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A New Keyword: Growth Initiative

A new current is emerging. There is growing interest in the importance of economic growth in development and how to promote it, and new keywords are being born: growth initiative.

Economic growth is one of the most important goals of development. While the importance of poverty reduction in development is widely accepted, poverty reduction is possible on a sustainable basis only if there is economic growth. Unfortunately, however, the importance of growth and the meaning of growth-promoting measures have not necessarily received the attention they deserve in international discussions on development.

In this circumstance, Vietnam has assigned high priority to achieving growth in its own vision of development and has been striving toward this goal. Naturally, economic growth and poverty reduction are not mutually contradicting or inconsistent goals for Vietnam. In fact, the country's development experience to date has vividly demonstrated that growth serves as the powerful engine for reducing poverty.

Japan has been consistently advocating a importance of growth on the basis of its own experience and as a donor deeply involved in the East Asian development experience. And based on such development philosophy, Japan has continued to focus on measures to promote economic growth in providing development assistance.

Therefore, having a close look at Japan's assistance from the perspective of promoting growth provides many ideas for considering the meaning of growth in development and how to take measures to promote growth.

Vietnam and Japan are not alone in paying attention to the importance of growth. International perception on the meaning of growth and the significance of measures to promote growth is changing.

For example, the joint Development Committee of the World Bank and the IMF stressed the importance of economic growth by covering this subject in its communiqué in April, 2003: "To accelerate progress toward these (MDGs) and related goals, we

emphasized the need for policies by both developed and developing countries in partnership to generate stronger economic growth complemented by actions to enhance the capabilities of poor people to participate in growth and access key social services." It also stated "we emphasized the critical role of investment in infrastructure for economic growth, and its linkages with the provision of social services and the attainment of the MDGs."

The Department for International Development (DFID) of U.K. also recognized the need for "holistic poverty reduction strategy with a stronger focus on sources of growth and links to poverty reduction." Such recognition is significant in considering the meaning of growth.



Vietnam's Vision for Development and Economic Growth

The development strategy and plan of the Vietnamese government defined economic growth as the most important policy goal. The Socio-economic Development Strategy from 2001 to 2010 established a vision of transforming Vietnam into an industrial country by 2020, and set a goal of 7.5 percent annual growth, thereby doubling national income in 10 years. Based on this policy, the government designated "enhance the quality, efficiency and competitiveness of the economy with a view to ensuring rapid and sustainable growth" as one of the three major development challenges (Speech by Deputy Prime Minister Vu Khoan at the donor meeting in December 2002)

How Economic Growth Is Linked to Poverty Reduction

The link between economic growth and poverty reduction goes both ways. Vietnam attained a major achievement in poverty reduction in the 1990s, and, as is well-known, this was, to a considerable extent, realized by economic growth. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) approved by the government in May 2002 made reference to the inter-linkage between economic growth and poverty reduction and stated that poverty reduction forms the basis for future growth.

Economic growth is a necessary condition

for reducing poverty on a sustainable basis, but not a sufficient condition. As numerous discussions among researchers as well as in the aid community have indicated, the quality of growth, including how the fruits of growth may be distributed, is as much important as growth itself. What is called for is broad-based growth in which fruits of growth will be distributed to the poor, but it should be kept in mind that, for this to happen, an increase in GDP must be redistributed through the fiscal and financial mechanism.

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Challenges Facing Vietnam

What challenges is Vietnam facing today in its pursuit of economic growth? In order to consider what measures are important to accelerate growth, we have to focus on the challenges.

First, when we examine the question of economic growth for Vietnam at this juncture, we have to think it in the context of the current environment of intensified international competition. Amid ever-intense world- and Asia-wide competition, Vietnam is today at a crossroads of either landing on a higher growth path or pausing on level ground and lagging behind. In other words, economic growth of Vietnam has to be achieved in the process of integrating its economy with the international economy. This requires strengthening the competitive edge under free trade with other countries, which will enable Vietnam to withstand competition and increase exports.

Second, while Vietnam is pursuing a multi-sector economy in which the state-owned, private and foreign capital sectors all are to develop respectively, growth has been driven by the private sector and foreign investments. Thus it is imperative that, if economic growth is to be realized into the future, these sectors should

continue to act as the engine of the economy and support growth by keeping competitiveness in the products they turn out. And for this purpose, an environment must be put in place—an environment more conducive to private sector activities and with a broader access to foreign investment inflows, and institutional and policy reforms should be moved forward in such a direction.

