

The Japanese Development Strategy as a Model for Vietnam?

Lessons from the Systemic Change in Japan after World War II

Tim Goydke¹

1 Introduction

The scientific debate on systemic transition from a command-style to a market economy focused in the past mainly on the cases of former soviet countries and China (e. g. Heiduk, 1997). The case of Vietnam has been given little attention before the Asian crisis shed some light on the economic performance of that country. Vietnam's role as an outsider is astonishing, taken into consideration that its economic development is with an average growth rate below 9 % and an inflation rate below 10 % impressive. That underlines the notion that Vietnam has coped with the transformation process much better than other (former) socialist countries in transition (see table 1). Also, the point that Vietnam has managed to survive the Asian Crisis much better than neighbouring countries (although rapid growth slowed down as a result of the turmoil in Asia to 6-7 %), turns it into an interesting study field for development economists².

Table 1: Economic Indicators of Selected Transitional Economies

	GDP per capita in ppp ^a 1996	Consumer price inflation in % 1990-96	Growth rate in %	
			1993 ^c	1996
Czech Republic	10,870	18.3 ^d	- 1	5.1
Slovak Republic	7,460	19.4 ^d	- 5	6.7
Hungary	6,730	24.1	- 2	1.3
Poland	6,000	50.9	4	5.9
Bulgaria	4,280	--	- 5	- 9.0
Russia	4,190	394.0	- 13	- 4.9
China	3,330	13.5	13	9.9
Vietnam	1,570	8.4^b	8	9.3

Notes: a) Purchasing Power Parity in US\$

b) 1993-1997, Source: IMF, 1998.

Sources: World Bank, 1998; IMF, 1998 (b); Kohama, 1998: 54 (c); Siebert, 1997: 145 (d), author's table.

This leads to the question of whether Vietnam has been following a transition strategy different from that of Eastern European countries. Given the regional context, one may consider the hypothesis that Vietnam's strategy has been - like that of several other countries in the region - based on a kind of Asian development model. I will argue in this essay that a certain model of development exists in the Asia-Pacific region that is based on the development experience of Japan

¹ I am indebted to Prof. Dr. Werner Pascha, Katrin Wolfart and Elmar Eich for detailed and helpful comments on an earlier draft. I am furthermore thankful to Dagmar Lee for her kind assistance.

² See for a discussion of the effects of the Asian crisis on Vietnam: Kokko, 1998.

as the first Asian country that managed a successful economic development after World War II. Starting from this assumption, it makes sense to examine if a latecomer, like Vietnam can draw some lessons from the experience of Japan and whether these are still applicable in the age of globalisation. Nevertheless, some critical points in this hypothesis have to be considered:

- Did Japan experience a phase comparable to the phase of systemic transition in Vietnam? (Ch. 3-5)
- Is it possible to identify an underlying pattern that could substantiate the assumption that Vietnam is following Japan in the sense of *Akamatsu's* flying-geese theorem (Akamatsu, 1962)? (Ch. 6.1)
- Is it possible to identify characteristics of the Japanese experience that can be named a "Japanese development model"? (Ch 6.2)

Before tackling these main questions, some basic elements of the process of systemic transition in general will be clarified in the following chapter.

2 Theoretical Background: Systemic Transition

"Transition" shall be defined as the process by which a socio-economic system changes from a system based upon central planning to this dominated by markets (Fforde/de Vylder, 1996: 22). *Siebert* quotes three main areas of reforms that characterise the transition process and that will be used throughout this paper as an analytical framework (Siebert, 1997: 139-156):

1. **Implementing an institutional framework:** An efficient tax system and a reliable jurisdiction (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.
2. **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, to stabilise the price level and to reduce budget deficits in association with a currency reform and free convertibility are major elements of a successful reform process.
3. **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 the 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 (Apolte, 1992: 9-14, Revilla-Diez, 1995: 21-24):

- extensive and radical transition in the sense of a shock therapy ("Big Bang") or
- 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 rolling-back. Leading development institutions like IMF and World Bank advocated the neo-classical idea that only free competition could provide an efficient resource allocation and that, therefore, market mechanism 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 needed adjustments in the institutional framework that take time were properly established - therefore transition had to be gradualistic (Ohno, 1998). The disastrous state of economic affairs in Russia that followed a neo-classical model of transition, as it was proposed by the IMF, was considered by many as further evidence in favour of the gradualistic approach.

