

THE ROLE OF JAPANESE AID IN VIETNAM'S ECONOMIC DEVELOPMENT

Introduction

From the 1990s to the present, Vietnam has experienced a significant rate of economic growth and poverty reduction. Amid the transition from a centrally planned economy to a market oriented economy, Vietnam received a lot of international support in the form of Official Development Aid, ODA, to achieve its development progress. Among ODA donors to Vietnam, Japan is a major player. Its aid is considered one of the most successfully implemented in accordance with Vietnam's development goals. In an effort to better understand the importance of this aid, it becomes imperative to analyze three prominent aspects of Japan's ODA, including its origin as war reparations, emphasis on economic infrastructure and intellectual aid, and how they contribute to the remarkable economic transformation in Vietnam. It is central to note that war reparations provided Vietnam with high quality capital goods, while also setting the foundations for trade and a more extensive ODA program. This aid has allowed for Vietnam to benefit from new transportation and power infrastructure projects, as well as legal reforms inspired by Japanese intellectual aid to support Vietnam's transition toward a market based economy.

Overview of Japan's ODA to Vietnam

ODA is defined as assistance provided by official agencies, including state and local governments or by their executive agencies (OECD). The main objective of ODA is the promotion of the economic development and welfare of developing countries. ODA is concessional in order to avoid economic burdens on developing countries and contains a grant element of at least twenty-five percent.

Japan has been a major ODA donor to Vietnam since 1954. Japanese ODA amounts to thirty percent of accumulated ODA to Vietnam.¹ Since 1992, Japan's ODA to Vietnam has grown consistently. The total amount of aid Vietnam

received from Japan in the period of fiscal years 1992 to 2000 amounted to 657 billion yen.² Most of Japan's ODA to Vietnam is in the form of concessionary loans. The amount of loan aid Vietnam received from Japan up to 2013 is 22,814,75 million yen, including 1,422,11 million yen in grant aid and 1,440,97 million yen in technical cooperation.³ Major projects including infrastructure developments in transportation and energy were carried out with this loan aid. Grant aid and technical cooperation were mostly devoted to human resources exchange, research in public management reforms and environmental conservation.⁴

The wide disparity in ratio between concessionary loans and other types of aid results from Japan's categorization of recipient countries based on incomes per capita as a guiding principle of aid distribution. Because Vietnam falls in the lower-middle-income country tier, Japan's ODA to Vietnam leans more toward loan aid rather than grant aid.⁵ Japan's ODA focuses on five areas of assistance, including human resources and institutional assistance, infrastructure development, especially in transportation and power structures, agricultural and rural development, education and healthcare, and environmental conservation.⁶ These areas of assistance reflect Japan's philosophy of developmental cooperation with Vietnam, which helps the latter recognize its three most prominent tasks: long-term development as a latecomer country, transition to a market economy, and active participation in East Asia's production networks.

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lie in its original introduction as war reparations, emphasis on infrastructure development, and assistance in drafting legal reforms to facilitate the transition toward a market-based economy.

The initial amount of Japanese ODA was recognized as war reparations to Vietnam. On September 8, 1951, Japan and forty-seven other nations signed the San Francisco Treaty. Apart from formally ending Japan's imperial power and returning sovereignty back to Japan, the San Francisco Treaty served to settle the issue of war reparations between Japan and other nations that suffered from war damage. As stated in Article 14 of the treaty, Japan should pay war reparations to the Allied Powers and the countries in which its troops had cause suffering during the war.⁷ When the treaty came into effect on April 28, 1952, the Allied Power gave up its reparations claims to Japan but the Philippines, Indonesia, and Vietnam opted to persist. Japan's first ODA grants were given to Vietnam under the name of war reparations in the amount of 39 million yen, or about 300,000 USD. In the beginning, Japan's ODA was in the form of tied aid, which is foreign aid that must be spent on the goods or services from the donor country.⁸

ODA in the form of tied aid during war reparation period helped develop Vietnam's economy in three ways. First, the Vietnamese government used tied aid to purchase Japanese capital goods, goods used to produce other goods. Vietnam directed the majority of Japanese war reparations to the construction of the Da Nhim power project.⁹ Constructed with Japanese products funded by war reparations, the Da Nhim Hydropower Plant generated 160 thousand kilowatts per hour of electricity, which was supplied to the Cam Ranh industrial zone and cut the electricity price in half.¹⁰ Unlike consumptive goods, Japanese high-quality capital investment such as the Da Nhim power plant stayed in recipient countries for a long time and helped develop infrastructure and production capability, thus facilitating long-term industrial growth. Nowadays, the Da Nhim Hydropower Plant provides 980 million kWh per year to four provinces in Southern Vietnam and 550 million cubic meters of water per year to serve agricultural purposes in the province of Ninh Thuan, in the South Central coast region of Vietnam.¹¹

