

# **The Adjustment of Japan's ODA to Vietnam in the Context of Globalization and Localization**

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For more than a decade, Japan has been the greatest provider of ODA to Vietnam. Japan's ODA projects have been effectively performed and have significantly contributed to Vietnam's socio-economic development. Some researchers of Vietnam consider that under the impact of globalization and localization, Japan has changed its ODA policy toward Vietnam. From having no relations with Vietnam, this nation has become the greatest provider of ODA to Vietnam since 1992. In fact, this is a turning point in adjustment of Japan's ODA policy toward Vietnam. Naturally, Vietnam's change into a market economy and the implementation of an "open door" foreign policy are also important factors contributing to the Japanese Government decision to adjust its ODA policy toward Vietnam.

In recent years, due to economic difficulties, Japan has cut down ODA budget, however, Vietnam is still a priority object of Japan's ODA policy; ODA projects and budget to Vietnam haven't been cut down. This shows the consistency in Japan's ODA policy adjustment to Vietnam. However, some people are still wonder whether priorities in Japan's ODA policy to Vietnam shall be maintained in the future while Japan continues facing with economic difficulties, and obstacles in ODA disbursement shall not be improved and the increasing impact of globalization and localization?

This essay shall focus on analysis and assessment of the above issues in three aspects: (1) Identification of globalization and localization and their impact; (2) Adjustment of Japan's ODA policy to Vietnam, and (3) Recommendations.

## **I. Identification of globalization and localization and their impact**

### **1.1. Globalization**

Since 1990, globalization has become a key concept in the cultural vocabulary of the world. Although until now, it is still debated that globalization is understood as an evolution of chain explosion and spreading beyond national borders of generally cultural and economic values, starting from the most developed countries. These are values of democracy, justice, human rights and the market economy. The explosion of these values is the demand of the human itself in most of nations in the world, and it is speeded up by the revolution in communication area. Invention and applications on information technology are considered or both facilities and factors that speed up spreading globalization. In economic aspect that is normally called economic globalization has created opportunities for narrowing the market segmentation. And increasing interdependence among the economies.

In some researchers' opinion, economic globalization is the result of the following factors:

Firstly, expense of transportation and communication has been minimized for the recent decades. Statistics of many countries show that expense of transportation and communication, for example by seaway and airway, has been reduced very low; for instance, a three-minute call from Hanoi to Boston was USD 15 in 1990 (fixed price in 1990), and USD 2.5 in 2004. Expense for using satellite has also been reduced significantly.

Secondly, the revolution in the field of information technology. This revolution makes the countries in the world closer to each other. It is said that this revolution makes the countries stronger, faster and the man becomes more dynamic. The World Wide Web becomes the global communication network. Up to 2000, there were more than 220 million people participating in this network. Based on some forecasts, it shall increase to 1 billion in 2005.

Thirdly, the *cold war* comes to ended. Thank to this, the ideological confrontation has been removed, political strain has been minimized. Because as we know the collapse of the East European socialist system has created a political, diplomatic and economic space of interconnecting nature. This is a nudge that creates pervasion of the market economy worldwide and favorable condition for speeding up globalization progress.

Fourthly, the active change of the concentrated planning economies in Eastern Europe, China, Vietnam has also took part in speeding up globalization. In other words, the change into the market economy of these countries has created opportunities for enlarging the market size and speeding up international labor allotment.

Fifthly, the change in development strategy, especially in international trade area in the new industrial countries (NICs) and developing countries in direction of increasing "open door" economy and encouraging regional and international economic integration that is also considered as an important factor to speed up globalization.

And sixthly, regional integration is strongly increased in many parts in the world.

Countries promote bilateral free trade arrangements (FTA) that is considered as a key to open regional trade liberalization and to directly support global trade liberalization according to WTO.

Therefore, it can be said that, economic globalization is an indispensable progress, because the basis that creates this progress is objective factors and clearly identified. Some persons don not agree with the sixth factor, because they consider that regional integration or also called localization moves in a contrary direction against globalization. This is reasonable when localization is operating in principles contrary to WTO.

Based on some recent studies, globalization affects on all countries. This impact is also indispensable and of clear duality because the countries increasingly take part in international activity.

