

**Study on the Economic Development Policy in  
The Transition toward a Market-Oriented Economy in  
The Socialist Republic of Viet Nam  
(Phase 3)**

**Final Report  
Vol. 1 General Commentary**

**March 2001**

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**Ministry of Planning and Investment  
The Socialist Republic of Viet Nam**

**Japan International  
Cooperation Agency**

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## Foreword

This study entitled "Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in Viet Nam (Phase 3)" was conducted within the framework of the technical cooperation program of the Government of Japan, in response to the request from the Government of the Socialist Republic of Viet Nam.

This study was carried out as a joint research by professionals specializing in economic policy from both Japan and Viet Nam. The research groups headed by Shigeru Ishikawa, Professor Emeritus of Hitotsubashi University for the Japanese side, and by Dr. Nguyen Quang Thai, Vice president, Development Strategy Institute, Ministry of Planning and Investment, for the Vietnamese side were set up in each country, assisted by consultant teams from leading institutes in both countries.

The research groups and consultant teams held a series of discussions, and conducted several field surveys. This report was prepared jointly by Japanese and Vietnamese research groups based on a mutual understanding.

I hope that the useful suggestions presented in this report will contribute to the formulation of policies for economic transition and sustainable development of Viet Nam, and it would be my great pleasure if the report would be used practically by concerned organizations, officials and experts.

I wish to express my sincere appreciation to Professor Ishikawa, Dr. Thai and each research member for their close cooperation extended to the study, and to the officials concerned for their valuable opinions.

March 2001



**Kunihiko SAITO**

**President**

**Japan International Cooperation Agency**



## Preface

The joint Viet Nam Japan Project of the Study on Economic Development Policy in the Transition toward a Market-oriented Economy in the Socialist Republic of Viet Nam, which we called in short Joint Vietnamese-Japanese Research (JVJR), has just terminated its 6-year activities of an undertaking for "intellectual cooperation" with the aim of advising various issues in designing and implementing the Five-year Social-Economic Plans in Viet Nam. JVJR was agreed upon in the consultations between the Governments of Japan and Viet Nam in 1994 and 1995 and was inaugurated in August 1995. The project was formally implemented under the Japan International Cooperation Agency (JICA)'s Social Development Studies Program as well as Technical Assistance Program.

Under the agreement, the research was to be conducted jointly by Japanese and Vietnamese study groups each consisting respectively of an average 20 academic scholars and high-ranking experts of a similar number.<sup>1</sup> Japanese study group was supported by professional consultants. In fact, these research members were regrouped into a small number of Study Group organized by different academic disciplines, and the joint studies were carried on mainly through these Study Groups. Moreover, the whole studies were conducted in three Phases and one Follow-up, and the Study Groups were specified for each Phase or Follow-up.

Below, the names of the Study Groups with their main study topics are shown according to this phasing.

### Phase 1 (August 1995 - June 1996)

Main topic: Issues relating to the draft documents about the 6th Five-Year Plan

- (1) Macro-economy Group
- (2) Fiscal and Monetary Group
- (3) Industrial Policy Group
- (4) Agricultural and Rural Development Group

### Phase 2 (July 1996 - March 1998)

Main topic: Issues relating to the participation to AFTA/APEC/WTO, and Industrial policy

- (1) Agricultural and Rural Development Group
- (2) Participation for AFTA/APEC/WTO and Industrial Policy Group
- (3) Fiscal and Monetary Policy Group
- (4) State Enterprise Reform Group

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<sup>1</sup> By the end of Phase 2, the Vietnamese-side members of JVJR Study Group consisted solely of the high-level officials and experts of Ministry of Planning and Investment, but thereafter the high-level officials and experts of other Ministries: Ministry of Finance, State Bank of Viet Nam, Ministry of Trade, Ministry of Industry, and Ministry of Agriculture and Rural Development and Ministry of Labor, War Invalids and Social Affairs were permitted to participate in the JVJR Study Group as fullfledged members.

## Follow-up Phase (July 1998 - July 1999)

Main topic: Issues arising from the impacts of the East Asian Economic Crises on the Vietnamese economy

- (1) General Commentary Group
- (2) Industry and Trade Group
- (3) Fiscal and Monetary Matters Group
- (4) Agricultural and Rural Development Group

## Phase 3 (September 1999 - March 2001)

Main topic: Issues relating to the draft documents about the 7th Five-Year Plan

- (1) General Commentary Group
- (2) Trade and Industry Group
- (3) Fiscal and Financial Reform Group
- (4) Agricultural and Rural Development Group
- (5) State-owned Enterprise Reform and Private Sector Promotion Group

While conducting these studies, we held a large number of workshop either on the Study Group level or the overall project level, and either in Tokyo or Hanoi. Workshop on overall project level numbered 12.<sup>2</sup>

The results of these studies and the policy options derived therefrom were published in official reports jointly by JICA and MPI.<sup>3</sup> In addition, we have attempted the commercial publication of a book on overall results of JVJR at the stage of the Phase 2 end.<sup>4</sup>

In retrospect, JVJR started at the period of Vietnamese economic development in which long years of Indo-Chinese War ended and the recovery from war-torn productive facilities and economic system minimally completed, and therefore, it became possible for the government to think over Vietnamese economic development plans from a long-term perspective. We recognized on the other hand, that the Vietnamese economy was still at the embryonic stage of industrialization and market economy development. Hence, the

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### <sup>2</sup> Phase 1

Hanoi Preparatory Meeting (May 29, 1995); First Hanoi Workshop (August 28-29, 1995); Consultations on the work plan for joint research (November 27-28, 1995, Tokyo); Tokyo Workshop (January 28-29, 1996); Second Hanoi Workshop (March 1-2, 1996)

### Phase 2

Tokyo Workshop (March 22-23, 1997); Consultations on the progress of joint research and announcement of results (May 22-23, 1997, Tokyo); Hanoi Workshop (June 6-7, 1997);

### Follow-up

Hanoi Workshop (July 20-21, 1999)

### Phase 3

Tokyo Preliminary Meeting (May 30-31, 2000); Tokyo Workshop (July 26-27, 2000); Hanoi Workshop (December 8-9, 2000)

challenging task before us was, in a sense, how to combine the existing theories of development and other disciplines with the practical knowledge of the Vietnamese economy to obtain the really useful prescriptions for triggering the development process in such an early-stage developing country. In the more-recent years when Vietnamese economy encountered a series of difficult issues from the international economic aspects, the task was again quite new and challenging. It was to discover for a country of embryonic industrializations those development policies that enable her to industrialize herself without resorting to conventional policy of "infant-industry protection."

The results of the study have not yet been very satisfactory. But the progress achieved in the method of the joint study has been satisfactory in that the relationship of mutual trust between the Vietnamese and Japanese study groups and among all research members, and even deep friendship, have begun to take root while tackling with these challenging tasks jointly. We both sides believe this mutual trust and friendship would continue to alive even after this round of the joint research ended.

The Japanese side members of JVJR feel extremely fortunate that throughout these six years they have been given many opportunities to meet with the former Secretary General Do Moui, the present Secretary-General Le Kha Phieu and other Vietnamese leaders and seek their opinions. These opportunities were

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<sup>3</sup> Phase 1

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.1 General Comments*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.2 Macro Economy*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.3 Fiscal and Monetary Policy*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.4 Industrial Policy*, JICA, Tokyo.

MPI/JICA(1996): *Opinions of the Five-Year Plan for Social and Economic Development 1996-2000 in Viet Nam: Vol.5 Agricultural and Rural Development*, JICA, Tokyo.

Phase 2

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.1. General Comments/Agricultural and Rural Development*, JICA, Tokyo.

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.2. Participation in AFTA/APEC/WTO and Industrial Policy*, JICA, Tokyo.

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.3. Fiscal and Monetary Policy*, JICA, Tokyo.

MPI/JICA(1998): *Study on the Economic Development Policy in the Transition Toward a Market-Oriented Economy in Viet Nam. Vol.4. State Enterprise Reform*, JICA Tokyo.

Follow-up

MPI/JICA(1999): *General Commentary / Industry and Trade*, JICA, Tokyo.

MPI/JICA(1999): *Financial and Monetary Matters*, JICA, Tokyo.

MPI/JICA(1999): *Agricultural and Rural Development*, JICA, Tokyo.

<sup>4</sup> Ishikawa Shigeru and Hara Yonosuke (1999): *Viet Nam no Shijo Keizai ka* (Marketization of the Vietnamese Economy), Toyo Keizai Shinpo-sha, Tokyo.



instrumental in bringing depth and strength to our study and findings.

The Vietnamese side members of the project express sincere thanks to JICA and its Viet Nam Office for supporting its research activities particularly in Japan.

This Final Report is submitted herewith to the leaders of Viet Nam Government as well as to other government agencies concerned. Also, we shall be presenting it to the interested parties in order to seek comments and opinions that would be useful for the possible future joint Vietnamese Japanese Research along the similar lines of the present work.

In addition, we have presented an Executive Summary in March 2001. This was prepared even before the Final Report, as it was required that the research outcome of Phase 3 could be available even briefly before the 9th National Party Congress. It is hoped that this Executive Summary will also be referred to by the readers.

March 31, 2001, Hanoi/Tokyo



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Vietnamese Cochair of the JVJR  
Doctor of Economics



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Japanese Cochair of the JVJR  
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## Acronyms & Abbreviations

ADB:	Asian Development Bank
AFTA:	ASEAN Free Trade Area
AICO:	ASEAN Industrial Cooperation
APEC:	Asia-Pacific Economic Cooperation
ASEAN:	Association of South East Asian Nations
CEPT:	Common Effective Preferential Tariff
CGE:	Computable General Equilibrium
CIEM:	Central Institute for Economic Management
CIS:	Commonwealth of Independent States
CKD:	Completely Knocked Down
CMT:	Cut, Make and Trim
CONCETTI:	Consulting and Research Company for Technology Transfer and Investment
CPI:	Consumer Price Index
DSI:	Development Strategy Institute
EAF:	Electrical Arc Furnaces
FDI:	Foreign Direct Investment
FOB:	Free on Board
FYP:	Five-Year Plan
GC:	General Corporation
GDP:	Gross Domestic Product
GRIPS:	National Graduate Institute for Policy Studies
GSO:	General Statistics Office
HNU:	Viet Nam National University, Hanoi
ICT:	Information and Communication Technology
IMF:	International Monetary Fund
IT:	Information Technology
JICA:	Japan International Cooperation Agency
JVJR :	Joint Vietnamese-Japanese Research (officially “the Study on the Economic Development Policy in the Transition toward a Market-oriented Economy in the Socialist Republic of Viet Nam”)
LLDC:	Least Less Developing Country
MARD:	Ministry of Agriculture and Rural Development
MITI:	Ministry of International Trade and Industry (currently “the Ministry of Economy, Trade and Industry”)

MNC:	Multi-National Corporation
MOF:	Ministry of Finance
MOI:	Ministry of Industry
MOSTE:	Ministry of Science, Technology and Environment
MOT:	Ministry of Trade
MPI:	Ministry of Planning and Investment
NEU:	National Economic University
NISTPASS:	National Institute for Science and Technology Policy and Strategy Studies
NPL:	Non-Performing Loan
NTB:	Non-Tariff Barrier
ODA:	Official Development Assistance
OOG:	Office of Government
PCF:	People's Credit Fund
PE:	Polyethylene
PP:	Polypropylene
PPH:	National Political Publish House
PRSP:	Poverty Reduction Strategy Papers
PVC:	Polyvinyl Chloride
SBV :	State Bank of Viet Nam
SI:	Supporting Industry
SME:	Small and Medium Enterprise
SOCB:	State-Owned Commercial Bank
SOE:	State-Owned Enterprise
SSC:	Southern Steel Corporation
SSC:	State Securities Committee
TISCO:	Thai Nguyen Iron and Steel Corporation
TVE:	Township and Village Enterprise
UNDP:	United Nations Development Programme
VASI:	Viet Nam Agricultural Science Institute
VAT:	Value-Added Tax
VBA:	Viet Nam Bank for Agriculture and Rural Development
VBP:	Viet Nam Bank for Poor
VNCC:	Viet Nam Cement Corporation
VSC:	Viet Nam Steel Corporation
WEI:	World Economic Institute
WTO:	World Trade Organization

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## **Chapter 1 Review of Six Years of JVJR**





## Six Years of JVJR and the 7th Five-Year Plan\*

Shigeru Ishikawa

Hitotsubashi University

### 1. Introduction

This paper aims first, to outline the main contents and their changes of our Japanese academic economist group's "intellectual cooperation" with a group of Vietnamese government economists, which has been continued since the summer of 1995 under the scheme of a "Joint Vietnamese-Japanese Research (JVJR)" on the Vietnamese economic development issues and strategies.<sup>1</sup> The project started when the Vietnamese government began preparing their 6th Five-year Socio-Economic Plan (abridged as 6 FYP: 1996-2000) and related long-range strategies, and requested the cooperation to the Japanese government.

Major concern of the 6 FYP was about the domestic economy aspect, as it marked the attempt to start steady, long-range economic reconstruction, after the economic crises of post-Indochina War was tided over. For a few years, the plan performed fairly well. But soon it had to confront an entirely new series of economic challenges: one arose due to the Vietnamese own decision to affiliate with international economic arrangements: AFTA, APEC and WTO, and the other came from the negative impact of East Asian currency and financial crises. Since 1997, many macroeconomic indicators exhibited downward trends of growth rate. [See Table 1 (a)]

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\* This paper is an extended version of "A Note on Viet Nam's Seventh Five-Year Plan," which I presented at (Vietnamese-side) Workshop of JVJR's General Commentary Group held in Hanoi, Oct.17, 2000, in response to Professor Nguyen Quang Thai's request, and in a presentation style suggested by him. At the workshop, the note was presented by Professor Kenichi Ohno on my behalf. Comments and criticisms were made by Professors Nguyen Quang Thai, Vo Dai Luoc, Do Quoc Sam and other participants. Later I also received comments from Dr. Le Dang Doanh. I would like to express my deep appreciation to all of them.

<sup>1</sup> In writing the present extended version, I received a kind cooperation of many members of Japanese side academic members of JVJR. Originally, there was a suggestion to present them in my paper in a abridged form, independently from writing my own observations and opinions. But this suggestion was not adopted due to the space limitations. Instead, I tried to quote their notes and opinions, whenever I used their contribution in my presentation. It should be noted that all of the Japanese members of JVJR are common in believing in the successful marketization and international integration of the economy as the ultimate policy goals. Also, most of them prefer the gradualist approach to the shock therapy approach, although the desirable extent of this gradualist approach may vary somewhat among them.

Just at this critical juncture, Vietnamese government must prepare the 7FYP (2001-2005) and related long-range strategies. The main task should be to design the policies and measures to let the economy run again on the same track of long-range economic development as before, resolving the new challenges coming from outside of the economy. Thus, the second aim of this paper is to review the published draft of the 7 FYP and related plan documents from our perspective, and on the basis of it to make discussion with our Vietnamese counterparts.

In the following, section 2 deals with the issues relating to the first aim, and section 3 the issues of the second aim.<sup>2</sup>

## 2. Policy options presented in 1995-99

When the project on JVJR started, our first task was to bring out a research organization. Two things were done: one was to establish a system of joint Vietnamese-Japanese research in which any important topic was intended to be selected and studied jointly and the research findings were converted to policy options again on the basis of joint discussion, and two to set up the study groups according to the different specialities: Macroeconomic Issues (later changed to *General Commentary*), *Financial and Monetary policy*, *Agriculture and Rural Development*, and *Industry and Trade*. (After Phase 2 another study group *State-Owned Enterprise Reform* was added.)

