

Country assistance policy for the Socialist Republic of Viet Nam

December, 2012

1. Relevance of Assistance

Viet Nam is located in the eastern part of Indochina, sharing long border with Cambodia, Laos and China, and facing the Philippines across the South China Sea. Since the introduction of Doi Moi policy (Renovation) in 1986, Viet Nam has pushed forward the transition to market economy aiming at integration into the world economy, and became a member of World Trade Organization (WTO) in 2007. With a population of more than 86 million people, ranked the third in Southeast Asia, Viet Nam achieved high economic growth of more than 7% on average in the 2000s, GNI per capita reached over \$ 1,000 in 2010, and has become a lower middle-income country. Playing one part of the East-West Corridor and Southern Corridor, which plays an important role in the economic development of the Mekong region, the importance of Viet Nam is increasing from the view point of promotion of further regional cooperation and economic integration as one of the driving economic forces of the region.

Regarding the relation with Japan, the relationship between the two countries has been enhanced rapidly, for example, the "Japan-Vietnam Joint Initiative " (the fourth phase started in July 2011 and now under implementation), a joint public-private framework for improvement of the investment environment, has been implemented since 2003, and the two countries signed the bilateral Economic Partnership Agreement (EPA) which was the first EPA for Viet Nam and entered into force in 2009. From the view of expanding trade and investment with ASEAN - Mekong region, many Japanese companies has started operation in Viet Nam against the backdrop of abundant labor force, natural resources and energy, as well as diligent character of the national, hence the country is an important economic partner of Japan.

On the other hand, the demand for economic infrastructure, such as energy and transportation, has increased along with the rapid economic growth, however, development of infrastructure is still lacking, then a huge need of development is expected, and further improvements in the business environment including various economic systems are also required. In addition, the level of income in rural areas is still low and the poor are still existing, especially in the local ethnic minorities. As the negative aspects of the rapid economic growth, environmental pollution and destruction, regional disparities, underdeveloped system of medical insurance and social security have become tangible problems. Furthermore, as a general problem common to these problems, there is a need to strengthen the governance. For the country to achieve sustainable economic growth from now on, it is necessary to work more actively to conquer these challenges, keeping in mind the balance of economic stabilization and growth.

Japan's active support for Viet Nam's efforts to resolve these challenges will underpin the sustainable economic growth of the country, lead to strengthening the relationship between the two countries further and contribute to strengthening the connectivity and economic development of ASEAN- Mekong Region.

2. Basic Policy of Assistance: Assistance towards the achievement of industrialization in 2020

Towards the industrialization of the country by 2020 that is stated in “the 10-year Socio-Economic Development Strategy” (2011-2020) and the “5-year Socio-Economic Development Plan” (2011-2015), Japan supports Viet Nam to achieve sustainable development by strengthening the international competitiveness, conquer the vulnerability and create a fair society and country.

3. Priority Areas

(1) Promotion of Economic Growth and Strengthening International Competitiveness

Towards sustainable development through strengthening the international competitiveness, Japan supports Viet Nam to improve the market economy system, reform finance and develop the industry and human resources. Japan also supports the country to develop arterial traffic and urban transport network, supply energy stably and promote saving energy in order to meet the demands for economic infrastructure which is increasing along with the economic growth.

(2) Response to Fragility (Response to the Negative Impacts Brought by Economic Development)

In order to deal with the negative aspects of the growth, Japan supports Viet Nam to address emerging environmental issues (urban environment, natural environment) caused by rapid urbanization and industrialization, and address threats such as disasters and climate change. In addition, in order to improve the social aspects and living, reduce poverty and correct disparity, Japan supports Viet Nam to develop the systems in the fields of health-care sector, social security and support to the socially disadvantaged etc, and develop rural areas.

(3) Good Governance

In order to strengthen the governance as required in general Vietnamese society, Japan supports Viet Nam for efforts to improve the judiciary and administrative functions, for example, Japan supports the country to enhance its capacity of improving and executing the legal system, ensure justice, fairness, neutrality and transparency of the governance.

4. Points to be considered

Vietnam is one of the most advanced countries in aid coordination among donors, therefore, the framework of multi-dialogue is playing an important role. In supports to Viet Nam in the future, it is necessary to actively utilize this cooperation framework between donors.