.

The second reason for seeking high growth is probably because raising the growth rate will, over the long term, provide a solution to the problem of jobs and employment for the work force. There is little information in the Initial Draft to go on in this regard⁶⁾ and we have not yet obtained the statistics on population, labor force, and employment that will provide the basis for our study. However, the Viet Nam Living Standards Survey (VLSS) performed by the SPC and GSO with support from the UNDP and SIDA in 1992 and 1993 found the full unemployment rate (excluding seasonal unemployment) for the working population of all households to be 7.38% (of which, 6.87% in rural villages, 9.44% in the cities), with 26% of the labor force of rural households subject to partial unemployment. The poverty rate in the VLSS was 51% as a national average and 57% in rural villages.⁷⁾ These high figures make it quite conceivable that there is a burning desire for rapid growth.⁸⁾

But in a country like Viet Nam where the natural resource conditions are disadvantageous (because of population growth—they used to be very good), savings rates are low, and there is a large cumulative debt from the outset, attempts to achieve growth beyond certain limits tend in most instances to result in an unsustainable deficit on the balance of payments or inflation or both, which will eventually undermine high growth itself. Viet Nam's experiences between 1989 and the present indicate that this tendency is indeed manifest in the country. Had it not been for good fortune in the form of oil revenues, ODA, and debt relief, crisis would have rapidly loomed. More explanation of this is required.

The first problem is that of the unsuccessful variant in which "an approach to growth with foreign borrowing" (the general practice is to use borrowings from overseas to supplement low levels of domestic savings so that planned net imports will be larger than had money not been borrowed, enabling a higher rate of GDP growth to be achieved) fails to function properly. In the successful variant of "foreign debt powered growth," the acceleration of GDP growth is followed by an increase in exports so that net imports eventually turn into net exports, from which the debt may be serviced and the stock of debt gradually reduced. This process is described by Abramowitz in his a "debt cycle model", where he traces the full cycle of debt generation and repayment⁹⁾. The unsuccessful variant of "foreign debt powered growth" is characterized by (referring to Viet Nam's case here) a heavy initial debt and/or extremely low domestic savings rates for whatever reasons. In this scenario, debt service continues to grow and when the country tries to pay it off it finds that it is unable, with given yearly foreign borrowing levels, to make the domestic investments required to vouchsafe sustainable growth or cover the social services spending needed to relieve poverty, a problem equally as pressing as growth itself. The GDP growth rate stalls, and the domestic savings rate never breaks out of its initial low levels. In other words, the vicious cycle of low savings leading to low investment leading to low income leading to low savings goes unbroken. Borrowing was supposed to break it, but only serves to increase the stock of debt.

Figure 2 brings together the flow of income and funding in "foreign debt powered growth" at the stage of foreign borrowing, and the flows for national income and foreign debt. The illustrations are extremely general. In the unsuccessful variant shown at the top, there is a competitive relationship between the three

6) Viet Nam maintains that it added 1.0-1.2 million jobs every year between 1991 and 1995. According to IMF materials, the employed labor force increased by an average of 944 thousand persons a year between 1989 and 1993, rising as a percentage, total population from 44.7% to 46.2%.

7) SPC, GSO, *Viet Nam Living Standard Survey 1992-1993*, Hanoi, 1994; World Bank, *Poverty Assessment and Strategy*, Jan. 1995; JICA, *Country Study for Japanese ODA to Viet Nam*, March 1995, pp. 16-17.

8) In China, toward the end of the First Five-year Plan period, the number of the newly employed in the modern sector in the performance of the First Five-year Plan period (1953-57) as well as in the draft Second Five-year Plan (1.3 million persons in the First Five-year Plan period and 1.2 ~ 1.4 million persons for the Second Five-year Plan) was thought to be insufficient to absorb the prospective new entrants in the labor force in the future. This thinking became the motivation to initiate the Great Leap Forward Movement in 1958-60.

9) As a general description of the basic idea on "growth by foreign borrowing", John Williamson, *The Open Economy and the World Economy*, Basic Books, N.Y., 1983, Ch. 6-2. With regard to "the Debt-Cycle Hypothesis," there is a short introduction in World Bank, *World Development Report*, 1985, pp. 45-47.

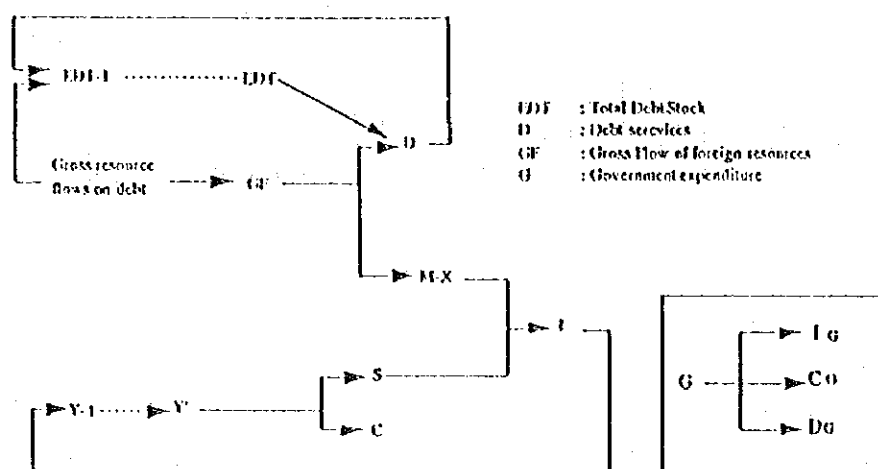


Figure 2 Flows of national income combined with flows of external debts in the economies in which accelerated GDP growth is planned by using foreign borrowings

Table1 Trade-offs between I and C in the allocation of government expenditure (1989 ~ 93 : % of GDP: Viet Nam)

	1989	1990	1991	1992	1993
1. Consolidated total expenditure	23.4	20.8	15.2	20.7	27.0
2. Capital expenditure	7.6	5.2	2.8	5.8	7.0
3. Current expenditure	15.8	15.7	12.4	14.9	20.0
Administration	1.7	1.6	1.7	2.2	2.3
Social services	3.5	3.6	3.5	4.5	6.4
(Health)	(0.8)	(0.9)	(0.8)	(1.3)	(1.4)
(Education)	(1.1)	(1.1)	(1.0)	(1.4)	(2.8)
(Pension, Social Relief)	(1.6)	(1.6)	(1.6)	(2.1)	(2.1)
Economic sectors	4.4	3.7	1.0	3.4	5.6
4. Current balance (Government savings)	-1.8	-0.7	1.3	4.1	2.2
5. Overall fiscal balance	-10.2	-8.1	-3.8	-3.7	-6.2

Table 2 Viet Nam's external debt and debt service in WB's World Debt Tables (Million US\$)

	1989	1990	1991	1992	1993
1. Total Debt Stock (EDF)	19,373	22,111	22,280	23,688	24,224
2. Total debt flows					
Disbursements	2,659	897	189	692	181
Total debt service paid (D)	280	209	231	498	498
(Total debt service due)	(254)	(623)	(2,385)	(3,058)	
Net transfer on debt	2,633	685	-116	637	-333
(Non debt Transfer)	48	112	168	137	267
3. EDF/Exports of goods and services(%)			879	731	663
4. EDF/GNP(%)	329	348	232	240	189
5. D/Exports of goods and services(%)			9.1	15.4	13.6

Remarks : 1. The amounts of total debts stock and total debt service paid in this table is derived by using the conversion rate of 1 US\$=0.5571 rubles in the conversion of ruble-related debt and debt services. Hence these figures are different from those in Table 1.

2. Amounts of total debt service paid and net transfer on debt do not add up to amount of disbursement, due perhaps to the incomplete accounting of disbursement in short term debt.

3. World Debt Tables 1994-95 defines "Severely Indebted Low-Income Countries" as those countries in which either present value of debt service to GDP is above 80% or present value of debt service to exports of goods and services is above 220%. Viet Nam is designated as a "Severely Indebted Low-Income Countries."

Source: World Bank, *World Debt Tables, 1994-95*, Vol. 2, 1994.

circled variables (debt service [D], domestic investment [I], and social services spending for poverty relief [C]) determined by a given value of foreign debt (GF). The reasons for this competition have already been explained above.

This variant frequently brings about stop-and-go-style macroeconomic swings.

(1) When the government attempts to use deficit budgets and higher debt issuance to make the additional investments that would increase low levels of domestic investment and bring about high growth, it generates unsustainable levels of inflation or large net imports (funded by foreign debt and in excess of planned imports) and balance of payments disequilibrium.

(2) The normal policy measures demanded by the IMF to deal with the resulting macroeconomic instability include reductions in aggregate demand and adjustments in the exchange rate, but if these measures are taken without implementing measures in the real economy to improve growth and savings rates, all they may do is force investment and social service spending to be cut to unsustainable levels.

Statistics for the 1988-1994 will make it clear that Viet Nam is in fact in the unsuccessful variant described above.

(1) The years 1988-1989 are a classic example of stop-and-go-style growth. The GDP growth rate, which had been in the 3% range up to the previous year, was raised to 5.1% and then 8.0%. This drove the ratio of aggregate fiscal deficit to GNP from less than 6% the previous year to 7.2% and 10.2%, with the banking system recording a 189% increase in domestic credit for the full year in 1989. The result was a CPI inflation rate of 308.2% for 1989 and 95.8% for 1989, with the balance of payments deficit rising to 10.1% GNP. Both were at unsustainable "crisis" levels.

(2) In 1990 and 1991, Viet Nam took policies to reduce aggregate demand in order to deal with the crisis. The reductions in government outlays came in the form of sharp cuts in public investments and government employee salaries. They were successful in reducing the aggregate fiscal deficit to only 3.8% GDP in 1991. Banks also held domestic credit growth to about 36% for the year. The result was to bring the balance of payments deficit down to 3.8% GDP in 1991, with an inflation rate of 36.9% in 1990 and 83.1% in 1991. The GDP growth rate likewise fell to 5.0% in 1990 and 6.0% in 1991. We have not been able to adequately verify the degree to which increased oil production and its contributions fiscal revenues between 1988 and 1992 helped to stave off further reductions in the GDP growth rate in spite of stiff austerity policies. However, it is a fact that even the World Bank and IMF found the cuts in aggregate demand (public investments and government employee salaries) to be too sharp and clearly untenable.