### Our opinion on the early draft of 6 FYP

Japanese members were almost all laymen about the Vietnamese economy and society, and therefore they joined the project with no previous empirical knowledge about it. But soon after the project started, we were requested from the government to present our opinions on the draft of the Political Report which the (7th tenure) Central Committee was to present to the 8th Party Congress. On behalf of Japanese members, I presented my own comments on it on the basis of my previous knowledge on developing economies and quick, but careful reading of the Report. They consisted of the following four items.<sup>3</sup>

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<sup>2</sup> In making reference to the final report of the JVJR project in the two Phases and the Follow-up, abbreviations are used, as follows.

(1) Ministry of Planning and Investment, The Socialist Republic of Viet Nam and Japan International Cooperation Agency, *Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in Viet Nam (Phase 1)*, June 1996.-Final Report of Phase 1

(2) do., *Study on the Economic Development Policy in the Transition toward a Market-Oriented Economy in Viet Nam (Phase 2)*, February 1998.-Final Report of Phase 2

(3) do., *Follow-up Study on the Economic Development Policy in the Transition towards a Market-Oriented Economy in Viet Nam*, December 1999.-Final Report of Follow-up

<sup>3</sup> Final Report of Phase1, Vol.1: General Comments, pp.21-39.

- (1) The expected rate of GDP growth in the 6 FYP period (between 10-11 %; if possible between 11-12%) may be too ambitious. [See Table 1 (a)]
- (2) The domestic savings ratio in net terms appears to be very close to zero. Warning against the over-optimistic planning misguided by the gross term savings figures. [See Table 1 (b)]
- (3) Insufficient attention be corrected on the urgent need of agricultural development on the basis of farm- and village-level reconstruction.
- (4) Too much policy emphasis is paid on the large-scale industry, while smaller scale industry neglected. For Viet Nam's industrial progress, two-tier development (large and smaller enterprises) may be desirable.

#### Critical economic conditions in the 1980s and the early 90s

I was pleased to say that a number of points in these statements, though based on the study of such nature, seems to have been accepted by Vietnamese government. Moreover, the main contents are still applicable to the present economic situation in Viet Nam. On the basis of later studies, I came to understand that the economic conditions around the time of drafting 6 FYP were yet quite unusual, and this probably related to the necessity of making these most basic and elemental statements.

Table 1 assembles some of the statistical records that combine to describe such conditions. The table shows (1) even after the end of borderline incidents in the south and north (the negative GDP growth in 1979 and 80 it was mainly due to these),<sup>4</sup> the economic situation continued to deteriorate, which was exhibited in the declining trend of GDP after 1982. Not only all of national investment, but also even part of the national consumption (perhaps government current expenditure) were financed by foreign savings (mainly Soviet Russian and Chinese aid) as shown in part (b), which however steady decreased toward the end of the 1980s. Large budgetary deficit was mostly financed by inflation, as shown in part (d). (2) Doi Moi was indeed a historic decision to deny the planned economy regime by admitting a commodity economy and decentralizing the governmental economic control system. However, it was proceeded under the constraint of such critical macroeconomic conditions. Therefore, Government was forced to tide over the crises by resorting to partial abandonment of the planned system without awaiting for the preparation of necessary macroeconomic arrangement; e.g., by sudden liberalization of price control and all out stoppage of subsidies to the State enterprises, the manner that is rather similar to the big ban type.<sup>5</sup> (3) Vietnamese economy accomplished a

<sup>4</sup> In addition, there were serious bad crops in 1977 and 1978.

<sup>5</sup> In China, the price decontrol was proceeded gradually by means of adopting "double track" price and circulation policy. Conversion of the system of free disbursement of capital construction investment through budget outlay into the system of bank lending was also successfully made, relying on the bank deposit of the amount that was large enough.

miraculous recovery in the early 1990s, due largely to implementation of Doi Moi policy. Successful changeover of the East-oriented structure of foreign trade and other external economic relations into the West-oriented ones was another cause of success. (4) Due to these factors, however, by the time Vietnamese government started to formulate 6 FYP, it seems they had not had enough opportunities to study how to design the effective systemic reform and industrialization program along the lines toward the market economy direction.

#### Final Report of Phase 1 (August 1995 - June 1996)

Of the Final Report of Phase 1 JVJR project, I will mention only two topics relating to the above observation, particularly (4).

#### Road map of system reform

One was the topic to investigate a crude road map which the government might have in mind in order to steer the shift of the existing economy to the market economy direction. As a framework of reference for this study, I relied on the Chinese road map of marketization which the Plenum of 14-3 Central Committee of CCP made clear fairly systematically in its decision in November 1993 ("Several issues for establishing the regime of socialistic market economy"), for the first time after about 15 years of "trials and errors" groping for the goals and steps toward market economy.

Broadly, this road map was interpreted as consisting of three main pillars: (1) the roles of government in managing the economy in transition, (2) the roles of the enterprises and farms as production units and of the individual markets (not only commodity markets but also financial, labor and other factor markets), and the ways to nurture and enhance them in transition, and (3) equity issues in distribution and expenditure of national income.

My observation was that while the Vietnamese measures of systemic reform could, in general, be fit to the Chinese framework and a number of the measures were themselves even similar to the Chinese ones, these measures were not yet fully comprehensive nor systematic. Also the processes of some important items to achieve the goal were not made clear enough, the fact that partly arose from the adoption of rather big-ban type solution as indicated above.

More substantive aspects of these system reform issues will be taken up again later, together with the issues of the systemic aspect of the 7 FYP.

#### Two options of the industrialization model

Another topic related to the productive formation aspect. There are two sub-topics to be discussed. One: In the Final Report of Phase 2, side by side with the above systemic issues, my consideration on the industrialization policy option that was shown in our first presentation of opinions on the early draft of 6 FYP (i.e. the two-tier development policy) was extended to contrasting two alternative models of industrialization: first a well-

known Marxian "Reproduction Scheme" with investment priority on the development of "A" Sector (or the producers' goods sector) derived as its policy implications (later in pre-Plan period Russia reformulated as a Feldman model) and second W.A. Lewis's Dualistic Economy (i.e. agriculture and industry) Development model. I recommended the latter as better fit to Viet Nam.

I made this extension as I surmised that the "Reproduction Scheme" and with it the Feldman model were familiar among Vietnamese economist as the main theoretical base behind their economic planning practices. In fact, the method of planning on the basis of a system of balances, in particular the compilation of material balance tables on funded materials and machines, were said to be practiced by 1991, although it seems the control of production and material circulation on the basis of compiled material balance tables was by no means comprehensive in Viet Nam as was the case in China.<sup>6</sup>

The basic weakness of the "Reproduction Scheme" and with it the Feldman model lay in that, apart from their negligence of the importance of people's consumption, the sectoral division of the model did not take into consideration the different characteristics of agriculture from other sectors. They arose largely from the fact that producers were mostly family households with subsistence nature, and they were interrelated each other with customary rules of village community.

Lewisian dualistic development model was exempt from these defects. It emphasized the necessity for successful industrialization of agricultural productivity growth in the rural commune and of the exports of surplus agricultural products to urban industrial area in appropriate proportion with the scale of labor migration.

#### Five capital- and resource-intensive industries

In connection with the capital-intensive producers' goods industry, i.e. a typical priority investment sector in the Feldman model, special mention should be made about the paper of the Industrial Policy Study Group<sup>7</sup> which dealt with the issue of this sector in the early industrialization stage, such as in present Viet Nam.

From the beginning of the JVJR project, the leadership of Viet Nam showed strong interest to establish in the country five particular branches of the heavy and chemical industries, namely, steel, petroleum refining, petrochemicals, urea fertilizer and cement, and requested to us to make advices for realizing this interest. Behind that interest was clearly an idea that it was uneconomical and even unreasonable to export abroad the raw material mineral resources of these products (which were endowed in Viet Nam) and then to import the processed ones. Therefore, their interest originated not singly from the desire of speedy industrialization.

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<sup>6</sup> In China, it can be confirmed that the material balance tables were still compiled in 1982. The most important materials were covered by the State Planning Commission and State Material Bureau. The next important materials were covered by the line ministries of the Central Government. The number of the tables changed from time to time. In the peak coverage period the former tables number 370 and the latter 600. They were very small in number as compared to those in Soviet Russia, where the tables corresponding to the former numbered around 2000, and the latter 25 thousands.

<sup>7</sup> Koichiro Fukui, "Five Capital Intensive Industries and Possible Problems for New Investment" in Final Report of Phase I, Vol.4 Industrial Policy.

The paper referred to the recent experiences of several Asian countries in attempt to establishing these industries with mixed results of success and failure. Apart from the necessity of lump-sum capital investment and long payback periods, it stressed the fact that most of these products were international commodities the prices of which were subject to steep fluctuations according to the changing supply demand relations. Although in the long run, Viet Nam could expect a large increase in domestic demand that was sufficient to absorb the supply, in the early days after projects completion, domestic demand had to fall short of the supply capacity; hence the export outlet of the products had to be found. If the international market of the community in question was in slump, the entire project was likely to be doomed to a failure, as often happened in the recent past in the neighboring ASEAN countries. The paper recommended a careful, in-depth feasible study prior to starting the project, on such factors as investment timing and international supply and demand conditions, in addition to the usual items of the feasibility studies.

#### **Phase 2 (June 1996 - March 1998) and Follow-up (April 1998 - July 1999)**

Some time after the passing of the 6 FYP and related plan documents at the 8th National Congress of the VCC, a series of changes in international environments have taken place, and exerted considerable impacts on Viet Nam's development path; the research tasks before us underwent considerable changes from the domestic to the external relation aspects. Simply put, they are,

- (1) Viet Nam's accession to the AFTA (The ASEAN Free Trade Area) and APEC (The Asia Pacific Economic Cooperation). The accession negotiation with WTO is ongoing. The accession to these regional and international trade and investment arrangements would very likely provide the Vietnamese economy the enormous gains from the integration with the external economies in the long run. But in the immediate future, it would pose serious challenges. The AFTA rules require Viet Nam to remove all the non-trade barriers (NTB) and to reduce import tariff rates of almost all imports to 0-5% for the ASEAN regional trade by the year 2006. Special treatments of WTO in favor of the developing country members, which were practiced until quite recently, tend to be discontinued. Thus, Viet Nam will not have enough time to enjoy the opportunities to protect infant industries that other developing countries (including especially, Viet Nam's neighbors in Asia) were able to enjoy for promoting industrialization for sufficiently long period.
- (2) Occurrence of the East Asian financial crises in July 1997 and thereafter, so that, the Viet Nam economy was hard-hit by indirect impact from it through the decrease in export earnings and in the amount of FDI inflow. There is a consensus among the economists that as at least one of the causes there was a fact that the countries under currency attack liberalized the foreign exchange transactions in the BOP capital account prematurely, without waiting for realization of the full-fledged reform of internal financial system.

Viet Nam was fortunate in having continued to keep the capital account under strict control. But, the task of financial system reform remains to be urgent.

(3) As an emergency measure as safeguard against the impact from the crises, the retreat from the liberalization course in previous import and banking controls were resorted to.<sup>8</sup> As a result, the negotiation with IMF and WB for renewal of Structural Adjustment lending that started in 1996 and 1998<sup>9</sup> has been stalemated. Side by side with it, Viet Nam accepted the WB's offer of becoming the sole pilot country in Asia of the implementation of its CDF (Comprehensive Development Framework), an entirely new development aid formula developed by WB in 1998. As a result, shift of the development policy objective from growth promotion to poverty reduction, the acceptance of policy advices of the donor groups in a large number of sectors and so on, have since 1999 become all suddenly the task for the Viet Nam government to take care.

With regard to items (1) and (2), we were separately requested to present our opinions. Though suffered from the lack of basic statistics that were required to meet the tasks, we tried to respond them mainly relying on our own experiences and professional wisdom.<sup>10</sup>

As for item (1), our opinion was that Viet Nam might pay big efforts to investigate the existing industrial and business structure and thereupon to design reliable industrial policy on the specific industry-by-industry basis. Government would try to use the short remaining years before the 2006 deadline as effective as possible to build up the essential "infant" industries by protective measures. The experience of Japan in formulating a Trade and Foreign Exchange Liberalization Program in 1960 was introduced, which was used by Japanese government to persuade the IMF, WB, GATT and main principal members to permit her to postpone the immediate implementation of liberalization commitment. Thus, the trade and capital liberalization were completed in Japan only in the early 1970s.

The issues relating to (3) were emphatically taken up in the Hanoi Workshop July 1999 closing the Follow-up Phase (1998-1999), we hoped that the Vietnamese government would make a clear-cut announcement of

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<sup>8</sup> The retreat cases are discussed with specific examples, particularly in Shinichi Watanabe and Le Quoc Ly, "Issues and Findings: Reform of the Financial Sector," *Final Report of Follow-up Vol.2 Financial and Monetary Matters*.

<sup>9</sup> The first IMF's lending was through the Extended Structural Adjustment Facilities (Nov. 1994-Oct. 1997; SDR 362 million). The first World Bank lending was through Structural Adjustment Credit (Oct. 1994-Sept. 1996; USD 150 million).

<sup>10</sup> See *Final Report of Phase2*, particularly, S. Ishikawa, "Vietnamese Participation in Economic Organizations: Japan's Experiences," and Kenichi Ohno, "Shocks from Asian Financial Crisis and Viet Nam's Policy Response," in Vol.1; Hideki Imaoka and Koichi Ohno, "Participation in AFTA/APEC/WTO and Industrial Policy" (in Japanese) in Vol.2; and Akiyoshi Horiuchi, "Reformation of the Fiscal and Financial System in Viet Nam," in Vol.3.



its intention toward marketization despite its temporary suspension in certain aspects due to the economic setback. We added that if that announcement was supplemented by the publication of a document describing, the scenario of marketization goals and the steps to achieve it, that would serve the purpose not only of alleviating the external pressure, but also for providing to the people concerned with the Vietnamese economic development the assured road map toward marketization and Industrialization.

To sum up the above discussion highlighting the results so far of the JVJR policy-oriented studies, the state of Vietnamese economic reform at the end of the 6 FYP period may be characterized by stating that while the long-term development process started with good performances for both systemic and productive force aspects, the Vietnamese economy had to confront the severe challenge of globalization that brought in it the external pressure of imposing big-ban type reform for transition. How to address this difficult situation seemed the major concern of the Viet Nam government, and this concern was also what the JVJR took into consideration in selecting the topics for Phase 3. Scenario-making of the industrialization and fiscal, financial and other system reform under the globalization pressure, and working of the methodologies to address the issues of international economic integration became our major interest. Now, I have to turn to the secondaim of this paper with the same perspective kept in mind.

### 3. Opinions on Draft 7 FYP (2001-2005)

Draft 7 FYP and related documents on long-range development strategies so far distributed seem yet preliminary, and hence the degree of their completeness in terms of national plan documents not necessarily high. But this may be natural, considering that these are the documents in which various policy options each held by different groups and strata among the people are gathered together, without revealing the government own final judgment as determined policies or any prioritization decision. They are probably intended to provide people the materials for discussions on desirable plan and strategies for deriving a consensus. Also, in the light of the studies in the previous section indicating that the current Vietnamese situations are complicate enough in terms of either systemic reform or industrial policy making, the unified policy decision or even policy prioritization itself would be by no means easy. So, while there are many points to be critically commented, overall, the drafts are evaluated as well prepared.

In the below, my comments, sometimes supported by the studies of my colleagues, will be made, separating into two parts, one on the system reform aspect and the other on the productive force formation aspect.

