

No 4, December 2003

NIAS *nytt*

Asia Insights

The CIEM-NIAS
Project

Navigating
Economic
Reforms with
Better Policy
Analysis

Vietnam's
Economy in 2002

Vietnam: How Do
We Go from
Here?

Vietnam and
WTO:
Opportunities and
Challenges

Bilateralism and
Globalism in East
Asia

In the Middle of
Difficulty Lies
Opportunity:
Reforming the
Vietnamese
Financial Sector

Rural
Development and
Employment in
Quang Nam
Province

Vietnam Bank for
Agriculture and
Rural
Development

Economic Reform and Development in Vietnam

Some Results from the CIEM-NIAS Project

Nordic Institute of Asian Studies



Finn Tarp is Professor of Development Economics at the University of Copenhagen. He was coordinator of the CIEM-NIAS project in Hanoi during the first two years of project implementation. He is now participating in the project from his base in Copenhagen in close collaboration with the authors of this issue and the Director of NIAS, Jørgen Delman.

The CIEM–NIAS Project

By Finn Tarp

In May of 2001, the Central Institute of Economic Management (CIEM), a think-tank in the Ministry of Planning and Investment (MPI), and NIAS initiated a three-year collaborative research project supported financially by Danida. The overall purpose of the project was defined with a view to strengthening the capacity of CIEM staff to provide sound economic policy advice based on high quality research.

The three joint research projects are: (1) Globalization and Vietnam in the international economy, (2) Financial sector reform, and (3) Provincial study of Quang Nam. Under these headings a wide range of research and capacity building activities have been pursued over the past few years, and NIAS has as well assisted CIEM in, for example, formulating an Institutional Development Plan (IDP), strengthening the library and information services of CIEM, and sending CIEM staff on training abroad. A very favourable mid-term review was

carried out in early 2003, and discussions about future activities have begun.

In this edition of *NIASnytt*, we start out with an article by Theo Larsen. Among the group of 11 authors, he is the only one, who is not a member of the CIEM–NIAS research group. He is, however, an economist working at the World Bank Office in Hanoi, with whom frequent interaction has taken place throughout the project. Theo Larsen takes a bird's eye view at the importance of building analytical capacity for policy analysis in Vietnam. The critical need of increasing the visibility of policy makers comes out clearly. Subsequently, Vo Tri Thanh reviews the Report on Vietnam's Economy 2002. This report is produced annually with support from the CIEM–NIAS project.

Turning to Project 1, Henning Tarp Jensen and John Rand discuss what can be learned from the 2000 Social Accounting Matrix (SAM) for Vietnam. Under Project 1, a variety of analytical studies based on computable general equilibrium (CGE) modelling have also been produced. Professor David Roland-Holst from the University of California (Berkeley) took the lead in this work in collaboration with both CIEM and Danish researchers in the Development Economics Research Group (DERG) at the University of Copenhagen. On this background, the President

of CIEM, Dinh Van An, discusses the opportunities and challenges of Vietnam vis-à-vis the WTO, and Pham Lan Huong takes a look at the complex bilateral relationship between Vietnam and China.

It is widely recognized that financial sector reform will be essential in furthering economic progress in Vietnam. The CIEM–NIAS project is therefore in the process of producing a book volume on this topic, and Jens Kovsted and Nguyen Dinh Tai discuss a set of key issues in this area. The fundamental conclusion is that the Government of Vietnam will, in the coming years, have to strike a delicate balance between relinquishing direct control, while simultaneously establishing the necessary regulatory and supervisory framework.

The final two articles reflect on Project 3, which included field work in the Quang Nam province in Central Vietnam. Quang Nam is one of the more marginalized provinces in Vietnam, and Chu Tien Quang summarizes the information gathered about land, labour and credit issues. The complexity of local and regional development is obvious, and this also transpires clearly from the contribution by Lotte Isager and Luu Duc Khai, who put focus on the Vietnam Bank for Agriculture and Rural Development (VBARD).

It is my hope that you will find the selection of articles



The CIEM building in Hanoi

presented here of interest. They provide a variety of insights into the intriguing realities of economic development in a South East Asian country on the move. Vietnam, one of the priority countries for Danish international development assistance, was a tiger on a bicycle not that long ago. She is now a tiger on a motor bike! What the future holds remains to be seen, but while many challenges are yet to be overcome, prospects are indeed promising, if well informed policy choices are made. Sound

policy analysis is critical in this effort. It is therefore appreciated that Danida supports the realization of this aim through the CIEM–NIAS project.

Finally, allow me to stress that this issue can only provide glimpses into what has been achieved so far. For further details on the CIEM–NIAS project, including access to all the publications and discussion papers issued over the past two years, please go to the following web-site: <http://www.nias.ku.dk/Ciemnias/> ■



The CIEM–NIAS project warmly congratulates Ms. Hoai on the occasion of her wedding on 29 November 2003. *Chuc Mung Hanh Phuc.*

Navigating Economic Reforms with Better Policy Analysis

By Theo Larsen

Supporting policy makers with sound policy analysis is key to the continuation of sustainable development and poverty reduction in Vietnam. In this article this is illustrated by two pressing issues on the policy agenda: the allocation of public investment and integration with the international economy.

In the late 1980s, a sea of change in economic policy marked the beginning of the liberalization of Vietnam's economy. The new policies had a tremendous impact on real growth and poverty reduction. In the early 1990s a majority of the Vietnamese had an income level that did not allow them to cover basic health needs, such as a minimum caloric intake. By 1998, the share of the population in this income group had been almost halved, and in 2002 the share was further reduced to 29 per cent. In other words, more than 20 million people were lifted out of poverty

in a decade. The Vietnamese experience is one of the greatest success stories in economic development. The single most important driving force behind this unparalleled achievement was a new direction in economic policy.

The fruits of the first wave of policy reforms are being harvested now. However, it is by no means given that Vietnam's growth in the next decade will have as high an "elasticity of poverty reduction" as in the previous one. New policies must be introduced, and difficult choices need to be made in the near future to sustain continued

progress. *As the Vietnamese economy emerges from central planning – so too must its policy analysis.*

In practical terms, Vietnamese policy makers need analytical frameworks and economic and social projections in order to reach informed decisions. At the technical level this includes economic modelling, cost–benefit analysis, and forecasting. What is the rationale for public intervention? What is the right instrument for such intervention? What are the budgetary costs of intervention? Finding answers to these questions is not easy, but a sound analytical framework is the



Theo Larsen is an economist in the World Bank's Hanoi Office. For the past three years, he has been working on macroeconomic and structural issues in Vietnam. He holds an MSc from the University of Copenhagen.