(3) In the pendulum swing from the excess of cuts of the previous years, 1993 was a year of renewed fiscal expansion. In 1994, structural adjustment loans from the IMF and World Bank and the resumption of aid from bilateral donors brought stability and apparently success.

(4) Table 1 illustrates the competitive relationship in government allocations for D, I, and C (social services) in high-debt, low-income countries around the time of this stop-and-go process. Table 2 provides statistics for the gross debt stock (the source of D) and debt-related foreign funding flows (the funds from which D is serviced). What should be noted about the relationship between D, I, and C is that between 1989 and 1993, D was subject to the most rigorous constraints among "growth-related expenditures," followed by I. In making adjustments, social services expenditures came up first for constraints, but the rate of change was slight due to the relatively small size of the amounts involved. However, when I is subject to constraint, it causes reconstruction to slow down and long-term development to be delayed.

(5) Since about 1994, the environment has been conducive to tapping into foreign savings, which has eased the difficulties of debt management. If, in conjunction with this, countries concentrate on systemic reforms and development while employing proper macroeconomic management, they should be able to fund fundamental solutions to problems of stabilization. We are certain that the government of Vietnam will act prudently in this regard. But we would also note that when an environment conducive to tapping into foreign savings is combined with the discovery and increased production of resources (for example, oil), there is a strong tendency for countries to contract the "Dutch Disease." The "Dutch Disease" is sometimes referred to

as the "Oil Disease." The combination of an oil boom and excessive foreign aid will cause a country's foreign exchange rate to be set far higher than conditions would warrant, which prevents the development of the traded industrial goods that are outside of the boom but ought to be the mainstays of development. Even if the Dutch Disease does not manifest itself, a too-easy supply of foreign debt can result in "moral hazards"—countries forget to make the hard efforts that are required. Viet Nam would do well to guard against such tendencies.

VI. Raising the savings rate

Of all the initial conditions to which the economy of Viet Nam is subject, the one that it is most pressing that we rethink in a cold, dispassionate manner is the extremely low domestic savings rate. The purpose of this section is to delve a bit into the statistics regarding the savings rate, to examine the improvements that have been seen in the nineties, and to look to international experiences that illustrate how a low-income country can overcome the constraints of a low savings rate. Tables 3, 4, and 5 were prepared to facilitate assessment of the Vietnamese savings rate. In 1994, Viet Nam's GSO published statistics for 1990 revised in light of changes made to savings and investment estimation techniques. The revisions raised the gross domestic investment rate from 8.0% to 11.7% and the gross national savings rate from 2.9% to 7.4%. Table 3 shows that while the World Bank accepted the revisions without question, the IMF felt it necessary to recheck them. The figures adopted by the IMF are generally considerably lower than those of the World Bank. But the question of which group of numbers is more reliable is far less important than the need for low-income countries like Viet Nam to think of domestic savings not in terms of "gross," but in terms of "net" savings from which depreciation charges have been subtracted. This is the value that needs to be looked at. Table 4 shows the size of depreciation as a percentage GDP for 1989, which was 7%, for a net domestic savings rate of 5% and net national savings rate of only 0.4%. There are no estimates of depreciation rates available for subsequent years, but if we are correct in assuming that they remain about 7%, then the net national savings rate is far below 10%. In fact it could be close to 0 or actually negative (particularly if the IMF version is used)¹⁰. Absent offsetting foreign savings, a negative domestic savings rate represents the depletion of domestic capital stock. While wartime abnormalities are no doubt over, these figures suggest that the restoration of infrastructure and productive facilities has progressed only modestly at best.

Table 5 attempts to use microeconomic surveys to back up our conclusions about low savings rate. The VLSS included a survey on household savings assets and liabilities. Our table provide these statistics as annual income ratios for five levels of city dwellers and farmers. For reference we have also included corresponding numbers from Japan's *Household Survey*. The Japanese statistics depict a situation in which the head of the household is able to concentrate on work with relative peace of mind since the household has assets worth 2-3-times annual income. The fact that in all five classes in Viet Nam those assets are less than half annual income, and in some cases less than 10%, is a stark illustration of how precarious life is. This becomes even more apparent when these figures are viewed in conjunction with debt stock. Though only intuitive, this lends strong support to the credibility of the low-level macro statistics.

The next question is how to assess the improvements seen in savings and investments from about 1991 or 1992 (see Table 3). The standard for our assessment will be the extent to which basic improvements have been seen in the savings rate, which is the biggest constraint on growth in the Vietnamese economy. Two matters should be noted from this perspective.

10) The size of the depreciation rate is influenced, to a large extent by the size of the growth rate as well as by the capital production coefficient for the economy as a whole. Though direct estimates of the depreciation rate cannot be used for years other than 1989, these tendencies suggest that 7% GNP is a good ballpark figure. Table 4 also contains statistics for China.

(1) Table 6, and particularly the C portion thereof, makes it clear that much of the improvement in the savings rate during this time was due to improvements in government savings. As Table 6 (b) illustrates, improvements in government savings were themselves due in a large part to the contributions of state enterprises (more specifically, increased oil production) to government finances. In considering what this factor means for future savings rate increases, we should note the uncertainty of the prospects for further increases in oil production and warn of the potential onset of the "Dutch Disease" and "moral hazards."

(2) When the increase in oil revenues is discounted, the remaining improvements in government savings came from reforms to state enterprise financial systems (in addition to requirements to contribute more profits to the government, subsidies and grant fixed investments were suspended) and reform of the tax system (new or higher taxes on profits and sales). These successes should be given credit, for it was because of them that Viet Nam was able to achieve growth in the ratio of fiscal revenue to GDP where similar reforms in China plunged the ratio into long-term decline.¹¹ Some would argue, however, that it is difficult to expect these kinds of measures to continue to produce improvements in government savings. Increases in the profit and sales taxes serve as a negative stimulus that reduces the tax base. To increase transfers from state enterprises any further it will be necessary to deal with their large (defaulted) bank debts and fully rebuild their production in management.

Among Viet Nam's neighbors, the experiences of Taiwan in this regard are of particular importance. Taiwan's net domestic savings rate (as a percentage NNP) was 5% between 1951 and 1959 and 8% in 1960 and 1962, both low levels, but in 1963 jumped to more than 13%. Some would argue that, according to Rostow's definitions, the 1961-1963 years represented the "take-off" period. However, net domestic investments (as a percentage NNP, 10.9% in 1951, 10.2% in 1955, and 17% in 1960) were possible because of a larger amount of foreign savings coming in, which allowed Taiwan to cover and exceed net domestic savings. Most of these foreign savings were financed by American aid, which was cut off in 1961. Taiwan is thus a classic example of a country that uses large amounts of foreign savings to make up for shortfalls in domestic savings, but what should be remembered is that there was a decisive factor for success in that Taiwan's macroeconomic management, including its debt management as foreign savings flowed in, was prudent.¹² South Korea's experience was similar.

China would be another country that should be considered, but there are unfortunately no SNA-based savings and investment statistics dating back to the fifties. (The MPS accumulate rate was 11.3% in 1952, which rose to 20.0% in 1957. The trade balance was negligible at this time.) What is worth reconsidering is the practice of "accumulation through labor"—marshalling excess rural labor within the framework of village cooperatives (these units are the same as collectives) to collectively work on projects such as flood control and irrigation. Such projects are considered "minor" among Chinese agricultural projects, but Table 7 shows that most Chinese irrigation projects were initially accomplished in just such a manner. The opportunity costs are extremely small. In India, the agrarian land system and the peculiarities of caste in rural villages make it almost impossible to tap this excess labor for community purposes, so most irrigation work must be accomplished by medium and large sized national projects with high opportunity costs. Table 7 underscores these contrasts¹³.

11) The size of the depreciation rate is influenced to a large extent by the size of the growth rate as well as by the capital production coefficient for the economy as a whole. Though direct estimates of the depreciation rate cannot be used for years other than 1989, these tendencies suggest that 7% GNP is a good ballpark figure. Table 4 also contains statistics for China.

12) The above figures were taken from Shirley W.Y. Kuo, *The Taiwan Economy in Transition*, Westview Press, Boulder, Colorado, 1983.

13) For a discussion of "minor projects" and "accumulation through labor" see my *National Income and Capital Formation in Mainland China*, Institute of Asian Economic Affairs, 1965. The concepts of Nurkse on the "latent savings included in latent unemployment" discussed in Chapter I Sections 5 and 6 of this paper should also be consulted.

Table 3 Viet Nam: Gross investment and gross savings: IMF and WB versions: %: ratio to GDP

(a) IMF

	89	90	91	92	93 (estimate)	94 (preliminary)	95
1. Gross capital formation	11.6	11.5	11.6	12.0	14.3		
2. Gross national savings(1-3)	3.6	7.9	9.1	11.3	5.3		
3. Current account balance	-8.0	-3.6	-2.5	-0.8	-9.0		
4. Trade account balance	-4.8	-0.6	-0.8	-0.7	-5.5		
5. Gross domestic savings (1-4)	6.8	10.9	10.8	11.3	8.8		

(b) World Bank

	89	90	91	92	93 (est.)	94 (prel.)	95
1. Gross investment	n.a.	11.7	15.1	17.0	19.4	19.9	
2. Gross national savings(1-3)	n.a.	7.4	13.1	16.3	11.2	15.0	
3. Current account balance	n.a.	-4.2	-1.9	-0.7	-8.3	-4.9	
4. Trade account balance	n.a.	-0.7	-0.9	-5.3	-6.3	n.a.	
5. Gross domestic savings (1-4)	n.a.	11.0	14.2	11.7	13.1	n.a.	

Source: (a) IMF, Viet Nam : Recent Economic Development, June, 1994, p.7.

(b) WB, Viet Nam : Public Sector Management and Private Sector Incentives an Economic Report, Sept., 1994, p.16.