## A. System reform aspect

### A preliminary road map of marketization and globalization

The set of systemic reform measures proposed this time is much more comprehensive and systematic than the previous ones which we observed above, and a road map or full-fledged strategy of marketization and globalization, although still crude, may be brought out not in a distant future. This may reflect the significant progress of the learning process achieved in the systemic reform aspect.<sup>11</sup>

To recapitulate the road map thus suggested in the drafts in five headings, in away that is comparable to the framework used previously (p.4), they are,<sup>12</sup>

- (1) Role of the government in economic management: Government should greatly reduce the scope of direct intervention in the activities of the production and management units, and respect the working of the market mechanism.
- (2) The economy consists of multiple sectors, including the state economy, the cooperative economy, the individual and small owner economy, the private capitalist economy, the state capitalist economy and the foreign invested economy. While the concept of a multi-sector economy is already in use in Viet Nam, components of the State sector enterprises (SOEs) are newly defined. Namely, (i) state corporations, which are to be core players in specified economic groups, (ii) equitized SOEs, (iii) The 100% state owned limited companies, and (iv) small SOEs which are subject to sale, leasing, contracting, merger, divestiture or bankruptcy, depending on the conditions. It is stated that the SOE reforms in the above pattern will be completed within 5 years.
- (3) Comprehensively establishing different markets that are equipped with necessary legal and institutional framework. The markets include the capital and monetary markets, the stock markets, the real estate

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<sup>11</sup> To comment on the progress of the learning process, I would refer to the discussion I made in the Follow-up Report. Namely, a road map toward marketization of the transitional economy is not something readily available, as there is no historical precedence about such an event, nor any existing theory or hypothesis applicable to it. The only effective method would be to discover or even create it by "trials and errors" conducted by the countries in transition themselves, on the one hand, and to refer to the exogenously-given reference models of marketization on the other. The latter models are either of the very abstract or ideological level or partial even when they are based on the concrete reality. (The above-referred socialist theory of socio-economic advancement is among these models.) The models tend to facilitate the progress of the trials and errors process, but in some other cases, binding. So, the basic method is the trials and errors, primarily based on the effort of perceiving the own country's reality. The progress of the learning process in Viet Nam is meant in these senses. S. Ishikawa, "Economic System Reform and the Significance of its Scenario-making-Review by Comparing Experiences of Viet Nam and China," Final Report of Follow-up, Vol.1 General Commentary/Industry and Trade.

<sup>12</sup> This part relies on Central Committee, Socio-Economic Development Strategy 2001-2010 (Draft), Hanoi, July 2000.

markets, the labor markets, the markets for science and technologies and so on. It is novel that the government has legitimized these markets, as so far only "commodity market" has been admitted (which was in occasion of adoption of the Doi Moi policy in 1986.)

- (4) Reforming the fiscal, financial and monetary systems and policies. Principles of fairness of national income distribution are to be adhered. Mobilization of investible funds by fiscal and financial mechanisms and the effective use of them for economic development. Macro-economic stability. Restructure of the banking system, the state owned commercial banks from the central Bank.
- (5) Expanding and increasing the efficiency of the international economic relations. A road map toward international economic integration process in accordance with bilateral and multilateral commitments should be made clear. Export promotion. Selected time-constrained protection in policies. Increase in attractiveness of foreign investment.

The name of "socialist-oriented market economy" was for the first time used denoting the overall goal for economic system reform which comprises several new orientation as noted above.

In terms of the issue of the "line" of socialist development in the transitional economy, the new system reform strategy resembles the above-mentioned Chinese decision of establishing the "socialist market economy" at the Plenum of the 14-3 Central Committee CCP (November 1993). In both Viet Nam and China, official ideology defined the present stage of socio-economic development as specific to the transitional, low-development stage, and in this stage productive forces should be developed as the supreme task. The importance of the "commodity economy" was to be recognized only in this context. In China, however, the recognition of the factor markets as well and hence of the market economy as a whole greatly facilitated the development of productive forces after 1993. Due to its inclusion of item (3) into the basic strategy, same thing is expected to happen in Viet Nam.<sup>13</sup>

However, the recognition of the "socialist-oriented market economy" by itself does not bring about the transition to the full-fledged market economy. In fact, the draft is quite insufficient in indicating for a number of specific reform areas how the production units in the planned regime can be successfully converted to the viable ones in the competitive environments, how the healthy markets can be nurtured and strengthened, and how these various items of specific reform should be coordinated each other. I will discuss below two of these issues of missing links in the desirable road maps for marketization.

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<sup>13</sup> In China, the "line" issue exhibited further progress by the initiative of the late Dong Xiaoping, who argued that the most basic criterion to judge "truth" be "practice," not any transcendent theory or ideology and further that anything which promotes the productive force development be the standard of basic judgment. The 15th National Congress of CCP officially recognized this thinking as the Dong Xiaoping Theory, Jiang Zemin's speech at the 15th National Congress, Xinhua Yue Bao, Oct. 1997.

### SOE reform and the overstaffing issue

The first is the issues relating to the establishment of the microeconomic foundation of the market economy, which should be made possible by the successful SOE reform and side-by-side the promotion of private sector enterprises. For these two reforms to be realized, the development of the yet-very-underdeveloped labor-capital and other markets is prerequisites. I will at first take up the issues centering on the SOE reform.

Viet Nam's SOEs occupy a peculiar position in the whole economy: while the weight of SOEs' total output in GDP and the weight of SOEs' industrial output in national industrial output were as large as 36.9% and 45.7% (both in 1998),<sup>14</sup> the weight of SOE's employment was only 5.2% (in 1996). The SOEs' relative position in the national economy appeared to have decreased considerably due to the reshuffles conducted during the years of economic crises in the 1980s and the early 1990s, as discussed earlier. But the SOEs still hold the commanding areas of the economy, and hence, success or failure of the attempt to resolve the well-publicized inefficiency issues<sup>15</sup> by the SOE reform plays a decisive role in determining the entire economy's future.

### Multiple necessary conditions for SOE reform

The JVJR studies on the Vietnamese SOE reform have continuously been suffered from the serious shortage of information. Hence, so far poor findings. Recently we have come to realize that there are multiple aspects of issues of Vietnamese SOEs, each aspect of which has to be resolved as a necessary condition for successful SOE reform; However, we had so far been too much occupied by a few aspects of issues (namely, the managerial and legal aspects) with the aim of arriving at overall solution. The result, however, was that we were not yet able to obtain satisfactory findings even with regard to one aspect. In Phase 3, while we have been still tackling with these two aspects, we have taken up two additional aspects. One is the issues of the renovation of the outmoded production facilities and equipment that are prevalent in present Viet Nam factories. Even when other necessary conditions for SOE reform were met, the SOEs would easily loose competitive position without this renovation. Another one is the introduction of the labor market inside and outside the particular SOEs by which these enterprises as entities in the market system become capable of making either employment or wage adjustment, so that they would be converted to the real units of profit maximization. And, for this reform to become effective, overstaffing or redundancy of part of the existing workers inherited from the planning era should be removed. Here, I will discuss this overstaffing issue only.<sup>16</sup>

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<sup>14</sup> In 1993, the same weights were 34.7% and 71.3%, respectively.

<sup>15</sup> According to Drs. Le Dang Doanh and Tran Tien Cuong's joint paper presented at the JVJR's Tokyo Workshop July 2000 ("Promoting State-owned enterprise Reform to Meet the Requirements of Integration in Coming Time"), the deficiency and inaccuracy of the accounting and statistical systems in Viet Nam prevent any reliable measure of the inefficiency issues. But they said those SOEs that are reported as inefficient would go out of business when protection is removed as committed to AFTA.

### Employment statistics and projections

In Viet Nam, official statistics indicate that the registered unemployment ratio in the cities is currently 5-6%; the rate of rural underemployment is roughly 20%.<sup>17</sup> In addition, there is a group of SOEs employees who are designated as "surplus" or "overstaffed," apparently a product brought about during the planning regime under "soft budget constraint." The size of the "surplus" employees in the SOEs was estimated variously; probably the largest number estimate was the World Bank's estimate: 20-30% of total.<sup>18</sup>

The difference in the estimates came from the concept and definition of the "surplus" employees. Apparently, the World Bank estimates covered not only those who had no job or assigned tasks and properly called redundant, but also those whose work efficiency was considered below normal and who were capable of being removed without affecting the total output. According to a joint WB-CIEM study of 195 SOEs, the former, "redundant" employees were 9.4% and the latter employees (called "unnecessary") 14.2%.

The extent of the seriousness of "surplus" employee problem could be assessed in combination with all these components: not only the redundant employees and those underemployed (or unnecessary) employees in the SOE sector, but also those un- and underemployed persons in the urban and rural non-SOE sectors. As the decision by government and/or SOEs to restructure the enterprises' surplus employees and its scope would be influenced significantly by the overall employment conditions, it is also important to observe this in time-perspective.

Fortunately, the draft 7 FYP provides us fairly comprehensive materials for observing them that are shown in Table 2. It summarizes the projections of the demand and supply conditions of the labor force and the employed persons during the 7 FYP period, from various sides. The essence of the information derivable from the table is; (1) During the 7 FYP period, the Vietnamese economy should employ not only the new comers into the labor force of 7.0 million persons, but in addition those unemployed and in surplus left over from the 6 FYP period and numbering 8.0 million persons. (2) And still during the 7 FYP period, the economy cannot absorb all these persons, and carry over the 7 million persons as jobless to the 8 FYP period. (3) Focusing on the urban sector, the number of unemployed and surplus persons left over from the 6 FYP period is 2.3 million occupying 76.7% of the total increase of employed persons; the number of jobless that are carried over to the 8 FYP period is 0.6-0.8 million persons, i.e. 4.9%-6.5% of total increase in urban labor force.

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<sup>16</sup> Otherwise, those number of surplus laborers would not be designated as unemployed or in surplus, and would continue to be employed in the existing SOEs, although under the redundant and inefficient conditions.

<sup>17</sup> This is an estimate based on the labor productivity statistics of the rural workforce.

<sup>18</sup> WB, Viet Nam: Rising to the Challenges, December 7-8, 1998, Hanoi

In assessing this set of information, it is important to remember that first the persons left over from the 6 FYP period as unemployed or in surplus and those carried over to the 8 FYP period are largely different individuals, and second the former persons comprise a large number who would be dismissed from their long-connected SOEs and who would be planned or expected to be absorbed in the productive job in the 7 FYP period. Therefore, the overall employment situation projected in draft 7 FYP should be assessed as serious, not only in connection with the magnitude of the jobless mass carried over to the 8 FYP period, but more immediately in connection with the 2.3 million urban unemployed and surplus employees who would be dismissed and reemployed; the decision of the managers to dismiss and that of the employees to comply must in fact be very difficult to make.

Government frontal attack started

Vietnamese government endeavored to tackle with this issue seriously in the past, and the number of employees in SOEs decreased considerably. Yet, it seems this result was brought about mainly as a by-product of SOEs reshuffles. Only recently, in connection with designing of 7 FYP, the task of restructuring the employment structure has come to be seriously taken up, though in connection with SOEs' restructuring. Most recent events are a decision in Sept. 1999 (Decree No.103/1999/NDD-CP) to implement a three-year program (2000-2002) of restructuring a large number of SOEs<sup>19</sup> with poor financial status and significant labor redundancy, and correspondingly to it, another one of August 1999 (Decision No.177/199/GD-TTg) to establish the Assistance Fund for SOEs Restructure.

The above SOE restructure program is expected in the WB-CIEM study to result in the decrease in the number of SOEs by over 4000 units or about 70% of total. Of this number, most are small size units established and managed by the local governments.<sup>20</sup>

With regard to the program of labor restructuring aspect, comprehensive data are not available. One source provided the data in connection with the hypothetical SOE restructuring program covering 2600 units of SOEs for the period 2000-2005. Those employees involved in the entire SOE restructuring program were first, 100 thousand persons (10% of total employees) for retraining and, second, 15 thousand "redundant employees for complete dismissal. However, as 77% of the number of restructured SOEs in this program was

<sup>19</sup> In the form of equitization, transfer (to labor collectives), sales, lease, contracting out, merger and liquidation. But many SOEs are said to be unable to equitize due to poor financial status and large labor redundancy (according to MOFsources).

<sup>20</sup> For 1998, the following statistics about SOEs are available in this WB-CIEM study.

	Units of SOEs	Number of Employed
Central government controlled	1723	ca. 1 million
Local government controlled	4019	ca. 0.7 million
<b>Total</b>	<b>5742</b>	<b>1.7 million</b>

considered to be equitized, the sample seems to have biased to the restructuring of the upper strata SOEs.

The SOE Restructuring Assistance Fund is purported to be used for covering the payment of SOE accumulated debts, a severance allowance for dismissing redundant employees, and a social insurance premium on behalf of the employees, etc. It is said, however, that the amount domestically mobilized has so far been quite insufficient; so, the ODA assistance has been expected to come in to supplement it.

I consider that the decisive factor for the success or failure of the program of resolving the issue of overstaffing and thereby making the SOEs the real profit-maximizing enterprises in the market environments is not simply dependant on the preparation of the employee's retrenchment plan and to force them to accept them. It would be necessary to exhibit them the retrenchment plan as the necessary component of individual SOE's survival plan of restructuring. But the purpose of these plans is to create an environment within the enterprise that the competition among the employees for contesting for the limited number of work-posts is accepted by many employees and taken for granted. For this to be realized, it is necessary at first to devise the incentive system in which the winners of the competition will be individually rewarded, and second to establish a reasonably developed national social insurance system, so that even if one became a loser, his livelihood would be protected during the transitional period while he tries to obtain a new job or occupation. This is in fact equivalent to the creation of the labor markets inside and outside of the SOEs, and our "intellectual cooperation" should explore seriously the prescription to create it. Need of mobilizing financial resources in this attempt is only relating to it.

Addressing this task requires a study of the more deep-seated dimension than the above. Some of them we already know are listed:

- 1) In the last SOE reform in 1989-1991, the number of SOEs decreased from 12,000 to 6,000. Side by side, the number of SOE workers amounting to 700 thousand persons (one-third of total) was separated. At that time, the economy was rapidly expanding, in particular the private enterprise sector. The displaced workers were said to be able to find out alternative jobs easily. However, the economy soon fell into slump. Re-employment became very difficult.
- 2) Equitization, enforced in 1992 as the next step SOE reform, was unpopular as it did not provide job security. Little support came from managers and workers.
- 3) Labor contracts between the employer and employees are currently four types: (1) indefinite term contracts, (2) long-term contracts and (3) short term, seasonal contracts and (4) labor collective agreements.

In the case of the employees of type (1), (2) and (4), the employees' status is highly protected, and owners find it difficult to dismiss them for whatever reasons. Lack of job security, insufficient compensation in case of jobless and remaining personal relations between the managers and employees aggravate the situation that is making dismissal difficult.

We are aware that large part of these difficulties would be removed if the financial resources become available to the extent that various initiatives by the government can be realized. One basic issue relates to the social insurance system the benefit of which only the SOE workers are so far capable of obtaining (hence, the employees of SOE do not agree to leave the present status), we have to seriously consider the possibility of supporting the government initiatives.<sup>21</sup>

#### Private sector promotion and international integration

In connection with the systemic issues of draft 7 FYP, I have further to discuss those of (1) the private sector promotion, and (2) integration to the international economy. However, the discussion should be very brief.

##### (1) Private sector promotion

This is the central objective of that part of the so-called New Miyazawa Initiative which has been extended to Viet Nam since last year. The project to nurture the private sector is currently implemented as an action plan to realize 42 items of agreement between MPI and JBIC and is reported to be in progress. We are of course endorsing the potentially vital role of accelerating the private sector development, and hence welcome the progress of the New Miyazawa Initiative.