Besides this dispute, there is no agreed position about 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 its scholars, who set up an orthodox neo-classical model known as the “Washington Consensus”³, and the advocates of the state-led development approach influenced by Keynesian ideas. Influential criticism of the “Washington Consensus” was formulated by *Robert Wade (1990, 1996)* and by Japanese scholars like *Kohama (1998)*, *Ohno (1998)* and *Okuno-Fujiwara (1997)*. It is especially the belief of some Japanese economists related to governmental institutions 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.

It is interesting to note in this context that in 1992 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 (Rowley, 1992). This proposal was based on the idea that the Japanese approach of state-led development, being situated somewhere between the command-style socialistic model and the (too?) neoliberal market model, was therefore highly attractive for transitional economies, where a gradualistic approach to a Big Bang is thought to be preferential (see for further discussion of this controversial point chapter 6). Table 2 gives an overview of these two unsettled positions:

Table 2: A Comparison of Development and Transition Strategies

	<i>Neo-classical approach</i>	<i>Japanese approach</i>
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	<i>Laissez-faire</i> ; 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: Ohno, 1998: 4

³ This term was introduced by Williamson (1990, 1993) who summarized the experience of Washington institutions from the economic development in Latin America under this name.

Before comparing Japan with Vietnam in chapter 5, the transition experience of both countries will be discussed in the following chapter 3 and 4.

3 Systemic Transition in Japan

How far did Japan experience a phase comparable to the phase of systemic transition in Vietnam? *Pascha (1997)* argues that Japan faced two phases in its economic development that could be named “transitional” in a broad sense. That was (1) the – forced – opening of the country to western influence in the second half of the 19th century, characterised by the introduction of a western market-oriented economic constitutional framework, and (2) the transition from a command-style war economy to a market economy after 1945. As it is doubtful that the remote experience of the first transition could be of any value to contemporary Vietnam, I will concentrate on the second phase of systemic transition.

In the phase of reconstruction after its defeat, Japan was faced by the typical problems of many post-war economies:

- high unemployment, caused by approximately 13 m. demobilised soldiers and workers from closed or destroyed arms factories,
- destroyed production lines (industrial production was down to 1/7 of production in 1941),
- food shortages because of destroyed transport facilities and the loss of overseas territories, and
- high inflation caused by the payment of compensations and the repayment of public war loans which were not backed by an increased supply of goods.

Behind this background measures of the transitional process in Japan can be divided into three main areas⁴:

3.1 Establishment of an Institutional Framework

After surrender, the primary target was to restore production capabilities and to create the prerequisites for a 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 for 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:

- an antimonopoly law and a *Law for the Elimination of Excessive Concentration of Economic Power* came into effect in 1947, with the target to deconcentrate monopolistic power by the dissolution of the pre-war conglomerates (zaibatsu) and by preventing the emergence of new cartels and trusts (see also 3.3),
- the permission of labour unions and the establishment of *Labour Relations Committees* as an important step in the democratisation of labour,
- a land reform, giving land from absentee landlords to the tenant farmers.

While these measures seemed in perfect line with neo-liberal ideas of allied economic consultants, the Japanese government in the meantime used 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 measures of an interventionist industrial policy (*sangyô seisaku*). Characteristic for the use of

⁴ See for the following in more details Kosai (1988), Teranishi (1998), Nakamura (1994)

industrial policy measures was the Priority Production System (*keisha seisan hōshiki*, 1947-49). This system was aimed at breaking bottlenecks in production, caused by raw materials and energy shortages and by allocating coal to the steel industry, in order to increase steel production. 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 dōin keikaku*]),
- subsidised credits and import subsidies for priority industries by the Reconstruction Finance Bank (*fukkō kinyū kinkō*),
- 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*).

3.2 Macro-economic Stabilisation Measures

Immediately after the war Japan faced severe inflation which was caused by an increase in money supply and rising prices due to a sharp decline in production. The expansion in money supply had its roots in the government's attempt to meet its war-related commitments by note issuing, while the bottlenecks in production were caused by the shortage in 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 9,030 M. Yen in 1946 to 109,627 Mio Yen in 1949. Three stabilisation measures were taken to hold inflation at bay:

- Price control (*bukka tōsei rei*) of major input commodities (coal, fertilisers, etc.) was put in force from 1946 to 1951. 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 from February 1946 through July 1948. From 1946 withdrawals of deposits, except for minimum living and production activities were prohibited and all notes above a certain denomination were ordered to be deposited. 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, known as the “Dodge-Line”. This system, developed by the American adviser *Joseph M. Dodge*, had three main elements: (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\$.