Table 4 Gross and net in the statistics of investment and savings

(a) Statistics in the SNA estimates for Viet Nam 1989

	Value billion dong	%
1. GNP	23,809.8	100.0
2. Gross capital formation (= Gross domestic investment)	2,816.9	11.8
3. Consumption of fixed capital	1,657.6	7.0
4. Net Capital formation	1,159.7	4.9
5. Balance of current account	1,071.8	4.5
6. Net national savings	87.9	0.4

Source: GSO, Viet Nam Economy 1986-1991, Based on the System of National Account, Hanoi 1992

(b) Statistics of China; 1979, 1984, 1988

	1979	1984	1988
1. Gross domestic investment	35.7	36.3	34.3
2. Depreciation ratio	16.1	19.0	18.9
3. Net domestic savings	19.6	17.3	15.4
4. Gross domestic savings	35.0	36.5	32.8
5. Net domestic savings	18.9	17.4	13.9

Source: Guo Shuging and Han Zhixiu, *Distribution and Expenditure of China's GNP*, People's University of China Press, 1991.

Table 5 Viet Nam: Savings assets and debts per household average by UNDP & SPC survey
(unit: % ratio to annual household revenue)

(a) Savings

By expenditure quintile

	1	2	3	4	5	All Groups
Rural	7.5	9.0	10.0	17.1	40.4	18.5
Urban	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
Corresponding ratio of Japanese households:91	203.8	358.0	216.5	179.0	181.0	193.3

(b) Debts

By expenditure quintile

	1	2	3	4	5	All Groups
Rural	12.3	11.3	11.7	11.4	17.5	10.9
Urban	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
Corresponding ratio of Japanese households:91	52.2	33.5	43.1	55.1	49.0	60.2

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

Japan: Statistical Bureau, General Affairs Office, Nippon no Tokai 1992/93 (Japan's Statistics 1992/93). 1993,p.232.

Table 6 Viet Nam: Analysis of government budget revenue and expenditure

(a) Structure of government budget: I-S balance(Unit: % of GDP)

	1989	1990	1991	1992	1993(prel.)
1. Current account revenue	16.0	16.1	14.8	20.6	24.4
2. Current account expenditure	21.2	19.4	15.8	20.7	23.5
3. Current account balance	-5.2	-3.3	-1.0	-2.1	0.9
4. Capital account (government investment)	6.7	5.6	3.1	6.3	7.7
5. Overall balance (Net savings inflow)	11.9	8.9	4.1	8.4	6.8

(b) State enterprise contribution to the government sector(Unit: % of GDP)

	1989	1990	1991	1992	1993(prel.)
1. Transfer to the government	9.2	9.5	8.8	11.7	12.9
of it, tax payment	7.5	8.9	10.2
profit surrender	8.3	8.2
Other transfer	0.9	1.3	1.3	2.8	2.7
(Oil related revenue)	(1.2)	(2.2)	(3.1)	(4.1)	(4.2)
2. Transfer from the government	5.2	2.9	1.1	1.0	0.7
of it, subsidies	0.6	...	0.1	0.2	0.2
public investment	4.6	2.9	1.0	0.8	0.5
3. Net transfer to the government (1-2)	4.0	6.6	7.7	10.7	12.2

Table 6 Viet Nam: Analysis of government budget revenue and expenditure
(c) I-S Balance of the economy by sectors (Unit: % of GDP)

	1989			1993		
	Entire economy 1	Gov't sector 2	Non-gov't sector 3	Entire economy 1	Gov't sector 2	Non-gov't sector
I ⁴	11.6	6.7	4.9	14.3	8.1	6.2
S ⁵	6.8	-5.2	12.0	8.8	2.6	6.2
I-S ⁶	4.8	11.9	-7.1	5.5	5.5	0

Notes: 1. Taken from Table 3-(a).

2. Taken from above (a).

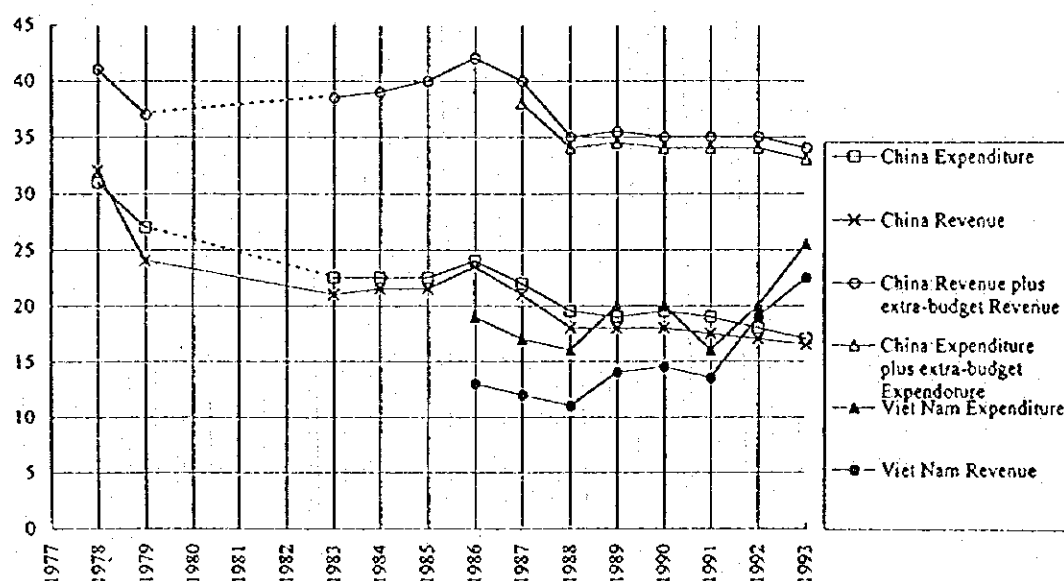
3. Taken as residual.

4. Gross domestic investment

5. Gross domestic savings

6. Equals to balance of international trade balance

Source: IMF materials



Source: China : State Statistical Bureau, *Zhongguo Tongji Nianjian 1994* (Chinese Statistical Yearbook, 1994) ; IMF's Materials ; World Bank, *Viet Nam Public Sector Management and Private Sector Incentives : An Economic Report, 1994*.

Figure 3 China and Viet Nam : Ratio of state budget revenue and expenditure to GDP

Table 7 Saving with use of local surplus labor---The experience of China and India
(a) Indicators of capital requirements for Irrigation Input on a project basis

	$\Delta K/\Delta L$ US dollars per hectare	$\Delta O/\Delta L$ Kilograms per hectare	$\Delta K/\Delta O$ US dollars per metric ton	$\Delta K/\Delta Y$	
				Based on current wholesale price of rice	Based on hypothetical uniform price of paddy: US\$ 100 per metric ton
INDIA	Projects started in 1 and 2 FYP's Major and medium projects 191 Minor projects 40 3 FYP: Major projects 211 Minor projects 97	Net output coefficient used by each FYP 1 FYP 560 2 FYP 300 3 FYP 783	1, 2 and 3 FYP projects by average $\Delta O/\Delta L$ for 1, 2 and 3 FYP's Major and medium projects 367 Minor projects 126	8.29 2.85	4.89 1.68
	National average for 1953-56 Major projects 204 Medium projects 108 Minor projects 26	Net output coefficients used by 1956 plan 750	Major projects 272 Medium projects 142 Minor projects 35	4.65 2.42 0.60	3.63 1.89 0.47

Notes

1. Notations---K=capital outlay required for a project;
L=the area of cultivated land benefitted by the project; O=agriculture output; Y=net value of output.
2. K of Minor projects for China represent only those parts financed by government subsidies and state bank credit, and do not include the amount invested by farmers. L is given in terms of net area benefitted.
3. FYP stands for Five-year Plan

VII. Dualistic paths to Industrialization

In addition to the low savings rate, the other initial condition that stands out for the Vietnamese economy is the low level of development of modern industries in the real economy. In this section, we examine some available facts relating to in this and make some trial observations as to what the governments of those "late comers" "which started" from similar stages and Successfully achieved industrialization might have done to rectify the low level of modern industrial development. The Initial Draft's writing on industrialization leaves us with the impression that Viet Nam is paying unprecedented attention to its industrial structure. We are, of course, pleased with the earnest attitude of state intervention in industrial development that has resulted therefrom. (Though regarding the specific content of industrial policy, the second part of "Urgent Recommendations" is expected to deal with it, and we are not discussing their merits here.) We do, however, feel that there is room for comment on the approach to enhancing industrial development that is being taken, first in relation to the two-tiered nature of the industries that should be developed and the different promotion policies that will consequently be required and served in relation to the development of agricultural production, which is an absolute prerequisite. Among international experiences, most experiences of the countries in East Asia, both prewar and post-war, are useful¹⁴, but here only China's experience is taken up.

14) As for the post-Meiji Japan's experience, see Shigeru Ishikawa, "Appropriate Technologies: Some Aspects of Japanese Experience," in Austin Robinson ed. *Appropriate Technologies for Third World Development*, Macmillan, London, 1979.

Table 7. Saving with use of local surplus labor---The experience of China and India
(b) Proportions of major and minor projects in government development outlay on irrigation:
Mainland China and India

	(1) Increase in irrigated land		(2) Government Development Outlay		(3) Government Investment cost per ha.
	Area in million ha.	Proportion in %	Amount in \$ million	Proportion in %	\$
Mainland China: 1953-56					
Major projects	156	1.4	31.8	18.7	204
Medium projects	869	7.8	94.1	55.2	108
Minor projects	10,110	90.8	44.4	26.1	4
Total	11,135	100.0	170.3	100.0	15
India: 1 FYP period					
Major & medium projects	1,174	22.5	630	85.7	537
Minor projects	4,047	77.5	105	14.3	26
Total	5,221	100.0	735	100.0	118
: 2 FYP period					
Major & medium projects	2,469	40.4	782	79.7	317
Minor projects	3,642	59.6	199	20.3	55
Total	6,111	100.0	981	100.0	161
: 3 FYP period(plan)					
Major & medium projects	4,654	47.3	1,259	70.6	271
Minor projects	5,180	52.7	525	29.4	101
Total	9,834	100.0	1,784	100.0	181

Notes:

*This refers to the minor projects under the agricultural programs only and those under the community development programs are not covered.