However, the scope of its objective is probably mostly limited to the creation of the level playing field

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<sup>21</sup> In China also, a serious effort has been going on since the early 1990s to eliminate the redundant employees of many SOEs, and at the same time to establish within and outside of the SOEs a genuine labor markets. An interesting characteristic of the China's effort as compared to Viet Nam's, is the fact that in between the step of designating the redundant employees (called "layoff" employees) and the step of dismissing them out of the SOEs, there is a step in which layoff employees are transferred to "Reemployment service centers" which SOEs with redundant employees are obliged to set up within SOEs and in which individual employees receive the employment or reemployment training and search for new jobs, while receiving the basic living allowances. Maximum period of stay in the center is formally set as three years, after which layoff employees have to leave it, and to look for the job personally while receiving the temporary payment of the unemployment insurance. Many difficulties are reported in removing the redundant employees that are very similar to those in Viet Nam. But gradually, the competitions among the employees are emerging, first within the SOEs for keeping the post of regular personnel secured, second in the Reemployment Service Center for acquiring desirable job speedier, and, finally in the outside of SOEs labor market to find new jobs. The 15-4 Plenum of Central Committee (Sept. 1999) decided to resolve basically the large- and medium- sized SOEs' financial difficulties within 3 years with the measures including the redundant workers' issue. Chairman of the State Economic and Trade Commission announced in this July a good progress of this plan.



of the private sector enterprises with the SOEs. And beyond that we are not sure how soon the really vigorous private sector activities will arise.

Recent reports on implementation of the newly legislated Enterprise Law indicate the unexpectedly large number of registered private enterprises. They may not be considered, however, as those newly established in response to the Law, but largely as the existing firms aiming to convert legal status.

We have also in mind the bitter experiences of privatization policy in former Soviet Union and some Eastern European Countries, which was ably summarized with consideration of possible application as counter-lessons to Viet Nam by Professor Yoshiaki Nishimura at the last Tokyo Workshop.<sup>22</sup>

It is for this reason that I have requested one of our consultants to investigate the availability of private entrepreneurship and accompanying capital funds in Viet Nam by using the techniques of multi-variate analysis. A preliminary result will be presented to this Workshop.<sup>23</sup> Although further investigations are necessary, it shows rather weak private entrepreneurship. In any case, we must not loosen our continuous effort to tackle with the SOE reform, relying on a risky assumption that once "the level playing field" is established, the vigorous and healthy private sector will spontaneously emerge.

## (2) Integration to the international economy

This is the topic that is most difficult for the newly industrializing countries to conceive and design as effective strategies. Probably due to this, the draft 7 FYP sometimes expresses mutually conflicting policy directions concerning this topic. For the JVJR itself, this likewise poses a very difficult task to obtain a straightforward answer.

In the presentation to this Hanoi Workshop, we have indicated our answer from four different angles, though identical in spirit.

- 1) Professor Fukunari Kimura's paper<sup>24</sup> discussed the present tendency of trade and exchange policy favored by WTO and major members of the international trade community, in comparison with the propositions of the main current trade theory. He observed that they urge in great haste that the Washington Consensus and the free trade policy be introduced, without taking into consideration the coordination costs and sequencing. Protectionism which traditionally recognized as legitimate for the late-comer capitalist countries as transitional measures are now being denied under the wave of globalization. He proposes Viet Nam to build the economic and social infrastructure and institutional building of the market enhancing type, rather than trade protection. In the microeconomic aspect, he advises the industrialization promotion measures rather than infant industry protection, exploring

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<sup>22</sup> Y. Nishimura, "Experiences of Privatization in Russia and East European Countries".

<sup>23</sup> N. Takada, "Availability of Entrepreneurship in Viet Nam".

<sup>24</sup> F. Kimura, "Policy Measures for Industrial Promotion and Foreign Direct Investment".

internally the maximum room in which within-the-border protectionist policy is permitted form international standard: i.e. various kinds of subsidies.

- 2) Professor Kenichi Ohno,<sup>25</sup> acting leader of the Trade and Industry group, examined the choice of industry problem and observed that in addition to the current world environment in which protectionism is severely constrained, exploration of the a priori criterion of the choice of industry is not useful, under the dynamic changes in the world. His advice is that for each candidate priority. Industry, a detailed feasibility study be conducted, and in the case where the industry under study is considered as viable only under the minimum level of tariff protection, the specific plan of building-up that industry might be presented to WTO and other institutions and countries concerned, and on the basis of it urge them to permit the tariff protection as a temporary measure. His group conducted this year that kind of study specifically on the iron and steel industry, with the intention that the study would be capable of being used by the government as a kind of manual for designing and implementing the industrial policies.
- 3) Professor Shinichi Watanabe, acting leader of the Fiscal and Monetary Group, concludes his studies on the domestic financial system reform by saying that the international financial integration be introduced in the speed and extent that the internal financial integration progresses.<sup>26</sup>
- 4) In a paper present at the General Commentary Session, Dr. Koichiro Fukui made a critical comment on the government mode of managing the trade and foreign investment policy in that without determining the clear-cut industrial policy they are pushed away toward the liberalization direction in the manner to adhere to the world current. As examples he showed the cases of tariff setting relating to the automotive industry and of project establishing chloride vinyl plant.<sup>27</sup>

## **B. Productive force formation aspect**

Turning to this productive forces aspect of the draft 7 FYP, first let us touch briefly on the assessment of the economic changes in the past five years.

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<sup>25</sup> K. Ohno, "Free Trade versus Infant Industry Promotion - The possibility of Temporary Protection for Latecomer Countries".

<sup>26</sup> S. Watanabe, "A Summary of Research Agenda for the Phase III Study".

<sup>27</sup> K. Fukui, T. Aiba and H. Hashimoto, "Long-term Scenario on Import Substitution/Capital-intensive Industry Furtherance (Summary)".

### Good performance of the 6 FYP period

Vietnamese economy exhibited a remarkable GDP growth performance, achieving the average annual rate of 6.7% in the 6 FYP period despite a serious growth-decelerating pressure that came since 1997 from the East Asian financial crises. This is shown in Table 1. From the real economy side, the remarkable growth achievement of agriculture, petroleum and other selected industrial commodities and exports may explain this result. From the macroeconomic, financial side, however, the main contribution is due to the increase in domestic savings ratio from 17% in 1996 to estimated 25% in 1999. (If compared with the 1991 ratio of 10% on the basis of which I made the policy suggestions in 1995, the increase is more remarkable.) The expected foreign savings consisting mainly FDI and ODA were only realized to the extent of less than half of the figures shown in 6 FYP. However, the increase in domestic savings filled in the gap. So the expected gross investment ratio maintained around the level of 28% throughout, nearly achieving the expected 30%. (Nguyen Quang Thai's paper in Follow-up Phase Final Report, Voi. I)

### Draft 7 FYP: modest targets

In order to obtain a bird-eye-view of the draft 7 FYP (prepared in the stage of April 2000), I have compiled Table 3 on the national income flows and on the sources and uses of gross domestic investment by components estimated for the total 7 FYP period, and Table 4 on the state budget revenue and expenditure (both current and capital) for the total 7 FYP period. The compilation was made by carefully reading the description of the draft 7 FYP documents. But, the documents in some cases indicate different numbers for the same variables, and in other cases do not show figures detailed enough to check on internal consistencies or to deepen our comprehension of the economic operation.<sup>28</sup> Therefore, by the time more straightforward data would become available, such as those in the PIP, the figures in the tables are simply tentative.

The figures in these two Tables seem to reflect the stance of the 7 FYP that is rather modest and non-ambitious, as compared to that which was held in the early 1995 stage of drafting 6 FYP. As described earlier, the early draft 6 FYP called for the GDP growth rate of 10-11% or even 10-12% a year. For reference, the national investment and budget plans for 6 FYP were added in Tables 5 and 6. This modesty may be due to the careful attitude to guard against the possible risks from the aftereffect of the Asian Financial Crises and from some of the basic weakness the Vietnamese economy has not yet overcome. Three points may be underlined.

#### (1) Savings and investment:

As shown earlier, the domestic savings rate exhibited a remarkable performance, but the 7 FYP target

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<sup>28</sup> Examples: Government savings in A1 of Table 3 appear to be equal to the balance between revenue and nondevelopment-income expenditure in Table 4. The revenue includes taxes on SOE profits. Next, the figures of SOE in B3 of Table 1 appear to represent the case in which SOE has neither retained earnings nor deficit.

for expected savings rate is on average only 19 % of GDP, much below the actually achieved rate. The reason might be indicated clearly enough. The investigation for us was prevented from the lack of more detailed information.

With regard to the performances of by sector savings rates, publication of the MPI-GSO's Viet Nam Living Standard Surveys (VLSS) in two periods: 1992-93 and 1997-98 provide a useful information, which indicate that the household savings both in urban and rural sectors increased remarkably side by side with their income, as summarized in Table 7. When the durable goods consumption and self-investment of households are taken into account, the results would be more remarkable.<sup>29</sup>

Assuming that the actual performance of these by sector savings were taken into account in drafting 7 FYP, the background of the above low savings expectation may be in that the low productivity, and in particular, the financial deficiency of the SOEs have not yet been overcome, thus necessitating, probably, to project very low SOE savings in the draft 7 FYP, the interpretation which is obtained in reading the relevant places in Tables 3 and 4. The fact that the stagnant level of state budget revenue is a little more than 20% may also be persuade as a background of a low government saving.<sup>30</sup>

## (2) FDI inflow

Poor performances of FDI inflow seems to have resulted not simply from the impact from East Asian financial crises, but more importantly from the passive and often inconsistent FDI policy. Thus, projection of modest amount of it for the draft 7 FYP: USD10 billion in 6 FYP.

These two weak points suggest the urgency of accelerating SOE reform and FDI reconsideration

## (3) Financial interflows among sectors

As another issue relating to the macroeconomic, financial aspect, the low interdependency of the economic sectors may be taken up. Although it is still not possible to estimate the I-S balances of major economic sectors, it seems the extent of financial interflow among them that is caused by the movement of savings among the saving-surplus sectors and the saving-deficient sectors seems yet very low. This is so despite the favorable indications in Table 7 (3) that the proportions of the amounts of hoarding assets like gold and dollar to the total household savings decreased considerably (in terms of the absolute amount almost no change), and both the proportions and absolute amount of bank deposits and cash that are the means of intersectoral resource flow, increased remarkably.

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<sup>29</sup> I am indebted to Dr. Le Dang Doanh, who pointed out that rural self-investment in the projects for aqua products is remarkable; this is not reflected in the VLSS's savings data. While investigating this issue further I also found my mistaken interpretation of VLSS's intertemporal data on savings in my preliminary note presented at the General Commentary Workshop in Hanoi October this year. Correction was made in this paper.

<sup>30</sup> The rate of state budget revenue to GDP went up from the very low level of 11.3% in 1988 to the peak level of 24.7% in 1994 and then declined.

The same thing may be observed in terms of the intensity of money flow. M2/GDP succeeded recently to escape from the low level trap of around 10% for so many years: the ratio increased in 1995 to 23.3% and through 28.6% in 1998 to 38.5% in March 2000. Yet, these levels of M2/GDP are still very low in international standard.

Overall, it might be remembered that the increase in the extent of financial flow is the most comprehensive indicator of the efficiency enhancing performances of the existing resource use.

#### Additional issues for 7 FYP

Regarding the specific issue of the productive force aspect, two subjects are taken up: (1) agriculture and rural development, and (2) poverty reduction and growth promotion.

##### (1) Agriculture and rural development

Earlier in this paper, I said that my first note of opinions regarding Vietnamese 6 FYP was based on my thinking that economic development of Viet Nam as one of the countries of the early (or even burgeoning) stage of industrialization might start from the significant invigoration of agricultural productivity. Later, my thinking has evolved in that I have come to consider the likelihood that in the early industrialization stage economic development is significantly promoted by the combined force of agricultural productivity growth and rural industrialization which is thereby triggered. Frankly, this thinking emerged while I was studying Chinese experiences of rural industrialization carried on by the Township and Village Enterprises (TVEs). Naturally, I wished to know the present state in Viet Nam about rural industrialization, and what I did know was that most of those agricultural economists I was able to get in touch, held no bright prospect for development of rural industry, except for small-scale farm product processing and that in traditional "trade villages".

In the Agriculture Group workshop on rural industrialization held in Hanoi in June this year, I presented a paper<sup>31</sup> summarizing the Chinese experiences of TVE development in terms of a industrialization model describing a mechanism enabling rural industrialization. (I called it a TVE model), and proposed to investigate the state of Vietnamese rural industrialization at least partly in terms of this model. Table 8 reproduces a chart summarizing the TVE model, from my paper presented at Tokyo Workshop.<sup>32</sup> The model consists of three main pillars each constituting an independent component of economic activities in rural society: (i) TVEs which receive local community governments' support in obtaining both physical and human capital, (ii) farm households economy and (iii) rural economic associations which provide agricultural production services to the farm households and which in return are frequently supported by

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<sup>31</sup> The same as the paper in the next note.

<sup>32</sup> S. Ishikawa, "Prospects for Rural Industrialization in Viet Nam: Lessons from China's Experience."

the local government subsidies (the system essentially inheriting from previous People's Commune). Three pillars are interrelated each other, and if and when some dynamic element emerges in one or more of these pillars, it diffuses to other pillar causing "virtuous circle" among them; then, the entire mechanism starts emanating the forces of vigorous rural industrialization. Unless such dynamic element arises the relations among them remain caught in "vicious circle", and rural industry would be stagnant, even when it already exists.

In presenting this model, I have in fact suggested the third possible alternative of the road toward the goal of the economy's overall industrialization. As described, the first alternative is along the Feldman model, and the next is the Lewisian dualistic economic development model (i.e. industrialization takes place in the urban area side by side with the transference from the rural to the urban areas of surplus laborers and surplus food to feed them in the cities. It should be noted that the third alternative look, like the "Proto-industrialization" model which was developed for describing the process of early industrialization in England and Continental Europe that took place prior to their Industrial Revolution. It was replaced by the Lewisian dualistic model after the achievement of full-fledged industrial progress. The implication is that the applicability of this TVE model in the early industrialization stage of the developing countries in the contemporary world would be transitional, and meanwhile the stage of the simultaneous application of two models would continue. This transitional stage would cease to exist when the urban modern industry expands to the extent that is large and strong enough to win over the competition from rural industry. However, in China, the TVEs flourished in the past 20 years or so and supported not only rural industrialization, but also uplifting the national economy as a whole and filling the economic gap created by the ailing SOEs.<sup>33</sup>

Then, how about the prospects for Vietnamese rural industrialization? According to the evidence now available for us, progress in agricultural production is clearly significant,<sup>34</sup> and some aspects of it were

<sup>33</sup> In fact, China's TVE sector is currently undergoing historic organizational changes, and one article published in a recent issue (1999 No.3) of *Jinji Yanjiu* (Economic Research), concluded that the current situation implies the end of the TVE's southern Jiangsu model, which has been the most typical TVE model in China. Table 8's chart actually summarized that model. The change relates to the system of TVE's ownership. Originally, typical TVEs are owned by the local communities, either *Xiang* (administrative village) or *village* (a small number of natural villages combined). But since the early 1990s a increasing number of TVEs were converting ownership into the Joint Stock Cooperatives, in which capable managers were converting into the big shareholders. In most recent years, especially in Jiangsu province, the ownership change has taken the form of complete private ownership. In the official statistics, the proportions of TVEs thus converted the ownership form TVEs into either complete private ownership or joint stock cooperatives are more than 70% in Jiangsu and Chekiang. Two points may be stressed, however. (1) In the process of TVE expansion in the past 20 years, while many of them successfully grew into the medium and large scale enterprises, remaining TVEs are going to face unfavorable competitions with the urban modern enterprises, being forced to be sold out, merged or bankrupted. (2) It is likely that TVE's privatization in this way provide one of the viable courses of privatization in all China.

described earlier. As for the aspect of rural industry too, as a result of joint discussion between the Vietnamese and Japanese economists, it is revealed that intensive researches have been done in both sides, and some of the results already indicate both promising and constraints. And now, even in the 7 FYP-related documents, there appeared very positive statements expecting the rural industry's contribution:<sup>35</sup> namely government was urged to "attract investment of all economic sectors, the domestic and foreign private investors in particular, to develop rural industry and services through privileges on land, taxation and credit". The urge was also made for "reallocating some processing enterprises such as garment, footwear, and agricultural processing from urban to rural areas".<sup>36</sup>

In terms of the TVE model of Table 8, what are already evident is the following: (1) The present state of rural industrial development is not as insignificant as imagined in the past. As shown in Tables 9, 10 and 11, total output, total employment and coverage of industrial branches in the existing rural industry are already significant: there seems to be a base for further increase. (2) Among the three pillars, the second, i.e. farm household economy is expanding as evidenced above, (3) As for the third, i.e. agricultural production and its servicing sector, the productivity growth so far achieved is already evident, but for further progress there might be a problem. This is probably related to the not-yet-resolved task is to reactivate rural production cooperatives along the lines of the new Cooperative Law (1993) and thereby to provide productive services for furthering technological innovation and agricultural diversification. The issues are, as evident from many field surveys conducted by Vietnamese agricultural economists, to strengthen the human capital assigned to the production cooperatives, and for that purpose and others, to provide sufficient amount of financial support.

