

## The Ishikawa Project in Vietnam: Policy Support to Transition to a Market Economy

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### 1. Introduction

This chapter highlights the so-called Ishikawa Project, Japan's policy support to Vietnam implemented by the Japan International Cooperation Agency (JICA) for six years from 1995 to March 2001. This was symbolic policy support for a country in economic transition in the 1990s and early 2000s. The Ishikawa Project left important footprints in the history of Japan's intellectual policy support and has had a strong impact on subsequent intellectual support by JICA in other projects. It placed a country with a strong sense of national ownership in a very complicated situation by mixing the two features of 'development of a country with a low-income economy status and one at a very early development stage of the market economy.'

Its style was unique but applicable and can be practiced by other donors as well. Thus, it provides a useful reference to other donors that may try to design and implement this form of policy support now and in the future. At the same time, the Project's experience is likely to be especially useful for the governments of those developing countries that receive policy support from donors now and in the future. It will give them clues about the spirit of the recipients, the method of agenda setting about policy support and what the policy support process should look like.

The discussion proceeds as follows: In Section 2, the background of the Ishikawa Project including the economic situation on the eve of the Project and at the start of the Project is overviewed. In Section 3, the situation of Vietnam's industrialization is overviewed mainly through observations by the Japanese team during the Ishikawa Project. In Section 4, the focus of the industrial studies in each Phase is compared, i.e., what each phase highlights and in what context. In Section 5, the views of the Japanese team

on the controversial issues of industrialization are described. Industrial policy support usually confronts dichotomic arguments, for example on the relevance of government intervention to the industrialization process. How the Project dealt with those issues is an important point. Sections 6 and 7 outline the main characteristics and the achievements of the Project. Finally, Section 8 summarizes what the Ishikawa Project left to current and future policy support in the area of industrialization.

## 2. Background

In 1986, Vietnam started the 'Doi Moi' (renovation) policy that pursued enhancement of its socialistic economic management system through the introduction of the market mechanism. Before the 'Doi Moi' policy, economic growth was sluggish, and real GDP growth was 2.8 per cent per annum when Vietnam started the policy in 1986. However, under this policy, it grew rapidly in the range of 5.1-8.6 per cent from 1988 to 1994. Exports increased at more than 30 per cent per annum during 1989-92. The inflation rate went down from 411 per cent in 1988 to 5.2 per cent in 1993. The fiscal deficit was reduced from 10.3 per cent of GDP to 3.7 per cent in 1992, and the current account deficit declined from more than 8 per cent of GDP in 1989 to less than 1 per cent in 1992 (World Bank 1994, 3).

Vietnam came to face concerns about economic management again in the mid-1990s; for example, increases in the fiscal deficit due to the expansion of public investment and increases in the wage levels of government officials, the increases in the ratio of trade deficits to GDP, and the decreases in the disbursement of Official Development Assistance (ODA) and Foreign Direct Investment (FDI) (World Bank 1994, 4; JICA 1994, 13, 17).

Throughout the reform process, various forms of support were provided by the World Bank and the International Monetary Fund (IMF) through active policy dialogues. Initially, these dialogues were well received by the Vietnamese government and a wide range of reform programs were completed, such as monetary policy changes, fiscal reforms, rural reforms, price liberalization, devaluation, financial sector reforms, State-Owned Enterprise (SOE) reforms, private sector reforms, openness to FDI, and trade reforms. In 1993, a Standby Credit Arrangement was arranged by the IMF against an increase in the risks due to the excessive expansion of public expenditure (World Bank 1994, 2-4). In 1994, the First Structural

Adjustment Credit (SAC) in the amount of 150 million US dollars was provided by the World Bank. In addition, an Extended Structural Adjustment Facility (ESAF) in the amount of 535 million US dollars was provided by the IMF in 1994.

Meanwhile, differences between the two sides in the views on what the reform should look like, in particular, the approach of SOE reform, gradually came to be obvious. Trần Xuân Gi, Minister of Planning and Investment stated, 'Tensions were mounting between the Vietnamese Government and the International Financial Institutions (IFIs) over conditionality.' In this situation, the Vietnamese side expressed the opinion that 'the long lists of conditions imposed by the Bank and Fund were painful and humiliating.' Finally, the negotiations on SAC II broke down (World Bank 2011, 19). The reform packages were moderate for the World Bank and IMF, however, they were drastic for Vietnam. In this impasse, a third-party opinion was sought by the Vietnamese side.

In this situation, the drafting work of the Sixth Five-Year Development Plan 1996–2000 (FYP6) was started with the slogan of industrialization and modernization. Initially, the draft FYP6 set the ambitious target of an increase in GDP per capital by eight to ten times (JICA 1996a, 11). In Japan, a Country Assistance Study on Vietnam was started in 1994 under JICA, headed by Shigeru Ishikawa, who was a well-known development economist with a strong background in Chinese economic development. The purpose of this study was to develop a country assistance strategy prior to the restart of Japan's development cooperation with Vietnam. Its final report was produced in 1995. This report was handed over to Do Muoi, the General Secretary of the Communist Party of Vietnam through the Japanese Ambassador to Vietnam. Do Muoi was strongly impressed with the deep insights and the recommendation of the report and met Ishikawa one day in Tokyo when he was taking the opportunity to visit Japan. He invited Ishikawa to Vietnam and requested the Professor to give advice on the draft FYP6. In these processes, an official request for the policy support came from the Vietnamese prime minister to Tomiichi Murayama, the Japanese prime minister. That was the start of the subsequent six-year policy support project.

In June 1995, Ishikawa visited Vietnam under the JICA program, and had discussions with the Vietnamese government on the drafting of FYP6. The Vietnamese government explained they needed to prepare and submit

the draft FYP6 to the National Assembly by October 1995 and requested Ishikawa and JICA to support their drafting work urgently for its submission. However, it did not seem to be feasible for the Japanese side to meet their expected timeframe. Only several months were left before the deadline. Finally, both sides agreed that the policy support would be divided into two stages; in the first stage the Japanese team would present the Vietnamese side with a paper describing the minimum main points to be reflected in the draft FYP6; and would submit comments on three urgent issues raised by the Vietnamese side (the forecast of world and regional economies, the tax reform, and the Budget Law). It was also agreed that for the second stage, the Japanese team would conduct analyses on the Vietnamese situation more deeply and come up with a report by April 1996. The first and second stages were called Phase 1 and Phase 2, respectively. Following these two phases, Follow-up Cooperation (1998-99) and a Phase 3 (1999-March 2001) were implemented. The Ishikawa Project was the name given to the policy support covering Phase 1, 2, the follow-up Project, and Phase 3.<sup>1</sup>

After the Project was completed, four thematic policy research projects were spun off and continued until early 2004 in the areas of producing higher value-added products in agriculture, personal income tax, monetary policy (dollarization), and industrialization in the economic integration era, all built on the legacies of the Ishikawa Project.

### **3. The Situation of Vietnam's Industrialization around 1995**

#### ***3.1. The Japanese views on Vietnam's industrialization***

When Phase 1 started, the Japanese academics group interpreted Vietnam as being in a transition stage. After the completion of the economic recovery period in the early 1990s, Vietnam finally became able to consider the development of its economy. The further progress of market-oriented reforms and building the production capacity of the nation remained as challenges.

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<sup>1</sup> Officially, the Ishikawa Projects were named: The economic development policy in the transition toward a market-oriented economy in the Socialist Republic of Viet Nam in Phase 1; A Study on economic development policy in the transition toward a market-oriented economy in Viet Nam in Phase 2; A Follow-up study for the economic development policy in the transition toward a market-oriented economy in Viet Nam in the Follow-Up period; and a Study on the economic development policy in the transition toward a market-oriented economy in the Socialist Republic of Viet Nam in Phase 3.