Second, war reparations laid the foundations for trade between Vietnam and Japan. After

Table 6
Japanese War Reparations and Equivalent Aid to Asian Countries (in millions of dollars)

	Reparations (grant)	Equivalent grant	Subtotal	Loan (1)	Loan (2)	Total
Philippines	550		550	250		800
Burma	200	140	340	50		390
South Korea		300	300		200	500
Indonesia	223.08		223.08	400		623.08
South Vietnam	39		39	16.6		55.6
Thailand		26.7	26.7			26.7
Singapore		8.16	8.16		8.16	16.32
Malaysia		8.16	8.16			8.16
Micronesia		5.84	5.84			5.84
Cambodia		4.2	4.2			4.2
Laos		2.8	2.8			2.8
Total	1,012.08	495.86	1,507.94	716.6	208.16	2,432.7

Source: Various documents of the Foreign Ministry and MITI. Cited from Yamakage 1985, p. 139.

World War II, Japan's major trade problem was the importation of subsistence goods and raw materials to sustain industrial development. At the beginning of the postwar period, Japan imported mainly from the U.S. with its financial assistance. The costs of American imports were too colossal, and Japan eventually sought ought countries such as Indonesia to alleviate costs.¹² After World War II, however, large Japanese prewar trading companies were disbanded, leaving Japan with little trading mechanisms.¹³ Moreover, most of the

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Southeast Asian market, including Vietnam, was still under European control.¹⁴ War reparations were therefore an effective way to introduce Japanese goods into the Vietnamese market. During the war reparations period, many Japanese manufacturers and construction companies made commercial contracts with the Vietnamese government. Japanese businesses actively pushed for the Japanese reparations policy in order to expand their business influence in Vietnam.¹⁵

As Japanese businesses penetrated the Vietnamese market in 1971, Vietnamese export of raw materials and agricultural products to Japan tripled.¹⁶ Therefore, war reparations as a gateway for economic interactions stimulated further development of trade between Japan and Vietnam and higher national income for Vietnam due to a rise in exports to Japan. By 1974, exports from Vietnam to Japan reached 30 million USD per year compared to 9.5 million USD in 1965.¹⁷

Lastly, war reparations marked the beginning of a more extensive ODA program

focusing on economic development in Vietnam. Japan's goal was to help develop the Vietnamese economy so that it could afford more Japanese products.¹⁸ Japan became a donor nation after joining the Organization for Economic Co-operation Development in 1964.¹⁹ Even though the amount of initial ODA recognized as war reparations was relatively small compared to other Southeast Asian nations, the share of Japan's ODA to Vietnam in the recent period from 2008 to 2012 is significantly larger than that of other countries.²⁰ This shift in Japan's ODA over time shows Japan's particular interest in Vietnam's economic development, which helps Vietnam carry out larger-scale development projects in infrastructure such as the North-South expressway construction project and economic policy research such as the Ishikawa Project.²¹ The results of these projects led to the improvement of Vietnam's infrastructure and the implementation of long-term economic development strategies to reduce poverty and ease the nation's transition into a market-based economy.

The expansion of Japanese ODA is significant in Vietnamese economic development due to not only the increase in amount, but also the shift in area of focus. While aid as war reparations were mainly utilized for infrastructure and industrial projects, aid after war reparations period also provided support for human needs initiatives, including human resources development.²² This shift in focus assisted Vietnam in achieving a more holistic vision of capital development in both labor skills and infrastructure and becoming a more attractive destination for foreign investment.

Emphasis on Infrastructure

Japan's ODA to Vietnam has a distinctive emphasis on developing large-scale infrastructure projects that are essential to economic development. In 2000, the energy sector received twenty-six percent of Japanese ODA's disbursement, while the transportation sector received seventeen percent.²³ Some of the most notable projects are the Da Nhim hydroelectric dam, the Nhat Tan Bridge in Hanoi, the Omon power plant, and the North-South Vietnam highway project. In 2001, Vietnam issued its Poverty Reduction Strategy Paper, which focused on social sector support to directly reduce poverty. Japan refused to co-finance loans for this strategy because

Japan believes that the key to poverty reduction is through the development of infrastructure rather than direct assistance. The Japanese believed that developing infrastructure would boost the economy, create more jobs, and increase income level.²⁴

One notable aspect of infrastructure projects funded by Japan's ODA to Vietnam is that these projects are spread out across the country and connect key economic hubs of Vietnam. In the beginning, Japan prioritized infrastructure development in the northern region. From the late 1990s onward, Japan focused on Ho Chi Minh City in the South, Da Nang and Hue in the central region, and in 2000s, the northern mountain areas and the Mekong Delta areas.²⁵ Japan has strived to assist urban and rural development, and develop networks that connect hub cities.²⁶ These industrial hubs are the locations of major Japanese corporation manufacturing factories such as Cannon, Nissei and Panasonic, as well as other foreign and domestic companies.