Third, being one of the transition economies, Vietnam has to tackle not only "development" but "transition" as well. This requires that an essential part of institutional and policy reform efforts be used to eradicate vestiges of the planned economy, to implement reform measures designed to promote market economy and to put forward "transition" in an appropriate manner. These elements are indispensable for increasing efficiency of the economic structure and strengthening competitiveness. Thus, they are instrumental in achieving economic growth.

Fourth, Vietnam has to lay the basis for the economic activities. Although much progress has been made by the country's efforts and assistance by donors over the past decade, factors serving as foundation for the economic activities still fall short of sufficient, in both physical (e.g. economic

infrastructure) and non-physical (e.g. human resources) terms.

Taking into account the challenges facing Vietnam in its pursuit of the economic growth, the following three factors may have considerable impacts on the country's "ability to attain economic growth":

- Engine of growth (the private sector and foreign investments);

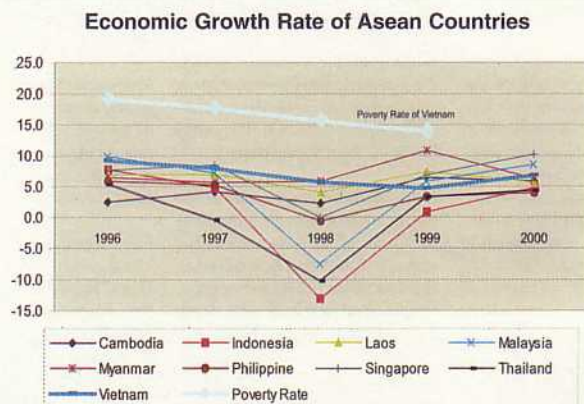
- Institution and policy, which determine how best Vietnam can demonstrate its potentials; and

- Foundation of the economic activities (physical component: infrastructure; non-physical component: human resources).

Improved institution/policy and foun-

ation for economic activities will boost the inflow of foreign investments, which in turn will further strengthen the engine of growth. "Ability to achieve economic growth" can be enhanced by upgrading institution/policy and by expanding and improving the basis for economic performance. In other words, Vietnamese competitiveness can be strengthened by this. In this context, development aid is able to make positive impacts on these factors.

Figure Vietnam's Growth: Comparison with Other Southeast Asian Economies



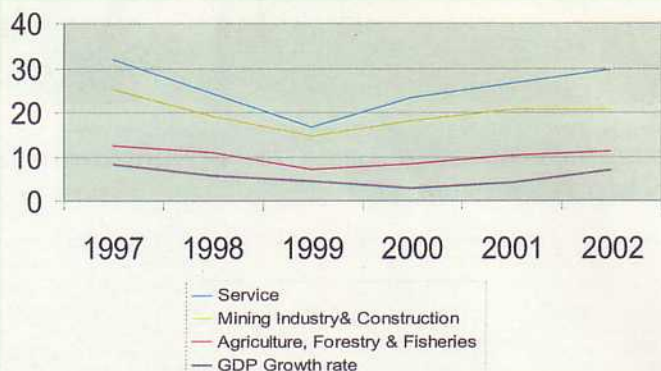
Source: Asean - Japan statistics 2002



Vietnam seeks growth while integrating its economy with the international economy

International competitiveness is significant for Vietnam, since the country is in pursuit of growth through external trade and foreign investments. Similar to other countries in East Asia, Vietnam's development strategy aims at growth while integrating its economy with the international economy. In the East Asian region where there is an abundant quality work force and individual economic activities can be interlinked with others, it would be rational to pursue sustainable growth based on trade and investments placing labor intensive industry as its central core.

