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Is Vietnam the Youngest Goose in Japan's Flight Formation?

Japan was the first country to achieve successful economic development after World War II. The following paper discusses whether the Japanese model of 'state-led development' can offer a possible alternative strategy to the neo-liberal recipes of the World Bank and the IMF for systemic transition, taking the example of Vietnam.

Within the debate among economists on systemic transition the case of Vietnam was paid little attention before the Asian crisis shed some light on the economic performance of the country. Vietnam's economic performance – with an average growth rate of below 9% and an inflation rate of below 10% – underlines the notion that Vietnam has coped with the transformation process much better than other (former) socialist countries in transition.[1] This leads to the question as to whether Vietnam has been following a transition strategy different from that of other socialist (Eastern European) countries. Given the regional context, one may consider the hypothesis that Vietnam's strategy – like that of several other countries in the region – has been based on a kind of Asian development model.

Starting from the assumption that a certain model of development exists in the Asia-Pacific region that is based on the experience of Japan as the first Asian country to achieve successful economic development after World War II, the aim of this paper is to make a contribution to the question of whether Vietnam can draw any lessons from the Japanese experience. Similarities and differences in the economic development of both countries are analysed, paying special attention to the Japanese concept of industrial policy and the priority production system.

Theoretical Background: Systemic Transition

'Transition' is defined as the process by which a socio-economic system changes from a system based upon central planning to one dominated by markets. Siebert quotes three main areas of reforms that characterise the transition process and that will be used throughout this paper as an analytical framework.[2]

□ *Implementing an institutional framework.* An efficient tax system and a reliable legal framework (contract law, property rights, etc.) as well as the establishment of a two-tier banking system, i.e. the separation of monetary policy (autonomous central bank) and intermediation should be included. Lessons from the Asian Crisis underline, furthermore, the importance of an independent surveillance institution.

□ *Macro-economic stabilisation.* Price liberalisation in connection with notable excess of demand and increasing budget deficits backed by expanding money supply normally led to increasing rates of inflation in the initial stage of transition. Therefore, stabilising the price level and reducing budget deficits in association with a currency reform and free convertibility are major elements of a successful reform process.

□ *Real adjustments in the business sector (micro-level).* Price liberalisation, the establishment of markets and the privatisation of state companies are major ingredients in a market system where resource allocation is based on market-price calculation.

Although these points are generally accepted among economists, there is no common understanding of the sequence and speed of a transitional process. Mainly, two positions can be distinguished.[3]

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[1] Cf. World Bank: World Development Indicators, various issues.

[2] Cf. H. Siebert: Weltwirtschaft, Stuttgart 1997, pp. 139-156.

[3] Cf. J. Revilla-Diez: Systemtransformation in Vietnam: Industrieller Strukturwandel und regionalwirtschaftliche Auswirkungen, in: Hannoversche Geographische Arbeiten, Vol. 51, Hanover 1995, pp. 21-24.

☐ extensive and radical transition in the sense of a shock therapy ('Big Bang') and

☐ gradualistic transition, in order to reduce frictions by slowing the transitional process.

At the beginning, the transition debate was dominated by the Big Bang approach, which was, in the eyes of its supporters, more likely to avoid a roll-back. Leading development institutions like the IMF and the World Bank advocated the neo-classical idea that only free competition could provide efficient resource allocation and that, therefore, market mechanisms needed to be implemented in a 'Big Bang'. This assumption was heavily criticised by opponents of the neo-classical model. They advocated a two-tier model: liberalisation only in the non-state sector, while retaining control over the state sector until the required adjustments in the institutional framework that take time were properly established. Therefore transition had to be gradual.[4] The disastrous state of economic affairs in Russia, which followed a neo-classical model of transition as proposed by the IMF, was considered by many to be further evidence in favour of the gradualistic approach.

Besides this dispute, there is no agreed position on the appropriate role of the state in the transition process. This question is not limited to the transition process alone, but reflects the almost 'traditional' debate between the Washington institutions and their scholars, who set up an orthodox neo-classical model known as the 'Washington Consensus,'[5] and the advocates of the state-led development approach influenced by Keynesian ideas. Influential criticism of the 'Washington Consensus' was formulated by Robert Wade and by Japanese scholars like Kohama, Ohno and Okuno-Fujiwara.[6] It is especially the belief of some Japanese economists that the role of government in the development process has been highly underestimated by the Washington group. They argue that the role of government should go beyond the setting up of an institutional market framework and the provision of collective goods; instead the state should intervene actively in resource allocation and industrial organisation. Table 1 gives an overview of these two unsettled positions.