3.3 Adjustments in the Corporate Sector (micro-level)

Major adjustments were made 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 (Itoh et al., 1991: 15).

3.4 Concluding Remarks on the Transition in Japan

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 (for a discussion of Japan's industrial policy experience see chapter 6).

How far can this experience be said now to be comparable to the phase of systemic transition in Vietnam? To answer this question, the phase of transition in Vietnam will be examined in the following:

4 Economic Transition in Vietnam

After reunification in 1975, a Stalinist-Maoist economic system was enforced in the whole country. Major characteristics were (1) the promotion of heavy industry at the expense of light industry and the agricultural sector, (2) state-control of large-scale industries and production according to central-planned targets, and (3) enforcement of agricultural co-operatives and production collectives in rural areas. Systemic economic inefficiency in connection with a cut in foreign aid after the Vietnamese invasion in Cambodia in 1978 as well as food supply shortages, caused by bad weather and resistance to the collectivisation drive in the South, led to a severe economic crisis in 1979-80 (Fforde/de Vylder 1996: 128-137). As a countermeasure, under the Third Five-Year Plan (1981-85), reforms in four major areas were implemented: (1) decentralisation of administrative functions, (2) incentives to work through the “output contract system” that allowed peasants to sell surplus on the free market, (3) permission of private economic activities, and (4) a differentiated system that allowed selected state factories to produce for the free market. Although these measures first showed positive effects, conservative forces abolished major reforms in 1983, with the consequence that in 1986 Vietnam faced

- severe shortages in food supply that led to a reintroduction of subsidised rice rations, and, as a result,
- budget deficits reached 44 bn. Dong in 1985,
- inflation rose from 48 % in 1983 to 500 – 1,000 % after a currency reform in 1986 that, in addition, destroyed private wealth and “illegal” cash holdings of state enterprises (though necessary to purchase input commodities on the free “black” market),
- unemployment increased, and
- the growth rate fell from 8 % in 1981-84 to 3,4 % in 1986 (Fforde/de Vylder, 1996: 142-143; Beresford, 1992: 242-253).

In the face of this total failure of a harsh socialist course, the Sixth Party Congress in 1986 initiated an overall reform program, known as “Doi Moi” (renovation). This process of radical reforms can be summarised again under three major points (Beresford, 1992: 242-253; Revilla-Diez, 1995: 63-85; Mitsui, 1992: 1-5):

4.1 Establishment of an Institutional Framework

Since 1990 Vietnam has created a legal framework as a prerequisite of 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 (no 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, textile 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:

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

4.2 Macro-economic Stabilisation Measures

In order to bring inflation down, the Vietnamese government has used a series of policy measures: (1) the issuing of bonds and treasury bills to cover state expenditures instead of cash creation, (2) 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, (3) the introduction of higher interest rates to encourage domestic savings, and (4) a currency devaluation to bring the exchange rate closer to its market value.

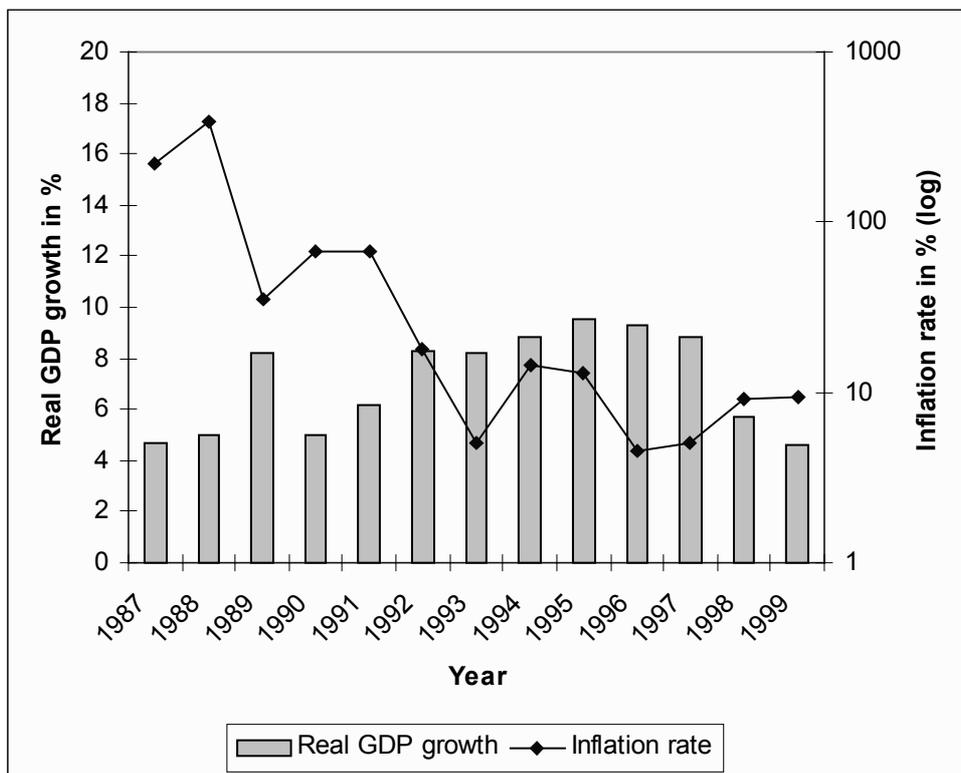
4.3 Adjustments in the Corporate Sector (Micro-level)