Figure: Growth Rate of Individual Sectors in Vietnam



Source: Vietnam General Department of Statistics

Contact:

Head of Economic Section
Embassy of Japan
27 Lieu Giai st, Hanoi
Tel. (84 4) 846 3000
Fax (84 4) 846 3048

Chief Representative
JBIC
8th floor 63 Ly Thai To st, Hanoi
Tel. (84 4) 824 8934
Fax (84 4) 824 8937

Resident Representative
JICA
11th floor Daeha Business Centre
360 Kim Ma st.
Tel. (84 4) 831 5005
Fax. (84 4) 831 5009

Managing Director
JETRO
Unit 306—307-308, 3rd floor
63 Ly Thai To st.
Tel. (84 4) 8250630
Fax. (84 4) 8250552

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:

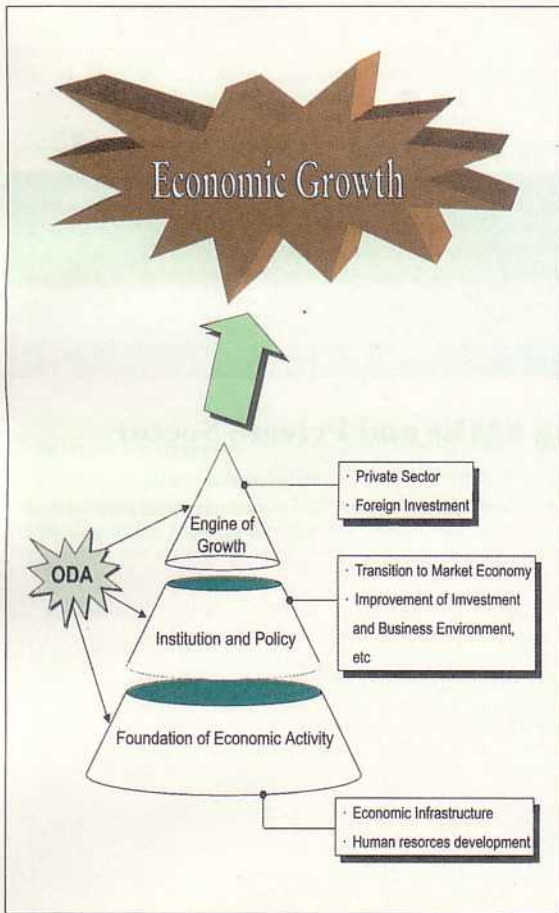
(1) Promotion of market economy, improvement of investment and business environment, and institutional/policy reforms;

(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

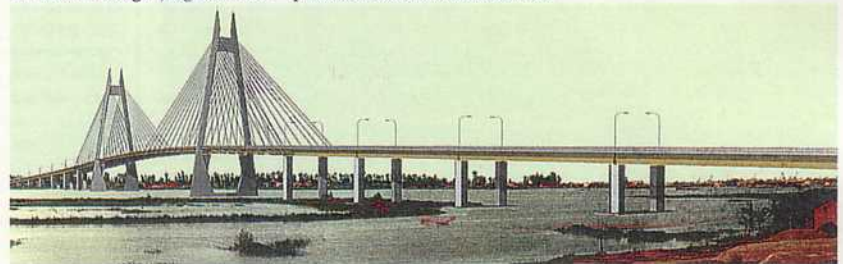
on responsibility of the Vietnamese government. This standpoint has particular importance in providing policy support. Actually, Japan has been taking an approach that emphasizes national ownership by policy importance the process of "thinking together".

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.

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

The Japan-Vietnam Joint Initiative to Improve Business Environment

Following an agreement in the meeting between the Vietnamese Prime Minister Phan Van Khai and Japanese Prime Minister Jun-ichiro Koizumi in April 2003, the Japan-Vietnam Initiative to improve the business environment strengthen competitiveness was launched. The Initiative is a joint action based on a high-level dialogue between the two countries, aims at boosting foreign investment. Since this is an indispensable driving force for bringing Vietnamese economy on a faster growth path.

If Vietnam is to realize faster econom-

ic growth, it must give priority to addressing the following challenges: strengthening competitiveness and promoting foreign investment inflows, crucial factors for increasing competitiveness. In this Joint Initiative, both countries are to draw up a concrete action plan and implement it focusing on these challenges. One of the characteristic of this Joint Initiative is that it tries to have that a comprehensive perspective on the question of investment and business environment in addressing the question of both institutional and policy as well as economic infrastructure.

Issues Considered by Japan-Vietnam Joint Initiative

The Initiative will address the following issues.