In China's case, newly organized local organizations (de facto successors of part of the system of

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<sup>34</sup> From the aggregative statistics, it was shown that Vietnamese agriculture achieved a high rate of growth of 5% a year. In parallel, per capita farm income also increased. Main cause seems to be in the successful introduction of high-yielding varieties of rice and related technologies. Per hectare yield of paddy achieved a level as high as 4 tons. National per capita output of paddy is now close to a level also as high as 400 kg a year. In china, comparable figures are 39/kg in 1990 and 413 kg in 1996. Meanwhile yield of paddy per hector of planted areawas increased from 4 tons in 1978 to 6 tons in 1997.

From the microeconomic side, we have earlier confirmed the same progress from VLSS in two periods: big increase in income and even bigger increase in savings and investment. This was now confirmed by the rural poor themselves who admitted a notable improvement in rural livelihood and living conditions, as described in Voices of the Poor (Report on PPA by World Bank, DFID and et. al., Hanoi, Nov. 1999, p.ii).

<sup>35</sup> Citation is from the UNDP translated version of Central Committee's Socio-Economic Development Strategy 2001-2010 (Draft) (July 2000).

<sup>36</sup> Professor Yoichi Izumida, acting leader of the Agriculture Group is of the opinion that while the Vietnamese agriculture in the 1990s enjoyed a golden age, it is now entering into the diminishing return stage due to the constraints coming from land and land-use legislations. He expresses the hope to overcome it by tackling more energetically with rural industrialization problem.

former People's Commune and Production Brigade) specialized for providing production services to the individual farm households worked well. Sufficient amount of subsidies were supplied by the local governments. The incremental income and savings of the farm households created both the investment funds to establish TVE and the market for the TVE's products. (4) If and when the new Agricultural Cooperatives are really renovated, there is certainly a possibility of giving birth to the operation of the "virtuous circle" in the Viet Nam rural sector.

(2) Poverty reduction and growth promotion

Presentation of our opinions about the issue of poverty reduction as a policy matter relating to the 7FYP cannot be made straightforwardly. This is because (1) the World Bank=IMF while conducting rethinking of their economic aid policies in the 1990s, has come to consider poverty reduction as the most basic goal of economic development that is superior to the goal of growth promotion. However, Viet Nam government held the opposite stance that growth promotion was the fundamental goal; poverty reduction was made possible largely as a result of income growth achieved. (2) As a matter that is partly duplicating with (1), there were between World Bank=IMF and Viet Nam government and even within the latter differences in view about the desirable balance of policy measures between pro-poor targeted growth and broad-based growth (which subsequently led to poverty reduction).

These differences were to some extent adjusted only around the early 2001 when the Interim Poverty Reduction Strategy Papers (I-PRSP) was presented by the Vietnamese government (MPI) and authorized by the World Bank=IMF Board. I-PRSP is, as described shortly, a document which is now replacing the World Bank=IMF's Policy Frame Paper (PFP) to become the paper describing the World Bank=IMF conditionalities attached to Structural Adjustment Lending and other concessional credits. This adjustment is an outcome of the concessions of both World Bank=IMF and Vietnamese government to the other party's proposal, although ambiguity of the concessions still remains. What do these concessions mean? What about the both sides stance before the concessions? And, what about the future policy of balancing poverty reduction and growth promotion?

Vietnamese Approach in the 1990s: It seems that "hunger eradication and poverty reduction" had been Vietnamese traditional policy initiated from late President Ho Chi Minh, who considered hunger and illiteracy as enemies that threatened the nation's survival and development. (United Nations Viet Nam and MOLISA, Viet Nam government, *Basic Social Services in Viet Nam*, December 1999). However, it seems that taking a look in terms of action-plan level, the emphasis of Vietnamese policy on poverty reduction changed considerably before and after the 1990s.

Before the 1990s, the priority seems to lie on the pro-poor targeted expenditure, namely, the government expenditure on social sectors (specifically on health, education and pension/social relief) was already fairly high in 1985, when the proportion of it to overall government expenditure was 15.1%; it steadily



increased to 24.8% in 1993, despite a very sharp fiscal retrenchment in 1990-91. Especially notable was the spread of the public health system in five levels: community health station, inter-communal polyclinics, district health centers and hospitals, provincial hospitals and specialized hospitals. Government expenditure on economic infrastructure and support services which played immediate role of raising the income-earning capacity of the poor (such as irrigation, agricultural extension, and rural roads) were yet small at that period, only around 5% of the total. (World Bank, *Viet Nam: Poverty Assessment and Strategy*, January 1995)

Moreover, already before UNDP, World Bank and other international organization came to involve in Viet Nam's poverty reduction work in the mid-1990s through the technical assistance, the Vietnamese government started to design and enforce a number of national targeted programs for hunger eradication and poverty reductions; in particular, a socio-economic development program for the very poor 1715 communes in the mountainous areas and a 5 million hectare reforestation program. Ethnic minorities, occupying about 15% of total population, is living mostly in remote mountainous areas in a severe conditions; and the government policy to migrate the surplus kin population living in the plain areas to the traditionally inherited land of the ethnic minorities to be settled appears really presenting a challenging task.

The reason why the priority of poverty reduction policy turned to the broad-based growth was probably due to the fact that as a result of the high economic growth achieved during the 1990s, poverty-reduction achieved an unprecedented performance. As a matter of fact, the performance of poverty reduction in Viet Nam in the 1990s was unprecedentedly good: According to the VLSS conducted twice in the 1990s, it is shown for the nation as a whole:

	<u>1992-3</u>	<u>1997-8</u>
Food poverty ratio	24.9% (750 MVD)*	15.0% (1,280 MVD)*
Overall poverty ratio	58.2% (1,160 MVD)**	37.4% (1,780 MVD)**
GINI coefficient	0.33	0.354

\* per capita value of food intake; \*\* per capita income

As most observers agree, the central factor contributing to this good performance of poverty reduction was the government policy for broad-based growth. GDP achieved a 7.4% annual growth rate in 1991-2000. Macroeconomic stability was successfully maintained. Exports and FDI were strong until the East Asia financial crises occurred. The performance of agriculture was particularly good, supported by the success of institutional, technological, and marketing reforms. Although this would not by itself predict the similarly good poverty reduction performance in the next 10 years, it seems to have provided the confidence to the Vietnamese policy makers such that for Viet Nam, "broad-based growth" should be the

priority policy in poverty reduction, rather than the targeted pro-poor policy (*Record of JVJR Tokyo Workshop, July 26 and 27, 2000*). They agreed that only after Vietnamese economy achieved income growth that was sufficiently high to make positive savings, the government could adopt "poverty eradication policy", spending much money on the poor households. Continuous adherence of policy priority on "broad-based growth" was what they basically proposed for the sake of "ownership" which his government wanted to keep holding.

World Bank's approach: As a background of these changes in Viet Nam's poverty reduction policy, one has to understand what have occurred in the 1990s in connection with the World Bank rethinking of its international development policy and the effect of the rethinking upon its policy toward Viet Nam. In fact, we presented a paper reviewing this subject to the JVJR Tokyo Workshop in July 2000. (Shigeru Ishikawa, "New Trend of International Aid Community and JVJR", 26-27 July, 2000, Tokyo) The essential points are shown below:

- (i) The World Bank's policy rethinking was proceeded in the 1990s in three different lines: (1) "portfolio management" of individual projects in aid with CAS ("Country Assistance Strategy") providing the evaluation criteria, (2) Structural Adjustment Credit with conditionalities based essentially on "Washington Consensus", and (3) infusion of exogenous development and development aid philosophy of Chief Economist Joseph Stiglitz and Nobel prize winner Amartya Sen, which produced CDF ("Comprehensive Development Framework") with two basic principles: "comprehensiveness" and "partnership". In the last two years of the 1990s, these three lines converged to one centering on the CDF line, which prepared the foundation of later PRSP ("Poverty Reduction Strategy Papers") that is a document describing the new concessional aid conditionalities, replacing the Structural Adjustment Credit conditionalities.
- (ii) The most dramatic change in the aid policy as the result of aid policy rethinking appears to have taken place in the area of its basic goal, namely from the growth promotion (as was explicit in the Structural Adjustment Credit policy) to poverty reduction (as comprised in the comprehensiveness principle in CDF). Later, however, it became increasingly clear that distinction between growth promotion and poverty reduction is not necessarily easy or even possible to make in terms of policy goal. This is due to the fact that poverty reduction and growth promotion are not always competitive as targets; they are more often complementary. In fact, poverty reduction can be brought about either by broad-based growth or by pro-poor targeted growth.

In September 2000, World Bank published *WDR 00/01* and in it presented a completely new concept on poverty, not from the traditional income- or material-poverty view but from the poor people's psychological attitude toward their living. Of the three components of framework of study in the *WDR*; namely ① income poverty, ② voiceless-ness/powerlessness, and ③ vulnerability/exposure to

risk, ② and ③ represent the new concept. This reflects the influence mainly of Sen's human capability approach. However, as at that time, policy implications of these two concepts were not entirely clear in terms of specific measures, these new concepts of *WDR 00/01* was not taken up in policy connection.

(iii) Vietnamese government was offered to act only one CDF pilot country in Asia in 1999 and accepted it. Then, many new CDF related policy measures flowed in Viet Nam to be implemented. World Bank's activities in Hanoi as CDF's promotor coincided with its activities as coordinator of the Consultative Group for Viet Nam. Many donors supported the World Bank activities as the coordinator. Their concerted activities as Consultative Group members exerted a strong pressure upon Viet Nam government to accept new (and not yet tested) policy measures for poverty reduction.

I-PRSP and the remaining issue: I-PRSP of Viet Nam government was prepared by the MPI spending nearly one year, and formally presented to the World Bank and IMF in March 2001. The content of it had been expected to reflect the possible results of bargaining between the World Bank and Vietnamese government regarding the content of the former's aid policy that is to be applied to Viet Nam. Having read it, we were impressed by the fact that the policy components of I-PRSP was presented in a way that was not seemingly much different from the way previous conditionalities in SAC were presented, namely in the order of macroeconomic stability, structural reform and sectoral reform. Thus, the only difference of policy goals before and after I-PRSP may be the difference in the degree of explicit emphasis on the poverty reduction. Namely, although poverty reduction is made the name of policy goal, the new policy document does not exclude the growth-related policies or does not monopolize the poverty reduction-related policies. Moreover, the poverty reduction-related policies in the non-material dimension was almost non-existent.

To support this point, part of a policy matrix attached to the text of I-PRSP is shown:

1. Macroeconomic stability
  - Appropriate fiscal policies to protect medium-term sustainability
  - Implement prudent monetary policy to control inflation
  - Foreign exchange policies to increase competitiveness
2. Structural policies
  - Create a fair business environment for different forms of enterprises
  - Measures to open trade, promote exports and international integration
  - Reform state-owned enterprises to strengthen their efficiency and competitiveness
  - Reform banking sector to mobilize domestic savings and improve financial intermediation

3. Sectoral policies to improve access to resources for the poor, strengthen equity and reduce vulnerability
  - Accelerate rural development
  - Address poverty situation in urban and rural areas
  - Improve infrastructure service network
  - Make investment in human resource development
  - Minimize social impacts on the poor in the adjustment process

However, the I-PRSP just published is still an unfinished document because as the World Bank=IMF Joint Staff Assessment commented, all the policy statements refer to a broad policy direction and lacks corresponding specification of policy measures; and non-material dimension of poverty is the least developed (IMF, *Viet Nam, Assessment of the Interim Poverty Reduction Strategy Paper*, March 21, 2001). With regard to the financing plan, I-PRSP has not dealt with at all. This may be natural, considering that I-PRSP has not yet succeeded to prepare the comprehensive set of specific policy measures. The central task of the possible financing plan of I-PRSP is to identify the optimum combination of these specific policy measures, in particular the optimum balance of expenditures for pro-poor targeted growth and broad-based growth, within the constraint of given revenue. This task of the financing plan cannot be fulfilled in the case where detailed real side projects were not ready.

In Viet Nam, the financing plan to be used in connection with the ODA budget, has been studied in the *Public Expenditure Review 2000* prepared jointly by the Viet Nam government and Donor Working Group (December 2000), but the study is yet a preliminary one. By using the actual fiscal data for 1997 and 1998, in particular on the agriculture, education, health, and transport spending as well as cash-transfer to poorer provinces, it studied (i) whether and how each of them performed the re-distributive role in favor of the poor, and (ii) in each of these spending items, how the efficiency of the expenditure can be raised.

The study is interesting, but its usefulness is limited, as the statistics indicating the total magnitude of government expenditures, out of which the above four items are allocated, are not available for these two years: (i) Those expenditures financed from extra-budget-fund and (ii) those expenditures of SOEs financed from the retained earnings and on-lent ODA are not covered in the total expenditure of PER. Also (iii) the budget statistics prepared in PER for 1997 and 1998 still hold large items whose direction of uses are unclassified. It amounted to 30% of the covered total for 1997 and 26% for 1998. These imply that the above problems of identifying optimum allocation and optimum balancing in relation to the poverty reduction have not yet been resolved.

### Broad-based growth and Pro-poor targets

With the progress of work in Viet Nam for improving the deficient statistical system and organization, overcoming lack of statistical data and side by side, with the gradual clarification of cause and effect of poverty issues and the mechanism in which macro economic growth contributes to poverty reduction, the remaining disagreement between the World Bank and the Viet Nam government vis-à-vis the issue of poverty reduction seems to have been shifting to the more pragmatic question of identifying the point of the appropriate balance between the expenditures for broad-based growth and pro-poor targets.