Against these situations, the Japanese team considered that Vietnam would need to come up with a development scenario and a concrete way of achieving its long-term development. Vietnam's policies were characterized by the two mixed elements when the Project started: the first was designed in response to emerging needs against an economic crisis; and the second was driven by exogeneous factors, that is, the World Bank and IMF conditionalities. This situation made economic management in a transition complicated. Therefore, it was assumed that development of the scenario would enable Vietnam to follow the reform process more smoothly. From this viewpoint, China was considered as a benchmark for the reform process and scenario development. China had started its reform in 1978, and came up with its comprehensive picture of economic reform in 1993, which was a scenario or roadmap with clear targets for specific sectors, the target years and policy actions. If Vietnam similarly developed a roadmap for long-term development, it would be able to proceed with an economic transition incrementally in a comprehensive and systematic manner as China was able to do. China spent 15 years to formulate a roadmap. However, it was considered that Vietnam might be able to shorten that period for the roadmap development because of the advantage of backwardness (Ishikawa and Hara 1999, 23-25).

In the context of industrialization, it was also considered that Vietnam needed to formulate a more realistic scenario. The Vietnamese government had a strong expectation that the industrial sector would play a leading role in economic growth, for example, to grow at 14.5 per cent per annum from 1996 to 2000, and to reach 31.5 per cent of the industrial sector contribution (value-added basis) to GDP in 2000. To this end, FDI attraction, the development of a non-SOE sector, and an increase in the competitiveness of the SOE sector were prioritized. And the adoption of both import substitution and export-led industrialization strategies was assumed (JICA 1996d, 2). Moreover, Vietnam had a strong orientation towards industrial targeting. The specific targets set by the major industries in the initial draft FYP are as follows, although these targets seemed to be ambitious to the Japanese team (JICA 1996d, 3):

- Consumer products: Textiles and apparel, leather goods, footwear, construction materials, crafts, and household goods. Graduation from outsourcing manufacturing abroad;
- Oil refinery: The establishment of two oil refinery plants with a processing capacity of 6.0-6.5 million tons per annum (by 2002, one

of the two plants would be installed);

- Urea fertilizer: The establishment of a urea fertilizer plant with a production capacity of one thousand tons per day of ammonium;
- Petrochemical industries: The establishment of a plant after 2000;
- Machinery industry: Supplies of machines and equipment for agricultural processing, transportation and spare parts would be secured. Shipbuilding and ship repair industries would be established for maritime transportation. Exports of automotive products and electric appliance products would be promoted;
- Electric and electronics: The production modality would be upgraded from SKD (semi-knockdown) to CKD (complete knockdown) and to IKD (intensive knockdown). The development of a supporting industry for spare parts. Computerization would be promoted widely from research and development to production and daily activities;
- Construction materials: The cement industry is highly prioritized. The establishment of cement plants with a production capacity of 16-20 million tons per annum by 2000 and 30 million tons per annum by 2010. The establishment of glass factories with a production capacity of 20-5 million m<sup>2</sup> after 2000; and
- Iron and steel industry: The establishment of a domestic production capacity of 2 million tons per annum by 2000. The establishment of blast furnaces with a production capacity of 1.5-3.0 million tons per annum after 2000. Steel production of 7-8 million tons per annum by 2010. Aluminium production of 150-200 thousand tons per annum after 2000.

Vietnam experienced an investment boom in 1994 just before the start of the Ishikawa Project. This had drawn attention from advanced countries, and many investors had visited Vietnam. As a result, the Vietnamese government had strong confidence about the bright future of their industrialization and economic development.

The initial draft of FYP6 reflected this atmosphere within the government and pursued an ambitious program of industrialization in various sectors (JICA 2002, 88). The development of large-scale new investment projects in the natural resource-based capital intensive heavy and chemical industries were targeted, reflecting a strong interest from the Vietnamese political leadership for steel (blast furnace), oil refinery, and petrochemical (ethylene center) industries in the draft FYP6. It was considered that Vietnam was endowed with ample natural resources;

thus, those industries must have high potential.

Their confidence and ambitions were expressed by the Vietnamese government quite often in meetings with the Japanese team. According to one Japanese team member, the Vietnamese side often insisted that ‘the era of the garment and textile industry is over. The era of the high-tech industry will come.’ However, the garment and textile industry is still one of the leading export industries at present. It keeps playing a pivotal role in Vietnam’s industrialization. Meanwhile, at this time high-tech industry had not yet developed, therefore, the ICT industry was considered to be too early as a priority industry. Nowadays the high-tech industry of Vietnam is known worldwide for its competent ICT human resources and growing companies.

In addition, an incident involving the withdrawal of a Multi-National Corporation (MNC) from the investment plan of an oil refinery plant soon occurred, and a growing concern had emerged within the government about the feasibility of the projects described in the draft development plan. Policymakers were deeply confused about how to deal with investment in the oil refinery projects given the strong political expectation and concerns over the feasibility of such investment.

However, even in this situation a strong orientation towards industrial targeting was maintained by the Vietnamese government. As a result, a critical policy issue for Vietnam was how to select the priority industries and make investments in large-scale projects in the five industries of steel, oil refining, petrochemicals, urea fertilizer, and cement already laid out in the draft FYP6 (JICA 2002, 88-89).

### ***3.2. The policy support for priority industries under the Project***

The Ishikawa Project was inevitably requested to indicate the best path for Vietnam’s industrialization to the Vietnamese policymakers in such a complicated atmosphere after the start of Phase 1. There was no doubt about the importance of industrialization. Several observations were tentatively made by the Japanese teams on the situation of Vietnam’s industrialization. First, Vietnam remained in the early stage of industrialization, and a modern industry sector had not yet emerged at the time (JICA 1996a, 33). The situation was very similar to that in China in the era of state building in the early 1950s. There, modern industries

existed only in limited areas such as Shang Hai and Tianjin (JICA 1996a, 34-35). Also, the percentage of the industrial sector (value-added) to Gross Domestic Product (GDP) accounted for 29.6 per cent in Vietnam in 1994. This was almost equivalent to that of Thailand in the early 1990s (JICA 1996b, 1).

Second, two models of economic development, the dual economy development model of Arthur Lewis and the Feldman model, would be applied to interpret the situation of Vietnam's industrialization. Each model sheds light on different aspects of economic development and those two different aspects needed to be combined for proper interpretation of Vietnam's situation. For example, the Lewis model, which assumes that the national economy consists of dual traditional and modern sectors and interprets the economic development process as a labour transfer from the former to the latter, could fit the interpretation of the country in the initial stage of industrialization. It indicates that the development of agriculture and the rural economy needs to be paid much attention at the beginning. On the other hand, the Feldman model, which assumes that the economy is made up of capital and consumer sectors and provided a theoretical foundation for Soviet industrialization, could fit in with the growth structure of the newly emerging industrial sector and the transition of the leading industrial branches. This indicates how the selection of priority industries, the size of the industrial plants and the selection of the applied technologies need to be considered within the industrial sector (JICA 1996a, 9).

Third, both the modern sector and the SME and indigenous industrial sector need to be given attention in the industrialization process. According to the experience of Japan and neighbouring Asian countries, it was obvious that both sectors would play a crucial role in industrialization. The modern industrial sector would lead industrialization on one hand, and SME and indigenous industries would contribute to the creation of employment opportunities, the development of supporting industries, poverty reduction in rural areas, and a reduction of the income disparity between the urban and rural areas on the other. The development of SMEs and the indigenous industrial sector had been supported by the governments in neighbouring countries and therefore Vietnam was not exceptional in terms of the necessity for a two-track approach (JICA 1996a, 34-35; 1996b, 8-9).

Fourth, the experience of the industrializing East and Southeast Asian countries would be very helpful in their consideration of Vietnam's industrialization scenario. In those countries, simple labour-intensive industries such as the garment and textile industry led industrialization with government support of export promotion in the first stage. Labour was absorbed by that sector. In the second stage, leading industries shifted to more advanced labour-intensive industries such as the machinery industry. FDI played a leading role in that shift. The same strategy would be pursued in Vietnam. That is, low-tech labour-intensive industries would be highly prioritized in the early stage. The leading industries would be shifted to more high-tech labour-intensive industries progressively afterwards based on Vietnam's comparative advantage (JICA 1996b, 2-3). Meanwhile, the reality of Vietnam was far from that scenario. Manufacturing products existed but their percentage of GDP was quite low. The industries which had led the export-oriented industrialization of the ASEAN countries had not yet emerged. In sum, the pattern of the export-led industrialization achieved by advanced ASEAN countries had not yet been realized in Vietnam's industrialization (JICA 1996b, 1). These situations were confirmed by the statistical data of major export and import items being dominated by primary products and in the low contribution of the materials, capital goods and intermediate goods sectors.