Table 1
A Comparison of Development and Transition Strategies

	Neo-classical Approach	Japanese Approach
Highest priority	Financial and macroeconomic (fiscal and BoP deficits, money, inflation, debt)	Real (output, employment, industrial structure)
Time scope	Short-term (solving problems as they arise)	Long-term (long-term targets and annual plans)
Basic attitude towards Market	*Laissez-faire;* minimal government intervention	Active support by Government
Speed of systemic Transition	As quickly as possible	Will take a long time, even with maximum effort

Source: K. Ohno: Overview: Creating the Market Economy, in: K. Ohno, I. Ohno (eds.): Japanese Views on Economic Development – Diverse Paths to the Market, London and New York 1998, p. 4.

Japan's and Vietnam's Transition Experiences

Let us now come to the real analysis by comparing Japan's and Vietnam's transition experiences directly:

How far did Japan experience a phase comparable to the phase of systemic transition in Vietnam? Although some argue that Japan faced a first phase of systemic transition in the second half of the 19th century, we shall concentrate here on the transition from a command-style war economy to a market economy after 1945.[7] In contrast, Vietnam's transition started with the Sixth Party Congress in 1986 which initiated, in the face of a severe economic crisis, an overall reform programme, known as 'doi moi' (renovation).[8]

Prior to transition both countries faced a series of macro-economic problems: increased budget deficits,

[4] Cf. K. Ohno: Overview: Creating the Market Economy, in: K. Ohno, I. Ohno (eds.): Japanese Views on Economic Development – Diverse Paths to the Market, London and New York 1998.

[5] This term was introduced by Williamson who summarized the experience of Washington institutions from the economic development of Latin America under this name. Cf. J. Williamson: Latin American Adjustment: How Much Has Happened? Institute for International Economics, Washington 1990; J. Williamson: Democracy and the "Washington Consensus", in: World Development, Vol. 21, No. 8, 1993, pp. 1329-1336.

[6] Cf. H. Kohama: A Review of Systemic Transition, in: K. Ohno, I. Ohno, op. cit., pp. 53-60; K. Ohno, op. cit.; M. Okuno-Fujiwara: Toward a Comparative Institutional Analysis of the Government-Business Relationship, in: M. Aoki, H.-K. Kim, M. Okuno-Fujiwara (eds.): The Role of Government in East Asian Economic Development, Oxford 1997, pp. 373-406; R. Wade: Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization, Princeton 1990; R. Wade: Japan, the World Bank, and the Art of Paradigm Maintenance: 'The East Asian Miracle', in: Political Perspective, new left review, No. 217, May/June 1996, pp. 3-36.

[7] For a detailed discussion of the first transitional phase cf. W. Pascha: Industrial Policy and the Policy Choices for Central and Eastern European Countries – A Commentary on Some Controversial Issues, in: G. Heiduk (ed.): Integration of Central and Eastern European Countries into the World Economy – Internal and External Strategies, Hamburg 1997, pp. 241-255.

[8] Cf. A. Fforde, S. de Vylder: From Plan to Market – The Economic Transition in Vietnam, Boulder and Oxford 1996.

high inflation, declining industrial output, food supply shortages, and unemployment. Against this background, measures of the transitional process in Japan and Vietnam can be divided into three main areas.[9]

Establishment of an Institutional Framework

After surrender in 1945, the primary Japanese target was to restore production capabilities and to create the prerequisites for self-sufficient economic development, in order to catch up with the West as fast as possible. It was therefore in the mutual interest of the Japanese government and the *Supreme Commander of the Allied Powers for the Occupation and Control of Japan* (SCAP) to install an institutional framework based on a western (American) model. Heavily influenced by American consultants, several measures were implemented:

☐ the de-concentration of monopolistic power by the dissolution of the pre-war conglomerates (zaibatsu) and by preventing the emergence of new cartels and trusts by law (see below),

☐ the permitting of labour unions and the establishment of labour relations committees as an important step towards the democratisation of labour,

☐ a land reform, giving land from absentee landlords to the tenant farmers.