- Drawing up a strategy to attract foreign investment in Vietnam
- Considering specific measures to realize major improvements in investment climate
 - * Reviewing regulations on foreign investment
 - * Capacity building of FDI related authorities of central and regional government
 - * Strengthening of the business related institutions
 - * Identifying development needs of economic infrastructure

Comparison of Vietnam with Guangdong Province of China

Although Vietnam and the Guangdong Province of China respectively have a population of about 80 million, the per capita GDP differs greatly between them: \$410 in Vietnam and \$1,571 in Guangdong Province. This difference in the economic level is in line with the amount of foreign direct investment received by them. This comparison shows the importance of improving the investment and business environment in both the physical and intangible aspects.

The Japan-Vietnam Trade and Investment Working Group

In the meeting between Prime Ministers of Japan and Vietnam in 1999, an agreement was reached for holding exchanging of views to identify and resolve problems on trade and investment with participation of the private sector, as the two countries aim at taking further steps in their trade and investment relations. Three meetings have been held to date to consider improved measures for trade and investment.

Issues improved through discussions in the Japan-Vietnam Trade and Investment Group

The Trade and Investment Working Group has met three times to date in September 1999, November 2000, and April 2002. Examples of improvements resulting from these meetings are as follows:

- * Investment in export requirement for new investment
- * Reduction in products subject to restriction in investment

- * Liberalization of direct employment by foreign affiliate companies
- * Establishing accounting standards to harmonize domestic accounting rules with the international accounting system
- * Adoption of a sample screening system by the customs

Also important is the role of the Business Forum which provides a mechanism for transmitting to the Vietnamese authorities opinions of the private sector to encourage institutional and policy reforms.

Toward a Japan-Vietnam Investment Agreement

In parallel to the effort to improve investment and business environment, in the Japan-Vietnam Initiative, Japan also aims at liberalization and promoting investment in the legal framework. The minimum condition for overseas investors to have confidence in making investment in Vietnam is to ensure predictability and transparency of investment rules. In addition, to attract the maximum amount of investment from abroad, it is important to treat overseas investors in a way not inferior relative to other countries or domestic investors.

From this perspective, the Japan-Vietnam Investment Agreement is to set forth most favored nation and national treatment, in principle, for investment licensing and business activities after it is granted, thereby laying down a substantive legal framework for protecting investors rights and promoting investment.

After a series of discussions, the two countries reached a basic accord for the signing of the agreement at the Japan-Vietnam summit in April 2003. It is expected that progress in the remaining work will lead to the signing and entering into effect of the treaty. It is expected that this agreement will establish the principle of the liberalization of investment, thereby improving investment and business environment and accelerate foreign investment.

Problems on Imports of Motorbike Parts and Tariffs on Motor Vehicle Parts

The measures taken by the Vietnamese government in 2002 pertaining to imports of parts of motorbikes caused damages to foreign firms with investments in this sector and generated considerable concern among foreign firms operating in other sectors as well as potential investors abroad. The problem with imports of parts for automobiles also raised similar concerns. The Japanese government discussed with the Vietnamese government ways to resolve these issues. In these discussions, the appropriateness of institutions and policies and the need to have a sound investment and business environment were the standpoint the Japanese Government placed importance.

New Miyazawa Initiative

A loan was provided in September 1999 in support of economic reform. This involves a policy action plan committed by the Vietnamese government. The policy action plan consists, among other themes, of private sector development, state-owned enterprise reform, and reforms of trade

regime. Amid difficulties in the external balance after the Asian currency crisis, and talks with the IMF and the World Bank on the reform program in limbo, this loan provided a momentum for advancing reforms. The loan served as a turning point as the Vietnamese government brought to the forefront

private sector development even if official reference to it had rarely been made until then. It was also unprecedented that the government made a stronger commitment to trade reform at a time when domestic discussions then were still revolving around possible choices on the trade regime.

Policy Action Plan under the New Miyazawa Initiative

- Private sector development program
- * General rules on developing the private sector
- * Improving the financial environment
- * Improving the business environment
- * Strengthening organizational capacity for developing the private sector
- Auditing 100 major SOEs based on the international accounting standards
- Tariffication of non-tariff barriers

The Second Pillar: Economic Infrastructure Development

Large-scale economic infrastructure such as roads, bridges, ports, power plants, main power transmission network, and telecommunications facilities will induce the country's overall economic growth and plays an important role for reducing poverty.