Large-scale transportation constructions generate positive economic outcomes by increasing factory employment of the locals, expanding micro-business development, strengthening the relationship between foreign industries and local economy, and providing access to new markets for agricultural products.

The construction of Highway No.5 connecting Hai Phong to Hanoi brought about a rise in employment opportunities for Vietnamese workers. After its completion in 2000, foreign investors established factories in industrial parks along the highway and hired semi-skilled workers, who are usually paid forty-five to fifty USD per hour. In 2003, 14,000 workers were employed at the four major industrial parks in Hanoi and Hai Phong.²⁷ This opportunity is a major source of improvement in income and living standards.

Accompanying the settlement of factories at industrial parks is the establishment of micro-businesses near these areas that provide services such as daily meals, inexpensive accommodation and vehicle repairs to the factory workers.²⁸ The development of micro-businesses was highlighted by the increase in lending to private enterprises by the Hung Yen and Hai Duong branches of Bank of Agriculture. No private enterprise received funding from the bank in 1999; in 2013, nearly thirteen

percent did.²⁹ The emergence of micro-businesses improves the balance of different economic sectors in Vietnam, sparks the dynamism of Vietnamese entrepreneurship and raises the household income, especially in rural areas near large transportation projects.

Large-scale transportation facilities enable foreign businesses to strengthen relationship with local economic actors by purchasing production materials from local producers. For instance, food processing factories along Highway No.5 contract local farmers as their major suppliers of fresh produce.³⁰ These contracts are a stable source of income for local farmers, provide a new market for certain agricultural products, and further integrate local economic actors into the global production chain. Moreover, high quality highways enhance farmers' ability to diversify agricultural products. Farmers can easily transport to urban markets fragile agricultural products that they could not before the emergence of high-quality highways. The share of farmers selling their products to traders from other provinces increased from four percent in 1997 to twenty-two percent in 2002.³¹ Transportation projects assist farmers in diversifying their products, as well as increasing agricultural profits and decreasing the instability of the agricultural sector.

In addition to transportation projects, Vietnam's developing economy needs to foster power supply in order to increase manufacturing competitiveness. From 1995 to 2013, the total of Japan's ODA devoted to power projects in Vietnam totaled about 11 billion USD. As of 2011, the eight major power plants funded by Japan's ODA contributed fourteen percent of the total electricity capacity of Vietnam.³² These projects are distributed across different regions of Vietnam including the Southeast, Red River Delta, Mekong River Delta, and Central Coast. The even geographical distribution of these projects decreases the power loss resulting from long-

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Table 3. Japanese ODA disbursement to ASEAN by fiscal year

(¥ 100 million)					
Fiscal Year	2008	2009	2010	2011	2012
Country					
Cambodia	134.34	225.79	151.2	223.73	103.64
Indonesia	1323.16	1271.13	588.47	847.52	277.55
Lao PDR	64.33	88.37	65.8	119.72	79.62
Malaysia	34.44	24.81	30.61	82.71	8.7
Myanmar	47.43	46.34	38.79	63.16	2306.7
Philippines	422.24	804.48	594.52	802.33	699.72
Thailand	685.58	93.05	311.63	41.61	124.65
Vietnam	946.19	1579.45	1013.7	2865.17	2131.51

distance power transition, thus lowering the cost of electricity for consumption and manufacturing.³³ Having a lower electricity cost helps Vietnam become a more attractive investment destination for manufacturers as well as increase citizens' access to electricity, thus stimulating economic and human development.

Intellectual Aid

One prominent aspect of Japan's ODA to Vietnam is the expansive intellectual aid in the forms of advice on long-term development policy focused on the consolidation of a market-based economy and economic growth as the key to poverty reduction.