While these measures seemed to be in perfect line with the neo-liberal ideas of the allied economic consultants, the Japanese government in the meantime used the institutions of the command-style war system to implement its economic policy ideas. The Ministry of Finance and especially the Ministry of International Trade and Industry (MITI), the successor of the Munitions Ministry, used several interventionist industrial policy measures (*sangyô seisaku*). Characteristic for the use of industrial policy measures was the priority production system (*keisha seisan hôshiki*, 1947-49). This system was aimed at overcoming bottlenecks in production caused by shortages of raw materials and energy and at increasing steel production by allocating coal to the steel industry. The output of the steel industry was, in turn, preferentially allocated to the coal-mining industry in order to increase coal output, etc. To enforce this system several direct control measures were implemented:

☐ rationing of materials ('materials mobilization plan' (*busshi dôin keikaku*)),

☐ subsidised credits and import subsidies for priority industries via the Reconstruction Finance Bank (*fukkô kinyu kinkô*),

☐ price control subsidies to cover the gap between official prices and costs,

☐ direct government intervention in resource allocation by means of the Foreign Exchange Law (*shikin tosei keikaku*).

Since 1990 Vietnam has created a legal framework as a prerequisite for a market economy: a company law, a law on private business, a bankruptcy law, and regulations concerning antitrust, technology transfer and patents. As an important cornerstone, property rights and protection against expropriation were laid down in the constitution in 1992. The central banking system was transferred into a two-tier system with a central state bank and commercial banks as intermediaries. A land reform gave usage rights (not property rights) to farmers and (also foreign) investors. Since 1993 these usage rights have been tradable. While the Vietnamese government has opted for market principles with the liberalisation of prices and the removal of most subsidies, elements of the command-style economic system are still in use: three industries – oil extraction and refining, food production, and textiles and clothing – were designated by the government as 'strategic industries' and received (and still receive) preferential selective industrial policy treatment. Measures to promote strategic industries are:

☐ the allocation of all commercial credits (99%) to state-owned enterprises which dominate the 'strategic industries', while private companies have to finance investments from their profits or from curb markets,

☐ preferential interest rates,

☐ protection by high import tariffs,

☐ better informal contacts to the bureaucracy, and

☐ easier and preferential access to export licences.

All these measures make state-owned companies in strategic industries more attractive to foreign

[9] Cf. for more details for Japan: Y. Kosai: The Reconstruction Period, in: R. Komiya, M. Okuno, K. Suzumura (eds.): Industrial Policy of Japan, Tokyo et al. 1988, pp. 25-48; T. Nakamura: Lectures on Modern Japanese Economic History 1926-1994, Tokyo 1994; J. Teranishi: Inflation Stabilisation with Growth: The Japanese Experience, 1945-50, in: M. Smitka (ed.): Japan's Economic Ascent, New York and London 1998, pp. 221-246; and for Vietnam: M. Beresford: Industrial Reform in Vietnam, in: I. Jeffries (ed.): Industrial Reform in Socialist Countries: From Restructuring to Revolution, Aldershot and Brooksfield 1992, pp. 242-253; J. Revilla-Diez, op. cit., pp. 63-85; H. Mitsui: Effects of the Recent Industrial Reforms in Vietnam: A Remarkable Transformation to the Market Economy? IDCJ Staff Occasional Note No. 3, March 1992, pp. 1-5.

investors and are therefore more successful in allocating needed foreign capital and technology.

Macro-economic Stabilisation Measures

Immediately after the war Japan faced severe inflation which was caused by an increase in the money supply and rising prices due to a sharp decline in production which was caused by the shortage of raw materials imports. Another measure that put additional pressure on the inflationary process was the priority production system – as mentioned above, differences between official prices and costs were covered by subsidies and with an increase in output price subsidies also rose from Yen 9,030 million in 1946 to Yen 109,627 million in 1949. Three stabilisation measures were taken to hold inflation at bay:

☐ Price control (*bukka tôsei rei*) of major input commodities (1946-51). Prices were set to equal the estimated average production costs and the gap between market prices and purchasers' prices were – again – covered by government subsidies.

☐ Deposit freeze was used as a measure to cope with the government's increasing expenditures to fulfil war-related commitments (1946-48). Although inflation was cut by 50% in 1948, price levels began to rise again shortly after the suspension of this measure.

☐ As most stabilisation measures did not show any positive effects, a series of tight orthodox measures was implemented from April 1949 ('Dodge-Line'): (1) a stiff budgetary discipline, (2) the total suspension of price subsidies, and (3) the introduction of a single exchange rate that was fixed at 360 ¥/US$.