**This refers to the government subsidies only.

Source: Shigeru Ishikawa, Economic Development in Asian Perspective, Kinokuniya Co., Tokyo, 1967, Tables 2-25 and 2-16

Let us begin by examining the degree of development seen in modern industries (excluding cottage industries and handicrafts). Though there is no easy available data Table 8 on total value of industrial production in some benchmark years suggests that there is no drastic difference between Vietnamese industrial development today and that of the China in 1957 soon after the People's Republic came into being. The table itself shows the total value of industrial production in China in 1957 was about three times of that in Viet Nam for 1953, we are discounting the Chinese figures for population; China's population of about 600 million is roughly 10-times that of Viet Nam.¹⁵⁾ In qualitative terms, China is ahead, since prior to the war it had spinning factories in Shanghai and Tianjian that were viable exporters. Tables of the export / import goods mix show Vietnamese exports to be almost all primary goods; industrial goods account for a relatively minor percentage. China, by contrast, saw its manufactured goods exports, consisting primarily

15) Another factor to be taken into consideration the difference in the land area: Total land area of China is 30 time that of Viet Nam and the area of agricultural land in China is 15 times that of Viet Nam. As the object of direct comparison, the number of industrial enterprises (excluding domestic industry) in China (1952) is 6-4 times that of Viet Nam (1990).

textile products, rise from 20% in 1955 to 35% in 1959 (from data on trading partners tabulated by the UN). But modern factories were generally located only near the traditional ports and were at best scattered unevenly throughout China's enormous territory.

It is recalled that industrialization of the late comers (i.e. the countries which started the process for industrialization in the years later than the European industrialized countries which completed the process during the 19th century at the latest) started more or less from the similar initial state of industrial development. It is also noted that the successfully industrialized countries among them followed two different roads of industrialization in dualistic structure.

The upper layer of this structure consists of the enterprises using modern technologies which are more capital- and technology- intensive, characterized by the significant scale-economy factor and, moreover, having inter-industry relation (externality) effect. Introduction of these technologies were promoted by the active support of the government. In the lower layer, from among the "modern" technologies those less capital- and technology-intensive are selected. The engineering characteristics of these technologies are classified as "modern," but already internationally "standardized," and is easily learned. They are often introduced in combination with the "native" technologies. These "hybrid" technologies are sometimes called "intermediate technologies". In the lower layer, in addition to these "intermediate technologies," the traditional and native technologies are used side by side by way of a small enterprise method. In the economy where the prevailing resource endowments are labor-abundant and capital-scarce and the technological and organizational capabilities are underdeveloped, the choice of the dualistic industrialization and hence, the choice of dualistic technological structure are likely to be rational. It is not difficult to verify this rationality.

Chinese People's Republic is a typical country which followed forcibly the process of this dualistic industrialization under the deliberate policy choice of government. As shown in Table 8, Chinese industrial production increased 53.6 times during 1957-93 (the increase per year is 11.7%), the performance which is in a sense outcome of the choice of this dualistic industrialization. (Note that in the history of Soviet Russian industrial development, there were no case of the approach for structure adopted.)

First, with regard to the development of the upper-layer, it is well-known that it is promoted by the central government as the state owned projects and with the largest share of public investment allocation.

When viewed from the perspective of industrial technology, this process of upper-layer development can be seen to have come in four "waves." The "First wave" began in late fifties when several industrial centers were created across the country with technology and financial aid from the Soviet Russia. Subsequent waves come from the West, covering the years 1963-1966 (the "Second Wave"), 1973-1977 (the "Third Wave"), and 1978-1979 (the "Fourth Wave") respectively, as modern chemical and energy technologies were transplanted at near state-of-the-art levels via turn-key projects.

To be noticed is the extent of the introduced technologies. The Soviet technologies introduced through the "First Waves" are those already standardized in the West by 1940s. By the time of this First Waves, China had already accumulated the capabilities to absorb and apply these technologies with some additional effort. Indeed, the most important work done by the Chinese engineers since the First Five-year Plan was copying of imported technologies embodied in the plants in the form of blue-prints and distributing them widely in various part of the country, with the final outcome of a number of almost identical factories established there. The center of such copying work was the Technology Institutes attached to most industrial ministries. The same method of technology development was pursued in the "Second Waves." After the "Third Wave," however, the level of introduced technologies was raised. It was reported that the copying method became hard to apply. The best indication of this difficulty was the fact that in the "Third Wave," 13 plants of urea production each with the same production capacity of 200 thousand tons urea were introduced.¹⁶⁾

16) Shigeru Ishikawa, "Sino-Japanese Economic Cooperation," *The China Quarterly*, March 1987. Shigeru Ishikawa, "A Study of Technological Development in China," in Ishikawa and Taniguchi ed., *A Study of China's Science and Technology* (in Japanese), Japan Economic Research Center, 1974.

In 1978 when the Cultural Revolution ended, there was an event in which a large number of turnkey plants of state of the art technologies were introduced from the West almost at once and failed.¹⁷⁾ Apart from this case of apparently mistaken management of technology import and development, the attempts of building upper layer of dualistic structure of industry and technology were programmatic and successful.

As an attachment of developing the lower layer, there was a notable event toward the end of the First Five-year Plan period. Normally, a series of blue prints or designing of the small-scale plants and machinery intended to be applied to the industrial branches, such as iron and steel, ammonium synthesization, sulfuric acid, soda, synthetic rubber, machine-building, cement, spinning and weaving and electricity were prepared by the line ministries and distributed nationwide. These were among the branches in which the scale economy factor plays a significant role, and thus there was no room for the smaller size plants than the most advanced ones in respective branches to survive. The type of technologies embodied in these blueprints could be taken as a kind of "intermediate technologies" or "appropriate technologies," the terminology which was in vogue in economic development literature.¹⁸⁾ However, the movement to spread the smaller-size plant with these technologies disappeared, without begin tested, amidst the movement of compulsory introduction of "native (tufa) technologies" (like the one involve in "backyard-furnaces") during the Great Leap Forward days. In fact, these "intermediate technologies" represent the system of technologies which are different in nature from those embodied in the plants of the "plant industries" (of the "continuation" type) and "processing industry (of the "assembly" type), the type of industries in which the scale economy factors tend to play a dominant role in competition. However, there are cases in which the attempt to produce the same products domestically, relying on these intermediate technology, is rational enough, if and to the extent that the economy can accept the rise in the product and/or the lowering of the product quality. These cases are likely to emerge, when the economy's saving ratio is very low, capital is scarce, technological capability is poor and it is not possible to design and produce advanced plants and equipment by themselves. As for the batch type plant industries and the non-assembly type industries, insofar as the lowering of the product quality is acceptable, it often happens that the intermediate technologies are instrumental for the labor-intensive and a smaller sized enterprise in the same industries to achieve lowering production costs and thereby to survive competition with the more modern, larger scale enterprise.

Next, in the early 1970s, there were movements in the east rural China to establish local small industries manufacturing agricultural implements and machinery and related materials, fuels and parts and components ("Five-small Industries" to use the name at that time.) The movement was initiated by the Xien governments. The type of technologies selected by these governments were exactly of the "intermediate technology," followed in the years 1957-58.¹⁹⁾ Again the same policy has reemerged since 1984 in the form of the nationwide movement of establishing the Township and Village governments Enterprises. This time, the main advocators are Townships (Xiang) and Village governments which replaced the former administrative council of the People's Communes and Production Brigades, respectively.

The last comment is with regard to the relationship between industrialization and its underlying factor, development of agricultural production.

17) Shigeru Ishikawa, *China Quarterly*, op. cit.

18) Masumi Sato, "China's Small and Medium Size Industry Seen from Technology Aspect," in S. Ishikawa ed., *Long-term Projection of the Chinese Economy II* (in Japanese), Institute of Developing Economies.

19) Shigeru Ishikawa, "Chinese Economy in the 1980s," in S. Ishikawa ed., *Chinese Economy in the 1980s* (in Japanese), Japanese Institute for International Affairs, 1980, pp. 29-33.

Table 8 Comparison of total value of production in industry: Viet Nam and China

	Year	Total value of production		
		in national currency (unit)	in US\$ (billion) ²	Index unit Viet Nam taken as one
Viet Nam	1993	62,777.6 (billion Dong)	5.89	1.10
China	1993	5,269.2 (billion Yuan in 1993 prices) ¹	914.47	155.3
	1984	1,253.6 (billion Yuan in 1993 prices) ¹	217.56	36.9
	1957	100.0 (billion Yuan in 1993 prices) ¹	17.36	2.9

Source: GSO, Statistical Yearbook 1994 (Viet Nam), SSB, China Statistics Yearbook 1993 and others.

Notes: 1. Total value of production is derived on the basis of (1) ex-factory wholesale price index of industrial product and (2) a deflator of industrial products computed using current and fixed price series of GDP.

2. Obtained by official exchange rates: US\$ is equivalent to 10.65 thousand Dong and 5,762 Yuan both for 1993.

Table 9 China : Growth agriculture and grains and it causes

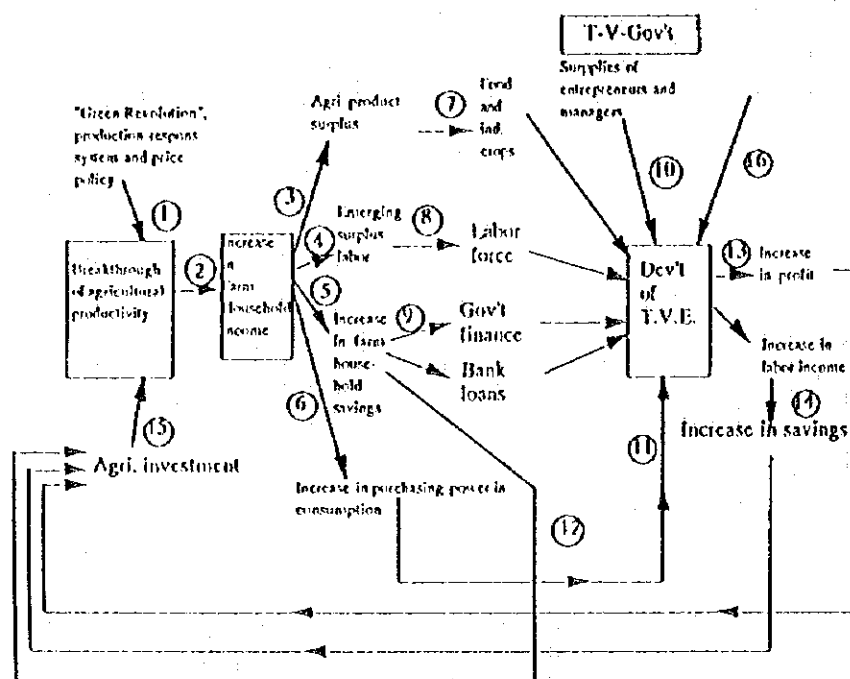
	Agr. income		Food grain output		Planted area of food grain		Per ha. yield, food		Per ha. yield, rice	
	index 1952 =100	Annual growth rate %	index 1952 =100	Annual growth rate %	index 1952 =100	Annual growth rate %	index 1952 =100	Annual growth rate %	index 1952 =100	Annual growth rate %
1952	100.0		100.0		100.0		100.0		100.0	
1978	161.1	1.9	185.9	2.4	97.2	-0.1	192.0	2.5	210.3	2.9
1984	253.7	7.9	248.5	3.0	91.1	-1.1	273.9	6.1	384.0	5.1
1990	309.9	3.4	272.2	1.5	191.5	0.1	297.7	1.4	303.2	1.1