Macroeconomics research projects sponsored by Japan's ODA help Vietnam solidify its own vision of long-term economic development based on an active government and Vietnam's distinctive domestic characteristics. The Ishikawa Project is the major Vietno-Japanese macroeconomics research collaboration implemented by Japan International Cooperation Agency and Vietnamese Ministry of Planning and Investment from 1995 to 2001. Focusing on studying development policy for the transition toward a market-oriented economy, it concentrates on various areas including agriculture and rural development, trade and industries, fiscal and monetary issues and economic reforms.³⁴ At the beginning of the Ishikawa project, Japanese experts helped Vietnamese officials identify three main tasks facing the Vietnamese economy during the transition into a market-oriented economy, which were pinpointed as macroeconomic stabilization,

systemic transition to a market economy "structural adjustment," and design and implementation of long-term development policy.³⁵

As Vietnam moves toward a market based economy, it needs to have clear and fair basic law and business regulations in order to face the challenges of open-door policy and attract foreign investment. Projects such as the Japanese Cooperation to Support the Formulation of Key Government Policies on Legal System, and Technical Cooperation Project for Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam helped Vietnam formulate basic civil and commercial laws as well as competition laws, thus serving as a foundation for Vietnam to embark on its open-door policy.³⁶

In the Japanese Cooperation to Support the Formulation of Key Government Policy on Legal System, Japan provided information on its own legal and judicial system as background for Vietnam to develop its legislations.³⁷ Japan's support led to the amendment of Vietnam's Commercial Laws and Civil Code in 2002, which facilitates a legal system suitable for the consolidation of a market-oriented economy. The revised commercial laws broadened "commercial operations" to all operations with the purpose of generating profits.³⁸ The expansion of trade operation recognition created more business opportunities for both domestic and foreign economic actors, as well as included more businesses under the protection of the laws, thus increasing transparency and security within the business environment. Moreover, the new Commercial Laws allows foreign entity to "establish a branch, a joint

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venture or a wholly foreign owned company for doing distribution business in Vietnam,” thus eliminating barriers against foreign investors and elevating the amount of foreign investment into Vietnam.

With the objective of promoting a transparent market-led business environment, Vietnam Competition Agency created working groups to work with Japanese experts to improve capacity for enforcement and implementation of Competition Law in Vietnam.³⁹ The project focused on specific measures to further investigate functions of Vietnam Competition Agency including analysis of current situation, acquirement of investigative skills, preparation of necessary guidelines for investigators, definition of relevant markets and implementation of a market survey accompanied by Japanese experts' support.⁴⁰ The agreement allows for the participation of competition officials as "lecturers or consultants" at workshops concerning the implementation of competition law sponsored by competition authorities. In particular, Japan Fair Trade Commission provided Vietnam Competition Agency officials with a training course on the nature and enforcement of the Antimonopoly Act that prohibits private monopolization, unreasonable restraint of trade and unfair trade practices in Japan.⁴¹ By exposing Vietnamese authorities to the developed competition law in Japan, Japanese experts provide Vietnam with guidance to establish a more comprehensive legal system to stimulate the

competitive nature of a market-oriented economy that did not exist in Vietnam's previous centrally planned economy. In addition to drafting new laws to regulate competition, training on investigative capacity building helps Vietnamese officials better identify illegal incidents and implement existing regulations and policy. As a result, the number of Vietnam Competition Agency investigations rose from zero in 2002 to forty-five in 2006 while the resolution of incidents rose from twelve in 2006 to ninety-eight in 2011.⁴²

Conclusion

The involvement of Japanese ODA has been significant in Vietnam's economic development and integration into the global economy. As the biggest ODA donor to Vietnam, Japan has assisted Vietnam in gaining a leading position as an attractive destination for foreign investment, as well as enhancing the living standards of Vietnamese citizens. With Japan's past and current help, Vietnam has gained the ability to assert itself within the free market and become economically viable on its own, all while benefitting its people through updated infrastructure and economic regulation. With a solid footing now established for Vietnam, Japan has helped to propel Vietnam to the forefront of the economy, allowing it to continue to expand in the near and distant future.

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Caught in the Legacy of Post-Colonialism: The Eritrean-Ethiopian War

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Image 1: <<http://diplomat.so/wp-content/uploads/2015/09/Ethiopian-troops-check-for-mines-near-the-town-of-Badme-on-the-Ethiopian-Eritrean-border.jpg>>

Image 2: <<http://graphics8.nytimes.com/images/2012/03/27/opinion/borderlines-africa/borderlines-africa-blog427.jpg>>

Image 3: <<http://diplomat.so/wp-content/uploads/2015/11/1299.jpg>>

Image 4: <http://nazret.com/blog/media/blogs/pict/_763154_prisoners300.jpg>

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