During the economic crisis of the early 1980s inflation in Vietnam rose to more than 1,000%. In order to bring inflation down, the Vietnamese government used a series of policy measures:

☐ the issuing of bonds and treasury bills to cover state expenditures instead of cash creation,

☐ a tight fiscal policy, i.e. the abolition of direct and indirect price subsidies and increased fiscal income through a broadened tax base and applied uniform tax rates,

☐ the introduction of higher interest rates to encourage domestic savings, and

☐ a currency devaluation to bring the exchange rate closer to its market value.

Alice E. S. Tay/Günther Doeker-Mach (eds.)

Asia-Pacific Handbook

Volume I: People's Republic of China

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Adjustments in the Corporate Sector

Major adjustments in Japan were intended to be achieved by the dissolution of the pre-war conglomerates (zaibatsu), which had extensive economic power, and by the limitation and separation of private ownership and management in order to remove extreme concentration in the production system. However, these reforms were softened and revised soon after their implementation in 1947 and it is doubtful if these measures had any effect on concentration or economic domination.[10]

The first major step on the route to a market economy in Vietnam was the official recognition of private production activities and the abolition of several preferential treatments for state enterprises. In 1988 a six-tier enterprise structure was established: state, joint state-private, collective, private, individual (family) and domestic enterprises. Under the new regulation, limits on the size of private capital investments and on the employment of wage labour were removed and management was given greater autonomy. Although the privatisation and deconcentration of state monopolies was given high priority, the results were not impressive – until 1998 only 29 state companies had been privatised, while 5,800 remained state-owned.[11] Of major importance was the enactment of the Foreign Investment Law in 1987 that allowed up to 100% foreign ownership and, from 1990, joint ventures with private Vietnamese companies (until then only state companies were eligible). Furthermore, a wide range of tax allowances for investors was offered and industrial zones were set up in order to attract foreign investors.

Similarities and Differences

It is difficult to draw a coherent picture of the Japanese post-war experience. Viewing it as the take-off phase for the later (successful) economic growth, it would be true to say that the foundation for the Japanese success was laid during this time. On the other hand, looking at Japan's stabilisation efforts, the impression is one of more or less a process of trial and error. In the corporate sector, the initial deconcentration effort of SCAP failed, but it could be argued that, nevertheless, the foundation for Japan's unique and overall successful system of subcontracting relationships and intra-firm trade and competition was strengthened during this time.

Until the present the Vietnamese transition has proved successful in economic terms, as a glance at macroeconomic indicators shows. Nevertheless, some concerns need to be considered. First, with a per capita income of US$ 300 Vietnam is still one of the poorest countries in the region. Second, bearing in mind that high private savings propelled the growth process in other successful Asian economies, Vietnam's savings rate of 16% (1996) is still very low and gives rise to some worries: it is assumed that more than 50% of the savings are held in cash at home and in rural areas barter exchange is still the dominant form of commerce. Third, the financial and banking sector is still extremely underdeveloped. The low M2 to GDP ratio of slightly above 20%, expressing an insufficient degree of monetization and financial intermediation, makes clear that the banking sector is incapable of attracting private savings or providing enough funds for project financing.[12] Fourth, there is a widening development gap between rural areas, where 80% of Vietnam's population live, and urban areas. But rural infrastructure investments are needed to improve growth prospects and to reduce poverty in rural areas.[13]

Summing up, a range of similarities between Japan's and Vietnam's experience can be found:

☐ while market instruments were implemented, several state interventionist elements of the former centrally planned system were used to select and promote strategic industries,

☐ both countries lost their 'traditional' trading partners. Japan underwent the loss of its overseas territories, while Vietnam faced the cut in assistance from the Council for Mutual Economic Assistance (CMEA), especially from the former USSR. Both were then forced to find new trading partners and to adopt an export-oriented development strategy.

However, some differences need to be considered:

☐ Japan gained from its free access to the US market, while access to international financial resources was limited. Furthermore, Japan appeared as a relatively closed economy right after the defeat. Vietnam, on the other hand, faced open globalised world markets with easy access to foreign capital but fierce competition in world goods markets.

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[10] Cf. M. Itoh et al.: Economic Analysis of Industrial Policy, San Diego and London 1991, p. 15.

[11] Cf. O. Weggel: Gesamtbericht Vietnam, Laos, Kambodscha, in: SÜDOSTASIEN aktuell, September 1998, pp. 374f.