In economic aspect, globalization creates opportunities to form effective distribution of resources in the world, and the difference in international price shall reduce gradually. Globalization shall increase international exchange, that shall take part in eliminating the difference between supply and demand for goods and services in each country. Globalization requires business individuals and institutions taking part in the market must adjust their resources distribution mechanism in conformity with the requirement of the world market.

In political and cultural aspect, under the impact of globalization, countries should execute policy of reform, opening door and increasing international exchange. An should initiative in the international integration grew in order to take advantages and to limit disadvantages from the globalization progress.

It can be said that the impact of globalization on economic cooperative relation among countries in the world in general and the Vietnam-Japan relationship in particular is expressed in the following three aspects:

Firstly, globalization of economic activities is the first factor influencing setting up and adjusting foreign economic strategies of countries in order to adapt to the new international environment. Both Japan and Vietnam have been adjusting their foreign economic strategies in this direction.

Secondly, globalization and the explosion of IT revolution in the recent years have created basis for speeding up the process of changing a post-industrial society from information society in many countries including Japan.

Thirdly, globalization requires countries to optimally use their resources for entering into the process of international labor cooperation and allotment.

The most important character of globalization is that countries increasingly depend on the global market. Of which, the capital circulation implemented through the international financial market is an example. Capital source of large size, with fast circulation rate has become the most adventurous and exciting area of the present world economy.

The second characteristic of economic globalization is that, countries with strong economy both strengthen coordinating international economic policy and severely competing with each other. Therefore, the world economy changes from mono-polar to multi-polar direction. Until 1990s, Soviet Union collapsed. Russia coped with drastically economic difficulty. USA was still the number one economy of the world, however, based on forecast, American economic growth rate tends to slow down in the coming time. And there shall be many other developing countries that become new competitors, China is an example. Therefore, the world multi-polar economy shall bring in increasingly large space for development but at the same time, it shall also bring in a lot of conflicts by increasing competition extent among countries and there shall be sudden variables in the world economy.

The third characteristic of economic globalization is that Multinational Corporations shall increasingly play an important role and are the major force to speed up economic globalization. Based on the data of the UN's transnational company center, in 1998, the number of Multinational Corporations was up to 44,000 with 280,000 affiliates. These MNCs accounted for 44% of the global product value, 50% of total trade value, 90% of foreign direct investment, more than 90% high-tech copyright. With global system of production, sales, services, scientific research and communication, the companies have significantly impacted on must of economic life of the world.

And the fourth characteristic of the economic globalization process is that trade liberalization has become an increasingly important factor, speeding up the economies of developed countries with opportunity for development. Global trade liberalization and separate trade localization seem to be conflict, but in fact, they are not like that. Trade liberalization can not eliminate trade protection and trade localization can not invert the

trend of global trade liberalization.

Therefore, it can be said that the essence of economic globalization is economic liberalization and international integration, and first of all in liberalization of trade, investment and services. Economic liberalization is a process with different degrees, from tax reduction to tax exemption; from trade liberalization to investment and services liberalization, from bilateral economic relation liberalization to multilateral one; from regional economic relation to global one.

The Vietnam-Japan relationship is also subject to globalization through trade relations, FDI and ODA. However, in the economic globalization, not any countries could only get benefit from this process, because development opportunities always go together with environmental challenges, even national sovereignty. Therefore, in order to overcome the negative sides of globalization, Vietnam is forced to devise reasonable calculations for its own paces in the process of international integration.

## 1.2. Localization

Together with globalization progress, localization is expressed clearly through setting up regional trade agreements (RTA) that are increasing also. In fact, RTAs are not new, because they are always a part of the global trade system that was formed after the war. Article XXIV of GATT allows setting up RTA where participating parties shall agree and treat each other through preferential tax treatment on the basis of mutual assistance under definite conditions. In essence, such RTAs discriminate against non-member countries. Therefore, in fact, RTA is exceptions, if it is placed in the regulations of most favored nation of WTO.