The first major step on the route to a market economy was the official recognition of private production activities and the abolition of several preferential treatments for state enterprises. Second, 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 higher 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 (Weggel, 1998: 374). 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.

4.4 Concluding Remarks on the Transition Process in Vietnam

Until today the Vietnamese transition has proved successful in economic terms, as a glance at macroeconomic indicators shows (see figure 1). Nevertheless, some concerns need to be considered. First, with a per capita income of 300 US\$ 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 saving 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 to attract private savings or to provide enough funds for project financing (JICA, 1995: 276). 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 areas⁵ (Ohno, 1998: 37; JICA, 1995: 271).

Fig. 1: Growth and Inflation in Vietnam



Notes: - Data for 1998 and 1999 are estimated by Institute of Developing Economies, 1998, n.p.
- Inflation rate is given as log scale.

Sources: Revilla-Diez, 1995: 69; Institute of Developing Economies, 1998, n.p.; World Bank, 1998.

5 Japan's and Vietnam's Transition Experience: A Comparison

Comparing Japan's and Vietnam's transition experience, a range of similarities can be found in the transition experiences of both countries:

⁵ See Van de Walle, 1996, for a detailed analysis of poverty and infrastructure in Vietnam.

- prior to transition both countries faced a series of macro-economic problems: increased budget deficits, high inflation, declining industrial output, food supply shortages, and unemployment,
- Japan and (South!) Vietnam experienced a command-style economic system only for a short period of time,
- Japan and Vietnam did not experience a transformation crisis like the Eastern European Countries, where a decline in real GDP growth rates was observed (J-curve effect)⁶,
- while market instruments were implemented, several state interventionist elements of the former central-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 the free access to the US-market, while the 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,
- 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 administration⁷. Nevertheless, there seems to be a wide spread of entrepreneurial spirit in Vietnam,
- although difficult to assess in economic terms, differences in geography (Vietnam is resource-rich, Japan resource-poor), historic experience (e.g. colonialism in Vietnam), human capital (more than 700,000 Vietnamese - esp. upper class - fled the country after 1973), and culture (Chinese, French influence in Vietnam while Japan remained homogeneous) should be mentioned⁸.

Summing up, a range of similarities can be found, but for a more in-depht comparaisou some differences need to be taken into consideration. Bearing the restrictions mentioned above in mind, the author will now try to draw some lessons from the Japanese experience.

6 What Lesson Can Japan Teach Vietnam?

Coming back to the question of whether it is possible to identify a Japanese model of development, it seems useful to differentiate between the Japanese contribution of and the position towards the transition process in Vietnam.

⁶ This term is a description of the “J-curve effect of development” and does not refer to the fluctuation in the value of imports and exports caused by a depreciation of a domestic currency which is also called “J-curve effect“.

⁷ 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 remains a problem also in the South.

⁸ For a more detailed overview of these points see for Vietnam *The Economist*, 1995, and for Japan Richardson/Ueda, 1981, and Nakamura, 1994.

6.1 Japan's Possible Contribution

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.

Two things should be considered. First, to what extent had the PPS a positive impact on Japan's economic development?

The PPS was based on the premise of a closed economy with a lack of needed raw materials imports. The target was to allocate limited resources to key industries in order to stipulate overall production. If we look at the production indexes (see table 3), a high increase in the production of steel, non-ferrous metals, machinery and in food processing can be noted.