One of the crucial points in this scenario for the development of industrialization was the treatment of capital-intensive industries that were given a higher priority in the draft FYP6. It was not realistic to consider that Vietnam with its large population size would continue to import capital and intermediate goods from abroad in the long run. In general, those industries would have a strong linkage effect on others and contribute to the further development of the industrial sector in the future. Meanwhile, it is certain that huge amounts of investment would be required for development of those industries while few jobs would be created. The investment in that industry was very risky for a country that was still in the early development stage. Therefore, it was thought that Vietnam would need to build a better understanding of industrialization in general and of the specific industries it wanted to develop. Also, building on that understanding, Vietnam would need to prepare a realistic masterplan of the development of the capital-intensive industry prior to decision-making on those investments. The timing of the commencement of the industrial plants and the scale of the plants would

need to be indicated clearly based on appropriate demand forecasts of the domestic and international markets. Then, Vietnam would need to make judgments about investment into specific industries on the assumption that the adoption of a prudent policy was maintained for the stable macroeconomy. In so doing, Vietnam would need to avoid investment failures (JICA 1996b, 3).

#### **4. Industrial Studies in Each Phase**

The focus of the industrial studies conducted in each phase shifted gradually to meet the changes in the latest domestic and external circumstances surrounding Vietnam. These can be characterized as follows: First, under Phase 1, the situation of the industrial sector in Vietnam and the industrialization policy laid out in the draft FYP were reviewed and the main issues to be dealt with were clarified. Then, new investment into capital-intensive industries was analyzed. The experiences of successful and failed investments made in other countries were learnt. Finally, based on those analyses, the conditions of investment were explored to avoid investment failures in Vietnam. On the other hand, the Vietnamese government was not familiar with industrialization in general and in the specific industries; however they were very keen to promote large-scale investment into the five capital-intensive industries in the enthusiastic atmosphere of the investment boom of the early and mid-1990s. Therefore, Phase 1 also assisted the Vietnamese side to build a basic understanding of the selected five industries. More specifically, this included their nature (e.g., structures of the industry, types of products and profit margins and costs), the technological options (e.g., electric furnaces or blast furnaces in the steel industry), the situations of domestic demand and supply, the current situation and forecasts of demand and supply; and investment in the neighboring countries including planned investment. The task was then to show the feasibility of the planned investments to the Vietnamese policymakers.

Phase 2 deepened the Phase 1 studies of the specific industries and added the perspectives of international and regional economic integration such as the ASEAN Free Trade Area (AFTA), the Asia-Pacific Economic Cooperation (APEC), and the World Trade Organization (WTO). The experience of AFTA was highlighted the most. Vietnam was required to reduce tariffs in the range of zero to five percentage points from 2006 in accordance with the tariff reduction schedule designated under the

Common Effective Preferential Tariff (CEPT) of AFTA. Building a better understanding of industrialization in general and the specific industries continued. Furthermore, the coverage of the studied industries was expanded. The automotive industry and export-oriented industries with high potential were added, based on the request by the Vietnamese side, in addition to the five capital-intensive industries. Phase 2 assisted the Vietnamese side to understand what kinds of commitments would need to be made under AFTA, what kinds of policy measures Vietnam would be allowed to take in promoting its industrialization, and what Vietnam would not be allowed to do. Phase 2 also dealt with what Vietnam would need to do before 2006 and what Vietnam would need to do after 2006 from the perspective of industrial policy. In this context, the necessity for the development of the industrialization scenario was emphasized and the scenarios were presented by each industry based on the updated information on the demand and supply in domestic and international and regional markets so that Vietnam could use the limited period more effectively.

In Phase 3, more in-depth studies on the selected industries were conducted, updating the latest information on the ongoing and planned investments in neighboring countries. The scenario was further elaborated. For example, the FDI issue was dealt with more boldly in Phase 3, focusing on international and regional production networks led by MNCs. Policy consistency was emphasized in one chapter of the final report. It was considered that Vietnam's negotiations on WTO accession and AFTA-CEPT had not been effective, in particular in relation to the tariff reduction schedule. Ideally, its schedule should be renegotiated, bearing in mind the industrialization strategies in more detail; for example, how did Vietnam assume the phasing of development of the key industries in line with a long-term roadmap; by when did Vietnam assume decision-making on investment would occur and in what type of project; and how did Vietnam want to lower the tariff rate progressively in a manner consistent with the roadmap and the timing of investment decision-making.

The difference in the industrial studies in each phase can be summarized as in Table 7.1.

**Table 7.1. Comparison of the Specific Industries Studied under the Project**

	Phase 1	Phase 2	Phase 3
Capital-intensive industries	Steel Oil refinery Petrochemical Urea fertilizer Cement	Steel Oil refinery Petrochemical Urea fertilizer Cement Automotive	Steel Oil refinery Petrochemical Urea fertilizer Cement Automotive
Export-oriented industries		Electric & electronics Tool and die industry Garments and textiles Ship repairs	Garments and textiles Footwear Electric & electronics
Cross-cutting issues	SME and indigenous industries	SME and indigenous industries	Possible measures for WTO-AFTA negotiation, and FDI attraction

Source: Author.

It could be said that Phases 2 and 3 were more scenario-oriented while the studies on the specific industries under Phase 1 were confined to sharing of the general knowledge about the industries and specific information on current and future demand and supply and planned investments in the East and Southeast Asian regions and to indicate a rough scenario of industrialization and investments in the specific industries due to time constraints.

## 5. The Stance toward the Controversial Issues in the Industrial Policies

There were several controversial arguments on industrial policy in general and in regard to the Vietnam context at the time, such as the orientation of industrial policy (i.e., either horizontal vs. vertical), the policy stance towards international and regional economic integration, the infant industry argument, and the way to treat FDI. These arguments were actually made within the development cooperation agencies in Vietnam at the time. The following section describes how these critical issues were considered in the Ishikawa Project.

### ***5.1. Horizontal vs. vertical industrial policy***

According to Cohen (2009), two types of industrial policy can be defined: one is ‘general business environment policies that have an indirect impact on industry – including macroeconomic and social policies, as well as capital equipment and national defense policies;’ and the other is ‘industrial policy which in the strict sense is a sectoral policy; it seeks to promote sectors where intervention should take place for reasons of national independence, technological autonomy, failure of private initiative, decline in traditional activities, and geographical or political balance’ (Cohen 2009, 85). According to Lin and Monga (2013), the former can be labeled as ‘horizontal,’ and the latter can be labeled as ‘vertical’ industrial policy (Lin and Monga 2013, 21).

If we follow these categorizations, Vietnam apparently had a strong orientation towards vertical industrial policy. The Japanese team was neither positive nor negative toward industrial targeting. They simply accepted the following three facts although they were seriously concerned about the investment plans. First, historically speaking, almost all advanced industrialized countries had employed protection policy to foster heavy and chemical industries. Even if Vietnam attempted to do this in a similar fashion, that would not be so strange. Second, considering its population size, it was not realistic to imagine that Vietnam would not have any capital-intensive industries in the future and be required to continue the imports of such products from abroad in the long run. Third, the Vietnamese side was very interested in the selective industrial policy. It was likely that they would make investments in the capital-intensive industries even if the Japanese side were not supportive of their thoughts on the industrial targeting and the selected priority industries. The damage to the Vietnamese economy would however be more serious if those investments failed (JICA 1996b, 3).

From these viewpoints, the dichotomy arguments on horizontal vs. vertical industrial policies were avoided in the Ishikawa Project, and many resources were allocated to the discussion on industrial targeting based on requests from the Vietnamese side. Meanwhile, the horizontal perspective was not overlooked in the Project. The importance of the creation of the general business environment was well recognized and argued throughout the three phases. For example, the bottleneck factors of FDI attraction were analyzed including interviews with foreign investors.