The first wave of Regionalism appeared in 1950s & 1960s and are considered happening for the first time by forming European free trade area in 1959, followed by the formation of European Economic Community. Shortly afterwards, developing countries of Latin America Africa have formed their own RTA. However, these RTAs are not successful, excluding European free trade area, and the major reason mentioned much is that US, a locomotive of the world economy, just supported multilateral free trade through GATT.

The second wave of localization appeared in late 1980s with the formation of European Union (EU), a sole market. The U.S promoted building up America-Canada free trade area, and after that North American countries built up North American Free Trade Area (NAFTA). The formation of EU and NAFTA created domino effect, helping to restore the former RTA and encouraging new RTA in Latin America and Africa (e.g. MERCOSUR and Andean Community). Pacific Asia came later with the formation of ASEAN Free Trade Area (AFTA) starting in 1992.

However, the first and second waves of regional integration have different characteristic. The first wave was inward integration and has not been deep, only tax reduction was focussed on. While that second wave was open, speeded up liberalization faster, integration deeper; and privilege was eliminated because one nation could be a member of more than one RTA at the same time.

It should be noted that the members taking part in integrating blocks belonging to these waves normally have similarity in culture, politics and in economic model also. This similarity itself has created important prerequisite for building up other RTAs belonging

to the two waves mentioned above.

Reality shows that most of WTO members take part at least in one regional trade agreement. In July 2000, there were 204 RTAs, 70% of which are effective presently. Trade in RTA accounts for about 43% of the world economy in 2000.<sup>1</sup> In recent years, the tendency of building up RTAs is strongly promoted. This is agreements to form Free Trade America Area (FTAA); aligning the North and South American economy, free trade agreements between EU and Africa (FTA); Latin America and emerging economies of Europe and Middle Asia, and in Asian-Pacific region, more developed economies such as Australia, New Zealand, Japan, Singapore and South Korea are negotiating FTA with each other, and other Latin American countries such as Chile and Mexico .

However, many researchers consider that RTA in the second wave create faster and more profound liberalization, especially in multilateral level, and that liberalization at regional level can become pre-requisite or support reaching high unanimity at multilateral level in WTO.

However, if one country is a member of more than one RTA, overlapping can be increased, risk also increased, and this can result in trade conflict. Besides, such deficiencies can be a detriment to implementing WTO functions.

Another question that has not been answered is whether RTAs can effectively coordinate with multilateral trade system. Even if this question is still left open, however, in the period of the second wave, it seems that the participation in RTA becomes the choice of policy of many developing countries. When it is predicted that RTA shall continue spreading to the global size, not few developing countries consider that they shall be excluded from the game if they do not take part in. This anxiety becomes clearer when considering major trade partners, and their FDI source is an agent resulting on the formation of RTA and their competitor have been members of or more RTAs. Reality shows that one developing country must face with trade affairs are discriminated from any RTAs where it is not a member, but its competitors and major trade partners are members of this RTA and this situation is formally stamped with political character, because the discrimination level depends on political and diplomatic relationship established previously. Normally, if a member is an ally, it shall be "treated with consideration"

Presently East Asia is the only region in the world where there is no trade bloc for the whole region, although this region has the second largest economy of the world that is Japan. There are two main reasons for interpreting the absence of regional integration that has been ever existing in Europe or America. Firstly, East Asia has no lasting history of acceptable unanimity and similarity. The diversification in culture, religion, language politics and development level of East Asian economic creates a hindrance for the development of the region; Secondly, trade benefits of the East Asian economy has tradition of aligning more with outside of the region than with inside, especially with North America and Europe. These two regions are two major export markets and direct foreign investment supply sources for the majority of East Asia economies.

However, for more than a past decade, East Asia economies depend on each other more and more. This dependence and integration take place through a progress governed by the market and without regulation by economic and administrative. The developing

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1 WTO Report, 2002.

economies in the region have executed liberalization for investment and trade stronger than developing economies in other regions, in unilateral or multilateral form through WTO. Generally, the type of integration that has been developed in East Asia is a product of trade and investment relation in the region between the North East Asia and South East Asia, and it is also expanded even to North America. This increasing economic integration progress in the region is described as a type of "Goose flying," and performed by means of reducing barrier for trade and investment, and the fast development of traffic and information technology.