In the conceptual-level controversy, without basing itself upon the surveyed data, the discussion often tends to become ideological and passionate, easily distorted to be made either pro-growth or pro-poverty-reduction. Already toward the end of the 1990s, the discussion between the Vietnamese government and the World Bank staff became one concerning the choice of priority either broad-based growth or on pro-poor targets. Broad-based growth was preferred by the Viet Nam government, and pro-poor targets by the World Bank (*Vietnam Development Report 2000, Attacking Poverty*, 1999). In the recent discussions within the CG-Working Group on poverty and related subjects, it was reported that the Viet Nam government side focused the priority of poverty reduction expenditure on the poor communes located in the remote highland. Namely, over the two years of 1998 and 1999, 90% of the amount of assistance were provided to the 100 poorest communes. Ministry of Labor, Invalid and Social Affairs (MOLISA)'s Ten Year Comprehensive Poverty Reduction Strategies (CPRS) specified 9 key policies and 7 projects to be developed and implemented in the next 10 years, but they are basically to focus on targeting the poor communes and individuals. The CG and donor side demanded that the scope of area covered by pro-poor targets be expanded for instance to cover the communes in the plains and the scope of activities to cover the fields of credit, education and health as well (*Vietnam Development Report 2001, Entering the 21st Century, Pillars of Development*, Hanoi 2000, and the same title, *Partnership for Development*, Hanoi, 2000).

It seems very necessary for both sides, especially for the Vietnamese government, to conduct detailed surveys on the specific poverty areas and issues which require urgent reliefs and to clarify the mechanisms in which poverty emerges. One example is the poverty problem of the ethnic minorities in Central Highland (provinces of *KonTum, Gia Lai, Dac Lac* and *Lam Dong*), where our Research Group on Agriculture and Rural Development did field studies. In this region, the traditional mode of production was a shifting agriculture with a ten-year cycle. The following events took place on the basis of it to make the poverty issue increasingly acute. (i) Until the 1980s, the government continued the policy to increase population as a kind of the national wealth, (ii) during Viet Nam War, the U.S. army used the chemicals to destroy forest and bulldozer to remove top soil, (iii) the government started since 1978 to implement a "compulsory policy to let the ethnic minority people relying on the shifting agriculture settle in a restricted portion within the shifting cultivation area and convert to sedentary agriculture". The rest of the area within the shifting cultivation area was converted to the area in which the overpopulated farm family members of the northern and central plains were migrated and

engaged in agriculture. A very complicated mechanism of poverty emergence and enhancement is about to be clarified only recently.

Such poverty mechanisms should be explored for many items of pro-poor targeted expenditures. As a systematic study along these lines, conducted in the reality of India and Sub-Sahara Africa, there is a study by an Indian economist at Cambridge, Partha Dasgupta (in *Economics of Poverty in Poor Country*, LSE, STICERD, No.9, 1998). As one of such mechanisms, she refers to a "vicious circle" of low level of nutrition → decrease in human work capacity → sustained poverty. As another one, poverty is referred to as a factor affected by the conditions of local common lands, or the common resources. In 21 dry regions of the 6 tropical states in India, 15-25% of total family income consist of the revenues from local common lands. Since economic growth tends to accelerate the disappearance of the local community arrangements, they are no longer the mainstay of their people. It was argued that the linkages among poverty, a high fertility ratio and environmental deterioration became the passway by which people in the poverty trap were got in the trap. These poverty traps were said to be fairly common and widely observable in India and Africa. For Viet Nam, they have to be identified by field studies together with their specific types. However, the studies are yet few.

The study of poverty mechanism should be conducted in connection not only with these pro-poor targets, but also with the process of poverty reduction emanating from broad-based growth. In this latter case, expenditure items are not themselves the objective of poverty reduction, but are at first to contribute directly to GDP expansion, and then the resulting additional savings are to be used for specific pro-poor targeted expenditure for poverty reduction. When pro-poor targeted expenditure is favored to broad-based growth expenditure, for example, it implies that the size of final poverty reduction by way of pro-poor targeting would be greater than the size of final poverty reduction by way of broad-based growth expenditure. However, the size of final poverty reduction should be measured in terms of total sum of annual flows in present values. Hence, the difference in the rate of time discount matters.

In any case, what is expected to arise as a result of these exercises is that the relative share between the total pro-poor target expenditures and the total broad-based growth expenditures can be specified, not subjectively and politically, but more objectively and scientifically. But we are assuming here the case in which total sum of expenditures for poverty expenditure is fixed and given. If the total sum is not yet determined and hence it is to be determined efficiently, together with the amount of pro-poor target expenditures and that of broad-based growth expenditures, an alternative measure should be developed.

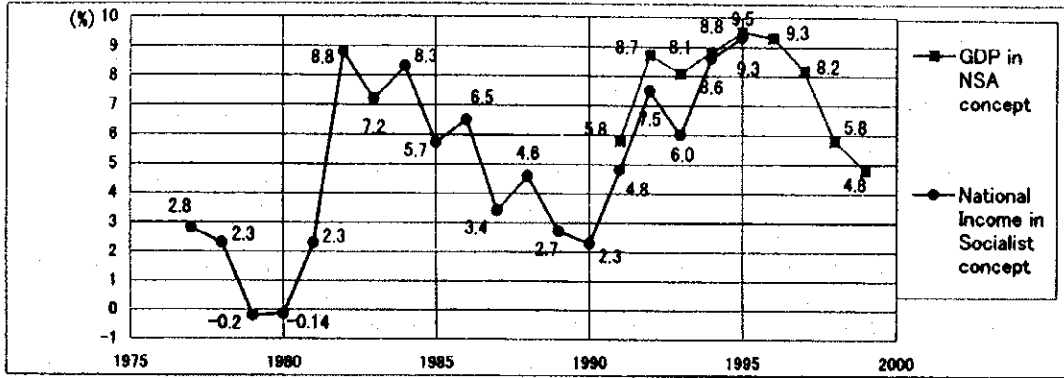
In Phase 3 of the Research Group on General Commentary, we made a provisional study to explore the optimum allocation of poverty reduction expenditures for Viet Nam in the 7th Five-Year Plan period using the CGE framework.<sup>37</sup> This was one of such experiential attempt.

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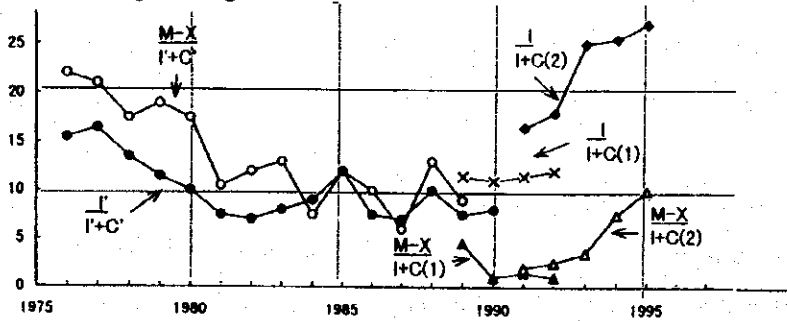
<sup>37</sup> Mitsuo Ezaki and Nguyen Tien Dung, "Medium-Run Prospects of Viet Nam's Economy: CGE Simulation Analysis of the 7th Five-Year Plan", Chapter 4, Part I of this Vol. 1.

Table 1 Selected macroeconomic indicators: Viet Nam 1977-1999

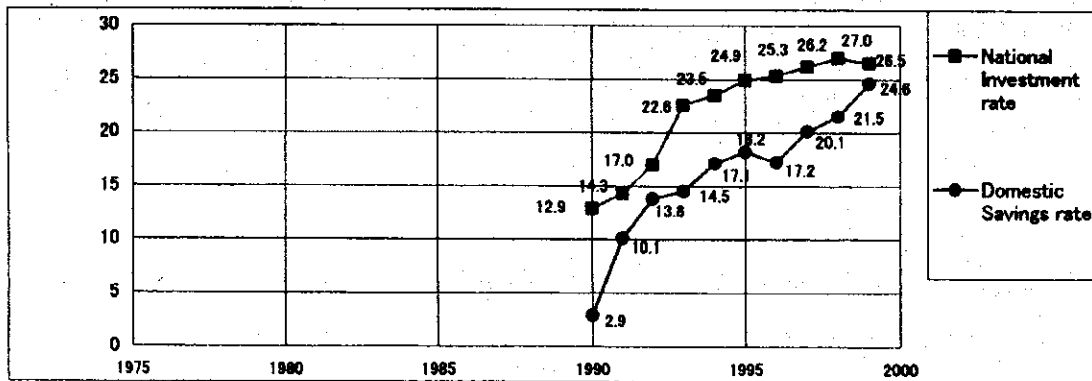
(a) Annual rate of growth of National Income



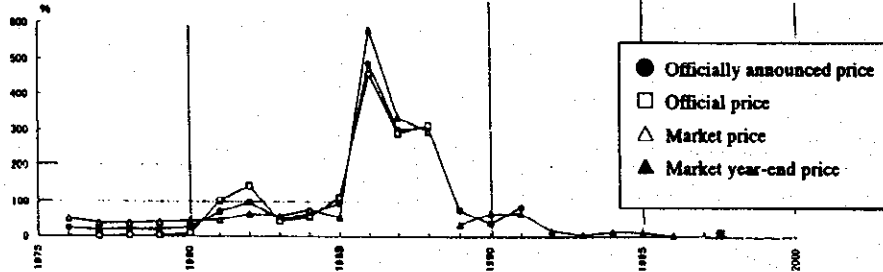
(b) Contribution of foreign savings



(c) Gross national investment and gross domestic savings rates (in NSA concept)



(d) Annual rate of inflation (annual rate of increase in CPI)



Sources and notes: See next page

Table 2 Demand and supply of labor force and employed persons: Viet Nam 7 FYP  
(2001-2005)

		Unit: million persons			
		2000	2005	Increase in size in 5 years	Average 1 year
1.	The size of labor force	43.8	50.8	7.0	1.4
2.	Increase in the supply of employed persons for 5 years				
	of which, the increase caused by expansion in size of labor force during 5 years and the increase brought about by absorbing the unemployed and surplus labor			15.0	3.0
				7.0	1.4
				8.0	1.6
3.	Number of jobs in need in 2005		47.0		
	of which, the number to be employed in the rural and urban sectors (4, B-2, a+4, C-1, a)		ca.40.0		
	The number to be expected to become jobless (4, B-2, b+4, C-1, b)		ca. 7.0		
4.	Program of absorbing the employed persons by sectors				
	A. Increase in the number of employed persons for the 5 years				
		Total	The number caused by Expansion in size of labor force	The number brought about by absorbing surplus labor	
	Rural*	12.0	6.3	5.7	
	Urban	3.0	0.7	2.3	
	Total	15.0	7.0	8.0	
	B. Rural sector				
	B-1 Increase in number of employed persons brought about by expansion in size of labor force by components				
	a. The component brought about in agriculture, forestry and aqua aquaculture				3.7
	b. That brought about in industrial production, craft and services				2.6
	c. Total				6.3
	B-2 Structure of rural labor force in 2005				
	a. Employed persons		28.0-29.0		
	a-1 Agricultural production		22.0-23.0		
	a-2 Industrial production craft and services		6.0-7.0		
	b. Jobless*		5.8-6.8		
	c. Total		33.8-35.8		
	C. Urban sector				
	C-1 Structure of Urban labor force in 2005				
	a. Employed persons		11.6		
	a-1 Industry and construction		5.2-5.5		
	a-2 Services		6.1-6.2		
	b. Jobless		0.6-0.8		
	c. Total		12.2-12.4		

Note: The figures with \* indicate those calculated in terms of workday evaluation.



Table 3 7 FYP (draft) estimates for macroeconomic figures for five years: 2001-2005

(USD billion in 2000 prices)

A. National income flows

		(%)
1. GDP	190.0	100
2. Gross domestic saving	36.0	19
Government savings	7.0-7.5	4
Private sector	28.5-29.0 <sup>1)</sup>	15
Households		
3. Foreign saving	20.0-21.0	10-11
ODA	9.0	5
FDI	10.0-11.0	5-6
Borrowing abroad	1.0 <sup>2)</sup>	
4. Gross national investment	56.0-57.0	29-30

According to the 7 FYP draft, the official estimate of gross domestic investment of 30% is based on the expected GDP growth rate of 6.7% and the value of ICOR 4.5 which is now much higher than that in the 6 FYP.

B. Estimates of total investment in 7 FYP period by sources and component

	Investment	Sources	
		domestic	foreign
1. State budget	11.5	7.0-7.5	3.0-3.5
2. State credit	9.0-10.0	4.0-4.5	5.0-5.5
3. SOE	9.0-10.0	9.0-10.0	
4. Private sector and household	16.0-17.0	15.0-16.0	1.0
5. FDI	10.0-11.0		10.0-11.0
6. Total investment	56.0-57.0	36.0	20.0-21.0

C. Allocation of total investment among sectors (%)

1. Agriculture and rural development	15%
2. Industry	45-47%
3. Transport and telecommunication	14-15%
4. Cultural and social infrastructure	23-25%

1) These are the sum of (1) 15.0-16.0—the amount used for own investment, (2) 9.0-10.0—the amount which the household sector lend to banks or government for investment use and (3) the rest, 3-4.5, for short-term deposit.

2) Derived as residual

Table 4 7 FYP (draft) estimates for State budget revenue and expenditure for five years:  
2001-2005 (VND trillion; USD billion; current prices)

	<u>VND trillion</u>	<u>USD billion</u>	<u>Proportion</u>	
A. GDP	3000-3100	(189.6-195.9)	<b>100</b>	
B.				
1. Revenue	600-620	(37.9-39.1)	20-21	
of which from				
tax and rental	540-560	(34.1-35.4)	18-19	
2. Expenditure	720-750	(45.5-47.4)	<b>100</b>	24-25
of which				
Development investment	180-190	(11.4-12.0)	25-26	6
{ Economic infrastructure	121-133	(7.6-8.4)	18	4
{ Social infrastructure	57-59	(3.6-3.7)	8	2
Current expenditure	410-420	(25.9-26.5)	57-58	14
Debt service	120-130	(7.6-8.2)	17-18	4
3. Deficit				4

**Notes:** The figures in the "USD billion" column are converted from those in the "VND trillion" column, using the average conversion rate for the 7 FYP period of USD1=VND 15.82 thousand. This rate is derived by multiplying (1) the year 2000 conversion rate of USD1 to VND 13.9 thousand and (2) the conversion rate of the accumulated value of VN GDP in current prices for the years 2001-2005 to those in real 2000 prices for the same years, which is 1.138. Both of those figures in (1) and (2) are provided in the 7FYP draft.

**Table 5 Investment resources for the 6 Five-Year Plan period for 1996-2000  
in PIP program (1996-2000) --- USD billion in 1995 price and %**

**A. Total investment requirement for 1996-2000**

41.0-42.0

(This estimate was derived from the FYP expecting 9-10 % GDP growth rate per year and the ICOR of 2.9-3.0. The rate of investment to GDP should increase from 25% to 30% during the period)

**B. Investment requirement for PIP for 1996-2000 components and sources**

Total requirement		sources	
		domestic source	ODA
	5.6 billion USD	8.6	7.0
of which disbursed as			
State budget	8.7	5.7 <sup>1)</sup>	3.0
State credit	6.9	2.9	4.0

(<sup>1)</sup> of which 0.5 was financed by state bond issues)

**C. Total investment other than through PIP**

Investment of state-owned enterprise	5.9
Investment of private economy and household	6.9
FDI	13.0
<b>Total</b>	<b>25.8 billion USD</b>

**D. Components of total investment by domestic and foreign sources**

Domestic	21.4 ( 51.7)
Foreign	20.0 ( 48.3)
<b>Total</b>	<b>41.4 (100.0)</b>

Source: Socialist Republic of Viet Nam, Public Investment Program 1996-2000, Hanoi, June 1996

Table 6 Analysis of state budget during the 6 FYP period

1. State budget revenue for 1996-2000 21~22 % (to GDP)

2. Expenditure of state budget about 24% (to GDP)

3. Components of 2.

(1) current expenditure 58.3%

(2) repayment of foreign debt 5.2%

(3) development investment 26.5%

(Development investment consists of two types.