Source : State bureau statistical Bureau, Zhongguo Tongji Nianjian (Chinese Statistical Yearbook)

Table 10 China : Increase in per capita income and changes in the Engel Coefficient in farm and urban sectors

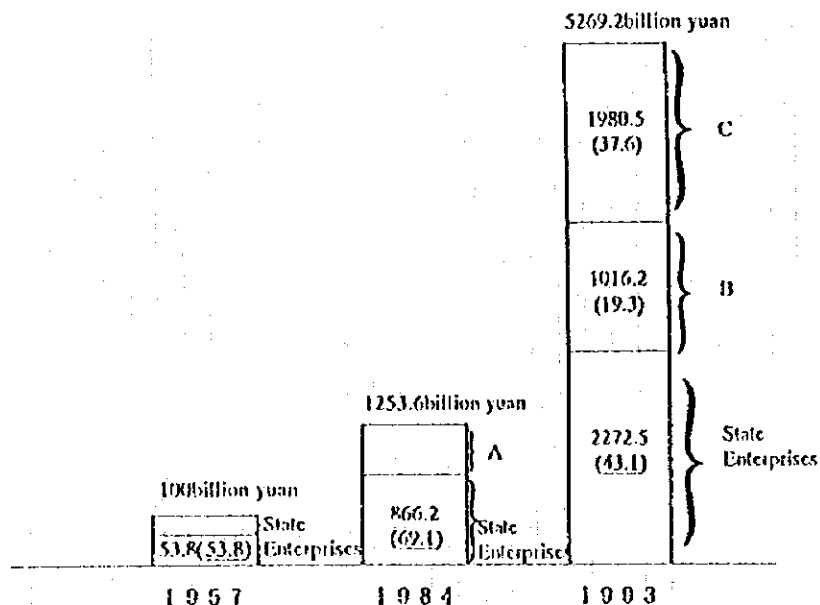
	1952	1957	1978	1980	1985	1990
A. Net income p.a. and per capita farm household---yuan in 1952 price	57	68	121	103	293	289
B. Engel coef., farm household (%),						
B-1 Total food exp., total consumption exp.			67.7	61.7	57.8	54.0
B-2 Total grain exp., total consumption exp.			44.2	37.3	26.2	18.4
C. Net income p.a. and per capita urban household---yuan in 1952		215	252	320	407	498
D. Engel coef., urban household, (%)						
D-1 Total food exp.		58.4	59.2	56.7	52.3	54.3
D-2 Total grain exp.		22.8	22.4	13.0	9.0	6.6

Source : Zhongguo Tongji Nianjian 1991 and other SSB's publications.



Source: drawn by Ishikawa

Figure 4 China: 'Breakthrough' of agricultural productivity and rural industrialization:
A causality map of the case of Southern Jiangsu Province



Sources: the same as those in Table 8

Remarks:

1. Total value of production for three benchmark years is the same as industries in Table 8.
2. The figures for 1957 is drawn here by inflating them three times.
3. The magnitude of Section B for 1993 is derived by applying the ratio of the magnitude of A to the State Enterprise output for 1984 to the State Enterprise output for 1993. The magnitude of C is the residual thus obtained, which covers 93% of the actual figure of the Township and Village industry output increased between 1984 and 1993: 2139.7billion year.

Figure 5 Pattern of growth in China's industrial production
- Comparison of 1957, 84 and 93 output (in 1993 prices)

The "township and village enterprises" in the coastal areas are often viewed as cases in which development of China's agricultural production spurred development of its industry. But what is not adequately recognized is the process involved. The process of development for "township and village enterprise" was encourage by investments from overseas, and one of the reasons why it became a factor for agricultural development is that the profits were reinvested in agriculture. This, however, was what occurred in the later stages of the process. At the beginning, it was a leap forward in agricultural production that provided profits which could be used to accumulate the initial capital of the township and village enterprise. The resulting increase in agricultural income provided purchasing power for the manufactured goods market. Unless backed by a breakthrough in production that leads to higher agricultural incomes, rural industrialization comes at high opportunity costs. The entrepreneurial spirit to form township and village enterprises was provided by the leaders of self-governing organizations in the local communities. Figure 4 illustrates the relationship.

There is another part by which the development of Chinese agricultural production spurred industrial development. This part travels via modern urban industries and the cause-and effect relationships are not all that easily understood, as this path is overshadowed by the above path in which agricultural progress led the Township and Village Industries and which is distinctive. However, the fact that this path also worked leaves no doubt: the breakthrough in agricultural production triggered the advance to a new stage in which the products of both agriculture and industry could be exchanged, which brought about sharp rises in the real per capita income and the real wages and revenues of both sectors. When limited to grain expenditures, the Engels coefficient went from 44.2% in 1978 to 18.4% in 1990 for rural farming households, and from 22.4% to 6.0% over the same period for urban households. (Table 10). The same household receipt and expenditure survey of the State Statistical Bureau also indicates that the per capita grain consumption, after exhibiting the peak in 1990 (in the rural districts, 262.08 kg of paddy rice) and in 1988 (in the urban districts, 133.17kg), started declining.

The experience of the same progress in agricultural production promoting the economy's industrialization through two different paths appears peculiar to China. The ordinary and more orthodox path of industrialization is the second path, in which productivity increases in agriculture triggers the urban industrialization.²⁰⁾ What is peculiar is the first path in which it brought about the rise in the Township and Village Industries. In terms of Fig. 5, the first path made it possible for the section of State enterprises and C in 1984 to expand to the section of State enterprises and A in 1993. The second path made possible the utterly new emergence of section B in 1993. One of the causes of rendering the second path peculiar is that there is another necessary condition for the development of the Township and Village Industries: there are bottlenecks impeding the free circulation of industrial goods between the rural and urban districts, so that a kind of large niche is found in which products of the Township and Village Industries can be sold here without the competition with the urban industries. As such bottlenecks of commodity circulation, there are as well known legal and administrative limitation of products and factor movement between rural and urban districts. Apart from this, the underdeveloped transportation and internal trade network also matter. All these bottlenecks and impediments would be removed gradually with the progress of economic development. However, before that time, there is a possibility for the overpopulated country other than China that the second path will play a vital role for industrialization.

20) Refer to p.7, III of this Report.

Looking Back on Ten Years of Doi Moi

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I. The political results of Doi Moi

Any discussion of the future of Viet Nam's Doi Moi programs must begin by considering the significance of the 8th Congress of the Vietnamese Communist Party held in June of this year. Prior to Doi Moi, the communist party in Viet Nam, as in other socialist countries, was where policy decisions were made. Party congresses were convened every five years to adopt general programs for "national building" and specific programs for the political, economic, defense, foreign relations, and cultural spheres. Meetings of the party's Central Executive Committee were held twice a year to adopt concrete policies and guidelines for the general and specific programs endorsed by the congress. Once adopted by the Central Executive Committee, the government submitted draft policies to the legislature for consideration, but this was only a formality. The legislature existed only to rubber stamp programs and policies approved by the Central Executive Committee. Since Doi Moi began, the legislature has been given greater authority and wider responsibilities. Policy drafts prepared by the party's Central Executive Committee (the Politburo) continue to be submitted to the legislature via the government, but the legislature is now empowered to reject as well as accepted proposals. In decisions on key posts as well—the president, prime minister, deputy prime minister, and cabinet ministers—the Politburo creates a list of candidates to be submitted to the legislature via the government, but the legislature now votes on them by secret ballot. The Party Central Executive Committee is empowered to amend policies, but cannot modify or amend the general nation building program or the programs for specific spheres. Only the Party Congress can do that. There are, however, cases of discussions within the Party Central Executive Committee leading to "expanded interpretation" of programs. One very good example is the adoption of more capitalist economic programs and policies by the Central Executive Committee in March 1989 than had perhaps been included in the economic program of the 6th Party Congress (December 1986), where Doi Moi was adopted.

The reason North Viet Nam, which has never experienced capitalist development, has been able to lead the country through ten years of Doi Moi, not only with no mistakes but with better than hoped for results, has been because it has, in its experiments with the market economy, been willing to refer to the experiences of South Viet Nam, which had experienced capitalism, and accept the suggestions and advice of international financial institutions and capitalist countries.

One of the things that sets Doi Moi apart is that it places top priority on economic development while taking a more gradual approach to democracy. The Doi Moi rejection of multiple parties and affirmation of the singularity of the Communist Party rests on an idea of "development by dictatorship" which realizes that economic development is unlikely in the absence of political stability.

The 8th Party Congress comes five years after the 7th, which was held in June 1991. It is both a summation of the first ten years of Doi Moi and a discussion of general directions, programs, and policies for the next five years. The Political Report prepared by the Politburo will be energetically discussed prior to its adoption and, having been adopted, will serve as the basic guideline for the next five years.

The draft Political Report published on April 10 contained no changes in the general Doi Moi program, reaffirming the same basic stance towards economic management and foreign affairs. In other words, it looks towards the achievement of a "prosperous people and strong state" by effectively implementing market economic systems, expanding the inflow of foreign capital, and developing the economy under the leadership of a party and state whose ultimate goal is the creation of a socialist country. There are some differences from previous guidelines, however. Among the new developments is the addition of "planned achievement targets" for 2020 in addition to the basic concepts of the "Strategy for Economic and Social Stability and Development to 2000" adopted at the last Party Congress. In other words, Viet Nam has added to the initial goal of doubling per capita GDP between 1990 and 2000 a new goal of an 8-10-fold increase in per capita GDP between 1990 and 2020. Though Doi Moi was adopted by the Party Congress in December 1986, it was not put into action in the economic sphere until the 6th Central Committee Plenum of March 1989. Only three months later the Tian'anmen Square incident occurred in China. The Vietnamese leadership is generally very sensitive to conditions in China and, as if anticipating trouble in Beijing, the Sixth Party Central Committee emphasized an issue that had not been discussed by the Sixth Party Congress—it rearticulated the "Five Principles of Doi Moi." Doi Moi, it affirmed, was not a change over to capitalism but a means of more efficiently building a socialist state; multiple political parties will not be allowed; the Communist Party is the only legal political party; and any attempt to introduce bourgeois political systems will be met with severe punishment. These principles will be reaffirmed and carried over by the 8th Party Congress.