The matter of interest here is what factor speeds up the East Asian integration progress? We try to seek for the answer. It can be said that while the market agents are still strongly present for the regional integration process. There is a change from multilateral trade to supporting liberalization. In fact, different starts in RTAs construction in the region have been appeared. Among economies, Singaporean economy is the most daring, and is followed by Japanese and Korean ones. These are bilateral RTA in APEC region.

Some factors are deemed to contribute to outstanding emergence of such phenomenon. Firstly, in some APEC economies, RTA is initially considered as a solution for fostering multilateral liberalization in APEC and WTO member countries.

Secondly, defeats in WTO negotiation round at Seattle Ministers' Conference in 1999 can make APEC economies seek RTA-type joint ventures. Similarly, slow liberalization in WTO and dissatisfaction of some WTO members in realizing regulations can foster such economies to find out other forms of liberalization.

Thirdly, Asian financial crisis 1997–1998 realizes that it is necessary to cooperate in fostering economic integration process. As known that, the crisis spread rapidly throughout the region and hardly relates to differences of economic bases of such economies. It shows that regional countries should exert themselves in policy collaboration to foster the economic integration in an effort to restrict negative impacts like the last crisis.

Finally, it is dynamics of Japan and China behind regional plans, which are influenced by geographical and political rather than economic assignments. Japan has been for long a country with powerful economy in the region, mainly thanks to economic success in the post-war period. This is the country whose economy is in the top place of Asia, which affects greatly on industrial development in the region; it has strengthened commercial and economic relations with East Asian countries, and as a result facilitated new industrial countries in increasing economic growth between 1980s and then ASEAN in decades of 1990 to before Asian financial crisis. However, the regression lasted in decades of 1990 in Japan declined the leading place of Japan in the region.

Meanwhile, Japan wanted to maintain their effects toward the global economy. In the status of the second big economy, Japan is being challenged by US and EU role extension to America and Europe. The U.S. has expanded NAFTA by setting up a Free Trade Convention with Middle America and Mercosur. If Japan wants to liberalize by multilateral approach, their negotiation power can be remarkably weakened when the country is suffering from stiff competition from EU and America. Moreover, Japanese companies are gradually losing their competitive capability towards American and European partners when they are out of the U.S. and EU free trade.

Another important element is Euro impacts to Yen of Japan. Euro development can divide the world into two monetary sectors and separate Yen from the global monetary

market. Of course it is just a forecast whether it becomes true, but Japanese did not stay in one place.

Thus, Japan should adjust its international economic policies in direction of giving more priority to East Asia, especially ASEAN countries.

In addition, China is one of growing economically powerful country; they find ways to overcome not only in East Asia but also worldwide. Its economic growth is high, specially increase in export in recent years. China is a giant market and now a WTO member. Simultaneously, the world market is full of cheap products from China; NIEs and ASEAN are losing direct foreign investment due to attraction of cheap labor from China. Thus, China's approach of new preferential trade to the rest of the region can help it to seize opportunities to substitute Japan becomes the main agent governing economic growth and regional integration. This policy of China, in the practice, is a political intention, which is to become an important locomotive in future international relations in the region.

This adjustment is one of important contents of package reform by Koizumi government.

## **II. Japan's ODA policy adjustment to Vietnam**

### **2.1. More preference for Vietnam**

As known that, Japan is the second big economy in the world and the only Asian country with membership to G7. Since many past years, in respect of aid scale, Japan is always a leading country among international sponsors. In the trend of readjusting foreign aid policy of developing countries, at the Summit Conference held in Tokyo in 1993, Japan set up objectives for 5<sup>th</sup> mid-term grant scheme, increasing grant from 1993 to 1999 to 70-75 billion USD. With four consecutive years of leading the world in term of ODA, Japan expresses its guideline of attaching special importance to both qualitative and quantitative improvement of international peaceful contributions, not relying on military power.

Japan's ODA base on view of weighing humanity and awareness on inter-assistance, paying attention to environment and self-reliant spirit. Implementation relies on the principle of regulating development and environment protection, avoiding to apply it to military purposes and international dispute; fostering market-economic development in developing countries; contributing to effective use of ODA extracted from taxable paid by Japanese people.

