

Executive Summary

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During the 13th National Party Congress, held from January to February 2021, a resolution was adopted outlining Viet Nam's ambitious goals. By 2025, marking the 50th anniversary of the liberation of the South and national reunification, Viet Nam aspires to leave the ranks of lower-middle-income countries. By 2030, coinciding with the 100th anniversary of the Party's founding, the aim is to become a developing nation with a modern industrial base amongst the upper-middle-income countries. Ultimately, by 2045, commemorating the 100th anniversary of Viet Nam's independence, the goal is to achieve the status of a developed, industrialised nation with a high income. This marks the first time Viet Nam has presented such a detailed medium-to-long-term roadmap, reflecting the nation's growing confidence in its development trajectory.

This research project, conducted in commemoration of the 50th anniversary of diplomatic relations between Japan and Viet Nam, examines Viet Nam's journey to date, emphasising the advantages gained throughout this process. It offers pragmatic policy recommendations to realise Viet Nam's ambitious aspirations. Additionally, it explores avenues for collaboration between Japan and Viet Nam as they work towards the year 2045. Digital transformation is recognised as a key factor in achieving further economic development, escaping the 'middle-income trap,' and addressing pressing socio-economic issues, including the challenges posed by an ageing society, inclusive growth, and the transition to a circular economy.

The publication comprises 21 chapters organised into four distinct parts, which are as follows: 1) Historical Analysis and Viet Nam's development model (Chapters 1–7); 2) Viet Nam's Growth-Driving Industries Towards 2045 (Chapters 8–14); 3) Sustainability and Social Challenges (Chapters 15–19); and 4) Conclusions and Policy Recommendations (Chapters 20 and 21). The subsequent sections provide concise summaries of each chapter.

Chapter 1 (by Motoo Furuta) reviews what the year 2045 means for Viet Nam from a historical perspective. Following its hard-fought struggle for independence, Viet Nam found itself embroiled in a prolonged period of conflict, a turbulent chapter that endured for 46 years. It was not until 1991 that the nation could finally cast off the shackles of war and envision a brighter future. Viet Nam patiently waited until 2037 for the scales to tip, when the era of peace and prosperity would surpass the era of turmoil that had gripped the country since independence. The year 2045 emerges as a poignant milestone, marking the moment when, after decades of strife, peace and progress would ascend as the guiding forces in the journey of independent Viet Nam. Moreover, the unification of Viet Nam held profound implications, extending beyond its borders to the Southeast Asian region. This unification played a pivotal role in hastening the dissolution of the Cold War structure in the area. It paved the way for Viet Nam's accession to ASEAN in 1995, an event of paramount importance in achieving the realisation of the 10 ASEAN Member States. This achievement was only made possible

following Viet Nam's triumph in the Viet Nam War,¹ bringing about the reunification of the North and the South. The protracted era of war cast long shadows, leaving lasting impacts on Viet Nam, not least the tremendous sacrifices borne by the Vietnamese people. In times of conflict, when the uncertainty of tomorrow looms, people's perspectives often narrow. Nevertheless, it is crucial to underscore that the foundation for Viet Nam's remarkable post-1991 development, which has allowed the nation to nurture the 'big dream' of becoming a developed country by 2045, was laid during those tumultuous years of war.

Chapter 2 (by Masaya Shiraishi) discusses Viet Nam's foreign policy after the Doi Moi reform. In late 1991, two pivotal events dramatically changed the East Asian regional landscape surrounding Viet Nam: the Cambodian peace agreement and the Sino-Viet Nam rapprochement. Concurrently, the forces of globalisation and regionalisation gained momentum on a global scale. In response to these shifting dynamics, Viet Nam adopted a comprehensive foreign policy approach. Throughout the 1990s, Viet Nam experienced a period of relatively stable economic growth, buoyed by several favourable external conditions. The turning point arrived in July 2000 with the signing of the US-Viet Nam Trade Agreement, which promptly elevated the United States to the forefront as Viet Nam's primary export destination. Viet Nam's accession to the WTO in January 2007 provided an opportunity to further expand its foreign trade and to increasingly diversify foreign investment in Viet Nam. It also provided an opportunity to readjust Viet Nam's various domestic institutions and legislation. As a result of these reforms, Viet Nam sustained its socio-economic development, achieving significant milestones in its economic growth. GDP per capita exceeded US\$1,000 in 2008 and soared past US\$2,000 in 2014, effectively propelling the nation out of its low-income status classification. Nonetheless, Viet Nam now encounters a fresh challenge: navigating the middle-income trap and charting a course towards higher economic development. There exist numerous avenues through which Japan can make meaningful contributions to assist Viet Nam in this endeavour. Japan's Official Development Assistance (ODA) to Viet Nam has reached its 30th anniversary, making Japan the largest ODA donor to Viet Nam. The total amount offered by Japan as ODA to Viet Nam exceeds 3 trillion yen, including yen loans, grant aid, and technical cooperation.