[12] Cf. Japan International Co-operation Agency (JICA): Country Study for Japan's official Development Assistance to the Socialist Republic of Viet Nam, 1995, reprinted in: K. Ohno, I. Ohno, op. cit., p. 276.

[13] Cf. K. Ohno, op. cit., p. 37; JICA, ibid., p. 271.

☐ The advent of the Cold War was a 'window of opportunity' for Japan; the US promoted a quick recovery by various measures and the Korean War brought an unexpected demand push for the Japanese economy. After the end of the Cold War, Vietnam did not gain significantly from any strategic considerations.

☐ Japan could rely on an experienced group of business leaders and entrepreneurs, while Vietnam faced a lack of people familiar with market-oriented business administration.[14] Nevertheless, there seems to be a wide spread of entrepreneurial spirit in Vietnam.

☐ Although difficult to assess in economic terms, differences in geography, historic experience, human capital, and culture should be mentioned.[15]

Bearing the restrictions mentioned above in mind, the author will now try to draw some lessons from the Japanese experience.

What Lessons Can Japan Teach Vietnam?

Rethinking the Japanese transition efforts, most measures seem neither unique nor revolutionary. One exception is the Japanese stance towards industrial policy. Therefore it makes sense to discuss this controversial issue, especially the 'priority production system' (PPS), in more depth.

The PPS was based on the premise of a closed economy with a lack of the necessary raw materials imports. The target was to allocate limited resources to key industries in order to stimulate overall production. If we look at the production indexes (see Table 2), a high increase in the production of coal, steel and non-ferrous metals can be noted.

Because of these results, the priority production system is often considered a success. However, some doubts on this finding need to be mentioned.[16]

☐ the PPS seriously contributed to the inflationary process through the steady increase in RFB loans and price subsidies;

☐ RFB loans were meant to back up only the start of recovery and should have been reduced subsequently, but the total amount rose by eight times between 1947 and 1950 while production only doubled – shedding some light on the inefficiency of production under PPS;

☐ it was not only the effort of production under the PPS that boosted production output, but also the improved availability of raw materials from 1948 onwards;

☐ the effects on growth in heavy industries were relatively small, compared to the achievements in the high-growth era after the suspension of the PPS.

Furthermore, it could be argued that the PPS was only a short-term (ad hoc) emergency measure to overcome the shortage of raw material inputs and that it lacked an underlying long-term strategy. The truth in this argument is that the PPS tends to be overrated by its supporters concerning its contribution to a strategic industrial policy concept. But it could be replied that the use of various measures to guide the allocation of funds in selected strategic industries survived beyond the PPS and was used as a major element of the Japanese industrial policy concept in the 1950s and 1960s.

The assessment would not be complete without mentioning that industrial policy is discussed controversially, but as an in-depth analysis of

Table 2
Production Indexes and RFB[1] and Commercial Bank Lending to Industry in Japan

	Production Index (1955=100)			Total Lending (billion yen)		
	1947 Sept.	1949 March	1950 June	1947 Sept.	1949 March	1950 June
Mining	56.9	85.6	82.0	11.5	74.9	77.3
(coal)	67.1	102.2	91.9	10.0	67.2	65.9
Steel	14.3	34.9	53.0	1.3	21.8	39.3
Non-ferrous Metals	32.5	53.7	56.6	–	–	–
Machinery	21.5	44.9	37.5	11.2	66.6	92.8
Chemicals	18.3	30.2	43.0	8.8	56.2	102.2
Food Processing	23.9	48.8	43.0	2.3	25.0	41.6
Total[2]	25.1	42.9	47.6	107.4	540.2	896.9

[1] Reconstruction Finance Bank.

[2] Total includes other industries, and hence listed industries do not add up to total.

Source: J. Teranishi: Inflation Stabilisation with Growth: The Japanese Experience, 1945-50, in: M. Smitka (ed.): Japan's Economic Ascent, New York and London 1988, pp. 74f., slight modifications.

[14] One may argue that differences between the North and the South with its relatively short experience as a command-style economy should be recognised here. But, although some management knowledge has most likely survived, a lack of up-to-date management training facilities can be assumed to be a problem in the South, too.

[15] For a more detailed overview of these points see for Vietnam: The road to capitalism: A survey of Vietnam, in: The Economist, July 8th 1995, pp.1-18., and for Japan: T. Nakamura, op. cit.