One: Non-reimbursable funding from the state Budget mainly directed to infrastructure project, Two: State credit mainly funded by borrowing from ODA sources and State budget. The agency responsible for the project using the given credit will be responsible for repaying the principal and interest.)

4. Regional allocation of the PIP

Those projects that are managed directly by the central organizations will be distributed to build socioeconomic infrastructure to serve the development of all regions of the country. Funds to be transferred to local budget will be allocated as follows: 30% will be allocated for provinces, cities and towns located in the three focal economic zones and 70% to other regions.

Source: The same as that for Table 5.

Table 7 Household income and savings and liquid assets in VLSS: 1992-93 and 1997-98

(1) Household income (Per capita)

	<u>92-93</u>		<u>97-98</u>	<u>Annual growth rate</u>
	(1000 VND)		(1000 VND)	%
	current	1997-98 prices	current	
Total	1105	1678	3389	15.1
Urban	1815	2755	9011	26.7
Rural	929	1410	2463	11.7

(2) Savings per household

	<u>92-93</u>		<u>97-98</u>	<u>Annual growth rate</u>
	(1000 VND)		(1000 VND)	%
	current	1997-98 prices <sup>(1)</sup>	current	
Total	1782	2108	4413	15.9
Urban	5485	6489	10920	24.2
Rural	856	1013	2436	19.7

(3) Savings per household by selected items

	<u>92-93</u>		<u>97-98</u>		<u>Annual growth rate</u>
	(1000 VND)		(1000 VND)		%
	1997-98 prices	%	1997-98 prices	%	
Total	2108	100	4413	100.0	11.9
Bank deposit	5486	10.4	816	18.5	30.0
Dollars	856	4.7	101	2.3	0.4
Cash	270	12.8	1160	26.3	33.9
Gold and Silver	1191	56.5	1270	28.8	1.3

Notes:<sup>(1)</sup> The 1972-73 prices are converted to the 1997-98 prices by multiplying coefficient of 1.518 on the basis of VLSS's information. (2) Household savings in the 1992-93 Survey includes value of the durable goods, comprising 22.1% of the total. Therefore in this table, this part is eliminated. (3) Number of savings by items are provided only for total savings.

Sources: SPI (MPI) and GSO, Viet Nam Living Standard Survey 1992-1993 and 1997-98.

Table 8 Industrialization starting from rural industry that emerged from the agricultural production "breakthrough"

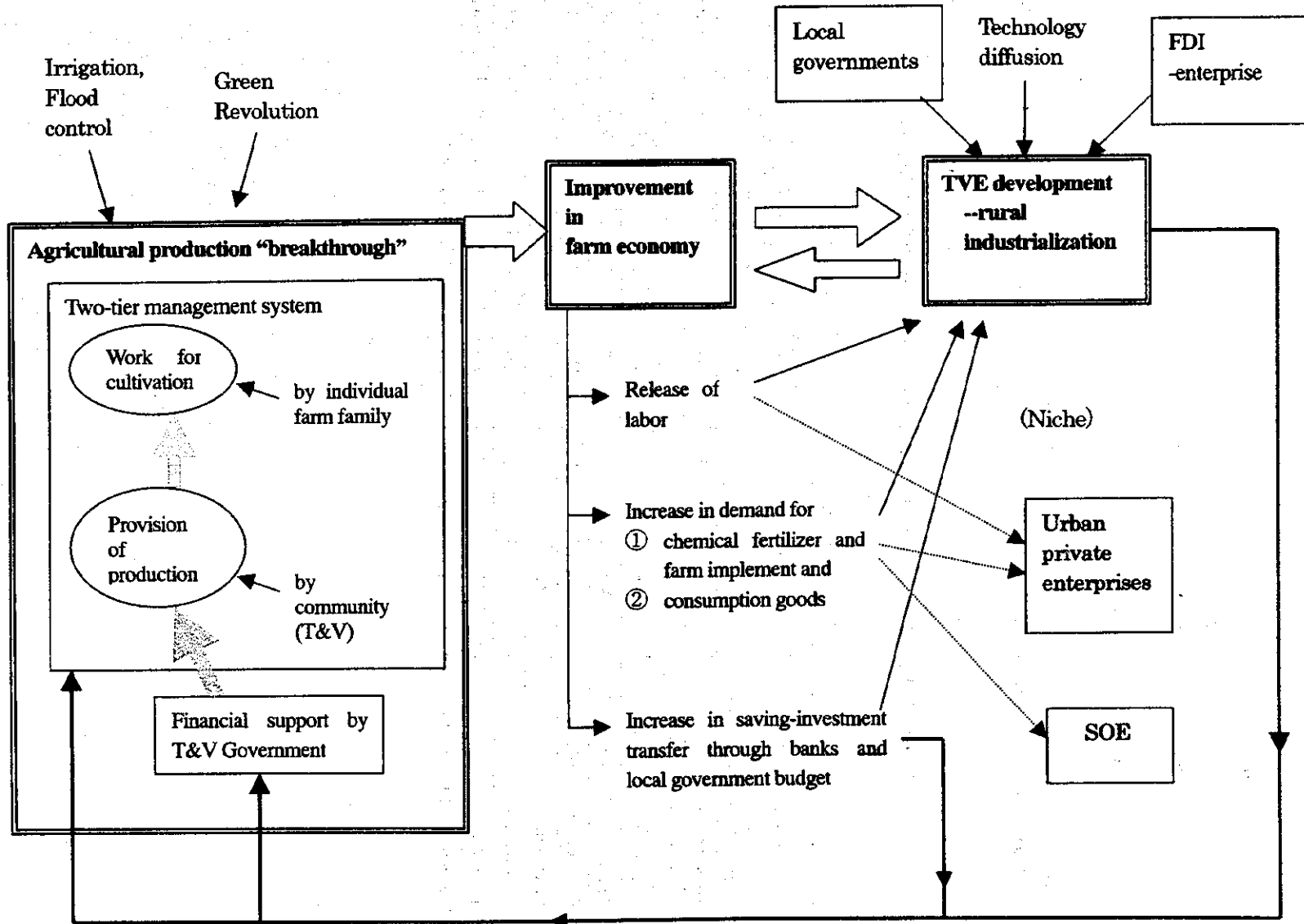


Table 9 Proportion of gross value of industry which comes from the rural districts (%)

	<u>China</u>	<u>Viet Nam</u>
1978	9.1	
1985	19.0	
1992	38.1	
		1997 20-25
1998	57.8	

China: *China Township and Village Enterprise Yearbook, 1993, 1999*

Viet Nam: Estimates of UNIDO and MARD, *Rural Industrial Development in Viet Nam, June 1999*.

Table 10 Structure by industry branches of rural industrial enterprises:

Type of economic sector	Viet Nam (1997)		China (1992)		Total value of production	
	Enterprise		Enterprise number		¥10 billion	
	Number	%	Number 1,000	%		%
Food & foodstuff processing	857	35	231.9	23.8	75.7	7.4
Wood processing	352	14	41.3	4.2	2.1	0.2
Other agro-products processing	373	15				
Mechanical Engineering	196	8	85.2	8.8	171.2	16.7
Textiles and Garments	305	12	58.6	6.0	186.9	18.2
Construction material	240	10	218.5	22.5	143.6	14.0
Handicraft	60	2				
Construction	84	3	rest	34.7	rest	48.5
Total a/ b/	2,467	100	972.8	100.0	1,026.0	100.0

Vietnam, UNIDO and MARD (1999); China, *China Township and Village Enterprise Yearbook 1993*

**Table 11 Number of rural employees in industry and construction  
by Type of Production Unit: Viet Nam**

Type of Unit	Number of Units	Total Number of Employees	Percent Share of Total Employees
Foreign-owned	50	15,000	--
State-owned	750	150,000	4
Private incorporated a/	23,000	575,000	14
Non-farm households b/	483,000	1,450,000	34
Mixed-type households b/	2,000,000	2,000,000	48
Total full time/part time		4,200,000	100

Source: Various statistical sources and study team estimates.

a/ Refers primarily to small and medium-sized enterprises. See definition in Annex 1.

b/ Refers primarily to micro-enterprises, but include also small and medium-sized enterprises.

Source: UNIDO and MARD (1999)

**Remarks:**

1. This Table is estimated by UNIDO which said that there is no single source with consolidated statistics on the number of enterprises, type of enterprises, ownership and employment in industry and construction in rural areas. The estimates are made drawing information by GSO, MOLISA, VLSS and MARD surveys, enterprise registrations etc.
2. Regarding rural employment, in industry and construction, GSO estimates were 4.6 million persons, 13% of the total, while MOLISA estimates were 3.5 million persons, 10% of total. The above estimates of UNIDO took the average of the GSO and MOLISA estimates namely 2.2 million persons as the number of people whose main income coming from industry and construction. UNIDO added to this the part time workers (2.0 million) coming from agriculturer.
3. MOLISA estimates the rural portion of gross industrial output in 1996 as 20-25% of the total.



# THE HISTORY OF THE CITY OF BOSTON

The city of Boston, situated on a neck of land between the harbor and the bay, was first settled in 1630 by a group of Puritan settlers from England. The city grew rapidly and became one of the most important centers of commerce and industry in the New England region. In 1773, the city was the site of the Boston Tea Party, a protest against British taxation that led to the American Revolution. The city was the birthplace of the United States and played a central role in the early years of the nation's history.

The city of Boston has a rich and diverse cultural heritage. It is home to many world-class museums, including the Museum of Fine Arts and the Boston Children's Museum. The city is also known for its historic architecture, including the Freedom Trail, which leads visitors through many of the city's most important landmarks. Boston is a city of great pride and spirit, and its history continues to inspire and educate people from all over the world.

The city of Boston has a long and proud history, and its people are known for their hard work and dedication. The city has a strong sense of community and is a place where people from all backgrounds and cultures can thrive. Boston is a city of great opportunity and is a place where dreams can come true. The city's rich history and diverse culture make it a unique and exciting place to live and visit.

The city of Boston is a place of great beauty and interest. Its historic architecture and scenic views of the harbor and bay are a sight to behold. The city is also home to many beautiful parks and gardens, including the Boston Public Garden and the Arnold Arboretum. Boston is a city of great charm and character, and its people are known for their warmth and hospitality. The city's rich history and diverse culture make it a truly special place.

## New Trend of International Aid Community and JVJR

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### I. Purpose of this note

Various currents of rethinking on the policies of economic aid toward developing countries that have been made in the international aid community in the past decade, seem to have been converging into one direction since the end of last year - the direction that was steered by the World Bank's "Comprehensive Development Framework (CDF)" (in terms of written document, Jan. 1999)<sup>2</sup> and, more pragmatically, by the joint WB-IMF policy directive for "Poverty Reduction Strategy Papers (PRSP)." (Dec. 1999).<sup>3</sup> Viet Nam accepted the World Bank's offer to become a "pilot country" to implement CDF— in fact the only pilot country in Asia. Since then, most of new styles and new measures of the new trend in aid in the international aid community have been implemented in Viet Nam quite rapidly and in a way concentrated.

The Joint Vietnamese-Japanese Research (JVJR) is an organization started in August 1995. The Japanese side members are all academic economists, and naturally hold different views on economics and economic development, but they have one thing in common. This is the fact that they joined in this undertaking of JVJR with full-support of the cause of the Vietnamese government and people to shift to the market-oriented and outward-looking economic system and with the sincere willingness to cooperate with the Vietnamese people's endeavor toward economic and social development.

Therefore, in this respect our aim of JVJR should be identical with that of the WB and IMF. There is, and has been some extent of difference, however, with respect to the steps toward realizing the aim: first on the methodologies of studies<sup>4</sup> and second on the choice of priority policy areas for empirical studies.<sup>5</sup> Some aspects of these differences were discussed at an international workshop of JVJR that was held in Tokyo in March 1998, inviting the representatives of the WB, IMF, ADB, UNDP stationing in Hanoi and HIID.

<sup>1</sup> This is my personal opinion, not connected with any of my official positions.

<sup>2</sup> James Wolfensohn, "A proposal for a Comprehensive Development Framework (A discussion Draft)," January 21, 1999

<sup>3</sup> IMF and WB, "Poverty Reduction Strategy Papers: Operational Issues, Joint IMF/World Bank Paper," December 1999.

<sup>4</sup> For instance, we emphasize the importance of collecting and interpreting the empirical data of the reality of the Vietnamese economy in various sections and aspects under question, and hence allocate the largest share of our research capacity and related resources to this aspect. The researches conducted by the WB and IMF seem to emphasize the application of general theories and propositions rather directly to the Vietnamese issues.

<sup>5</sup> For instance, we consider that the studies on the policy areas on agriculture and rural development and on industry and trade are indispensable for our whole effort of research whereas the World Bank and IMF do not.

Agreement was reached on recognition that JVJR and the international organizations stationed in Hanoi are pursuing the identical aim of cooperating with the Vietnamese government in her endeavor for market-oriented reform, and the difference in the approach for the cooperation did exist between the two, but they were complementary.<sup>6</sup>

Since then, while our stance in JVJR remains the same as before, the styles and measures of aid activities by the WB and IMF and in particular those which been reflected in their aid policy vis-a-vis Viet Nam are rapidly changing. Therefore, it is considered desirable at this juncture to make some brief review of the new trends in the international aid community, particularly as reflected in the policy toward Hanoi, and make clear our stance in JVJR.

## II. World Bank's rethinking of aid policy and its convergence into CDF and PRSP

(1) Four events are worthy of note as international background of the WB's rethinking: (i) Full recovery of private capital and financial market in the world - Sharp decline in the relative role of ODA in financial flow between the developed and developing countries. (ii) Difficulties achieving the balance in public finance in major donors. (iii) End of the Cold-War regime and (iv) Bipolarization of the developing countries in terms of development performances.

(2) Three main currents in the WB's rethinking that were observed in about 1998 (Chart 1)

(i) Project loans— evaluated not as individual projects, but as "portfolio"

(ii) Structural Adjustment Lending— with conditionalities for introducing modernized macroeconomic management and market economy-oriented institutions

(iii) CDF— on the basis of a comprehensiveness principle in tackling development (a holistic approach) and a partnership principle

(3) Convergence into CDF and PRSP-based lending (Chart 1)

(i) CDF and PRSP

CDF's comprehensiveness principle was originated from Joseph Stiglitz (ex-Chief Economist, World Bank) concept of New Development Strategy that is based on the idea that development is a combined phenomenon of both economic and social changes. The principle of "partnership" is another major one added to it. WB called to all the donor and recipient member countries of the WB to support CDF as the set of the common principles or their aid-related activities.

PRSP is a policy paper on the nation's reform for development (growth and poverty reduction)

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<sup>6</sup> This is recorded in JICA, *Proceedings of the International Workshop on Vietnamese Economic Development*, March 22-23, 1998, Tokyo Japan, May 1998.

which is designed on the basis of CDF principles. It is to be prepared by the recipients and endorsed by the donors, and as such it replaces (before the end of 2002 in the WB and IMF expectation) the current policy paper used in the WB and IMF that describe conditionalities attached to their concessional lending. (IMF's ESAF and WB's IDA lending. However, in the latter case, Country Assistance Strategy (CAS) remains to describe the WB's own lending policy in addition to PRSP.)