Something else that set the 6th Party Central Committee apart was its decision to expand the interpretation of the economic program adopted by the 6th Party Congress. The economic program of the 6th Party Congress recognized plurality in the production sector, but not in distribution, exports, or finance. In short, it rejected capitalist-style management for these sectors. But the 6th Party Central Committee embraced it. This new political decision became the driving force in Vietnamese economic reactivation. In the five years between 1991 and 1995, average GDP growth was 8.2% against target rates of only 5.5-6.5%. By sector, growth was 13.3% for industry, 4.5% for agriculture, and 20% for exports.

For all its successes, Doi Moi has also had its share of failures and weaknesses. Viet Nam has yet to emerge from the group of the world's poorest countries, nor has it overcome such problems as low productivity, poor economic efficiency, frailty in the resource and technology base, excessive and wasteful consumption in the face of enormous investment needs, and low savings rates. Meanwhile, the social problems that are a by-product of the market economy are making themselves felt. There are growing gaps between the rich and poor, corruption and graft run rampant among leading party and state officials, smuggling runs rampant among the general public, the derivative phenomena of capitalism are being seen in rural communities (landlord/share-cropper relationships), there is prostitution, AIDS is on the increase, traditional culture and morals are being forgotten, there is excessive interest in imported culture, education is not taken seriously, and materialism (money worship) abounds. The targets towards which Doi Moi will be working will be a continuation of the twin strategies of socialism and defense in the spirit of the outlines created by the 7th Party Congress. While one can readily understand the continuation of socialism, it is worth noting that defense has also been included. In the late eighties, Viet Nam began reducing its military, cutting its active forces in half, from 1.2 million to 600 thousand. The defense budget was also slashed. The result was a considerable reduction in Viet Nam's defensive capability. After the collapse of the Soviet Union, there has been no one to which Viet Nam could turn for military aid, and it has become increasingly worried by the military build-up in its neighbor, China. The draft of the Political Report submitted to the 8th Party Congress used the term "peaceful evolution" in its comments on defense and

security. "Peaceful evolution" in this case refers to the use by imperialists of peaceful means rather than military force to topple socialism and bring it into capitalism. Even after normalization of its relations with the United States, Viet Nam has continued to produce a stream of papers warning of the dangers of "peaceful evolution," and the draft Political Report also advocates the "eradication of plans for peaceful evolution, disruption, or destructive activities."

II. The economic results of Doi Moi

Between 1991 and 1995 the Vietnamese economy grew at an average rate of 8.2% a year (against a planned rate of 5.5-6.5%). By sector, growth was 13.3% for industry, 4.5% for agriculture, and 20% for exports. There were also pronounced changes in the economic structure that were occurring at this time. The weight of industry and construction went from 22.7% GDP in 1990 to 30.3% in 1995, while services went from 38.6% to 42.5%. The country was also able to go a long way towards quelling inflation, bringing it down from 67.1% in 1991 to 14.4% in 1994 and 12.4% as of November 1995.

The light at the end of the tunnel first became visible for the Vietnamese economy in 1993. The year 1991 was one that will go down in Vietnamese economic history. It is the year that the Soviet Union, which had been Viet Nam's largest donor of economic aid, ceased to export products to the country at special below-market prices, insisting instead that Viet Nam pay international rates, and in hard currency instead of rubles. Though this caused the price for Soviet imports to skyrocket, Viet Nam was able to overcome the trial and still achieve an average annual growth rate of 8.5% for the five-year period. This rate is all the more remarkable when compared with past growth rates: 0.4% between 1976 and 1980, 6.4% between 1981 and 1985, and 3.9% between 1986 and 1990.

More foreign investments began to flow in as well. In December 1994, there were forty-five countries investing in Viet Nam; in November 1995, their numbers had grown to fifty. Investments in 1994 were for 1,011 deals worth \$10,015.2 million; in 1995, they were for 1,620 deals worth \$16,960.0 million. The top investor in Viet Nam continued to be Taiwan, with Hong Kong in second place. Japan, however, has recently risen from ninth to third. The normalization of relations with the United States last July and formal membership in ASEAN, combined with the fact that the conditions for fuller Japanese ODA are now in place, have made Japanese investors more keen on the country. The remaining members of the top ten are, in order: Singapore, South Korea, USA, Malaysia, Australia, France, and Iceland.

III. Bao cap

The phrase "bao cap" is used to characterize, somewhat in an extreme form, the economic system of Viet Nam prior to Doi Moi. Bao cap means "comprehensive treasury subsidies for production, distribution, and consumption under a system of centralized, bureaucratic economic management." It was the legacy of two wars of national liberation (independence from France, liberation from the United States) and the "wartime communism" that demanded centralized, bureaucratic control. Under wartime controls, the central government managed everything. It drew up the production plans of state enterprises, provided them with funding and raw materials, set the prices for their products, made personnel decisions, paid wages, and even subsidized losses. The managers on-site had no authority to decide any of these things, nor were they required to take responsibility for the results. Meanwhile, wages were paid by the hour under an extreme form of egalitarianism that sapped labor of any incentive to work. Most of the bao cap treasury subsidies went for three spending items: 1) rationing of basic essentials; 2) the Export Promotion Fund; and 3) covering the losses of state enterprises. Price subsidies for rationed essentials accounted for 48% of total subsidy payments.

After the war was over, socialist countries began to cut their economic subsidies for Viet Nam, and when the Soviet Union and Eastern Europe embarked on economic reforms in 1981, subsidies for Viet Nam were

further reduced and indeed, the country was pressed by its donors to begin economic reforms of its own. This undermined the existence of bao cap, and after the complete failure of economic reform in 1985 (reforms to prices, wages, and currency values), the 6th Party Congress adopted a program of comprehensive "renewal" (Doi Moi) in December 1986.

The bao cap economic policies were only possible because of economic aid from the Soviet Union and other socialist countries. The wars of liberation from the French and the Americans could not have achieved their purposes, had it not been for bao cap policies and the aid that made them possible. Doi Moi, by like token, was predicated on the repudiation of the wartime economic system of bao cap.

The Party Mid-term National Conference (similar to an ad hoc Party Congress) of January 1994 proposed the idea of "industrializing and modernizing the agriculture, forestry, and fishing industries" as a means of reactivating them. The concept was to give priority to the construction of small-scale plants to process the products of the agriculture, forestry, and fishing industries in order to create the jobs that would relieve rural unemployment pressures, thereby lessening the impoverishment that has been a legacy of Doi Moi. Small scale plants were chosen because relatively little capital needs to be invested, and investments can be recovered quickly. This policy was included in the draft Political Report to be submitted to the 8th Party Congress.

The policy discussions in preparation for the 8th Party Congress (scheduled for June) have rekindled the debate on "capitalism or socialism." Already the Party organs are publishing a stream of conservative opinions calling for a rethink of the "plural economic sectors" idea (which allows for different forms of company management and ownership, including capitalist forms). The majority opinion in the Party, however, is to continue on with the multiple sector economy that is at the heart of Doi Moi.

IV. Plural economic structure

Pre-Doi Moi policies defined four economic sectors: the state economy, the state capitalist economy (public-private ventures), collectives, and personal businesses. The post-Doi Moi system has permitted a plural economy, recognizing five sectors: the state enterprises, the collectives, private capitalism, state capitalism, and personal businesses. Note that the household economy (cottage industries) is not included among economic sectors. While there was a state capitalist economy prior to Doi Moi, the post-Doi Moi "state capitalist economy" refers to joint ventures between the state and domestic capitalists, and between the state and foreign capitalists.

The sector given the greatest emphasis is the state economy. The Five-year Plan from 1995 to 2000 looks to the state economy for intensive investments in such core areas as social infrastructure, economic infrastructure, national finances, finance, insurance, and also the development of enterprises in the security and defense industries.

Viet Nam had 26,282 enterprises as of 1994, among which were 6,042 state enterprises accounting for 23% of the total. Private enterprises were 52.4% at 13,772, with 19.5% limited companies, 0.5% joint-stock companies, and 3.6% representative offices.

Among the most discussed of the post-Doi Moi policies for state enterprises are those concerning privatization. The candidates for privatization, however, are loss-making enterprises that are able to remain in existence only by drawing funds from the treasury. Their machinery and equipment tend to be substitutes from the fifties, which further reduces their attractiveness. Lack of buyers has meant that little real progress has been seen in privatization.

V. The locus of social benefits and problems

Among the most stunning changes in Vietnamese social conditions is the fact that the residents of big cities like Hanoi and Ho Chi Minh are better dressed. The young women, in particular, have become much

more fashionable. The phenomenon is not limited to the women, however. Young men are also better dressed. I visit Viet Nam two or three times a year, and it seems apparent to me that the reason women have been dressing better since 1994 is not unrelated to economic development. Per capita GDP in Hanoi and Ho Chi Minh rose from \$800 and \$610 respectively in 1994 to \$1,000 and \$700 in 1995. This is the result of economic Doi Moi, or the introduction of market systems, but the principal beneficiaries are those who live in and around the big cities. Those in rural and mountainous areas, particularly members of ethnic minorities, are still poor. Ten years on, both the advantages and disadvantages of Doi Moi are becoming apparent.

VI. Poverty

According to a survey of living standards conducted jointly by the Viet Nam GSO and the World Bank between October 1992 and October 1993, some 51% of the Vietnamese population lives below the poverty line, and about 25% are unable to get the necessary intake of calories. Poverty is most widespread in the mountainous areas of the north and the highlands of the middle west, where one in four suffers from chronic malnutrition. There are more than fifty-five different ethnic groups living in Viet Nam, most of which are minorities living in the mountain regions. The Kinh, or those whom outsiders refer to as "Vietnamese," generally live on the plains and account for 86% of the population. The expanding gap in affluence between the Kinh and the minorities will be a factor for political instability and an impediment to rural development. It should therefore be seen as one of the Achille's heels of Doi Moi, just as rural poverty is.