The SMEs and support for indigenous industries were also argued under Phase 1 and 2 although those issues are not described in this chapter due to space limitations.

## ***5.2. International economic integration***

International and regional economic integration was considered essential for Vietnam's industrialization from the long-term perspective. At the same time, it was emphasized that Vietnam needed to bear in mind the pros and cons of its participation. Vietnam joined these integration frameworks as a late comer. Thus, there were more serious challenges Vietnam was required to overcome than the early joiner countries had faced in the past.

More specifically, first, the policy circumstances of industrialization for Vietnam were considerably different compared with those for the advanced industrializing ASEAN countries in the stage of their rapid economic growth from the 1960s to the 1980s. The feasible areas for industrialization policies were very limited for late industrializing countries such as Vietnam.

Second, when those advanced ASEAN countries had achieved their industrialization in the past, the orthodox policy sequence was the adoption of an import substitution industrialization (ISI) strategy at first, then a shift to an export-oriented industrialization strategy. However, when Vietnam started the industrialization process, the international economic integration framework was not so generous as to accept the adoption of an ISI strategy by the late comers any longer. Moreover, it was not generous about the adoption of an export-oriented industrialization strategy as well (JICA 1998a, 10-11).

Theoretically, Vietnam had three options for participation in regional economic integration. The first option was that Vietnam would simply follow the tariff reduction schedule under AFTA. The second option was Vietnam would explore space for its policy actions and promote infant industries as much as possible in a coherent manner within the GATT rules. The third option was Vietnam would adopt a hybrid approach of the first and second options. The third option was considered realistic under the Ishikawa Project. From this standpoint, various lectures were delivered step by step by the Japanese team from their general knowledge

of AFTA, APEC, and WTO relating to the advantages and disadvantages of Vietnam's participation in those framework, various arguments on the policies for industrialization, and possible development scenarios for the specific industries in accordance with the AFTA tariff reduction schedule (JICA 1998a, 8). In Phase 3, the possible response to the strong pressure of globalization was classified into the five-fold in one chapter of the final report: successful integration, gradual integration with ownership, big ban integration, reversal, and inconsistency and delay. By so doing this, Vietnam was encouraged to better prepare for international integration (JICA 2001).

### ***5.3. Infant industry argument***

The infant industry argument was also a crucial issue in Vietnam's context of economic integration. This issue was argued mainly in Phase 2. Under the CEPT framework, each member country of ASEAN was requested to categorize trade items into a three-fold list; the Inclusion List (IL) with a tariff rate of zero to five per cent, the Temporal Exclusion List (TEL) and the Exclusion List (EL). Then each country was required to reduce the number of the items in EL and shift them to IL in accordance with the tariff reduction schedule. In the case of Vietnam, the number of the items in IL was 857 and accounted for 39.1 per cent. The number in the TEL was 1,189, accounting for 54.2 per cent.

A critical issue was how rapidly Vietnam could complete this conversion from TEL to IL. If the trade sector were liberalized widely in a short period of time, little space would be left for possible policy actions in relation to the future development of infant industries which had not yet emerged at the time. This implied that Vietnam would need to continue the outsourcing typical of manufacturing in the garment and textile industries in the long run. From these viewpoints, it was considered that rapid trade liberalization without any long-term scenario of industrialization in general and for the specific industries should be avoided. Such liberalization would unnecessarily prevent the potential of Vietnam's industrialization being realized.

However, this does not mean that active industrial policies for the infant industries in an unlimited manner were recommended under the Ishikawa Project. There was a concern that those protection policies would regress Vietnam industrialization policies considerably against the movement

toward free trade. It was widely recognized that the disciplines brought by a free trade regime needed to be functional to improve the efficiency of Vietnam's industries.

Meanwhile, the existing FDIs in Vietnam were attracted to its domestic market protected under ISI. The rapid trade liberalization based on the desk theories would also have damaged their investment appetites in Vietnam seriously. From this viewpoint as well, the long-term scenario of industrialization needed to be designed based on the reality of the Vietnam's industrial sector (JICA 1998b, 49-50, 55).

## **6. The Main Characteristics of the Style of the Ishikawa Project**

The Ishikawa Project can be characterized in three ways: (i) adoption of the Joint Research style; (ii) thorough understanding of the internal situation and maximum respect for the will of the Vietnamese side; and (iii) a finely tuned response to enquiries from the Vietnamese side.

### ***6.1. Adoption of the Joint Research style***

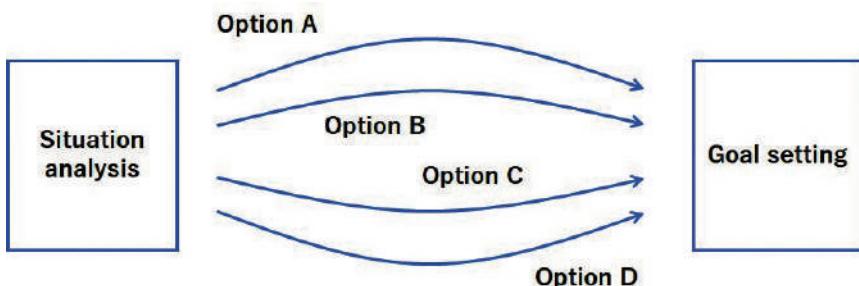
The Joint Research style was adopted in the entire Ishikawa Project. Under this style, the Vietnamese policymakers and the Japanese team worked together. On the Japanese side, the prominent academics of economics led by Ishikawa and experts with much practical experience were engaged in the Project, and on the Vietnamese side the policymakers responsible for drafting FYP directly participated in the Project. This 'Joint' Research was characterized by several unique relationships. This uniqueness was practiced in the industrialization issues as well.

First, a series of tasks were completed jointly; for example, how the current situations were analyzed, whether or not the goals to be set were relevant, what the alternative goals were if the goals to be set were not relevant, and how the set goals could be achieved. On industrialization, interviews with the domestic and foreign investors were conducted jointly.

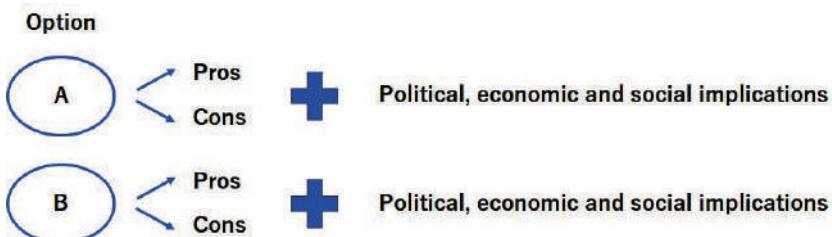
Second, the policy option approach was adopted. Both sides were engaged jointly in drawing up the future scenario of industrialization, following several steps. At first, various possible options of the paths were identified (Figure 7.1 (a)). Next, the pros and cons and political, economic,

and social implications of each option were examined. Finally, the final decision making was left to the Vietnamese side in selecting the policy options (Figure 7.1 (b)).

**(a) Joint work of the situation analysis, goal setting and identification of the available options:**



**(b) Examination of the pros and cons and implications by each available option:**



Source: Author.

**Figure 7.1. The Images of Options Approach**

Take the example of the scenario development of the steel industry in Phase 2. At first, a situation analysis of Vietnam's steel industry at the time was conducted. Then, the nature and problems of the blast furnace mills were studied, referring to current and future demand and planned investments in neighboring countries. Last, several options for the possible investments were carefully examined, such as the options for blast furnace mills, direct reduced iron (DRI) production plants, new establishment of electric furnace mills with imports of scrap iron, and the new establishment of simple rolling mills with imports of iron billets.

## ***6.2. Thoroughly understanding Vietnam's internal situation and respecting the will of the Vietnamese side at maximum***

The internal situation surrounding the Vietnamese policymakers was accepted carefully by the Japanese side with sympathy. The Vietnamese policymakers had various internal issues such as the directions rooted in the way of economic management under communism, and the enthusiasm for industrialization and its related internal pressures on the policymakers within their ruling system. Moreover, they had challenges from the development perspective. Vietnam was still a country with low-income economy status. They needed to explore paths for long-term development in the complicated circumstances surrounding development and economic transition.