The development of major infrastructure such as main national highway and power supplies will lay the groundwork for economic activities. At the same time, it will generate employment and increase income by stimulating economic activities such as attracting investments, expanding the scope of domestic and external markets, and creating new economic activities, through improvement of services arising from infrastructure. Additionally, infrastructure projects will, in their own, create effective demand, generating employment

and income and contributing to growth and reducing poverty.

Major economic infrastructure is characterized by a positive impact on economic activities not limited to a project site area but encompassing a broader region or the entire country. In this sense, it has a major significance. Of particular importance is the network function of economic infrastructure. Roads that connect main and regional roads will form a network. In the power sector, power plants and main power lines connect with regional power grids to form a network. Development of rural roads and power lines will produce a major economic impact only if they link up with main roads and power plants or main power lines.

Economic infrastructure also has a major significance in providing basic social services in education

and health. For a person living in a remote, impoverished region with inferior infrastructure, even going to a regional clinic or a hospital in the urban area for examination is extremely difficult. Economic infrastructure plays an important role in improving access to such basic social services.

Moreover, in relation to the importance of foreign direct investment (FDI) as the engine of growth, how much FDI a country can attract hinges on investment climate in a broader sense. When a company makes a decision on where to invest, the extent economic infrastructure is developed, including the cost of infrastructure services, is one of the major factors affecting its decision.

In this way, economic infrastructure is crucially important for achieving economic growth. However, in

Vietnam, there are still considerable development needs for such infrastructure. For example, in the transport sector, many facilities in Vietnam are being used by patching up the facilities dating before or destroyed by the Vietnam war. Inadequate maintenance has also led to extensive aging. In the power sector, total power demand in 2020 is projected to increase by seven fold from the level in 2002.

Under these circumstances, Japan has made a major contribution to the development of large-scale economic infrastructure in Vietnam, especially focusing on transport and power. In the transport sector, ODA loans provided by JBIC and grants have helped improve and rehabilitate main national highways and bridges, improve ports, develop transport networks in large cities, improve and rehabilitate

regional roads and bridges, and build airport terminals. In the power sector, ODA loans provided by JBIC helped build power plants and power transmission networks. In both sectors, development studies conducted by JICA supported preparations of master plans and feasibility studies for individual projects.

In May 2002, Vietnam drew up the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) as the first Poverty Reduction Strategy Paper (PRSP) among countries in Asia. As the role played by large-scale infrastructure in economic growth and poverty reduction was not contained in this CPRGS, it was decided at the Consultative Group meeting on Vietnam in December 2002 that CPRGS be expanded by including this point.

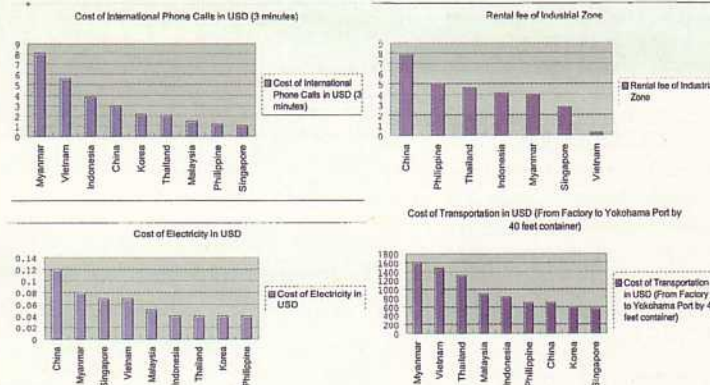
Expansion of CPRGS

The Consultative Group meeting on Vietnam in December 2002 discussed expansion of CPRGS. In the closing session, MPI Minister Phuc summed up the discussion as follows:

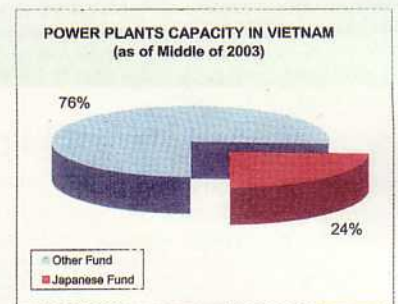
"We consider high and sustainable growth as an engine and precondition that creates resources for poverty reduction. Therefore, to address poverty, first of all, one needs to pay attention to growth. Once we want to look at growth and poverty reduction, we need to look at its physical content. Therefore, investment for infrastructure development constitutes an indivisible part of the CPRGS. As a result, CPRGS needs to be further revised on the part to large scale infrastructure ... We should add large scale infrastructure development to the CPRGS in order to create momentum for economic development, with high and sustainable growth. For example, we may add the building of bridges, roads, highways, ports, power plants, and a power transmission system that aim at poverty reduction, as I mentioned to you. And I also suggest that early next year, when we review the implementation of the CPRGS, we will officially amend with a legal document by the government."