[16] Cf. for a further discussion of the PPS J. Teranishi, op. cit., pp. 71-75; Y. Kosai, op. cit., pp. 31-35.

industrial policy is not the goal of this essay, the issue will not be discussed further here.[17]

What contribution could the Japanese concept of industrial policy have made to Vietnam's transition process? Or in more concrete terms, is the PPS applicable to Vietnam? In this context it is worthwhile mentioning that the Japanese Ministry of International Trade and Industry (MITI) offered the Russian Government and the Commonwealth of Independent States an 'alternative' (!) model of transition based on the Japanese experience of post-war economic development in 1992.[18] Although it was drawn up for the former Soviet Union, it embodies MITI's general position towards transition processes. The interesting thing is that the report suggests, against the background of investment capital shortages in key industries, that Russia (in this case) 'should establish Japanese-style "priority production programmes" to ensure the supply of essential industrial goods'.[19] To achieve this, funds should be allocated preferentially to key industries.

If we compare Vietnam's policy measures towards strategic industries, it seems that this is exactly what the Vietnamese government has been doing. But if we look at the outcome, the impression is much more differentiated. While crude oil and clothing production rose significantly between 1989 and 1993, production in the other key industries remained nearly stable (see Table 3). Although the dependency of food production on weather conditions as well as strong competition in world markets for textiles may be an explanation for this state of affairs, it also raises the question of whether a priority production system is really an efficient way to proceed, providing the expected outcome in a globalised world.

It seems interesting to elaborate Japan's intellectual position towards the transition process in Vietnam in more depth. In 1995 the Japanese International Co-operation Agency (JICA), one of Japan's official aid agencies, drafted a country report on Vietnam that laid out Japan's official position towards the transition.[20] Special attention was given to the elaboration of a long-term development strategy for Vietnam. The report proposed a set of ingredients for a successful development strategy. Table 4 gives a comparison of the Japanese recommendation to Vietnam and the Washington Consensus.

One thing is noteworthy: it is obvious that due to their different levels, the two approaches are hard to compare. While the Japanese approach is result-oriented and does not care much about concrete measures, the Washington Consensus is oriented on principles and concentrates on the framework for a market economy – Yanagihara therefore introduced the term 'ingredients approach' for the Japanese model and labelled the Washington Consensus 'framework approach'. The framework approach is meant to set the fundamentals right and leave the outcome to market forces. In contrast, the Japanese approach is rather flexible in the use of measures – intervention in sectoral compositions or industrial

Table 3
Production Indexes for Key Industries in Vietnam

	Production Index (1993=100)[a]			
	1989	1990	1991	1992
Crude oil	23.8	42.9	61.9	87.3
Food	78.0	72.2	77.0	87.9
Textiles	95.2	92.1	93.3	104.1
Clothing	64.9	60.8	65.6	78.4

[a] Calculated on gross production in million Dong of 1989.

Sources: J. Revilla-Diez: Systemtransformation in Vietnam: Industrieller Strukturwandel und regionalwirtschaftliche Auswirkungen, in: Hannoversche Geographische Arbeiten, Vol. 51, Hannover 1995, pp. 96-112; author's calculation and table.

Table 4
Comparing the Japanese Recommendation for Vietnam with the Washington Consensus

Japanese Recommendation[1]	Washington Consensus[2]
1. Agriculture and rural development	1. Fiscal discipline
2. Infrastructure	2. Political expenditure priorities (health care, education)
3. Selective industrial policy	3. Tax reform
4. Regional development strategy	4. Financial liberalisation
5. Poverty alleviation	5. Exchange rates equalisation
6. Environment protection	6. Trade liberalisation
7. Human resources and education	7. Foreign direct investment liberalisation
8. Health and medical care	8. Privatisation
9. Women in development	9. Deregulation
	10. Property rights

Sources: [1] K. Ohno: Overview: Creating the Market Economy, in: K. Ohno, I. Ohno (eds.): Japanese Views on Economic Development – Diverse Paths to the Market, London and New York 1998, pp. 36f. [2] J. Williamson: Latin American Adjustment: How Much Has Happened?, Institute for International Economics, Washington 1990.

[17] Cf. for a discussion of the controversial aspects of industrial policy cf. W. Pascha, op. cit.

[18] Cf. A. Rowley: To Russia with Pride – Japan offers Economic Model, in: Far Eastern Economic Review, 13 August 1992, pp. 59f.

[19] Ibid.