For Vietnam, Japan's ODA is used for five fields: human resource development and construction of institution in which focus on supporting Vietnam to transit to market economy; Construction and rehabilitation of power works and civil engineering works; Agricultural development, construction of rural infrastructure; Education, training and health development; Technology transfer and environment protection.

In the last years, Vietnam received not small ODA amount from Japan. Total ODA of Japan granted to Vietnam from 1992 to 2004 was 1,108.1 billion Yen. This is an encouraging in the Japan's ODA adjustment policy to Vietnam. It can be empathized that Japan's ODA adjustment to Vietnam originates from a various different factors.

Firstly, it is goodwill of Japan, which can be regarded as the first cause since, if lack of goodwill, either it has not grant or output is very small. Japan's goodwill towards Vietnam in term of grant from 1992 to now has been a consolidate output of various component elements right in Japan's Southeast Asian foreign policy after the World War II and specially after Prime Minister Fukuda proclaimed his Southeast doctrine (1977), which empathized on long-term and multi-sided benefits and increasingly dependent relations between Japan and other Southeast Asian countries.

Secondly, it is effects of globalization and regionalization in which create regional environment more convenient. Conversation and negotiation for solving benefit conflicts more become a prevailing trend in the region. As known, the relation between ASEAN and Vietnam is remarkably improved. It is also an element contributing to fostering the "goodwill" of re-linking ODA grant to Vietnam.

Thirdly, Vietnam's economic reform has been promoted, fostered and achieve many active results. The nature of this reform is to transform the economy from subsidiary bureaucratic centralization to market economy. Thanks to macro and complete solutions of the State, all economic sectors could develop up their capacity. Thus, the economy overcome the crisis and inflation was restrained early 1990s and economic growth was increased by years.

Fourthly, it is implementation of open policy for the economy and the diversification in foreign relations. It is the two-sided policy supporting each other. Diversification in foreign relations is an intelligent and effective policy because it step-by-step breaks policy of external embargo, but sets up understandings and mutual dependence and creates environment for promoting the open policy for the economy.

It can be said that multi-faced success in the renovation of Vietnam and our economic development strategy to 2010 act as ground for changes in the policy of grant re-linking and Japan's ODA adjustment preferentially to Vietnam.

Finally, the most importance is dependent on effectiveness of exploiting Japan's ODA by Vietnam, both in terms of attraction and utility. Generally, it has developed for good direction in recent years.

All the above-mentioned factors have actively influenced Japan's ODA policy to Vietnam in recent years. And Japan becomes the biggest ODA sponsor in Vietnam. The following is detailed ODA program:

Japan's grants are implemented by Japan International Cooperation Agency (JICA). Some important projects formulated from such grants include : construction of primary schools at flood-suffering areas (Southern delta); rehabilitation of hospital (Bach Mai hospital, Cho Ray hospital, Hai Ba Trung hospital, National Pediatric Hospital, and the like); construction of Tan Chi irrigational network; construction of human resource training centre, grant for human resource scholarship development; re-construction of bridges at Mekong Delta, Transport and Communication Technique School No. I; production of measles vaccine; Gia Lam Water Factory; extension of Hai Duong water supply system and so on.



**Grants for Vietnam in the fiscal year 1999–2000**

<b>Fields</b>	<b>Number of projects</b>	<b>Grant amount (USD)</b>
Health	15	949,829
Education and research	7	412,185
Agriculture-Forestry-Fishery	3	169,723
Environment	1	61,921
Transport and communication	1	7,826
Support for disaster control	2	108,114

Source : JICA Hanoi Office

Secondly, it is ODA loan, this is preferential credit Japan Government grant to Vietnam Government in Yen, so it is called Yen credit. This kind of credit is supplied from an organization known under the name of OECF (Oversea Economic Cooperation Fund of Japan), which is now renamed JBIC (Japan Bank for International Cooperation)—established after the union of OECF and JEXIM (Japan Export-Import Bank). JBIC credits are used mainly for developing economic infrastructure of Vietnam, especially in such fields that require big investment as energy, transport and communication and urban infrastructure. Loans are used for implementing projects and important programs for economic development of the nation, of which some big projects and programs are construction of Phu My Thermo-electricity factory I, construction of Cai Lan deep port; rehabilitation of highways No.10, No.18 and No.5; construction of Hai Van Pass roadway tunnel; construction of coastal relief information system; central television station; Hanoi water drainage system; construction of Hai Phong port, etc. Majority of Japan's ODA pertain to a detailed project, which is reviewed for receiving grant under a unified process.