Economic Infrastructure: Comparison with Neighboring Southeast Asian Countries

Per capita power consumption, access to telephones, paved road ratio and costs of infrastructure services



Japan's Contribution to Vietnam's Overall Power Capacity and Its Growth



Note: Japan's assistants include Phu My (1,050MW), Ham Thuan- Da Mi (475MW), Pha Lai (600MW). In addition to this, Dai Ninh Hydro Power Plant (300MW), O-moon Thermal Power Plant (300MW) and Da Ninh Hydro Power Project (180MW) are under implementation.

Assistance for the Transport Network in Northern Vietnam

ODA loans provided by JBIC helped improve national road No. 5 connecting the capital Hanoi with the important northern port Haiphong. An ODA loan also helped rehabilitation of the port in Haiphong. These two projects played a major role in expanding the transport network in northern Vietnam, thereby contributing to an increase in FDI in this region. This has contributed to growth and poverty reduction through various channels.

National Road No. 5 and the Port of Haiphong



Contribution of Infrastructure to Growth: A View of DFID

The report by DFID, "Making Connections: Infrastructure for poverty reduction" stated:

"Investment in infrastructure can contribute to sustainable growth by:

- Reducing transaction costs and facilitating trade flows within and across borders.
- Enabling economic actors—individuals, firms, governments—to respond to new types of demand in different places.
- Lowering the costs of inputs used in the production of almost all goods and services.
- Opening up new opportunities for entrepreneurs, or making existing business more profitable.
- Creating employment, including in public works (both as social production and as a counter-cyclical policy in times of recession).
- Enhancing human capital, for example by improving access to schools and health centers.
- Improving environment conditions, which link to improved livelihoods, better health and reduced vulnerability of the poor."

(Source: DFID, "Making Connections: Infrastructure for poverty reduction")

Measures for Effective and Cost Efficient Infrastructure Development

In developing large-scale infrastructure, it is important to proceed by taking into account the following issues. These constitute measures for effective and cost efficient large-scale infrastructure development.

Aid Coordination and Harmonization of Aid Procedures

In order to provide effective and cost efficient assistance in large-scale infrastructure development projects, it is important to coordinate the content of assistance among donors and harmonize aid procedures. Japan has been active in addressing these issues.

Collaboration with Private Sector Financing

In supporting large-scale economic infrastructure development projects by means of ODA, we should keep in mind the question of division of labor and collaboration with financing by the private sector. Contrary to a previously advocated argument, it is obvious that large-scale economic infrastructure development could not be financed solely by the private sector. ODA loan financing may be an appropriate option for large-scale infrastructure development, consideration on the situation of country sector and project. Currently, we should note that there are extensive needs for concessional financing in Vietnam. Combining concessional ODA lending and private sector financing is also beneficial.

Relationship with the development plan of the Vietnamese Government

For large-scale infrastructure development, the Japanese government takes into account the master plan prepared by the Vietnamese government in each sector and after a policy dialogue, the list of projects which might be financed by ODA loans over the next few years (the long list) is prepared and made available to the public. Selection of specific projects in the list is conducted from the view point of high urgency and high priority (It should be noted that listing in "the long list" does not necessarily mean the decision for financing by the ODA loan). Therefore, these projects are undertaken in line with the country's overall development plan and after taking into account not only each sector but also the overall development.

Relationship with Institutions and Policies

Economic infrastructure such as power plants and transmission networks is a physical facility. However, in addition to the physical facility, the system and policy is essential for the end-users to receive its service. To what extent economic infrastructure provides benefits and serves as a basis for economic activities cannot be considered without such an institutional and policy aspect.

In large-scale infrastructure projects, JBIC has been supporting such institutional and policy aspects in collaboration with JICA that sends experts to provide technical assistance, and it will increase assistance in this area.