Table 3: Production Indexes and RFB¹ 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

Note: (1) Reconstruction Finance Bank

(2) Total includes other industries, and hence listed industries do not add up to total

Source: Teranishi, 1998: 74-75, slight modifications.

Because of these results, the Priority Production System is often considered a success. However, some doubts on this finding need to be mentioned⁹:

- 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 recovery start 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 in raw-material input and lacked an underlying long-term strategy. The truth in this argument is, that the PPS tends to be overrated in its contribution to a strategic industrial policy concept by its supporters. But it could be retorted that the use of various measures to guide

⁹ See for a further discussion of the PPS: Teranishi, 1998: 71-75; Kosai, 1988: 31-35.

the allocation of funds in selected strategic industries endured the PPS and were used as a major element of the Japanese industrial policy concept in the 50s and 60s.

The assessment would not be complete without addressing some underlying problems of the Japanese industrial policy concept¹⁰:

- it is difficult to distinguish the effects of industrial policy from other factors that might have influenced the development,
- there is no answer to the question what would have happened without government intervention,
- although intensified efforts has been made in recent years to close the gap, the Japanese concept still lacks sufficient theoretical foundation and empirical evidence,
- the assessment depends on the designated targets of industrial policy measures, like growth productivity or welfare.

As an in depth analysis of industrial policy is not the goal of this essay, I will refrain from discussing this issue further and concentrate on the second point concerning the Japanese experience: 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 to come back to MITI’s offer of an “economic model” to Russia in 1992. 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, behind 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” (Rowley, 1992: 60). To achieve this, funds should preferentially be allocated 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 4). 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.

Table 4: Production Indexes for Key Industries in Vietnam

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

Note: * Calculated on gross production in m. Dong of 1989
 Source: Revilla-Diez, 1995: 96-112, author's calculation and table

¹⁰ These arguments refer not only to the PPS, but to the post-war industrial policy concept in general. See also Pascha, 1997, on these points.

6.2 Japan's Position Towards the Transition Process

Coming back to the question, of what Japan's position is, differences between the Japanese thinking and the mainstream "Washington Consensus" need to be addressed again. But what is really the difference between the neo-classical approach and the Japanese position? 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 (JICA, 1995). 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 5 gives a comparison of the Japanese recommendation to Vietnam and the Washington Consensus:

Table 5: Comparing the Japanese Recommendation 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) Ohno, 1998: 36-37; (2) Williamson, 1990, author's table.

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' represents rules of the games according to which economic agents make decisions and take actions in a given economy. In the framework approach [...] an economy is conceived in terms of the functions of institutions and mechanisms (the invisible hand), and its performance is evaluated in light of the extent to which the rules of the game are established among key economic agents. In contrast, the 'ingredients' refer to tangible organizational units such as enterprises, official bureaus, and industrial projects and their aggregation such as industries, sectors or regions [...] The ingredients approach conceives the economy as a collection of these components" (*Yanagihara*, 1998: 70-71).

This definition underlines the fundamental differences in the perception of development. The framework approach is meant to set the fundamentals right and leave the outcome to the market force. In contrast, the Japanese approach is rather flexible in the use of measures – intervention in sectoral compositions or industrial organisation are explicitly permitted – only outcome matters. Comparing the two approaches in the table above, most points seem to be compatible – even World Bank or IMF economists would agree that rural development and infrastructure improvements are desirable results of a development process – the crucial point is – again - the notion of selective industrial policy. Centred around the famous World Bank study "The East Asian Miracle" (World Bank, 1993), 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. From

this point of view, *Ohno* formulates a policy proposal for Vietnam that underlines the Japanese mainstream position:

“Selective industrial policy is necessary to lift the economy to the next stage of development. While some light and food processing industry may grow without protection, other industries with large setup costs are less likely to emerge without proper official guidance [...] the clear ‘flying geese’ pattern and product cycles in East Asia should help Vietnam to identify such industries” (*Ohno*, 1998: 38).