Chapter 3 (by Motonori Tsuno) offers a comprehensive assessment of Japan's ODA and its pivotal role in Viet Nam's growth trajectory. This chapter explores how Japan's ODA has laid the foundation for friendly relations and a strategic partnership between the two countries. It reflects on the specific accomplishments and challenges, shedding light on the path forward for Japan-Viet Nam cooperation in this new era. Japan's ODA to Viet Nam is lauded for its exemplary approach, characterised by several key attributes. These include fostering extensive partnerships encompassing Japanese corporations, local authorities, universities, and non-governmental organisations (NGOs). Additionally, it embraces a holistic approach, seamlessly integrating both tangible and intangible elements of support. Japan's assistance encompasses strategic development planning and the execution of individual projects. Furthermore, it thrives on cooperation that is driven by local initiatives, fostering a sense of ownership and participation within the Vietnamese community. Through the infrastructure development, human resource development and legislation, Japan's ODA played a crucial role in strengthening relations between the two countries and addressing issues such as poverty reduction and economic growth. The future of Japan-Viet Nam cooperation

¹ The meaning of the term 'Viet Nam War' used in related chapters of this study follows this interpretation.

includes enhancing quality infrastructure, triangular cooperation, and human resources development, making Viet Nam a strategic partner in the Free and Open Indo-Pacific.

Chapter 4 (by Vo Tri Thanh) reflects on Viet Nam's transition from a planned economy to a socialist-oriented market economy, highlighting important reforms since the Doi Moi policy. The second section addresses two fundamental questions: firstly, it explores the valuable lessons that can be gleaned from the Doi Moi process. Secondly, it delves into the question of whether a distinct 'Viet Nam model' truly exists. The concluding section examines the evolving circumstances that Viet Nam now confronts and the hurdles it must surmount to advance further. Several necessary policies are also recommended. Despite remarkable achievements such as transitioning from a poor to a middle-income country and becoming one of the most open economies globally, there are still challenges. The risk of falling into the 'middle-income trap' remains high, and the country has faced environmental consequences due to its growth. To ensure success, lessons must be learned from past experiences, emphasising political will, administrative reforms, and international integration. The chapter also explores the concept of the Vietnamese Model of a socialist-oriented market economy, recognising healthy competition and the central role of the state economy. Looking ahead, Viet Nam aims to become a high middle-income economy by 2030 and a developed country by 2045. Key policy actions include strengthening public capacity, improving the legal framework, accelerating structural reforms, enhancing human resources development, and strengthening the National Innovation System to overcome the 'middle-income trap' and achieve its development goals. Basically, Viet Nam is required to continue Doi Moi.

Chapter 5 (by Ryo Ikebe) provides an in-depth examination of the evolution of foreign direct investment (FDI) in Viet Nam, tracing its trajectory since the 1980s. Viet Nam proactively sought to attract FDI to bridge its capital and technology gaps, yielding tangible benefits such as job creation and the expansion of exports. FDI led to the transformation of outdated economic structures, particularly in state-owned enterprises. The expansion of FDI was driven by Viet Nam's diplomacy and free trade agreements, including WTO membership in 2007 and participation in various FTAs. By the end of 2020, Viet Nam had attracted US\$176.9 billion in FDI, positioning it as an attractive investment destination in Southeast Asia. The chapter highlights how different phases of FDI development have shaped Viet Nam's economy, creating job opportunities and bolstering its export-driven industrialisation. It underscores the need to further transition to technology- and capital-intensive industries and strengthen supporting industries to ensure sustainable growth.

Chapter 6 (by Tran Van Tho) discusses the concept of the middle-income trap (MIT) and its implications for Viet Nam. The MIT refers to countries that reach a certain level of per capita income but struggle to progress further. Viet Nam



entered the lower-middle-income category in 2008, with a GNI per capita of US\$3,560 in 2021. The discussion highlights the importance of transitioning from input-driven growth to total factor productivity (TFP)-led growth and the role of institutional reforms in sustaining growth. The Lewis turning point is also mentioned, emphasising the need for increased productivity to match higher wages. To escape the MIT and achieve long-term growth, Viet Nam must focus on policies that promote industrialisation, support SMEs, improve factor markets, enhance education and training, and invest in research and development (R&D).