In this situation, the Japanese team respected the will of the Vietnamese political leadership and policymakers thoroughly, i.e., what agenda they wanted to set, what issues they wanted to argue concretely, and what they wanted to learn. Sometimes, there were cases where the Japanese team could not always support them in its heart. However, even those agendas were accepted by the Japanese team unless in extreme circumstances. These are exemplified as the North Wind and the Sun of the Aesop's Fables later in this chapter. Take the example of industry targeting and large-scale investments. Stereotyped and dichotomous arguments were avoided in the Project as stated already. The avoidance of dichotomous arguments was realistically a very natural answer. The reality of state building and industrial modernization was different from the desk thoughts devised by those who were not primally responsible for policymaking and decision-making but could relax in a well-equipped office room. It was not realistic to consider as common sense that Vietnam should continue the import of manufactured products in the long run. Ishikawa said:

The approach adopted by the World Bank is theoretical approach which is drawn based on the economic theories developed from the experiences in the countries with well-developed market mechanisms. The Japanese team was sceptical about the simple application of those theories. It is essential to study and understand the situation of Vietnam at first. In this sense, this can be named the empirical approach. (JICA 2002, 65)

One Japanese team member said:

Protection policies for the capital-intensive industries were undertaken by any country including the advanced countries in the past. As a result, those industries are now established. However, the initial capital investment would have not been made without the government supports. Certainly, there existed many failure cases in those investments. A critical issue is the appropriateness of the development scenario of industrialization which would minimize the protection measures and the viability of the planned projects. If those protection measures were not implemented properly in a sound atmosphere in the society, the corruption would be occurred, and the protection measures would be continued un-necessarily in the long run. But those disadvantages should be considered separately. It is very natural for Vietnam with the large population size to consider not only the promotion of the export-oriented industries but also development of the capital-intensive and infant industries in accordance with its long-term development scenario. From this viewpoint, it is essential to avoid dogmatic dichotomic arguments driving Vietnam into the corner intentionally and to deal with these controversial issues in a realistic manner. (JICA 2002, 93)

The Japanese team emphasized the consideration and analysis of things in a neutral manner from the standpoint of the Vietnamese government. The Japanese team tried to respond to Vietnam's expectations sincerely with this spirit. During the Project period, various interviews with the Japanese MNCs were conducted in Vietnam and in the neighboring countries to advance understanding of the current situation and to explore the future direction of Vietnam's industrialization. Theoretically, there was a possibility that the Japanese team felt the dilemma of how to strike a balance between Vietnam's industrialization and Japanese bilateral economic interests. However, even in that case, a neutral position was kept throughout the Project. It was considered that the Ishikawa Project was an intellectual support under the technical cooperation program; it was neither a bilateral negotiation on trade and investment nor a lending program such as the conditionalities imposed by IFIs. Therefore, policy

advice needed to be made thoroughly from Vietnam's standpoint (JICA 2002, 94-95).

### ***6.3. A finely tuned response to enquiries from the Vietnamese side***

The Japanese team tried to respond to Vietnam's frequent enquiries through many rounds of communication such as visits, emails, and facsimiles, each time those were made. The Vietnamese policymakers were requested to answer various questions posed by the Politburos of the Central Community Party and other political leaderships (JICA 2002, 87, 90). They also faced some conflicting arguments and challenges within the country and from bilateral and multilateral donors. They needed to respond to these and sought timely suggestions from the Japanese team on how to deal with those things.

## **7. Achievements of the Ishikawa Project**

The way of confirmation of the impact of policy support can be very controversial. Donors of policy support are usually satisfied if the achievements made by the policy support could be observed in a tangible manner, for example, clear evidence in the final version of the national and sectoral development plan. However, in general, it is rather difficult to achieve this. An exception is policy support within the conditionalities or the policy matrixes under the financial instruments, such as the structural adjustment lending and development policy operations (DPOs). In this case, footprints are visible in the form of reformed policies and changes in the institutional framework. However, these tangible footprints will not always bring about sustainable results in the medium and long run because of the weak motivation of the recipient government toward reform. Policy reform cannot be purchased by money. In this sense, a clearer observation of policy support cannot be said to be a perfect answer.

On the other hand, in the case of policy support under technical cooperation without financial instruments, visible observations are rather difficult. There is no instrument for confirmation unless it is accompanied with a dialogue mechanism. Moreover, the situation is usually more complicated. Various government officials are involved in the drafting. Supposedly, some of them have experience of visiting abroad for academic studies and study tours. Also, support must be provided by various donors including

the IMF, the World Bank, the Asian Development Bank, UN agencies, and bilateral donors in the drafting process. Inevitably, the final version of the planning document becomes a mixed product of those inputs.

Returning to the Ishikawa Project, the situation was same. When FYPs were drafted by the Vietnamese government, many government officials were involved. And several Multilaterals and Bilaterals provided suggestions. Visible observation was not easy. One of the Japanese academic group members said, ‘the essence of the intellectual assistance under technical cooperation is to provide ideas on what the desired policies look like to the Vietnamese government. Whether they adopt the presented policy ideas belongs to their sovereignty matter’ (JICA 2002, 84). This saying is so true.

However, several achievements of the Ishikawa Project can be observed in relation to the entire project and the industrialization issue, respectively. On the entire Project, the main achievements were the intellectual contribution to the draft FYP, especially FYP6 under Phase 1. The policy suggestions to the Vietnamese government included that the target of the economic growth rate needed to be lowered; the role of the agriculture and rural development needed to be emphasized more; domestic savings needed to be raised; and both the modern industrial sector and the SME and indigenous industrial sector needed to be developed. The footprints of these suggestion can be observed in the final version of FYP6.

In addition, the inputs by the Joint Research seemed to have two effects for the Vietnamese policymakers. One was the effect on the image formulation of the roadmap of their economic transition process. The reform packages proposed by the IMF and the World Bank tended to focus on macroeconomic stabilization and structural adjustment excessively in the short- and medium-term. The way of thinking on the development of the market economy and the long-term scenario proposed by the Japanese team was missed in the IFIs thoughts. By contrast, the situation of Vietnam, which at that time was a low-income country in the very early stages of the development of a market economy, was fully understood, and the long-term development perspective was emphasized by the Ishikawa Project. The other one was the demonstration effect on policy development. One direction of policy development based on the analyses of micro-level studies on the ground in the Ishikawa Project was shown, whereas the structural adjustment programs seemed to be applied to

Vietnam by the IFIs in a prescriptive manner based on macro data and a pre-existing template package (Ishikawa and Hara 1999, 4-5). This was the process and the time-consuming work. That is why it was unique.

On the industrialization issue, it is also not easy to observe tangible footprints. However, several points can be raised. First, the scenario of industrialization was presented prior to Vietnam's serious start of industrialization. Vietnam was advised to follow a similar path of industrialization as in East and Southeast Asia; that is, low-tech labor-intensive industries would be nurtured and would develop as the leading export industries with the support of the government in the first stage and be replaced by high-tech labor-intensive industries afterwards in the second stage. FDI would play an important role in those processes. This scenario was remarkably simple. It would become a good suggestion to remind Vietnamese policymakers in the transition process of the orthodox path of industrialization. Also, the scenario-oriented approach would contribute to the preparations for international and regional economic integration, especially AFTA. That is, what Vietnam needed to do by 2006 and what Vietnam needed to do after 2006 in accordance with the agreed tariff reduction schedule of the CEPT.

Second, the learning effects for the Vietnamese policymakers would be great. When the Ishikawa Project was started in 1995, the development of a modern industrial sector was in the very early stages. Inevitably, the Vietnamese government did not have enough knowledge and experience of industrialization in general and the specific industries in particular. In this situation ambitious industrial targets were about to be set in the initial draft FYP6. Typically, the establishment of capital-intensive industries was placed as one of the top priorities without any consideration of the risks in large-scale investments. Under the Ishikawa Project, the three-typed general knowledge was enhanced among Vietnamese policymakers: (i) industrialization in general; (ii) the specific industries; and (iii) international and regional economic integration.