Finally, let me indicate two recent trends in the scientific debate that might help to soften the clash between “Washington” and “Tokyo”. First, as mentioned earlier, increasingly efforts has been made to improve the theoretical foundation of the Japanese position. *Aoki, Kim, and Okuno-Fujiwara* (1997) mention the term “market-enhancing” for the Japanese approach and argue that the core element of that approach is the promotion of “private-sector coordination”: “the role of the state was not to substitute for, but to facilitate private-sector coordination” (*ibid.*: 19). In this sense, 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 its own efforts. Although this approach might circumvent some of the problems inherent in the neo-classical and Japanese position, the market-enhancing view can hardly be called a closed theory and, therefore, leaves considerable scope for further research.

Second, during the last two years the “Washington Consensus” was put into question by officials of the Washington institutions itself. It was especially World Bank’s chief economist *Joseph Stiglitz* who admitted that the Washington Consensus underestimated the role of government in the development process in East Asia (*Stiglitz*, 1998). Although *Stiglitz* made some concessions to the East Asian (Japanese) approach by highlighting the positive role of government in capital allocation and human capital improvement, this can hardly be called a U-turn in the World Bank’s position - it is most likely too early to invoke a “Post-Washington Consensus”, as *Stiglitz* put it (*ibid.*).

Although a certain convergence is visible, some problems inherent in both positions remain unsolved. Neither Washington nor Tokyo have satisfying answers to the question of how far the nation state is in the process of further globalisation 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, but rethinking the role of the state in the globalisation process is obviously necessary.

Finally, the question should be discussed, of whether there possibly exists a significant Japanese self-interest to promote the establishment of a Japanese-style economic model. Besides the point that a successful implementation of a state-led model would confirm and strengthen the position of Japan’s bureaucracy abroad and at home (*Pascha*, 1997: 252), 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 261 m. US\$ in 1989 to 950 m. US\$ in 1993. Among OECD-countries Japan is with a share of 19.3 %, the largest investor in Vietnam. As table 6 shows, all major Japanese automobile and motorcycle manufacturers are producing in Vietnam – the same applies to electronics manufacturers.

Table 6: Japanese Automobile and Motorcycle Manufacturers in Vietnam

Name	Parent company	Annual production units	Production start
Automobiles			
Toyota Motor Vietnam	Toyoto	10.000	Oct. 96
Nissan TCM Vietnam	Nissan	1.000	Spring 98
Vina Star Motors (VSM)	Mitsubishi	2.500	March 95
Vietnam Suzuki	Suzuki	500 (4.000 until FY 2000)	Nov. 96
Vietindo Daihatsu Automotive (VINDACO)	Daihatsu	500	May 96
Hino Motors Vietnam	Hino	200 (1.000 until FY 2000)	Summer 97
Isuzu Vietnam	Isuzu	2.000 (11.000 until FY 2002)	Spring 97
Vietnam Motor Corp. (VMC)	Mazda		July 92
Motorbikes			
Honda Vietnam	Honda	200.000 (450.000 until FY 2000)	Autumn 97
Vietnam Suzuki	Suzuki	120.000	Nov. 96

Source: Nguyen-Thanh, 1997: 22, slight modifications.

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 business world to raise Japan's influence in Vietnam.

Second, looking back on *Akamatsu's* flying-geese theorem might allow some further insights into Japan's interest in Vietnam. One element, the assumption of a dynamic catching-up process with Japan as the leading goose, has already been introduced. But *Akamatsu's* model contains also another - more static - element, i. e. 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 higher 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 textile from Vietnam and exports industrial products to Vietnam (see table 7).

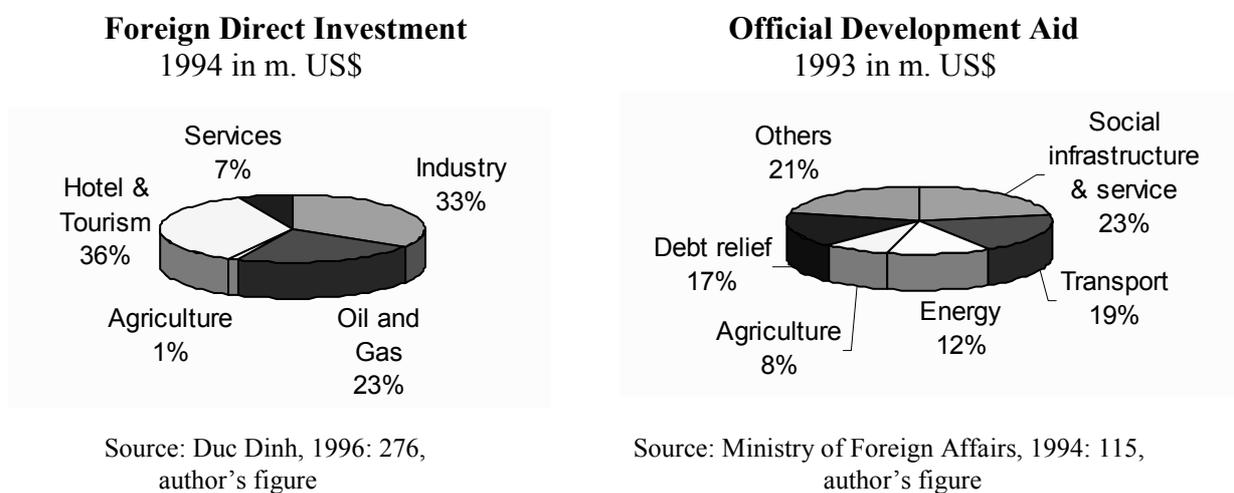
Table 7: Japanese Trade with Vietnam (1992)