[20] Cf. JICA, op. cit.

organisation are explicitly permitted – and only the outcome matters.[21] While World Bank or IMF economists would agree on most Japanese recommendations, the crucial point is – again – the notion of selective industrial policy. Centred around the famous World Bank study 'The East Asian Miracle',[22] an endless debate has taken place on the use of industrial policy, being considered by the Japanese as an essential core element, while rejected as ineffective by the Miracle-study.[23] Recent developments, especially the Asian Crisis, have led to a rethinking of the Washington Consensus by Washington institutions themselves. The World Bank's chief economist, Stiglitz, made some concessions to the East Asian (Japanese) approach by highlighting the potentially positive role of government in capital allocation and human capital improvement.[24] Although a certain convergence is visible, some problems inherent in both positions remain unsolved. Neither Washington nor Tokyo have satisfying answers to the question as to how far the nation state faced with the process of further globalisation is still able to intervene actively in market transactions. In the past the success of industrial policy measures was based on the circumstance that access to input factors was limited. But in the age of global integration, characterised by free flows of capital and goods and autonomous global players, traditional instruments of industrial policy are becoming more and more ineffective. That does not mean, in turn, that the nation state will lose its importance in the development process altogether, but rethinking the role of the state in the globalisation process is obviously necessary.

Finally, the question should be discussed as to whether Japan possibly has a significant self-interest in promoting the establishment of a Japanese-style economic model. Besides the fact that the successful implementation of a state-led model would confirm and strengthen the position of Japan's bureaucracy at home and abroad,[25] two other points relevant for the Japanese-Vietnamese relationship should be noted:

□ First, Vietnam offers attractive business opportunities for Japanese companies. Japan is Vietnam's major trading partner – Vietnam's exports to Japan rose from US$ 261 million in 1989 to US$ 950 million in 1993. Among OECD-countries Japan is the largest investor in Vietnam, with a share of 19.3%.[26] From the standpoint of the Japanese business world, more national influence in Vietnam would be of benefit. Furthermore, an economic (or industrial) policy shaped after the Japanese model would give Japanese companies, who are quite familiar with such measures, a competitive edge. Taking that into consideration, it seems to be in the mutual interest of the Japanese government and the Japanese business world to increase Japan's influence in Vietnam.

□ Second, looking at Akamatsu's 'flying-geese' theorem[27] might allow some further insights into Japan's interest in Vietnam. Akamatsu's model first focused on the development patterns of individual industries in latecomer industrialization. The process of increase and decline in comparative advantage in the industries of a single country is shaped like the flight formation of a flock of geese. This model was than transferred to a sequence of countries. In this case the model contains two elements: first, the

Table 5
Japanese Trade with Vietnam (1992)

Exports to Vietnam		Imports from Vietnam	
Goods	Units	Goods	Units
Cars	2,953	Crude oil	1.9 m. tons
Complete television sets	94,841	Frozen prawns	23,112 tons
Motorcycles	46,414	Jackets	154,113 tons
Steel tubes and steel materials	13,147 tons	Non-smoke coal	374,000 tons
Unassembled television sets	54,144 sets	Frozen & dry cuttle fish	4.6 m. tons
Industrial sewing machines	7,744	Processed cuttle fish	893 tons
Construction vehicles	111	Bedding, table cloths, towels	6,422 tons
Polyamide chemicals	1,847 tons	Underwear garments	277 tons
Kerosene	39,610 kg	Timber	31,893 m³
Light oil	99,509 kg	Sandalwood	16,953 kg
Wire telephones	210,406	Coffee	5,080 tons

Source: D. Duc Dinh: Vietnam-Japan Economic Relations on the Rise, Hanoi 1996, p. 266 .

[21] Cf. T. Yanagihara: Development and Dynamic Efficiency: "Framework Approach" versus "Ingredients Approach", in: K. Ohno, I. Ohno, op. cit., pp. 70-76.

[22] Cf. World Bank: The East Asian Miracle – Economic Growth and Public Policy, Oxford 1993.

[23] The Miracle-study is not consistent in its argumentation: it also admits that state intervention was probably a factor of success in East Asia, cf. World Bank: The East ..., op. cit.

[24] Cf. J. E. Stiglitz: More Instruments and Broader Goals: Moving toward the Post-Washington Consensus, WIDER Annual Lectures 2, January 1998.

[25] Cf. W. Pascha, op. cit., p. 252.

[26] Cf. D. Duc Dinh: Vietnam-Japan Economic Relations on the Rise, Hanoi 1996.