Doi Moi has encouraged greater food production, helping Viet Nam to go from being a chronic food importer to becoming the world's third largest exporter of rice. But even though Viet Nam is an agrarian country, Doi Moi has brought about an increasingly serious bubble in land prices that is further widening the gaps between rich and poor in rural communities. What has happened is that when the agricultural collectives parceled out group-owned lands to individual farmers, complete with long-term use rights, transfer rights, and inheritance rights, land became a commodity. Agricultural land, which the Constitution says is nationally owned, is, for all purposes, a personal possession, and a land bubble has ensued. The people profiting from the bubble are the land brokers, but interestingly enough, the Communist Party politburo also has its own real estate division that is dabbling in land and building deals. Since the Communist Party is also Viet Nam's largest land owner, it is not surprising that this is helping to fuel the bubble.

The draft Political Report to be submitted to the 8th Party Congress identifies several social failures and frailties in the tenth year of Doi Moi, among them: corruption, smuggling, waste of public assets, affluence gaps between regions and between rural and urban areas, and difficult living conditions for minorities, veteran revolutionaries, and wounded soldiers. To this we should add some of the other untoward legacies of Doi Moi: prostitution, AIDS, theft, robbery, and indigence.

The draft Political Report also devotes considerable space to the necessity of protecting traditional ethnic cultures and identities. This is in response to the obsession of the past two or three years with imported culture, and particularly with American attitudes. At one point, English-language billboards abounded on the shops of Hanoi and Ho Chi Minh. They have since disappeared, but only because of government orders that signs should in principle be written in Vietnamese, with English written underneath in smaller letters.

VII. Foreign relations

In recent years, the two biggest topics in Viet Nam's foreign relations have been the normalization of relations with the United States (July 1994) and membership in ASEAN (August 1995). For Viet Nam, the attractions have been economic on the one hand and defense-related on the other. Since the collapse of the

socialist camp and particularly the Soviet Union, Viet Nam has been extremely wary of China. Party and government leaders and intellectuals feel an evident dissatisfaction and anger over the way China has acted on questions of borders, territory, territorial waters, and cross-border trade. But the cardinal rule for the party, government, and military leaders in their dealings with China is to avoid confrontation at all costs. On the Spratley Islands issue, Viet Nam could, however, take coordinated action with the other ASEAN countries. Normalization of relations with the United States will result in an American embassy in Hanoi, with consulates in Ho Chi Minh and Hai Phong. The Soviet Union has pulled out of Camran Bay, but it is quite possible that the American military could end up using it. Now that relations have been normalized, an American presence in Viet Nam could be used as a counterweight to Chinese expansionism and military threats.

If, as is rumored, the American embassy is built in Hai Ba Trung, some of Hanoi's best quarter, it will serve as a strong restraint on the Chinese military's border violations. While the party, government, and military cannot hide their wariness of the "peaceful evolution" that some in US political circles seem to desire, they also recognize that a US presence will be a valuable element in Viet Nam's security.

VIII. Restructuring education

During the first decade of Doi Moi, Viet Nam has moved ahead with restructuring in many different areas and continues to do so. Military reductions are one example, as are on-going efforts to reform government administration. In education, this has taken the form of mergers between universities (to create the kind of general universities found in capitalist countries) and the establishment of private universities, the first of which was Phuong Dong, founded in November 1994 in Hanoi. The name "Phuong Dong" is the Vietnamese reading for the Chinese characters that would be read "Toho" in Japanese, and the name was apparently decided upon because it would give the school a Japanese image. There are currently eight private universities in Viet Nam.

IX. Relations between Japan and Viet Nam

The people of Viet Nam first learned of Japan as a country "to the east" called "Phu Tang" mentioned in the Chinese history book "History of Phu Tang". In the mid-8th century, the Japanese Abeno Nakamaro (known as Chao Heng in Tang Chinese) was sent as an Governor general of the Emperor Xuan Zong to govern the area that is now known as Viet Nam, which was then under Chinese rule. In the seventeenth century, there were "Japan Towns" in central and southern Viet Nam, and their ruins and graveyards are still in existence. However, it was not until the Russo-Japanese War that the Vietnamese began to look upon Japan with respect, a respect that was greatly increased when Admiral Heihachiro Togo's fleet destroyed the Baltic Fleet in the battle for the Sea of Japan. The reason why Confucian scholar Phan Boi Chau (the teacher of Ho Chi Minh) approached Japan for support in his war for independence from French colonialism (and a restoration of the monarchy) was because he had seen Japanese greatness in its defeat of Russia.

The Japanese army's march into Indochina in the forties is called an "imperialist invasion" in the official histories of the Vietnamese Communist Party, but we should note, at the risk of blowing our own horns, that while the direct reason for the birth of the People's Republic of Viet Nam (September 1945) might have been the victorious revolution of August 1945, this probably would not have happened had not the Japanese army dismembered French colonialism. While the Japanese military occupied Viet Nam, Japanese culture was introduced as "Phu Tang culture." There are those among the Vietnamese who remember those days and look upon Japanese culture with fondness, but the public evaluations of the Communist Party are that it was "a means of colonial domination."

Where all Vietnamese, young and old, male and female, government and civilian alike, give unreserved

praise to Japan is for its recovery and emergence as an economic power after the Second World War. That is in part why Viet Nam's first private university, Phuong Dong, was given a Japanese-sounding name "Toho"(East). Korean companies are moving rapidly into Viet Nam, but their arrogance has made them despised. The Japanese are, by contrast, treated with friendship and respect. This is a great asset for the people of Japan, one we would take pains to preserve.

List of Members of Research Group

	Viet Nam Side	Japan Side
	Leader Nguyen Quang Thai	Leader Shigeru Ishikawa
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Fiscal and Monetary Policy Group	Chief Lai Quang Thuc Le Quoc Ly Vo Dai Luoc Nguyen Ngoc Quang Hoang Cong Thi Tran Van Ta Nguyen Dinh Huong	Chief Ryokichi Hirono Toshibiko Kinoshita Eiji Tajika Shinichi Watanabe Ellie Okada
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Chairperson Shigeru Ishikawa

Vice Chairperson Yonosuke Hara

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Fiscal and Monetary Policy Group	Eiji Tajika	Kazuyuki Mori
Industrial Policy Group	Koichi Ohno	Koichiro Fukui
Agricultural and Rural Development Group	Yoichi Izumida	Seiji Shindo
Secretariat	Ikufumi Tomimoto, Takaaki Ohiwa, Hiroyuki Mori	

Record of the Vietnamese-Japanese Conferences in the Study on Economic Development Policy in the Transition toward a Market-oriented Economy in Viet Nam

1. Preliminary Conference in Hanoi for Project Formation (May 1995)

Main academic members of the Japanese side participated in this conference. It was agreed that the project be proceeded as joint Japanese-Vietnamese study for the two year period ; the first year as Phase 1 and the second year as Phase 2. In this conference, the Viet Nam delegates requested that the Japanese academic members make, in a few months, comments and policy suggestions on the early version of the draft new Five-year Plan, which should be prepared soon. The Japanese side accepted this request, calling it as the request for "Urgent Proposal."

2. The First Hanoi Workshop (August 1995)

- Urgent proposal for the Initial Draft of the Five-year Plan and discussion on research topics for joint study project

Monday, Aug. 28 (8th Floor, JICA Viet Nam Office)

Opening Sessions 1. Opening remarks Vietnamese side Japanese side	Masaru Todoroki Vo Hong Phuc Norio Hattori
Session 1 (Macroeconomy) 1. On Initial Draft Five-year Plan (1) Feasibility to achieve targets of macroeconomics growth (2) State enterprise reforms 2. Vietnamese presentation on the planning model Underlying beneath Initial Draft of Five-year Plan	Shigeru Ishikawa Koji Haruta Nguyen Quang Thai
Session 2 (Industrial Policy) 1. Urgent comments on the Five-year Plan 2. Comments on Initial Draft of Five-year Plan on ASEAN, AFTA and APEC on the relationship between the economic growth of neighboring countries and that of Viet Nam 3. Vietnamese presentation	Yasutami Shimomura Shujiro Urata Kenichi Ohno
Session 3 (Fiscal and monetary policy) 1. Urgent proposals on Five-year Plan 2. Vietnamese Presentation	Ryokichi Hirono Toshihiko Kinoshita Lai Quang Thuc

Tuesday, Aug. 29

Session 4 (Agriculture and rural development) 1. Urgent proposals on Five-year Plan 2. Vietnamese presentation	Yonosuke Hara
Session 5 Discussion	
Session 6, 7 Discussions - With the aim at clarifying priority of joint research work during phases 1 and 2 - Questions	

3. The Consultation Meeting in Tokyo on Research Designs (November 1995)
 — Discussion on the sub-topics for research groups of the joint study

Monday, Nov. 27 (Meeting Room C, 27th Floor, Shinjuku Mitsui Building)

1. Opening remarks and introduction of the members and other attendants of Japanese side	Shigeru Ishikawa
2. Introduction of the members of the Vietnamese side	Nguyen Thai Nguyen
3. Introduction of the New Five-year Plan of Viet Nam	Nguyen Quang Thai
4. Question & answer	
5. Consultation on the topics and research plan of the study (1) Review of the prior consultation of 22nd October (2) Vietnamese comments on the Japanese proposal on the research plan	
6. Presentation on the research plan & preparation of each sub-committee (1) Macroeconomy (2) Fiscal and monetary policy (3) Industrial policy (4) Agricultural and rural development (5) Question & answer	Shigeru Ishikawa Ryokichi Hirono Yasutami Shimomura Yonosuke Hara
7. Presentation by the Japanese side on the final research plan	