Chapter 7 (by Nguyen Anh Duong and Ha Thi Thanh Doan) discusses potential pathways for economic integration in East Asia until 2045 and the importance of such integration for Viet Nam. The chapter reviews Viet Nam's economic integration milestones, which include joining ASEAN, signing a bilateral trade agreement with the United States, joining the WTO, and implementing the CPTPP and EVFTA. Viet Nam's focus on ASEAN is emphasised, as it has contributed to supply-chain-led investments from countries like Japan and the Republic of Korea, and from the European Union. The chapter highlights the importance of deepening structural reforms, aligning trade and investment policies, promoting ASEAN centrality, and supporting multilateralism as key policy recommendations for Viet Nam to navigate East Asian economic integration until 2045.

Chapter 8 (by Fukunari Kimura and Nguyen Anh Duong) provides an overview of Viet Nam's industrial development. Since 2016, Viet Nam's long-term economic growth has been slowing, due primarily to the depletion of conventional growth drivers. The traditional growth model, which heavily leaned on the expansion of production factors like land, labour, and capital, had virtually reached its limits. To propel economic growth, Viet Nam has placed a strong emphasis on innovation and digital transformation. The development of the digital economy is anticipated to drive income growth, with the ultimate goal of achieving high-income status by 2045. Viet Nam's industrialisation policy shifted toward the manufacturing sector in the early 2000s, with an emphasis on protection strategies for various industries. However, the country's industrial policy faced challenges in adapting to changes in the Fourth Industrial Revolution (4IR) and digitalisation trends. As the drivers of growth towards 2045, digital transformation, Industry 4.0, and innovation are emerging trends. Artificial intelligence (AI) and the Internet of Things (IoT) are playing a crucial role in upgrading the manufacturing sector. The IoT market in Viet Nam is growing, and the adoption of AI and automation can enhance manufacturing efficiency. The government's Resolution on 4IR in 2019 sets a vision for Viet Nam to become a leader in smart manufacturing and innovation in Asia by 2045. To achieve a digital economy, Viet Nam must address various challenges, including improving coordination amongst government agencies, revising technical standards, enacting fundamental laws to support digital transformation, and fostering digital-savvy human resources.

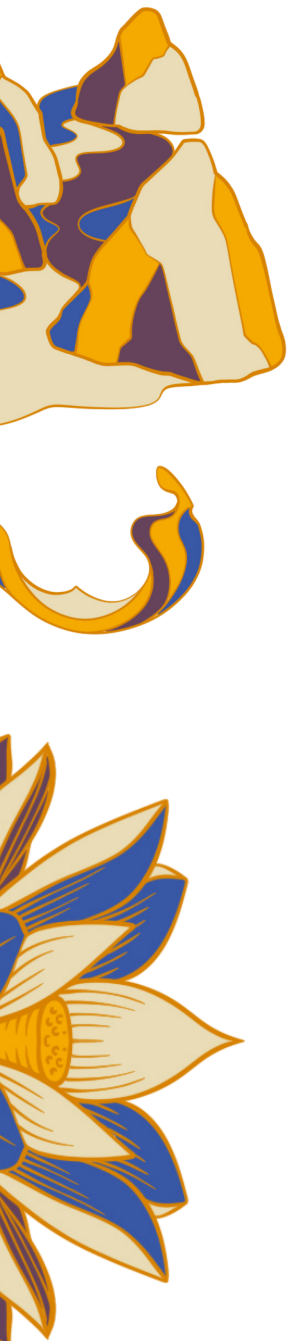
Chapter 9 (by Seio Nakajima, Hideo Kobayashi and Yasushi Ueki) discusses the automobile industry in Viet Nam. In the first nine months of 2022, Viet Nam's automobile sales reached 296,403, a 56.9% increase compared to the same period in 2021. This short-term trend indicates a resurgence of the Vietnamese automobile industry. However, long-term challenges exist, such as the relatively small domestic market. The country's automobile industry has a history dating back to the early 1990s, with numerous joint ventures between Vietnamese and international companies. The industry has grown rapidly, with multiple manufacturers and significant capacity. The government's policies aim to promote automobile production, but they also include protectionist measures. The key to fostering the industry is the development of the domestic auto parts sector, with a focus on improving

