

How can donors support economic growth?

To stimulate economic growth, what can be accomplished by the use of various tools of development aid? Taking into consideration the challenges facing Vietnam, the following three areas are significant in this regard:

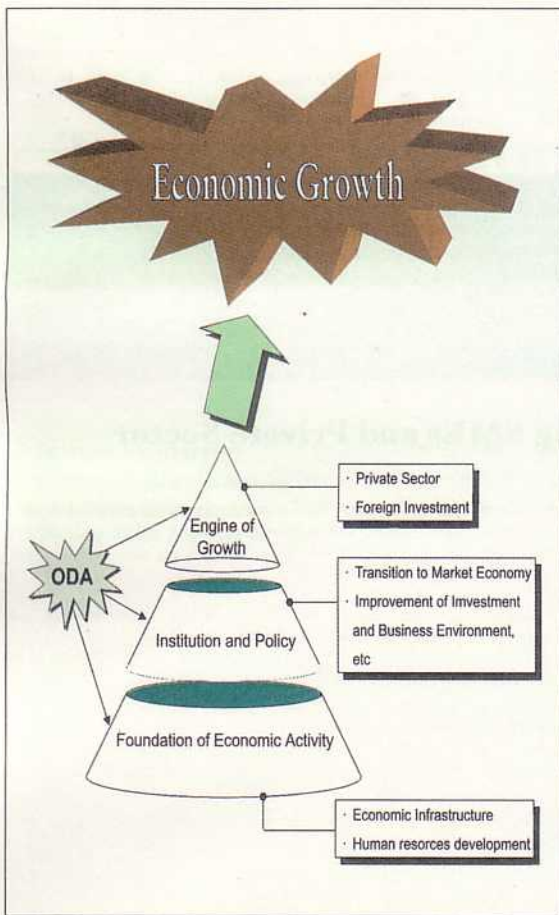
(1) Promotion of market economy, improvement of investment and business environment, and institutional/policy reforms;

(2) Development of economic infrastructure; and

(3) development of human resource that underpin the growth.

(1) is intended to promote the private sector and foreign investment inflows, engine of growth, by putting in place an environment, which is more conducive to private sector activities and more attractive for foreign investment, and by moving forward institutional and policy reforms in such a direction.

Areas (2) and (3) are designed to expand and improve the basis for the economic activities.



The Initiative for Development in East Asia (IDEA): What is the prerequisite for economic growth?

In August, 2002, foreign ministers as well as ministers responsible for development from ASEAN member countries, China, Japan and Korea gathered at the "The Initiative for Development in East Asia (IDEA)" ministerial meeting. The Joint Ministerial Statement of this ministerial meeting looked back at the development experiences of East Asia, and recognized three major prerequisites, among others, to sustainable economic growth:

(1) Building economic infrastructure, which provides the basis for private economic activities and invites foreign investment;

(2) Human resource development and the enhancement of institutional capacities in both the public and private sectors; and

(3) Linkage through trade and investment, which is important in creating economic opportunities and promoting domestic industries.

Japan has supported Vietnam's efforts to achieve growth primarily in these three areas, by mobilizing all instruments possible, including economic cooperation (ODA loans, grant aid and technical assistance), export credit and other forms of assistance, and consultation meetings between both governments. While specific description of individual areas will be discussed later, the underlying idea, or philosophy, is as follows:

First, a long-term perspective is important. Japanese assistance for Vietnam not only addresses the reduction of poverty at hand; but also seeks to achieve the country's self-sustained growth, which will eventually reduce poverty on a sustainable basis. It further envisages Vietnam taking off and having no need of all forms of aid in the long run. In other words, Japanese assistance can be regarded as a long-term capacity building of Vietnam as a whole.

Second, national ownership is essential. Development should be made through judgment and

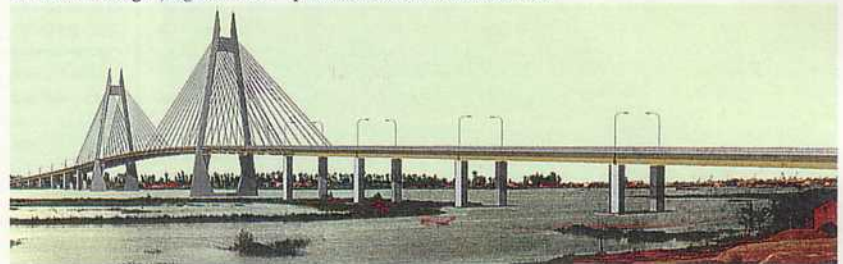
on responsibility of the Vietnamese government. This standpoint has particular importance in providing policy support. Actually, Japan has been taking an approach that emphasizes national ownership by policy importance the process of "thinking together".

Third, development of institution and framework alone does not automatically bring about growth. While such development, including reforms in the state-owned enterprises, in the financial sector and in trade system plays an essential role, it has yet to complete the medium- and long-term growth strategy. We need to understand the realities of its industry, examine how to foster the sectors that can drive forward the economy, and strengthen the base for economic activities. In reforming institution and framework, it is required to draw up reform programs while taking adequate consideration of what lies underneath the individual institution and framework.

Fourth, collaboration with the private sector economic activities

is significant. Development aid, when linked with the private sector activities such as trade and investment, shows greater effectiveness. This holds true among the East Asian economies in particular, who are seeking growth through trade and investment.

In the new Country Assistance Program in Vietnam, Japan will place "promotion of economic growth" as its first pillar in the priority areas. This will not only inherit the basic policy of Japan's economic cooperation in Vietnam up until now, but will update and strengthen it as well. In the new Country Assistance Program, it is envisaged that in its framework of "promotion of economic growth", such measures as promotion of market economy; improvement of investment and business environment; institutional and policy reforms; infrastructure development; and human resource development are to be promoted. These measures will be employed in coordination with other measures, so as to support, as a package, the "promotion of economic growth".



Binh Bridge in Hai Phong financed by JBIC (Image Photo)

"Think together" approach in policy assistance

Stressing ownership of Vietnam, Japan takes a "Think Together" approach in providing policy assistance. One of the typical methodology approaches is to present options, which were employed in the "Study on the Economic Development Policy in the Transition Toward a Market-oriented Economy in the Socialist Republic of Vietnam" (Ishikawa Project), which will be

described later. This methodology has also found its way in the technical assistance to support institutional building in the legal system.

Under the Ishikawa Project, which covered macro-economic policy, public finances and monetary issues, industry and trade, agriculture and rural development, and State-owned

enterprises reform, assessment was conducted about the present conditions of individual issues in the first place, and then the development goals laid out by the government of Vietnam were analyzed in order to judge whether or not those goals were excessive in light of the realities of Vietnam. This was followed by a study of the roadmap to

the development goals, and while doing so, Japan and Vietnam listed policy options, and thoroughly discussed individual options — under what circumstances they would prove effective, and as well as their pros and cons. The final decision making, i.e., which policy option should be chosen, was left to the Vietnamese government, since it is closely

linked to the question of what type of country the Vietnamese people want to see in the future, and to what extent the government is ready to take reform-accompanying risks. The Ishikawa Project was thus a showcase of Japan-Vietnam joint study, which respected national ownership of the Vietnamese government.