As for industrialization in general, various models were introduced such as the Lewis model and Feldman model as described earlier in this chapter. In addition, the experiences of industrialization of the East and Southeast Asian countries were introduced. Sharing this knowledge would support the Vietnamese policymakers to create an image of the long-term path of industrialization.

On the specific industries the basic knowledge on these was presented by the Japanese team, such as the types of products, the structure (including cost structures and profit margins), the success and failure experiences of investment in East and Southeast Asia including Japan, the current and future demand and supply (including the planned investment projects in neighboring countries), and the views of the foreign investors including the investment appetites in Vietnam and the neighboring countries in each industry in detail, on the five capital-intensive industries and export-oriented industries. Box 7.1 illustrates this knowledge sharing and the outlook for development of the specific industries in Phase 1.

This information is discussed to show how the industrial studies and related knowledge sharing were done very concretely and intensively from Vietnam's standpoint to achieve better policymaking and learning. These studies and practices were continued in a more elaborated manner as the Project progressed. This knowledge sharing supported Vietnam not only to build a better understanding of industries but also to come up with a clear and realistic blueprint for the development of the priority industries.

**Box 7.1. Knowledge Sharing and the Outlook for the Development of Specific Industries: The Case of Phase 1**

***Steel industry***

Vietnam was interested in the steel industry, especially in the establishment of blast furnaces, in 2000. The initial capital investment for the establishment of these plant was huge. A long period would be required for their preparation. Unless the plant could be operated without international competition, protection policies would also be required, and these would put burdens on the state budget and increase prices to consumers. The operational risk would be higher due to the increased exposure to price volatility in the international markets if the domestic market was not developed on a big enough scale. The iron and steel industry in ASEAN countries is mainly characterized by electric furnaces and rolling mills for domestic demand. The existing capital investment plans concentrated on the new development and expansion of medium-scale electric furnaces (up to one million tons annual capacity) and rolling mills in the region. The domestic reserves of iron ore could not be regarded as an

advantage from the experience of Japan and South Korea, which had successfully developed steel industries without those endowments. And if investment in the establishment of integrated blast furnace plants were made at this time, it would fail as a result of high costs because domestic demand had not yet reached the appropriate volumes and economies of scale would not be realized. Therefore, the investment needed to be made based on a carefully designed masterplan.

#### *Oil refinery industry*

Inherently, the oil refinery industry is characterized by thin profit margins. It needs to be operated in an integrated manner from the upstream to the downstream. If Vietnam were interested in the establishment of an export-oriented oil refinery industry, the location of plants close to the final source of demand is preferred to a location close to the oil fields as in the East and Southeast Asian regions. The Singaporean oil refinery industry is too strong for other countries to compete with in terms of cost. The consumption patterns and quality standards would depend on the individual countries. Thus, the location factor is important. Vietnam has a plan for the establishment of oil refinery plant through joint ventures with MNCs, but commercial viability needs to be secured. Thus, the feasibility of the plant would need to be examined carefully. The collaboration with FDI needed to be explored.

#### *Petrochemical industry*

In ASEAN countries, the investment in ethylene centers had been started by SOEs by the late 1980s. Upstream investments such as ethylene centers are inherently capital intensive and require huge investment. They tend to be affected by price volatility in the international market. Meanwhile, the creation of employment opportunities cannot be expected despite the huge amounts of investment. Thus, the timing of the investment would be crucial even though the petrochemical industry is important as a basic material industry. From the experiences of the neighboring ASEAN countries, at first, the development of oil refinery capacity needs to be prioritized prior to the development of a petrochemical industry. Then, the development of the downstream industries and its markets such as

resin processing should be considered next, followed finally by the development of the upstream investments such as an ethylene center. FDI needs to be utilized. However, even if Vietnam, a later comer in this industry tried to adopt the same path as the ASEAN countries, it would not always be able to follow this. Investment for increasing production capacity is now planned in the region. As a result, cost competitiveness would become a more crucial decisive factor for the survival of Vietnam's petrochemical industry than before.

#### *Urea fertilizer industry*

The urea fertilizer industry is important from the perspectives of agricultural policy and the use of the natural gas exploited in Vietnam. On the other hand, the urea fertilizer industry is another very capital-intensive industry. The profit margin consists of the raw materials, the capital investment in plant construction, and the level of utilization of the production capacity. Urea fertilizer is a typical international commodity, and the trade price would be affected by the price volatility of raw materials such as naphtha and natural gas. In addition, excess supply from the former Soviet Union countries could be expected. There was a possibility that the international market would fluctuate a lot in the next five years. Therefore, the investment needed to be examined carefully from the viewpoint of the forecast of demand and supply in the international markets and the degree of cost competitiveness in relation to international price volatility.

#### *Cement industry*

The cement industry in Vietnam has two advantages. First, it is basically indigenous due to the high transportation (shipping) costs incurred in international trade. Second, Vietnam is favored with better initial conditions of the endowments of limestone and the rapid increase in domestic construction demand. The amount necessary for initial capital investment is less than in the steel and petrochemical industries. However, the industry is characterized by machinery-driven undertakings. A lengthy period is required before they began to show a return on investment. In the case of Vietnam, the capital for the investment would need to rely on FDI for the moment under the state budget constraint. Thus, how FDI providers

see the potential of the Vietnam's market expansion including the physical infrastructure development and its business environment was crucial. Furthermore, when the investment plan was designed, not only the forecast of the demand and supply in the entire country but also the regions in Vietnam needed to be considered. The market outlook is usually varied depending on the region, and the operation of the cement industry would be affected by demand and supply in each region.

From the viewpoint of the Japanese team, in fact, only a few target industries and projects with the strong preference of the Vietnamese side were considered realistic in Vietnam's situation at the time, even if the government intervened by taking protection measures. Thus, when workshops were organized in Vietnam and Tokyo, the presentation materials were prepared carefully and the important points were explained repeatedly by the Japanese team, bearing in mind the facilitation of the learning process of the Vietnamese policymakers. When the Vietnamese government should not make investments and how any investments should be made and under what pre-conditions was also suggested. The repeated explanations were essential so that the Vietnamese policymakers could not only deepen their learning but also formulate a long-term industrialization vision.

On international and regional economic integration, the Japanese team was concerned whether the Vietnamese policymakers negotiated with WTO on its accession with enough understanding of the WTO (JICA 2002, 91). Therefore, the general knowledge on international and regional economic integration in such organizations as AFTA, APEC, and WTO was provided to the Vietnamese policymakers, and included more specifically what kinds of the commitments Vietnam was requested to fulfil under each framework and what the advantage and disadvantage of Vietnam's participation in those frameworks would be. For example, topics on the trade creation effect vs. the trade diversion effect from the static analysis viewpoint were covered. The promotion of industries vs. exposure to competition from the dynamic analysis viewpoint (including an infant industry argument, dynamics of the externality, and the discipline of free trade) was also considered. Furthermore, arguments on infant industry protection were deepened, for example through lectures

by the Japanese team on famous counter arguments against the temporal protection of infant industries such as the Mill-Bastable Criterion, the existence of market failures and government failures; and the criteria for selecting priority industries such as the productivity-growth criterion, the income elasticity criterion, low set-up costs, and low import requirements (JICA 1996b, 109-18).

To this end, various input papers were produced by the Japanese academic group for learning purposes as below (Table 7.2). The experience of various countries such as Japan, China, and the ASEAN neighbors were examined in a comparative way as much as possible so that Vietnam could understand those options more deeply and design a realistic long-term scenario for its industrialization.