technological capabilities, expanding markets, utilising the two-wheel parts industry, and advancing the parts supply system for electric vehicles. Viet Nam's role in the ASEAN automobile and auto parts industries is growing, particularly in wire harness production. Two development approaches are considered: increasing finished vehicle production and promoting auto parts exports. Viet Nam should focus on vehicle electrification, open trade, digitalisation, and capability building for local suppliers. Recommendations are made for cooperation between Viet Nam and Japan in various aspects of automobile industry development, including human resource development, supply chain collaboration, and infrastructure development for sustainable mobility systems.

Chapter 10 (by Nguyen Thi Xuan Thuy) illustrates the development of the electronics industry. The electronics industry has grown substantially in Viet Nam, becoming a crucial sector in the country's economy, and it remains resilient despite the challenges posed by the COVID-19 pandemic. Over the last 3 decades, the industry has rapidly developed, making Viet Nam one of the world's top electronics exporters. The fourth industrial revolution has been a major driver of change in this sector, combining manufacturing with technologies like IoT, big data, AI, and more. Key trends include IoT for predictive maintenance and smart manufacturing, big data-driven technology, AI software and platforms, advanced materials, and restructured supply chains. While the electronics industry depends largely on foreign-invested enterprises (FDIs), it has made significant contributions to employment, GDP, and exports in Viet Nam. This sector is a priority in the country's industrial development strategies and benefits from investment incentives. An ecosystem conducive to fostering such investment projects comprises essential elements. These include the presence of a skilled and qualified workforce, a network of capable domestic suppliers who can replace current ones, an efficient logistics and financial infrastructure, access to technology partners, and more. These factors are presently not in favour of Viet Nam, constituting hurdles that the nation must address in its quest to catch up with others and attain high-income status.

Chapter 11 (by Nguyen Anh Duong) discusses the digital transformation in Viet Nam. Viet Nam is actively seeking new drivers for future growth to achieve its goal of becoming a high-income country by 2045, with the digital economy being a prominent emerging driver. The government has taken significant measures to bolster digital transformation, strengthen digital institutions, and facilitate the growth of various digital sectors, such as sharing and platform economies, e-commerce, e-tourism, and the gig economy. The e-commerce market in Viet Nam has experienced substantial growth, with an increasing number of online buyers and a rising share of e-commerce in total retail sales. However, there are challenges, including the need for an improved legal framework, enhanced coordination amongst government agencies, and a focus on human resource development for digital transformation.

The textile and garment industry in Viet Nam has a broad economic scope encompassing various sub-sectors. Chapter 12 (by Kenta Goto) focuses on assessing Viet Nam's position in the global textile and garment value chain. The industry experienced significant growth since the early 1990s, with a pivotal moment being the Bilateral Trade Agreement with the United States (US) in 2001, leading to a remarkable export boom. The US remains the largest export destination for Vietnamese garments. However, the textile sector lags behind garments, mainly importing yarns and fabrics. Viet Nam's garment value chain closely resembles that of other garment-exporting countries, such as Bangladesh or Cambodia. It predominantly centres around the assembly process, encompassing cutting, making, and trimming (CMT) functions. For Japanese companies managing production for



their markets, the imperative lies in enhancing competitiveness and advancing the CMT process, with technology transfer already underway. Yet, the critical dimensions of branding and design fall within the purview of Vietnamese firms. At present, Viet Nam's textile and garment industry stands at a pivotal juncture. The sector, which has long been a driving force behind industrialisation in Viet Nam, confronts challenges where competitiveness can no longer rely solely on low labour costs. The foremost challenge entails propelling further upgrades in both processes and products, akin to what has been achieved in Global Value Chains. The industry includes a range of companies, from large firms with modern machinery to smaller, local-market-focused enterprises. Viet Nam's garment sector primarily focuses on the assembly process, necessitating competitiveness improvements. Sustainability and compliance with global standards are vital for sustainable growth in the industry. The future growth potential depends on embracing good social and environmental practices to maintain competitiveness.