Effective Project Implementation and Maintenance

In large-scale infrastructure development projects, effective implementation and progress of the project is an important factor for the effective use of committed funds. JBIC has thus conducted a joint portfolio review with the World Bank and ADB as well as with the Vietnamese government to ensure effective implementation.

For completed projects to have initially planned effect, a robust operation and maintenance regime must be in place. Japan will get involved in the stage of maintenance to ensure the sustainable impact of projects. The executing agencies have to finance recurrent costs for O&M to sustain the development effect of projects. Since the public financial system in Vietnam separates capital expenditure for infrastructure development and current expenditure for funding recurrent costs, planning must take into consideration both elements.

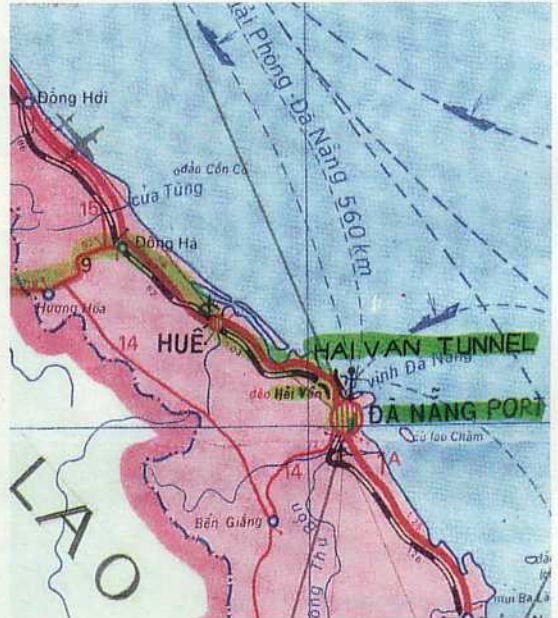
Environmental and Social Considerations

Large-scale economic infrastructure projects have to be undertaken, in paying due considerations for environmental and social aspects. Environmental and social considerations require environmental impact assessment, public disclosure of relevant information, and adequate explanation to residents in neighboring community residents. ODA lending operations of JBIC are conducted under the most advanced guidelines for environmental and social considerations.

Development of the Greater Mekong Subregion(GMS) and Infrastructure Development

Vietnam is located in the eastern part of the Indochina Peninsula and is expected to play a significant role in the development of GMS as a gateway to the East-West economic corridor. To date, ODA loans provided by JBIC have helped develop Da Nang port and Hai Van Tunnel and bridges on National Highway No.1. These infrastructure projects will not only be useful for economic growth in Vietnam but also have a broader significance for the development of GMS.

Da Nang port and Hai Van Tunnel



Aid Coordination in Infrastructure Development

National Highway No. 1 is a main road running from north to south in Vietnam, linking northern, central and southern regions. For this most important road, the World Bank and ADB financed road rehabilitation, while JBIC provided ODA loans for construction of bridges. Aid coordination may take place in various forms. In the case of the National Highway No. 1, it was carried through cooperation between the related donors and line ministries in each specific project.

JBIC, the World Bank and the ADB, which are all involved in large-scale infrastructure projects in Vietnam, have been cooperating extensively in other projects as well.

Harmonization of Aid Procedures among JBIC, the World Bank and ADB

JBIC, the World Bank and ADB, which are major donors providing concessional loans in Vietnam, are harmonizing respective aid procedures. Specific work is underway in the area of procurement, financial management, environmental considerations, resettlement, and portfolio management.

Combining ODA and Private Financing Phu My Thermal Power Plant Complex

In order to meet a sharp increase in power demand in Southern Vietnam, a plan to construct power plants and power stations in the Phu My area is underway. Out of 5 power plants being planned in this district, JBIC provided an ODA loan for the construction of the Phu My 1 Power Plant. In this project, the ODA loan-financed common facilities for water treatment and fire prevention which turned out induce financing from the private sector. In fact, the Phu My 2 power plant and later projects have been financed with private sector participation.



Red River Bridge in Ha Noi financed by JBIC (Image Photo)

Toward Sustainable and inclusive Economic Growth

Economic growth is one of the most important targets in development. It is a necessary condition for sustainable reduction in poverty. However, it is not a sufficient condition. We have to consider a well-balanced development from a broader perspective.