**Table 7.2. List of the Input Papers on Industrialization**

Phase	Intellectual Inputs
Phase 1	<ul style="list-style-type: none"> <li>• A paper on the new external economic environment of Vietnam: the commitment to the free trade and necessity of industrial policy (by Kenichi Ohno, August 1995)</li> <li>• Analysis of Revealed Comparative Advantage (RCA) of Vietnam's industries</li> <li>• The Experiences of Japan and China relating to the issues of Vietnam's new Five-Year Plan (by Shigeru Ishikawa, January 1996)</li> <li>• Comments on the major industries (Steel, oil refinery, petrochemical, cement, urea fertilizer)</li> </ul>
Phase 2	<ul style="list-style-type: none"> <li>• The policy options and its implications for development of the capital-intensive and infant industries in Vietnam (by Daiwa Research Institute). *The automobile and its parts industries, steel, oil refinery, petrochemical urea fertilizer, and cement industries</li> </ul>
Phase 3	<ul style="list-style-type: none"> <li>• The significance and critical issues around Vietnam's WTO accession</li> </ul>

Source: Author.

The joint research in itself was an effective vehicle equipped with an instrument for facilitating the learning process. Using these processes, the learning of the Vietnamese policymakers was carefully ensured. These learning effects were very important. One member of the Japanese team said:

Vietnam had a strong preference for industrial targeting to the capital-intensive industrial projects simply because those industries were regarded as a symbol of industrialization. However, in fact, Vietnamese policymakers seemed to be

muddling through the planning work of industrialization without carefully designed plans in the Phase era. At one time, they confronted the withdrawal of a MNC from the investment in an oil refinery plant and were in trouble with what to deal with the pipelines of the large-scale investment. Against this situation, we considered it inappropriate to draw a simple conclusion of whether Vietnam should make investments or not. The knowledge and actual experiences necessary for planning and implementation of large-scale investments were not accumulated among the Vietnamese policymakers at the time. Thus, various opportunities of interviews with domestic and foreign investors were arranged for them. Following those processes, the general knowledge level of industrialization and the specific industries were raised among the Vietnamese side. Finally, the recognition gap on the large-scale investment plans of capital-intensive industries was gradually reduced in the Phase 2 era. (JICA 2002, 88-89, 95)

This knowledge sharing contributed to Vietnam's nurturing the development scenario of industrialization from a more holistic perspective. It is rather difficult to show evidence on the learning effect. However, this effect was testified by a Japanese member directly involved in the Project, and the implementation of too-ambitious investment projects was avoided.

## **8. Sharing Experiences from the Ishikawa Project for Future Policy Support**

The Ishikawa Project was an important experience for the various policy support projects implemented by JICA afterwards, such as the subsequent National Economic University (NEU)-JICA Joint Research Project in Vietnam and those in other countries. That experience is referable and applicable not only for JICA but also for the donors providing policy support at present and in the future when they design and implement support on the ground. At the same time, those experiences are useful for the (prospective) recipient developing countries when they receive assistance now or plan to receive policy support from donors in the future, for example, on what they seek in donor policy support, what kinds of spirit and attitudes are required, what kinds of approaches and styles are

suitable in each country's context, and how the institutional frameworks need to be set up. In this section the key experiences are summarized for donors and the recipient governments, respectively. Those from the Ishikawa Project as a whole were not confined to these points.

### ***8.1. Sharing experiences for the donors and the recipient governments***

Four experiences can be emphasized. First, the issue of 'inevitability' needs to be solved on both the recipient and donor sides. In general, there are no reasons why the recipient government needs to be intervened in domestic matters such as policymaking by the foreign countries and expatriates, or to listen to and accept the recommendations of the foreign countries. In other words, it can be called legitimacy or justification that the recipient governments become ready to accept intervention of foreign countries into their domestic policy making. On the other hand, from the standpoint of donors, similarly, these need reasons why they are required to allocate their resources and be involved in the policymaking of the foreign government. Policy support cannot be implemented without the presence of these two actors. The recipient countries aspect is especially crucial because in general to establish this relationship, the recipient government needs to feel comfortable with receiving suggestions and recommendations from external actors.

In the case of the Ishikawa Project, the Vietnamese government sought third-party opinions on policy and asked Japan to play such a role while they received the policy reform package from the IMF and the World Bank. From the Japanese standpoint, Japan (JICA) had been willing to assist Vietnam's economic transition after the Vietnam Country Assistance Study from 1994 to 1995, and the visit of Do Muoi to Japan and were officially requested to support them directly. Therefore, they were ready to support Vietnam naturally upon the official request.

Second, building trust between the two sides is essential in policy support. However, trust building in general terms is not enough. The type of trust building is very crucial in the context of policy support. Generally speaking, when donor assistance is started, the conclusion of the agreement between the recipient and the donor country governments is a 'must' pre-condition. Based on this, trust is built at the government level. Another important element for effective policy support is that trust

also needs to be built at the personal level between the higher level of political leadership and the leader of the donor team on top of the pre-conditions of the government level trust building.

From this viewpoint, many people might consider that policy support should not be implemented if it relies on a personal relationship. But in reality, the person-to-person relationship between the recipient and the donor team exists and needs to be another 'must' pre-condition. In the Ishikawa Project, such a personal relationship between Do Muoi and Ishikawa existed. For example, several meetings between Do Muoi and Ishikawa were arranged in Hanoi during Phases 1 and 2. In September 1995 after the start of the Project, a lecture on the Report of JICA's Country Assistance Study to Vietnam was delivered by Ishikawa to Do Muoi and a lecture was delivered to the Politburo of the Communist Party of Vietnam respectively in Hanoi. This relationship was taken over to the successor of Do Muoi. When Ishikawa visited Vietnam in 1998, meetings were held with Le Kha Phieu, the Chairman of the Central Community Party, the successor of Do Muoi, Sang, the Vice-President of Vietnam, and Trần Xuân Gi, the Minister of Planning and Investment, respectively. Through those face-to-face meetings, the Japanese team could obtain important opportunities to listen to the voices of the top political leaders directly, feel the latest atmosphere and share the Japanese views on Vietnam's industrialization with them.

Third, both sides need to have sincere attitudes in mobilizing comparative advantage fully and assisting each other. To this end, the Japanese team made its best efforts to have the same eyes as their Vietnamese counterparts in the Ishikawa Project. By so doing, the output of the Project could be maximized (JICA 2002, 72-73).

Fourth, transparency of the process and outputs of the policy supports needs to be secured as much as possible. Certainly, there is the political sensitivity in the policy support. As a result, the recipient government would be reluctant to disclose the process and the suggestions presented by the specific donors to other donors.

In the case of the Ishikawa Project, to be honest, the Vietnamese government was not always positive about requests of disclosure from the Japanese side and the international organizations by the midpoint of Phase 2. The information sharing of the process and the inputs to the

Vietnamese side were not enough in relation to other policy supports by those international organizations, although Vietnam's stance on the disclosures was adjusted gradually in the later stages. Inevitably, the exchange of views was not made sufficiently strongly with the international organizations. Misunderstanding sometimes occurred among the international organizations about the Japanese stance on the controversial issues of industrialization. One Japanese academic group member said:

The policy options on the large-scale investment plants in the five capital-intensive industries made clear the fiscal burden and the size of the risks for the Vietnamese side and the pre-conditions that needed to be fulfilled prior to the investment. Furthermore, those proposals were not implicitly positive substantively. However, criticism was raised by an international organization at one time. It insisted the policy options produced by the Ishikawa Project would be utilized by the protectionists in the Vietnamese government and would assist their taking protection measures unnecessarily although they understood the logic of the Japanese side. This shows the sensitivity of this issue. (JICA 2002, 92)

As a result, frustration about the Project accumulated among the international organizations. To resolve this situation, the representatives of the international organizations were invited to the workshops in Hanoi and Tokyo from the midst point of Phase 2. Furthermore, the Japanese team came to exchange views with them almost every time they visited Vietnam. By repeating these efforts, a common understanding between the Japanese side and the international organizations was built gradually on the necessity of a long-term scenario for Vietnam's industrialization as well as the transition speed to a market economy and the basic direction of the country's industrial and trade policy. These processes contributed to filling the recognition gap not only between the Japanese team and the international organizations but also between the Vietnamese government and the international organizations.