Chapter 13 (by Mai Fujita) discusses the supporting industries. Supporting industries in Viet Nam are those that supply inputs required for final product manufacturing, and their development is vital for industrialisation through foreign investment. Viet Nam has introduced several policies to promote supporting industries, beginning in 2007. These policies defined the scope of supporting industries and set targets for their development. The government's emphasis on supporting industries grew in the 2010s, with a focus on boosting the effectiveness of foreign direct investment (FDI). However, the local procurement ratio of Japanese companies in Viet Nam is still lower than in some other countries. Many supporting industry enterprises are engaged in exporting, with diversified customer portfolios. These firms often serve multiple industries, including those with different technological characteristics. The development of supporting industries is expected to continue and grow in the coming years, given recent developments like the US–China tensions and supply chain restructuring during the COVID-19 pandemic.

Chapter 14 (by Shozo Sakata) examines the progress achieved in Viet Nam's agricultural sector since the initiation of Doi Moi. It also explores potential areas for collaboration through Japanese ODA and private companies in Viet Nam. Initially, policies were implemented to liberalise the production and sale of agricultural products, resulting in increased land productivity. A significant transformation occurred in the 2000s, when Viet Nam shifted from subsistence farming to commercial agricultural production. Coupled with favourable global market conditions, this transition led to rapid increases in the production of crops such as coffee, tea, rubber, pepper, and cashew nuts. Since the issuance of Resolution 26 by the Party Central Committee in 2008, the expansion of land plots, private sector engagement, the promotion of 'high-tech' agricultural models, and



the modernisation of food value chains have emerged as cornerstones of agricultural policy in Viet Nam. Safety and quality standards improved, contributing to an increase in the production of high value-added agricultural products, and exports also increased. Future challenges include meeting stringent hygiene and quality requirements of export markets, adopting modern and efficient agricultural practices, addressing labour shortages due to the ageing population, and focusing on environmental protection in agriculture.

Chapter 15 (by Shigeru Kimura, Alloysius Joko Purwanto, Han Phoumin) discusses Viet Nam's energy policy. To achieve its goal of becoming a high-income country by 2045 and attaining full carbon neutrality by 2050 or 2060, Viet Nam recognises the importance of sustainable energy sources, including renewables and innovative technologies such as hydrogen and carbon capture utilisation and storage (CCUS). This chapter projects the Total Final Energy Consumption (TFEC) to increase significantly, driven by a 5.2% annual GDP growth. Notably, the energy intensity per GDP is expected to improve, indicating a more efficient energy consumption pattern. Emphasis is placed on reducing energy import dependency through energy efficiency and conservation (EEC), increasing the use of renewable energy, and transitioning from coal to natural gas for power generation. The promotion of renewables, grid interconnections, hydrogen production from coal with CCUS, and CO₂ storage are also recommended strategies for Viet Nam's sustainable energy development.

Chapter 16 (by Venkatachalam Anbumozhi, Lai Van Manh, Nguyen Tuan Anh, and Phan Mai Linh) provides an insightful exploration of climate change and disaster risk reduction in Viet Nam. Viet Nam is experiencing the impacts of climate change, with rising temperatures and altered rainfall patterns affecting agriculture, water resources, and more. Vulnerable coastal and delta regions face threats from sea-level rises. The country has incurred significant economic losses due to climate change, impacting sectors like agriculture, transport, and fisheries, while also disrupting global supply chains and raising costs for businesses. To address these challenges, Viet Nam has pledged to achieve net-zero greenhouse gas emissions by 2050, halt deforestation by 2030, and reduce methane emissions. However, challenges remain, including the need for stronger climate adaptation policies, private sector investments, state-owned enterprise reform, and financial sector resilience. Cooperation with Japan, which has experience in climate adaptation, is suggested. The development of sectoral roadmaps for climate resilience is recommended, covering areas like agriculture, infrastructure, industry, coastal regions, and smart cities.

Chapter 17 (by Lai Van Manh, Nguyen, and Pham Anh Huyen) discusses the circular economy in Viet Nam. Viet Nam's Law on Environmental Protection 2020 defines a circular economy as a model aimed at reducing raw materials, extending product life, reducing waste generation, and minimising environmental impacts. To implement a circular economy, measures include refusing harmful products, repair, reuse, remanufacture, and reducing resource consumption. The public sector and stakeholders across industries play vital roles in creating a circular ecosystem. Digital technologies like mobile tech, big data analytics, and 3D printing can promote circular economy practices. Viet Nam's policies and legal framework for the circular economy consist of government policies, strategies, and legal provisions. Several initiatives and models exist, but some face sustainability challenges. Recommendations for promoting the circular economy in Viet Nam include establishing a comprehensive legal system, creating a national action plan involving businesses and all stakeholders, and fostering collaboration with Japan for sharing experiences and best practices.