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	Bed cloth, table cloth, towels	6,422 tons
Polyamide chemicals	1,847 tons	Underwear garments	277 tons
Kerosene	39,610 kg	Timber	31,893 m ³
Light oil	99,509 kg	Sandal wood	16,953 kg
Wire telephones	210,406	Coffee	5,080 tons

Source: Duc Dinh, 1996: 266, author's table.

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 focusing only on the needs of its own industry. It is indeed difficult to deny that Japan's ODA was often used for resource exploration and as an export promotion for Japanese companies. The Japanese government has underlined in recent years that a substantial change has taken place in Japan's ODA policy (Ministry of Foreign Affairs, 1996). But, a glance at Japan's FDI and ODA pattern shows this to be doubtful with regard to Vietnam (see figure 2). 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 of Japanese companies.

Fig. 2: Sectoral Distribution of Japan's FDI and ODA to Vietnam



These findings supports 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" (Nguyen-Than, 1997: 2-3).

7 Conclusion

Summing up, the Japanese experience after WW 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 not only a point of theoretical interest that the neo-classical recommendation obviously underestimates the potentially positive role of the state. However, a distinction between "good" and "bad" policy is almost impossible to make and the question of the right degree of intervention remains unanswered.

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 seems also 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 to a certain extent successful and can therefore be of some value to Vietnam.

Finally, let me come back to the question of 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 modification. But, on the other hand, the Asian Crisis has underlined that the concept of state control is not obsolete altogether. 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.

7 Bibliography

- Akamatsu, Kaname (1962): A Historical Pattern of Economic Growth in Developing Countries, in: *Developing Economies, Preliminary Issue*, 1962.
- Aoki, Masahiko; Huyng-Ki Kim; Masahiro Okuno-Fujiwara (1997): *The Role of Government in East Asian Economic Development*, Oxford.
- Apolte, Thomas (1992): *Politische Ökonomie der Systemtransformation*, Duisburger Volkswirtschaftliche Schriften, Band 15, Hamburg 1992.
- Beresford, Melanie (1992): Industrial Reform in Vietnam, in: Jeffries (1992), pp. 237-256.
- Duc Dinh, Do (1996): *Vietnam-Japan Economic Relations on the Rise*, Hanoi 1996.
- Fforde, Adam; Stefan de Vylder (1996): *From Plan to Market – The Economic transition in Vietnam*, Boulder and Oxford.
- Heiduk, Günther (ed.) (1997): *Integration of Central and Eastern European Countries into the World Economy – Internal and External Strategies*, Hamburg 1997.
- Institute of Developing Economies (1998): *1999 Economic Outlook for East Asia*, Tokyo 1998.
- International Monetary Fund (IMF) (1998): *International Financial Statistics on CD-ROM*, Washington 1998.
- Itoh, Motoshige et al. (1991): *Economic Analysis of Industrial Policy*, San Diego and London 1991.
- Japan International Co-operation Agency (JICA) (1995): *Country Study for Japan's official Development Assistance to the Socialist Republic of Viet Nam*, reprinted in: Ohno/Ohno (1998), pp. 265-278.
- Jeffries, Ian (ed.) (1992): *Industrial Reform in Socialist Countries: From Restructuring to Revolution*, Aldershot and Brookfield.
- Kohama, Hirohisa (1998): A Review of Systemic Transition, in: Ohno/Ohno (1998), pp. 53-60.
- Kokko, Ari (1998): *Vietnam and the Asian Crisis: Causes, Consequences and Cures*, The European Institute of Japanese Studies Working Paper No. 51, October 1998.
- Komiya, Ryutaro; Masahiro Okuno; Kotaro Suzumura (ed.) (1988): *Industrial Policy of Japan*, Tokyo et al.
- Kosai, Yutaka (1988): The Reconstruction Period, in: Komiya et al. (1988), pp. 25-48.
- Ministry of Foreign Affairs (1994): *Japan's ODA Annual Report 1994*, Tokyo.
- Ministry of Foreign Affairs (1996): *Japan's ODA Summary 1996*, Tokyo.
- Mitsui, Hisaaki (1992): *Effects of the Recent Industrial Reforms in Vietnam: A Remarkable Transformation to the Market Economy?* IDCJ Staff Occasional Note No. 3, March 1992.
- Nakamura, Takafusa (1994): *Lectures on Modern Japanese Economic History 1926-1994*, Tokyo 1994.
- Nguyen-Than, David (1997): *Das japanische Engagement in Vietnam*. Ifo japan studienstelle: JAPAN ANALYSEN PROGNOSEN No. 130, April 1997.
- Ohno, Kenichi (1998): Overview: Creating the Market Economy, in: Ohno/Ohno (1998), pp. 1-50.
- Ohno, Kenichi; Izumi Ohno (eds.) (1998): *Japanese Views on Economic Development – Diverse Path to the Market*, London and New York.