Tuesday, Nov. 28

1. Sub-committee of macroeconomy (1) Growth, inflation and deficit of international balance of payment – Analysis by standard type models (2) Development and environment in industrializing Asia : An economic point of view	Mitsuo Ezaki Shigeaki Fujisaki
2. Sub-committee of agricultural and rural development (1) Viet Nam : Agricultural and rural development (2) Issues of rural finance – Examples of Japan and Thailand	Yonosuke Hara Yoichi Izumida
3. Sub-committee of fiscal and monetary policy (1) On the foreign saving mobilization, management of foreign debts and control of exchange rate (2) A research plan for two phases (3) Economic transition and fiscal management of Viet Nam – Further issues to be discussed	Toshihiko Kinoshita Shinichi Watanabe Eiji Tajika
4. Sub-committee level discussion on the research plan	
5. Sub-committee of industrial policy (1) Proper choice of industry and technologies and the dualistic economy (2) Relation between Vietnamese economy and participation to AFTA and APEC	Masahiko Ebashi Koichi Ohno
6. Wrap-up session (1) Discussion and agreement on the fiscal research plan (2) Consultation on the additional comments on the New Five-year Plan of Viet Nam (3) Any other matters relevant to the subject	

4. Tokyo Workshop (January 1996)

--- General comments on the Draft Five-year Plan (CG Version) and agreement on Sub-topics of the joint study

Sunday, Jan. 28 (Meeting Room A, 27th Floor, Shinjuku Mitsui Building)

1. Opening remarks and overview Introduction of the members of the Japanese side	Shigeru Ishikawa
2. Introduction of the members of the Vietnamese side	Le Duc Thuy
Introduction	
1. Comments on Five-year Plan	Le Duc Thuy
2. Selected issues in the New Vietnamese Five-year Plan : Experiences of Japan and China	Shigeru Ishikawa
3. Disparity issues --- Experiences of integrated regional development planning in Japan	Ryoichi Yamagishi
Macroeconomy	
1. Issues on macroeconomics in Viet Nam	Le Duc Thuy
2. Simulation analysis on growth versus stabilization	Shinichi Watanabe
3. Recommendation on industrialization and the protection of environment to Viet Nam --- Based on Japanese experience	Masashi Hattori
4. Discussion	
Fiscal and monetary policy	
1. Fiscal and tax reform towards year 2000	Tran Van Ta
2. Mobilization of domestic savings	Ryokichi Hirono
3. Economic transition and fiscal management of Viet Nam : Further issues to be studied	Eiji Tajika
4. Research on mobilization of domestic savings	Shinichi Watanabe
5. Medium and long term finance in Viet Nam --- Situation analysis and approach towards improvement	Kazuyuki Mori
6. External debt and FDI	Toshihiko Kinoshita
7. Discussion	

Monday, Jan. 29

Industrial policy	
1. On some issues of industrial development orientation in Viet Nam	Pham Quang Ham
2. Comments on the selection of the five capital intensive industries	Yasutami Shimomura
3. Outlook of the international market conditions and issues related to investment into the five capital intensive industries	Koichiro Fukui
4. Impact on Vietnamese economy by joining in AFTA	Koichi Ohno
5. Future direction of APEC after OSAKA meeting : Implication for Viet Nam	Masahiko Ebashi
6. Discussion	
Agricultural and rural development	
1. Vietnamese problems in agricultural sector and the possible measures	Nguyen Xuan Thao
2. On Improvement of agricultural productivity in Viet Nam	Yonosuke Hara
3. Financial organizations in rural area : Asian experience and its possible application to Viet Nam	Yoichi Izumida
4. Discussion	
1. Remarks	Vo Hong Phuc
2. Wrap-up and closing remarks	Shigeru Ishikawa Le Duc Thuy

5. The Second Hanoi Workshop (March 1996)

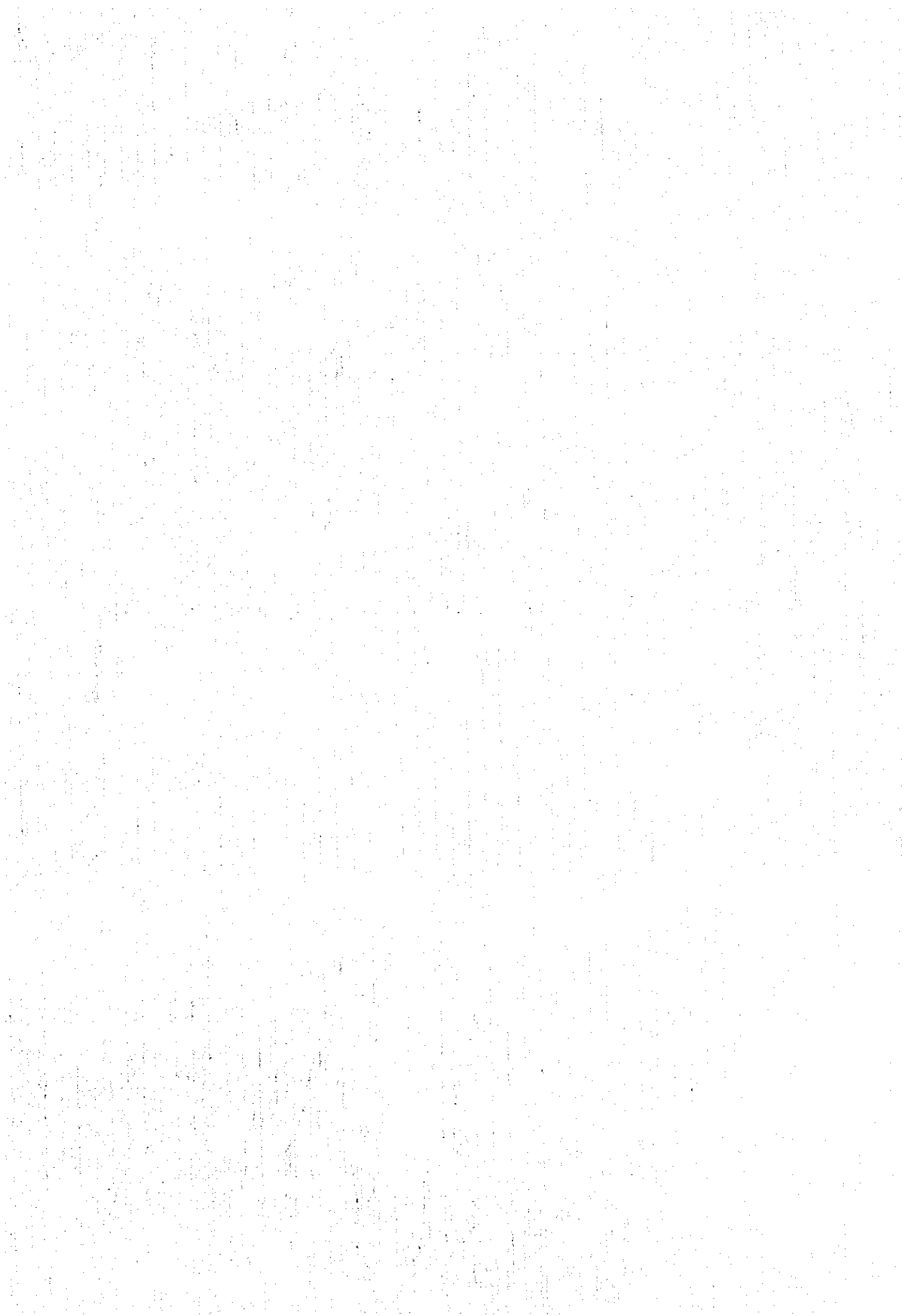
— Discussion on results of the Joint Research

Friday, March 1 (MPI Training Center)

Opening remarks	
1. MPI	Vo Hong Phuc
2. Embassy of Japan	Shiro Sadoshima
3. JICA	Masaru Todoroki
I. Macroeconomy	
(1) Macroeconomy and poverty in Viet Nam	Shigeru Ishikawa
Comments	Nguyen Quang Thai
(2) Macroeconomy and regional development	Nguyen Quang Thai
Comments	Shigeru Ishikawa
(3) Result of macro model analysis (Growth and stability)	Shinichi Watanabe
Comments	Nguyen Bau Quyen
(4) Environmental problems in Viet Nam	Le Dang Doanh
Comments	Shigeaki Fujisaki
(5) General discussion	
II. Industrial policy	
(1) Some issues on industrial policy	Pham Quang Ham
Comments	Kenichi Ohno
(2) Participation in AFTA and APEC	Koichi Ohno
Comments	Ho Quang Minh
(3) Small and medium size enterprises and agricultural industry	Nguyen Dinh Phan
Comments	Masahiko Ebashi
(4) General discussion	

Saturday, March

<p>II. Industrial policy (Cont'd from March 1)</p>	
<p>(5) Five capital-intensive industries and possible problem for new investment Comments</p>	<p>Koichiro Fukui Ngo Dinh Giao</p>
<p>III. Fiscal and monetary policy</p>	
<p>(1) Financial reform toward 2000</p>	<p>Lai Quang Thuc</p>
<p>(2) Taxation reform in Viet Nam</p>	<p>Tran Van Ta</p>
<p>(3) Comment on fiscal and monetary policy</p>	<p>Vo Dai Luoc</p>
<p>(4) Comments by Japanese experts</p>	
<p>(4) - 1 Overall comments</p>	<p>Ryokichi Hirono</p>
<p>(4) - 2 Comments on the management of foreign capital mobilization</p>	<p>Toshihiko Kinoshita</p>
<p>(4) - 3 Comments on the domestic saving mobilization</p>	<p>Shinichi Watanabe</p>
<p>(4) - 4 Comments on the fiscal mobilization</p>	<p>Kazuyuki Mori</p>
<p>(5) General discussion</p>	
<p>IV. Agricultural development</p>	
<p>(1) Diversification of agriculture in Viet Nam</p>	<p>Nguyen Xuan Thao</p>
<p>Comment : with special emphasis on the development of food crop</p>	<p>Seiji Shindo</p>
<p>(2) Development in the rural credit system of Viet Nam</p>	<p>Dang Tho Xuong</p>
<p>Comments from the perspective of the cooperatives and rural credit system</p>	<p>Yoichi Izumida</p>
<p>(3) Comments on agricultural improvement</p>	<p>Yonosuke Hara</p>
<p>Proposal of agricultural policy comments</p>	<p>Yunuo Sakurai</p>
<p>(4) General discussion</p>	
<p>V. Discussion</p>	
<p>Conclusion</p>	<p>Shigeru Ishikawa</p>
<p></p>	<p>Nguyen Quang Thai</p>
<p>Closing remarks</p>	<p>Vo Hong Phuc</p>



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