Thirdly, it is technical cooperation. After two times of receiving ODA from Japan to construct high buildings in 1974 and to rebuild infrastructure for 20 years later, from 1995 to 1999, Cho Ray Hospital, one of two biggest central hospitals in Vietnam, continued receiving technical cooperation program in the form of JICA assistance projects. Totally there are about 20 projects being implemented: restoration of Northern upstream forest, cooperation in law development, technical improvement of water environment protection, etc.; as for 2003 received 9,729 trainees; dispatched 1,612 specialists and 114 volunteer youths under Oversea Volunteer Cooperation Program of Japan.

**Number of Japan's technical cooperation projects in Vietnam, 1995–**

<b>Fields</b>	<b>Quantity</b>
Agriculture and rural development	7
Human resource development and institution building	4
Economic infrastructure development	4
Transport development	2
Health	3

Source : JICA Vietnam Office

**Japan's ODA for Vietnam (1992–2002)** *Unit: Million Yen*

<b>Years</b>	<b>Total Amount of ODA</b>	<b>Loans</b>	<b>Grants</b>	<b>Technical Cooperation</b>
1992	47.419	45.500	1.587	0.332
1993	59.890	52.304	6.270	1.316
1994	66.047	58.000	5.672	2.375
1995	82.148	70.000	8.908	3.240
1996	92.387	81.000	8.035	3.352
1997	96.519	85.000	7.297	4.222
1998	100.822	88.000	8.186	4.636
1999	111.996	101.281	4.641	6.074
2000	86.403	70.904	8.067	7.432
2001	90.265	74.314	8.371	7.909
2002	91.265	79.330	5.227	6.708
2003	91.738	79.330	5.700	
2004	92.600	82.000	5.023	55,77
<b>Total</b>	<b>1.035.828</b>	<b>966.963</b>	<b>82.984</b>	<b>485,37</b>

Source: Japanese Embassy in Vietnam

**2.2. Comments on Japan's ODA to Vietnam**

Japan's ODA to Vietnam which is proper with priority in Vietnam's socio-economic development have supported Vietnam in infrastructure rehabilitation, competence improvement, technology transfer and human resource development.

For grants, since 1992, Japan's annual grants to Vietnam have been rather stable and tended to gradual increase, about average 100 million USD per year. Scale of Japan's grant averaged to a project is rather big, from 7 million to 60 million USD. Considerations and approval towards projects by Japan are implemented carefully and thoroughly, thus projects are implemented and disbursed rather conveniently, duly and subject to process of the two countries. For grants, Japan applies the form of restricted bidding among Japanese bidders, which is under management of Japan publics' related authorities. Generally, bidders who are awarded contracts are experienced, reputed and competent ones, thus technical standards are ensured at high level.

For loan, Japan ODA credit cable is suitable with Vietnam's priorities in concentrating such resource for infrastructure and socio-economic projects. Wide bidding helps Vietnam save loans. In many cases, Japan permitted Vietnam to use surplus capital of ODA credit projects for constructing some other socio-economic construction works.

In conclusion, ODA grants supplied by Japan to Vietnam are indeed very important capital for Vietnam's economic development. In fact, it shows that ODA is one of important contents of economic cooperation between Vietnam and Japan in the past time, the present and in the future. Successfully implementing agreed undertakings requires two parties' further efforts to push up the Vietnam-Japan relationship to new height in the twenty-first century.

### III. Recommendations

#### 3.1. For Vietnam

Further strengthen economic integration activities with regional countries and the world by joining international organizations. Actively participate in ASEAN, AFTA, APEC and lead to joining WTO, on which Vietnam will have a new status in economic relation with Japan and be entitled to preference Japan is tendering to developing countries and WTO member countries.