- Okuno-Fujiwara, Masahiro (1997): Toward a Comparative Institutional Analysis of the Government-Business Relationship, in: Aoki, Masahiko; Huyng-Ki Kim; Masahiro Okuno-Fujiwara: The Role of Government in East Asian Economic Development, Oxford 1997, pp. 373-406.
- Pascha, Werner (1997): Industrial Policy and the Policy Choices for Central and Eastern European Countries – A Commentary on Some Controversial Issues, in: Heiduk (1997), pp. 241-255.
- Revilla-Diez, Javier (1995): Systemtransformation in Vietnam: Industrieller Strukturwandel und regionalwirtschaftliche Auswirkungen. Hannoversche Geographische Arbeiten, Band 51, Hannover 1995.
- Richardson, Bradley M., Taizo Ueda (1981): Business and Society in Japan, Tokyo.
- Rowley, Anthony (1992): to Russia with Pride – Japan offers Economic Model, in: Far Eastern Economic Review, 13 August 1992, pp. 59-60.
- Siebert, Horst (1997): Weltwirtschaft, Stuttgart.
- Smitka, Michael (ed.): Japan's Economic Ascent, New York and London 1998.
- Stiglitz, Joseph E. (1998): More Instruments and Broader Goals: Moving toward the Post-Washington Consensus, WIDER Annual Lectures 2, January 1998.
- Teranishi, Juro (1998): Inflation Stabilisation with Growth: The Japanese Experience, 1945-50, in: Smitka, Michael (ed.): Japan's Economic Ascent, New York and London 1998, pp. 221-246.
- The Economist (1995): The road to capitalism: A survey of Vietnam, July 8th 1995, pp.1-18.
- Van de Walle, Dominique (1996): Infrastructure and Poverty in Vietnam. Living Standards Measurement Study Working Paper No. 121, The World Bank, Washington.
- Wade, Robert (1990): Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization, Princeton.
- Wade, Robert (1996): Japan, the World Bank, and the Art of Paradigm Maintenance: 'The East Asian Miracle' in Political Perspective, in: new left review, No. 217, May/June 1996, pp. 3-36.
- Weggel, Oskar (1998): Gesamtbericht Vietnam, Laos, Kambodscha, in: SÜDOSTASIEN aktuell, September 1998, pp. 374-375.
- Williamson, John (1990): Latin American Adjustment: How Much Has Happened? Institute for International Economics, Washington 1990.
- Williamson, John (1993): Democracy and the „Washington Consensus“, in: World Development, Vol. 21, No. 8, 1993, pp. 1329-1336.
- World Bank (1993): The East Asian Miracle – Economic Growth and Public Policy, Oxford 1993.
- World Bank (1998): World Development Indicators 1998.
- Yanagihara, Toru (1998): Development and Dynamic Efficiency: “Framework Approach” versus “Ingredients Approach”, in: Ohno, Kenichi; Izumi Ohno: Japanese Views on Economic Development – Diverse Path to the Market, London and New York, pp. 70-76.