First, the quality of growth, including how the fruits of growth are distributed, is important. Second,

growth does not resolve all the social problems. Thus it is important to address problems that are not resolved and even exacerbated by growth such as regional disparities and environmental deterioration. Third, it should be kept in mind that there is a reverse link between economic growth and improving social/living conditions including poverty reduction. Improvements in education and health will lay down basic conditions for future economic growth.

It is for these reasons that Japan has focused and will continue to focus on improving education, health and other social conditions in its economic cooperation with Vietnam.

Economic growth or poverty reduction? That is not a question rightly formulated. Both are important. We have to tackle both.



Traffic safety program: Helmet supply for school children

Growth and Poverty Reduction: DFID's View

- * Development strategies need to be growth orientated to achieve poverty reduction
 - * Poverty reduction strategy approach is focused on service delivery
 - * Need a holistic poverty reduction strategy with a strong focus on sources of growth and links to poverty reduction
 - * But growth versus "welfare" social spending is a false dichotomy:
 - they are not alternatives but complementary
 - improving services can be investment (e.g. education)
 - ideas of tradeoffs or sequencing are misleading
 - * Recognize that growth and social spending are both vital and mutually reinforcing
 - * Pro-poor policy needs to embrace economic growth and service delivery aspects
 - * Poverty reduction strategy needs to include:
 - more consistent and deeper analysis of sources of growth
 - explicit links between past and anticipated growth rates
 - identification of public actions that increase the impact of growth on the poor
 - analysis of drivers and constraints of growth
- Also to include:
Related policies, e.g. investment, infrastructure, etc.
Regional dimension (e.g. opportunities for growth through competition and trade)

(Source: DFID, *Poverty Reduction and Economic Growth*)

Priority Areas in Japan's Country Assistance Program for Vietnam

(currently under review)

- Promoting growth
- Improving social/living conditions (addressing the question of poverty reduction)
- Institutional building

Japan's Cooperation in Education and Health: Some Examples

- * Education
 - Grants financed the construction of about 200 primary schools. This has contributed to improvement in the quality of primary education, including the implementation of full-time class instruction.
 - Support for the Primary Education Development Program, part of the sector development strategy of the Vietnamese government.
- * Health
 - Improving facilities in the regional core hospitals (including Cho Ray and Bach Mai hospitals), providing equipment and sending experts (grants and technical cooperation)
 - Cooperation in the area of reproductive health (technical cooperation)
 - Fighting communicable diseases by supplying vaccines (technical cooperation) and developing vaccine production facilities (grants)

Third Pillar: Human Resource Development for Growth

Human resource development is commonly recognized as an indispensable factor for economic growth. Production takes place by combining capital, labor, and technology. The most important means to raising the level of technology is introducing advanced technology by foreign direct investment, on one hand, and human resource development in the domestic economy, on the other. Human resource development is thus an important factor for growth. In the context of the present Vietnam, what is required to realize economic growth, from the standpoint of human resources development, are government officials planning and implementing economic policies, managers in business firms who have acquired advanced, rational way of thinking, engineers with advanced technology and workers with high skills.

for the prosperity 10 years later; let us nurture people for the prosperity 100 years later." From the point of view of development, this is an apt saying. To stretch this saying further, the effect of human resource development will be extremely large in 100 years, but its development effect will emerge far earlier than 100 years.

Assistance for human resource development in Vietnam

● Japan is supporting human resource development in broad areas, with technical cooperation by JICA playing the central role. Of particular relevance to economic growth are the Japan-Vietnam Human Resources Cooperation Centers in Hanoi and Ho Chi Minh cities. They are disseminating to private business operators economic knowledge for promoting market economy. Other relevant efforts include training engineers in the area of information

technology, telecommunications, power, road construction, and agriculture and rural development.

Assistance for Students

● Japanese Grant Aid for Human Resource development Scholarship (JDS)
In order to contribute to human resource development for self-driven, sustainable development of the Vietnamese economy and society, Japan has provided assistance for sending 20-30 young government officials to Japan annually for studies on law, economics, business management, agriculture and information technology.
● Japan's government-financed student scholarships
As of April 2002, 443 students were studying in Japanese colleges and other higher educational institutions under the support of the Japanese government

It reminds us of what Ho Chi Minh said: "Let us grow trees