Vietnam should create a convenient business environment, sufficient and stable legislation system; simplification of administrative formalities at all sections; reduction of such service charges as electricity, water, telecommunication and the like. Implementing such works will help businesses reduce input costs, increase price competition capability; if well done, such implementations facilitate to increase foreign investment and ODA attraction.

It should set up preferential policies in land tax, foreign exchange, credit, etc. attractive for Japanese businessmen to invest in high-tech projects; and set up policies of supporting Japanese businesses to divert their investment in other regional countries to Vietnam.

It should determine that Japan is the most essential ODA partner of Vietnam, thus it is necessary to make the best use of such capital for the industrialization and modernization of the country, to set up a portfolio proper with targets of Vietnam's socio-economic development strategy and Japan's priority for development. Further strengthen multidisciplinary information exchange with authorities at different level and with Japan for better understanding and inter-reliability, thanks to which obstacles in ODA supply and use are overcome.

The State should stabilize macro economy, which is a premise condition for growing, attracting and using effectively foreign investment; international and Vietnamese experiences show that, for macro economic stability in the present fluctuant environment, the Government should be competent in policy adjustment so as most appropriate with frequently varied conditions.

It is necessary to push up the process of renovation and integration into the world economy. In the present trend of globalization and localization, Vietnam should speed up development integration into the world economy, otherwise either ODA will not be attained or the economy will cope with difficulties, the country will be backward as compared to the world economy; this is also the biggest risk and reason for fostering policy of opening outward and integrating into the world.

In the present period, budget for Japan's ODA is cut and loan conditions are more closed. Meanwhile competitions among developing countries to attract ODA in general and Japan's ODA in particular are increasing. In order to attain Japan's ODA for national development programs, Vietnam is required to use such capital properly with her socio-economic development program and commitments toward Japan.

### 3.2. For Japan

Japan should continue giving priority to Vietnam and consider it as a consistent policy. The practice shows that Vietnam account for 0.1% of total international trade turnover of Japan; Japan's FDI into Vietnam is still small, not equal to 1% of Japan's FDI into other countries. Nevertheless, in a certain aspect, long-term relation with Vietnam will benefit Japan since Japan will exploit Vietnam's advantages, especially cheap but skillful labor. Therefore, Japan Government should have active measures for pushing up the economic relation between the two countries.

Some institutional obstacles in Vietnam impeding the Vietnam-Japan economic relation should be settled; for example in Japan, there are some rather complex policies for penetrating into Japan market by not only Vietnam's products but also other imports.

Generally, Japan's import taxes are considered the lowest in the world. However, taxes imposed on agricultural imported products are still high. As stipulated, many products imported into Japan have to meet a wide and complex range of standards, confirmation procedure and other informal technical barriers such as hygienic and medical regulations, which result in lasted and difficult process of importation. The bilateral trade relation between these two countries has not been formalized with an agreement.

In order to overcome the above mentioned difficulties for an effort of strengthening the relationship of the two countries, Vietnam looks forward to Japan Government's negotiations on open market firstly for Vietnam's main exports because at present Japan is considered as the highest protected market, in which such protection is in the form of non-tariff; and early signing of a commercial agreement and continuously discussion about issues arisen in relation with ODA disbursement.

### Conclusion

The Vietnam-Japan relationship has undergone a rather long period of development, however in fact it has developed powerfully since Vietnam carried out the renovation from a centralized economy to a market one. Extension of foreign relations to other nations internationally and regionally in general and to Japan in particular, which aims at bringing into play the competitive advantage of resources and natural resources to attain capital, technique as well as advanced management skills from foreign countries, is an important policy of Vietnam. However it is deemed that implementation of such policy is not easy in the present period when international and regional situations are complex.

At present, Japan has become a strategic partner of Vietnam. It is one of the biggest clients in term of trade, one of the biggest investors in term of investment and the leading ODA supplier of Vietnam. The developing Vietnam-Japan relationship results from demands and benefits of the two countries. Vietnam needs Japan in the status of capital and advanced technology supplier, on the contrary, Japan needs Vietnam in term of goods import-export, materials and labor supply market.

With capacity of meeting demands of each other, together with policy of participating in international and regional integration on their own initiative by two nations, we do hope that in the future the Vietnam-Japan relationship will be continuously strengthened and developed further.

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