## ***8.2. Sharing experiences with the donors***

Five experiences can be emphasized for the donors. First, it is essential

to fully understand the situation surrounding the counterparts of the recipient. Every country has its own internal issues. The way to set agendas is important at first. It is essential to respond sincerely to what the recipient side really wants, thereby keeping the recipient's motivation and their commitment to the design and implementation of reforms under the policy support. Those things cannot be purchased by money as already argued. The policy support for industrialization is inevitably accompanied by stereotyped arguments on whether the state should intervene in the industrialization process and what the industrial policy looks like, either horizontal or vertical. How donors deal with those unpopular policy issues proposed by the recipient governments can be a problem. Donors need to think realistically. The recipient government will adopt unpopular policy and make investment decisions, ignoring the donors' objections as far as they believed in the necessity for those policies. As a result, the recipient government will fail to implement them and waste their public money in the worst-case scenario. That situation must be miserable.

This can be exemplified by the North Wind and the Sun part of Aesop's Fables. If we followed the North Wind approach, the donor will push its own thought in accordance with its own beliefs regardless of the preferences of the recipient. If we follow the Sun approach, the donor will accept the thoughts of the recipient government once at first even if they cannot share those thoughts; then follow the process of the joint work in policy support with the recipient counterpart officials; and let the recipient policymakers have a better understanding and become aware of and make corrections in their views and policy orientations in a natural manner, instead of pushing their own brief to the recipient government and raising their objections. In the case of the Ishikawa Project, the role of the Project was the Sun in the North Wind and the Sun of the Aesop's Fables on the arguments against the vertical industrial policy.

Second, how the donor wants to observe the impacts of the policy support is critical. Of course, the answer on this question can vary depending on each case, and there is no single answer. However, in general, donors tend to expect tangible outputs from policy supports, and desire to easily find clear evidence to show which policy recommendations are reflected in which parts of the policy documents finally and how their policy orientation and actions are changed based on which policy recommendations are made from donors. If we follow this standpoint,

policy support will be judged less influential unless tangible outputs are confirmed on a documented basis. In the case of the Ishikawa Project, those arguments take place in Japan even at present. However, there are few governments that are willing to copy and paste the knowledge provided by foreign agencies and expatriates simply to their key policy documents such as FYP, and to acknowledge the facts of this copy and paste officially as far as their sense of state sovereignty is strong enough. Also, the complicated nature of the mixed product in the drafting process exists as described already. The learning effect is more important rather than the superficial tangible outputs, depending on the types of policy support. This stance of the donor will contribute to the trust building between the two sides.

Donors are also eager to confirm the reputation of the policy support through interviews with various stakeholders, for example, with a wide range of the key ministries of the recipient. If those interviews are conducted during the project, those officials would be aware of the support directly or indirectly. However, if the interviews were conducted one or more than one decade later after the completion of the policy support, memories of the support will be diluted along with the change in the generations of the key policymakers. Good or bad, that diluted situation will be very natural. Those interviews after many decades later cannot be said to be fair for the proper judgement of the value of the policy support.

Third, the approach in making policy options or policy spaces needs to be explored. The way of presenting the policy ideas should not be prescriptive. Ideally, whether a wide range of policy spaces can be presented is important in the policy support area although pursuing the number of policy spaces should not become the objective. For every country regardless of whether they are developed or developing countries, it is very risky to accept and carry out single policy recommendations that no one knows if the recommended policies will fit in the country's context and be effective. This is an issue relating to the donor's good sense that is directly linked with the donor's stance over policy support. Ideally, the donor is expected to present multiple policy options to the recipient country's policymakers and examine the pros and cons and the various implications (e.g., political, economic, and social) of each option carefully together with them and leave space for the final decision making by the recipient.

Fourth, the main actor on the donor side in policy support matters, in particular in the case of policy support under technical cooperation. One way is the effective combination of academics and practitioners with much experience in the relevant fields. The reason for academics is that it is important for the recipient government to be able to ask various things from A to Z very easily almost without hesitation. In this sense, university professors (including associate professors) tend to be the right person. They are ready to lecture and their counterparts are ready to listen and ask in a natural atmosphere about the author's experiences. In addition, practitioners need to be combined. Their on-the-ground knowledge and direct experiences and feelings on policy making and implementation are valuable. Development consultants can also be useful although the costing implications of their policy support need to be considered carefully. Finally, the personal character of those actors must be ultimately important, i.e. whether they are ready to do something for others from the recipient standpoint, and not be prescriptive.

Fifth, the style of the output reports is very important in policy support from the viewpoint of direct and indirect policy impacts. The outputs can be utilized by the political leaders and policymakers reading them. In some cases, a huge amount of material may be produced by donors in support of their policies. However, many volumes of these reports do not always guarantee a better understanding of the recipient policymakers on what the donor wants to tell, and better impacts of the policy supports proportionally, even if there are good quality reports. The extremely busy political leadership and policymakers cannot read them simply because the reports are bulky and there is no time.

The Ishikawa Project should accept criticism sincerely on this particular matter. It produced a large number of reports in each phase from 1 to 3. Those were quality reports. However, they were excessively bulky. The output report of each phase consisted of many volumes, and the output report on each topic under each phase consisted of too many chapters.

Sometimes, it was rather difficult for outside people who were not directly involved in the Ishikawa Project, to distinguish which volume the synthesis report was and which ones the working papers were. Unfortunately, the languages were in Japanese and English only. The Vietnamese translation was categorized as part of the responsibilities of the Ministry of Planning and Investment (MPI). As a result, some reports

were translated into Vietnamese, but others were not. To avoid those situations, a quality flagship report needed to be prepared and delivered effectively to Vietnam's political leadership, the key policymakers, and the research institutes so that they could have read it and understood the key messages easily. One of the typical skeptical comments on the effectiveness of the Ishikawa Project was closely linked to the huge volumes of the reports produced and the languages they were available in.

### ***8.3. Sharing experiences for the recipient governments***

For the prospective recipient governments of the policy support, the demonstration of national ownership and leadership by the government is necessary as a matter of course. This is widely accepted in the development community already. Thus, we do not touch upon those issues here. Instead, three points are emphasized based on the experience of the Ishikawa Project.

First, it is extremely important for the recipient government to set up an effective institutional framework to receive the policy support. The appointment of a responsible official who is ready to be engaged actively in policy support is a key. The donor side needs to organize a team consisting of qualified members from academics and practitioners. Unless the recipient government appoints a suitable official in their counterpart team, policy support is not implemented effectively.

In the case of the Ishikawa Project, MPI played a central role in the Project because it was primarily responsible for the drafting of FYPs and the Ten-Year Strategy. In that sense, it can be said the MPI was the right ministry for the project on the Vietnamese side. However, there were spaces for further improvement in terms of who was expected to join the counterpart group working with the Japanese team. In addition to the MPI, policymakers from the line ministries and research institutions were expected to be more involved. MPI assigned the directors of the External Relations Department and the thematic Departments in the relevant fields of the Project. However, the line ministries were involved to a limited extent although they, as well as developing sectoral strategies in line with the FYP and the Ten-Year Strategy, were responsible for its implementation, and had been accumulating information and knowledge on the ground at the sectoral level. The Japanese team felt frustrated because they could

not obtain the information necessary for conducting the situation analysis and coming up with policy suggestions directly from the relevant line ministries although this coordination was improved to some extent in the later stages of the project.

Second, it is essential to design the composition of the member team conducting research jointly with the donors' research team carefully if policy support will follow the Joint Research style. In the case of the Ishikawa Project, in order to make functional the element of 'joint' in the Joint Research, the Vietnamese counterparts of the researchers needed to have a strong background in research activities such as analysis and writing following the academic style. The Ishikawa Project expected the government policymakers of MPI to play such a role. However, this expectation for the policymakers to do so was not always realistic when we consider their comparative advantages and disadvantages. There were quite a few officials in Vietnam at the time who could have contributed to those aspects but were not included.

Probably, the role of the government policymakers should have been played differently from the way the Project had expected, based on their comparative advantage. For example, the government policymakers had their own holistic views and had contributed to the Project in different areas other than the joint research activities based on the academic style. This problem would have happened even if the involvement of the line ministries had been increased if the members from the line ministries did not have a strong academic research background. To solve this problem, it is necessary to combine government policymakers and researchers from the research institutes and universities, and specify the different roles need to be given to each, thereby making sure that they complement each other.

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