(ii) Commonality and differences

Although the commonality and differences should thus logically be clear, it is not necessarily so in the actual aid activities of WB or WB-related organizations, such as Consultative Groups (CG) of donors to particular aid recipient countries in which WB is acting a coordinator. An example is that it is difficult to discern whether the Working Groups of the donors that are formed in Viet Nam to work out policy recommendation in specific policy areas to the Vietnamese government according to the CDF partnership principle are CDF's organizations or CG's. Some WB document<sup>7</sup> refers to the difference such that while CDF set out principles, PRSP articulated the country assistance strategies on their basis. Another document<sup>8</sup> says that CDF indicated the way of doing business in aid.

(4) A CDF way of doing business in aid (Chart 2)

Now, the new formulas of aid thus converged may be summarized in three headings provided under this sub-title.

- (i) Poverty focus— coming from a holistic approach; a new perception of the relationship between "growth" and poverty reduction" objectives in forthcoming WDR 2000/01
- (ii) Operation partnership: between donors (especially between major donors and WB), between donors and (Viet Nam) government and between government and private sectors and individuals
- (iii) Sector approach or portfolio— the role of studies on Assessing Aid (1998), "aid fungibility," Public Investment Program, Public Expenditure Review and "ex post conditionality"

### III. CDF and PRSP applied to Viet Nam

Almost all new formulas of aid thus emerged in the international aid community have been applied to Viet Nam, as the Asian pilot of CDF, all suddenly and very comprehensively just in two years since 1998. Typical of this phenomenon is the fact that at present altogether 22 Working Groups are in operation to study the issued of specific policy areas and advice to the government under the principles of partnership and comprehensiveness. (Table 1)<sup>9</sup>

The activities of these Working Groups are increasing and in some they are already distinctive.<sup>10</sup> Now, the

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<sup>7</sup> WB, "Poverty Reduction Strategy Papers: Internal Guidance Note," Dec.1999

<sup>8</sup> WB, "Viet Nam Country Assistance Strategy: Progress Report," May 2000

policy-oriented research so far conducted singly by the World Bank are conducted and published jointly by the Viet Nam Government, selected donor governments, NGOs and a few international organizations including the WB, with the role of the WB further in providing technical guidance.

Furthermore, as against Viet Nam, some other conditionalities are also applied.

(1) Working Group's work on poverty focus

Among the Working Groups' work, the Poverty Working Group prepared *Viet Nam Development Report 2000 - Attacking Poverty, Joint Report of the Government-Donor-NGO Working Group* (published by CG Meeting for Viet Nam, Dec. 14-15, 1999). The framework used for this study is similar to one developed in *WDR 2000/01*, in particular Participatory Poverty Assessment and these approaches for attacking poverty: (1) Creating Opportunity; (2) Ensuring Equity and (3) Reducing Vulnerability. Remarkably, the same working Group is reported to have been asked by the Prime Minister to work together to translate the analysis presented in the above report into a comprehensive poverty reduction strategy for Viet Nam before the end of the year."<sup>11</sup>

(2) Working Groups on other sectors

E.g. *Viet Nam Public Expenditure Review*, (Joint Report of the Government of Viet Nam - Donor Working Group on PER, Mid-Year CG Meeting June 2000)

*Viet Nam Joint Portfolio Performance Review, July 19, 1999* (Joint Report of Government of Viet Nam, ADB, JBIC and WB)<sup>12</sup>

(3) Also remarkably, the CG Meeting in December 1999 agreed to work together to support the Government's preparation of its Ten Year Development Strategy (2001-2010) and Five Year Socio-Economic Development Plan (2001-2005) to be discussed at the Ninth Party Congress, in the form of a joint Government-Donor-NGO report, presenting a comprehensive development approaches for Viet Nam

<sup>9</sup> It is informally reported that at the mid-year CG meeting in 2000 UNDP representative made statement to the effect that too many meetings (and Working Groups) would impose heavy burden upon the Vietnamese Government, hence harmful to the original aim of partnership—to increase the government organizational capability and the effect of promoting donor's policy recommendations

<sup>10</sup> The study of each Working Group is said to be answering the four fundamental questions: (i) What is the long-term vision for the sector? (2) what steps are required to get there? (a) policy, (b) institutional development and (c) provision of resources, (3) who should do that? and (4) what are the key monitorable indicators to measure progress? World Bank, "Toward a Comprehensive Development for Viet Nam," distributed May 2, 2000 in Tokyo office, WB.

<sup>11</sup> Viet Nam Country Assistance Strategy: Progress Report

<sup>12</sup> A result of rating of the 22 active projects in the IDA portfolio was that six projects were "problem" projects over the past 18 months. But none was rated unsatisfactory.

#### (4) Ex post conditionality in CAS

The progress report of the 1998 CAS for Viet Nam (covering the years 1999-2002) announced that progress on policy and institutional issues showed a mixed picture—not yet sufficient to support "high case" lending.

Three lending scenarios of the 1998 CAS— low case (au, annual lending of USD 283 million), base case (USD 58million) and high case (USD 812 million) ; "triggers" for WB lending scenarios in five areas: (i) structural reform (ii) macroeconomic management, (iii) poverty and social equity; (iv) portfolio management and (v) sectoral policy; achievements— some triggers met both base and high cases, while others—e.g. SOE and trade reforms— not yet been met for base case

#### (5) Remaining "traditional conditionality" for SAC and ESAF

Out of some 170 conditionalities attached to the renewed SAC and ESAF, almost all reached agreement. But three remains unresolved; detailed plans for SOE reforms, restructuring of the four large state-owned commercial banks and trade reforms.

### IV. Stance of JVJR

#### (1) My personal view on Japanese government policy on aid

- Traditional ODA policy focusing on assisting "growth" by project lending, with due consideration on trade and industrial policy of the recipient county. Poverty reduction was secondarily considered.
- Japan's own rethinking of past policy, amidst the rapid new trends of the international aid community. Slow and carefully selected changes.
- Underlying idea and principles— based on the development experiences of Japan in both pre- and post-WW2 periods, and on the intimate knowledge of East Asian experiences.

#### (2) Stance of JVJR

- Essentially in line with Japanese Government policy
- Principles of JVJR— (1) Mutual trust between the Vietnamese and Japanese members, (2) Commonality with the international aid community in the spirit of helping the market-oriented and open-door reform of Viet Nam, (3) Research emphasis on those policy areas in which Japanese side members have comparative advantages in research and on the process of nurturing and fostering the yet under-developed framework of the market-economy.
- Japanese side's message of the papers presented at the Hanoi Workshop, July 1999, which was addressed to two sides: Vietnamese Government and the international aid community.

Chart 1 Main lines of aid policy rethinking in World Bank — Their relations with the rethinking of Japanese aid policy

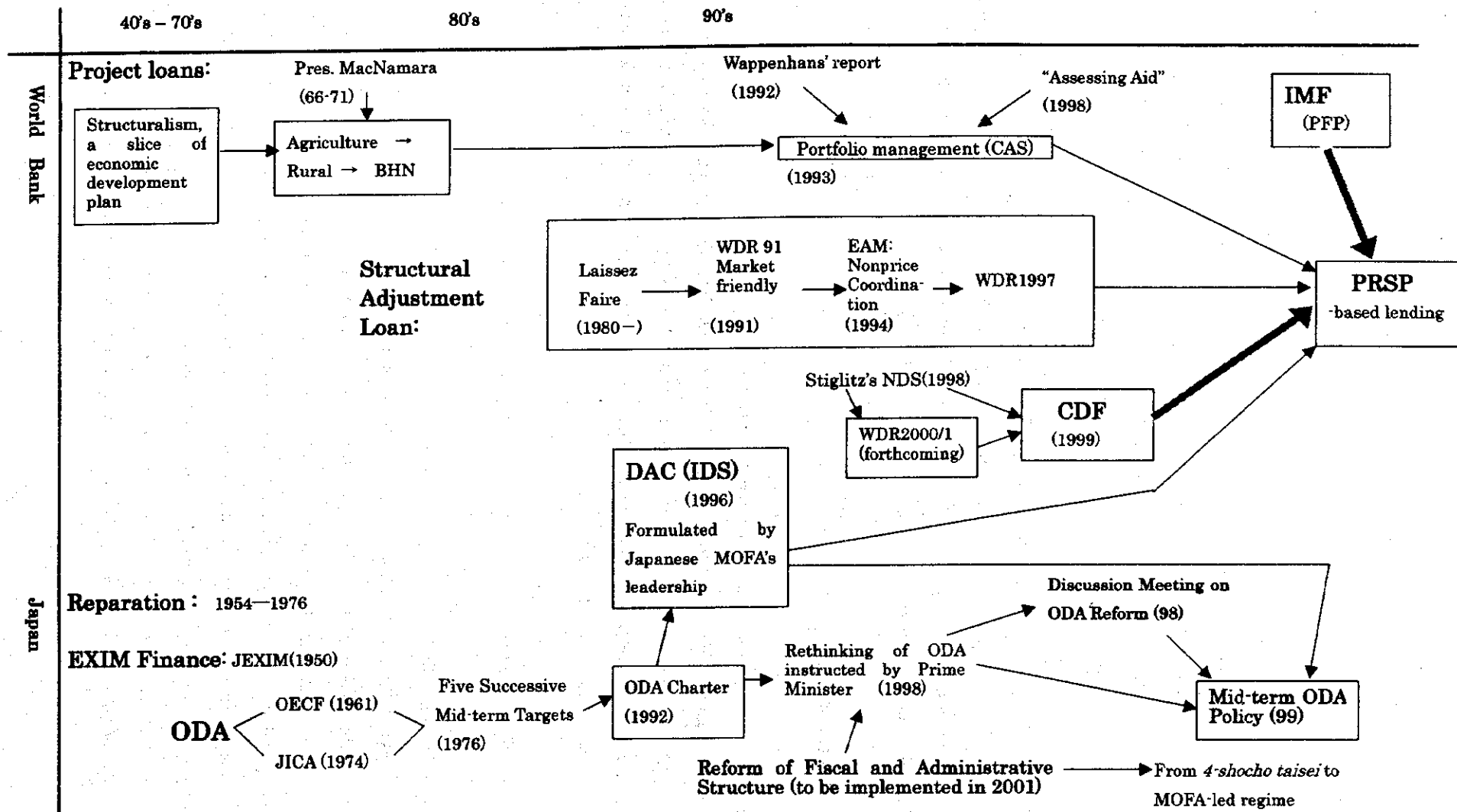
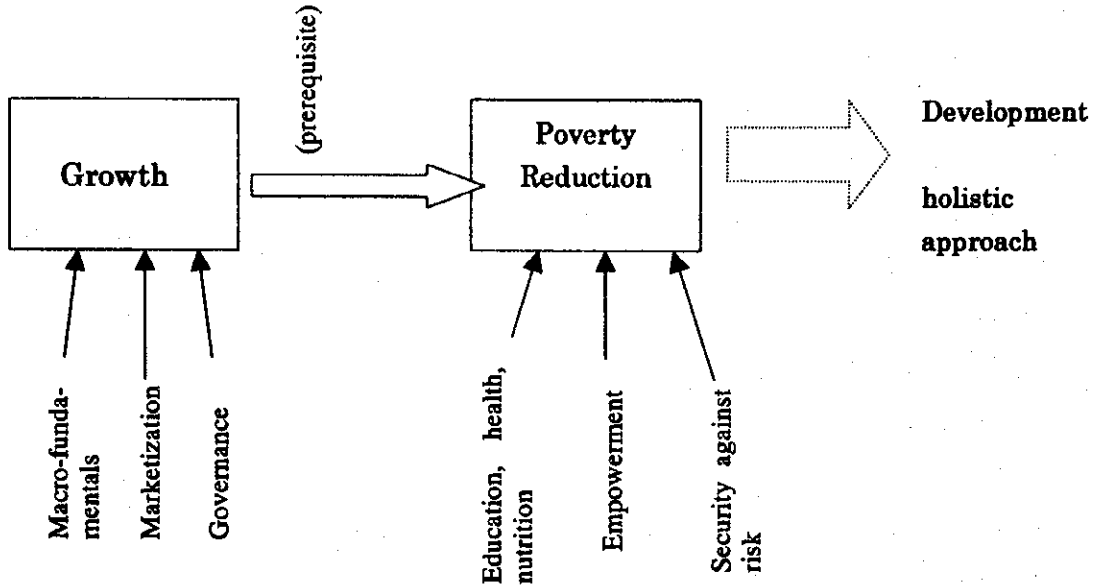


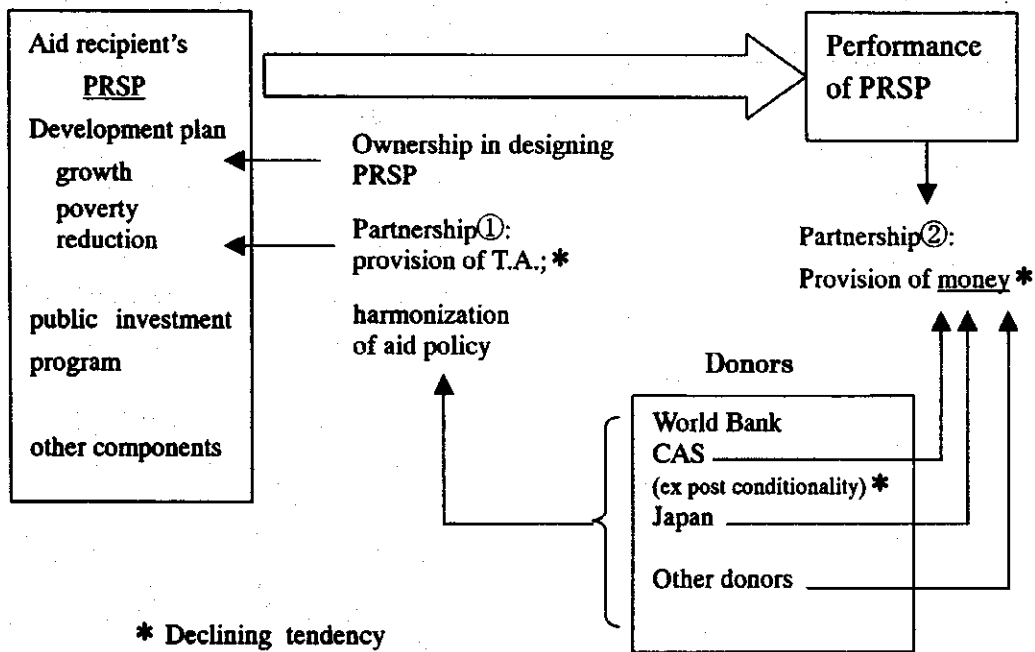
Chart 2 Interrelations among growth, poverty reduction and PRSP in rethinking aid policy:

World Bank

(1) Concept of Poverty Reduction



(2) Procedure of PRSP



\* Declining tendency of amount of aid: hence, fungibility argument → portfolio management



**Table 1 List of Working Groups formed under the CDF partnership principle as of the early 2000**

- **5 MHRP (5 Million Hectare Reforestation Program) Partnership**
- **Banking System**
- **Civil Society and Community Participation Group**
- **Working Group on Environment**
- **Cooperation and Partnership Group on Fisheries**
- **Flood Prevention and Mitigation**
- **Working Group on Flood Security**
- **Gender Donor Group**
- **Ho Chi Minh City ODA Partnership**
- **Working Group on Health**
- **Justice System**
- **Monthly Donor Group**
- **Poorest Communes**
- **Public Administration Reform**
- **Poverty Reduction**
- **Private Sector Development and SME**
- **Rural Transport**
- **Private Sector Development**
- **Education**
- **SOE (state-owned enterprise) Reform**
- **Trade Reform**
- **SME Development**