

Contribution to growth

Promotion of market economy, improvement of investment and business environment, and institutional and policy reforms, which are mutually interrelated and overlapped, are intended to promote the private sector and foreign investment inflows 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. The significance of individual components in economic growth may be described in detail as follows:

Promotion of market economy

Promotion of market economy encompasses the development of the private sector, promotion of small- and medium-sized enterprises, state-owned enterprises reform, financial and banking sector reform, and trade reforms. To invigorate the economy, it is imperative to eliminate vestiges of the

planned economy, to ensure effective economic activities with optimal distribution of resources and to foster vigorously performing sectors in the market economy in Vietnam.

Although the private sector including SMEs has been widely recognized since the enforcement of the Enterprise Law as one of the major motors of the country's economic growth, it faces discriminatory treatment in favor of the state-owned enterprises, as Vietnam traditionally gave privileges to the latter as the core economic entities. On top of this, the private sector still lacks necessary financing, technology and human resources. If the private sector is to assume the central role that continues to underpin the economic growth of Vietnam, in the era of integration with the international economy, and if the private sector should be brought on a path of growth, it is imperative to give momentum to the development of the business base for the private sector including SMEs.

Improvement of investment and business environment

Improvement of investment and business environment is intended to create an environment, which is more conducive to private sector activities and more attractive to foreign investment.

Aside from the significance of the private sector mentioned above, foreign firms established by direct investment make the following contributions to the economy: (1) expand fixed capital investment through supplying funds amid dwindling domestic investments; (2) introduce advanced technology; (3) introduce advanced and rational management skill; (4) create employment; and (5) create demand and acquire foreign currencies by export operations. In the current global economy, to what extent Vietnam can attract foreign investment depends on whether or not the country can attract the globally operating

firms and enter their production networks. This has a particular significance in East Asia today. In the meantime, challenges facing Vietnam include: high utility rates; costly transportation/communications; the remaining regulations restricting the entry by the foreign firms; a complex and less transparent legal framework and its operation; and inefficient ability of administrative agencies directly involved with the economic activities. Vietnam is thus urgently advised to remedy these problems to improve the environment so as to be more attractive to foreign investment. This will at the same time create an environment which is more conducive to private sector activities.

Institution and policy reform

Review of the effectiveness of development aid has revealed that institution and policy play an essential part in economic growth. Specifically speaking, an

empirical analysis has shown that aid is effective in promoting growth in a country with good economic environment including institution and policy, while aid is not effective in a country without them. In other words, good institution and policy provide an essential linkage to the development aid and economic growth. Since institution and policy define the foundation of livelihood and economic activities of people, their improvement plays a critical role in invigorating and driving forward the economy.

In Vietnam, the productivity in agriculture has greatly improved through institutional reforms, the private sector has become of motor of growth, and foreign direct investment has helped to support the external balance. These clearly show that institutional and policy to support reforms toward market economy have been instrument to economic growth.

Specific examples

Japan has made the following efforts in the area of promoting market economy improving investment and business climate and institutional and policy reforms in Vietnam.

While providing policy-supporting assistance in

these areas, Japan will also get involved in institutional and policy reforms related to individual projects (for example, those for developing infrastructure). In the new Country Assistance Program, it is also envisaged to introduce a new mechanism for evaluating progress in various dimensions, including institutional and policy environments. In this mechanism, we will consult with the

Vietnamese government based on that valuation and examine the basic orientation for the size of assistance.

Japanese assistance and involvement in this area are not confined to development aid. We are making use of all available means, including other forms of assistance and dialogue between the two governments.

Ishikawa Project and JICA/NEU Joint Research on Vietnam's Industrialization Strategy

The Ishikawa Project refers to the development policy study to support Vietnam to introduce market economy (under the leadership of Shigeru Ishikawa, a professor at Hitotsubashi University) conducted by JICA as a development study project. It was carried out based on an agreement made between the Prime Ministers of Vietnam and Japan in April 1995. It aimed at providing policy advice to address problems involved in the transition from a planned to market economy and also to draw up a plan for sustainable economic development. It was conducted in three phases over a total of six years from 1995 to 2001, and its output contributed to the two socio-economic development five-year plan for the period 1996-2000 and 2001-2005 prepared by the Vietnamese government, as well as provided input in working out the private sector development program under the New Miyazawa Initiative.

Although the Ishikawa Project was completed in March 2001, several follow-up joint studies are underway. Important among them from the point of view of promoting growth is the research project on industrialization in Vietnam, a joint study conducted by JICA and the National Economics University (NEU). This study is intended to support efforts to set out a strategy for industrialization in a way that it does not conflict with free trade and ensures consistency between domestic and external policies.

Fostering SMEs and Private Sector

The private sector is an important pillar of the Vietnamese economy, providing underpinnings for its growth. However, it has a number of problems, including a high percentage of SMEs in this sector, difficulties in access to financing, difficulties in plant investment and a low technological level.

In this area, JBIC has provided a two-step loan for increasing SMEs' access to financing and an economic reform support loan under the New Miyazawa Initiative which incorporated support program for private sector development. Other Japanese efforts in supporting private sector development include policy advice for capacity enhancement in the SME Department of the Ministry of Planning and Investment under technical cooperation of JICA and support for establishing the SME Technical Support Center.

Activities of donors in the area of promoting market economy, improvement of investment and business environment, and institutional and policy reforms

Donors have provided assistance in the following areas:

- Integration into the international economy, accession to WTO, and trade reform
- Promoting the private sector, support for SMEs
- SOE reform
- Banking sector reform



Loc Tri Primary School built by Grant Aid Project of Japan