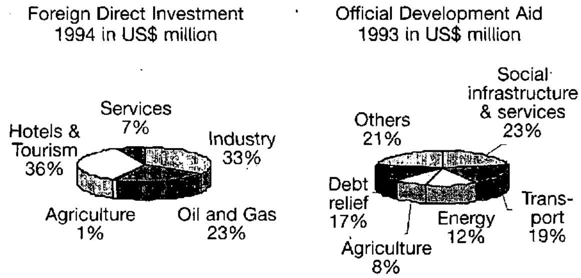
[27] Cf. K. Akamatsu: A Historical Pattern of Economic Growth in Developing Countries, in: Developing Economies, Preliminary Issue, 1962.

assumption of a dynamic catching-up process, with Japan as leading goose in the flight formation, and second, the regional division of labour. In other words, countries at different development stages should produce at different technological levels, less developed countries providing input for more highly developed countries. If we look at the Japanese-Vietnamese pattern of trade, Japan seems to follow exactly this strategy. It imports mainly raw materials, food and textiles from Vietnam and exports industrial products to Vietnam (see Table 5).

In this context, a look at Japan's direct investment pattern and its development aid flows is worthwhile. Japan's aid policy was often criticised in the past for its use for resource exploration and as export promotion for Japanese companies. The Japanese government has in recent years underlined that a substantial change has taken place in Japan's ODA policy.[28] But a glance at Japan's FDI and ODA pattern shows this to be doubtful with regard to Vietnam (see Figure 1). Obviously, FDI as well as ODA inflows are concentrated in sectors where Japan's major imports from Vietnam are generated (with the exception of tourism, in the case of FDI). In addition, major ODA flows go to infrastructure projects, like port and railway reconstruction, which also support market exploration by Japanese companies.

These findings support the notion that Japan's strategy is in perfect line with Akamatsu's theorem of a division of labour among Asian countries and that Vietnam in this context is regarded the youngest goose in the 'gang'.[29]

Figure 1
Sectoral Distribution of Japan's FDI and ODA to Vietnam



Data Source: D. Duc Dinh, op. cit., p. 276.

Data Source: Ministry of Foreign Affairs, op. cit., p.115

Conclusion

Summing up, the Japanese experience after World War II was indeed similar to Vietnam's during the 1980s. If we take into consideration the restrictions laid down in this essay, the question of whether any lessons could be drawn from the Japanese experience can be answered as follows:

First, as the experience of Japan and Vietnam has shown, the state is able to play an important role in the transition process. It is a point of not only theoretical interest that the neo-classical recommendation obviously under-estimates the potentially positive role of the state. As mentioned earlier, some efforts have been made to overcome the clash between 'Washington' and 'Tokyo'. In this context Aoki, Kim, and Okuno-Fujiwara argue that governments should not, in the face of market failure, substitute market elements but, instead, provide incentives for private-sector institutions to overcome this failure by their own efforts.[30] This approach might circumvent some of the problems inherent in the neo-classical and Japanese position, but as a lot of questions remain unanswered, this approach leaves considerable scope for further research.

Second, the 'priority production system' shows that highly interventionist measures can be helpful under certain conditions to overcome shortages in input factor supply. But it also seems clear that this system cannot be sustainable in the long run and is highly dependent on the economic environment. If we reduce the PPS to the selection of key industries and the preferential allocation of factors into these industries, then the Japanese experience has been successful to a certain extent and can therefore be of some value to Vietnam.

Finally, let us return to the question as to how far historic experiences are transferable to a different environment. As mentioned above, the process of increasing global integration sets limits to traditional state measures. In this context it is doubtful if the Japanese concept of industrial policy is transferable to contemporary Vietnam without any modifications. But, on the other hand, the Asian crisis has underlined that the concept of state control is not altogether obsolete. It will therefore be up to future research efforts to examine how the relationship between markets and states will develop in the face of further globalisation.

[28] Cf. Ministry of Foreign Affairs: Japan's ODA Summary 1996, Tokyo 1996.

[29] Cf. D. Nguyen-Than: Das japanische Engagement in Vietnam, in: ifo Institut für Wirtschaftsforschung: Japan Analysen Prognosen, No. 130, April 1997, pp. 2f.

[30] Cf. M. Aoki, H.-K. Kim, M. Okuno-Fujiwara (eds.): The Role of Government in East Asian Economic Development, Oxford 1997.