Chapter 18 (by Emi Kojin) delves into the concept of inclusive growth within the context of Viet Nam. As Viet Nam aspires to attain high-income status with social stability by 2045, inclusive growth is key to achieving this ambition. It has already been substantiated that equitable income distribution is a fundamental prerequisite for sustainable economic advancement. Examining the Gini coefficient at the national level, Viet Nam's economic growth thus far might seem to reflect growth without an exacerbation of inequality. However, the truth lies in the fact that various forms of inequality exist beyond the purview of the Gini coefficient, and these disparities appear to be on the rise in Viet Nam. Regional disparities are evident, particularly in rural and ethnic minority areas. The reduction in rural–urban inequality has underscored the growing disparities within rural regions. Access to non-agricultural income and agricultural land play a significant role in intra-rural inequality. Ethnic minorities, migrant workers, women, people with disabilities, and smallholder farmers are particularly vulnerable and face economic hardships. This chapter takes a dual perspective on Viet Nam's economic growth, scrutinising it both at the regional and individual/household levels, to unveil disparities within each context. Subsequently, socio-economic structural issues are discussed that underpin these inequalities at each level.

Chapter 19 (by Yuka Minagawa, Nguyen Cong Vu, Yoichi Hiruma, and Yasuhiko Saito) discusses the ageing society. Viet Nam's population has grown rapidly, from 27.4 million in 1954 to 97.3 million in 2020. High fertility rates contributed to this growth, but fertility control policies have reduced the total fertility rate. As a result, the rate of population growth slows down and Viet Nam's population is projected to reach about 109.0 million by 2045. The country has also experienced increased life expectancy, with a shift from infectious to non-infectious diseases as leading causes of death. These demographic changes have led to an ageing population. The proportion of the working-age population in the total population peaked at 70.5% in 2013, and had fallen to 68.9% by 2020. In contrast, the older population, defined as individuals aged 65 years and above, expanded from 4.9% of the population in 1975 to 7.9% in 2020. Projections indicate that this older demographic is anticipated to comprise 18.3% of the population by 2045. Furthermore, the share of the older population is poised to surge from 7% to 14% within a relatively short span of 18 years, from 2016 to 2034. This growth rate surpasses the corresponding time frames in countries like Japan (24 years, 1970–1994), China (23 years, 2002–2025), and Thailand (20 years, 2002–2022). Viet Nam has revised retirement ages to accommodate improved longevity. Mental health care and care needs are becoming significant issues. Recommendations include health sector reforms, addressing mental health challenges, considering long-term care insurance, and strengthening international cooperation.

Chapter 20 (by Fusanori Iwasaki, Keita Oikawa, and Yasuhiro Yamada) discusses the future of Japan–Viet Nam industrial cooperation. Japan–Viet Nam relations have seen substantial progress, particularly in summit diplomacy. High-level visits and joint statements have outlined cooperation in various areas including post-COVID-19 economic revival, supply chain resilience, digital transformation, diversification of production bases, and supporting industries. In the digital era, the industrial cooperation direction includes dramatic technological innovation through digital technologies, resilient supply chains, and the development of new industrial human resources. The focus extends to establishing infrastructure for a digital society, free movement of data, and addressing sustainability and human rights considerations in supply chains. The automobile and supporting industries will be a core theme of cooperation, with potential for further growth and economic development in Viet Nam.

Chapter 21 (by Keita Oikawa) provides the policy recommendations. Viet Nam has sustained high economic growth rates since the early 1990s, driven by economic reforms and external openness. Annual per capita real GNI growth has consistently been around 5.0% from 1995 to 2019, significantly outpacing advanced economies. To achieve high-income status by 2045, annual growth must rise to 5.4%, requiring productivity increases and industrial upgrading. The economy needs to transition from input-driven growth to innovation-driven growth, emphasising human capital, labour and capital market efficiency, competition, and technology adoption. Digital technologies play a pivotal role in this transition. Key industries like electronics, advanced agriculture, textiles, DX-related sectors, automobiles, healthcare, and energy are expected to contribute to economic growth and a circular economy. Engaging in collaboration with Japan, especially in the realm of Digital Transformation (DX), offers significant potential for advancing towards the goal of achieving high-income country status by 2045. Additionally, it is advisable to pursue cooperative initiatives in various sectors, including the automotive industry, advanced agriculture, climate change mitigation, the circular economy, and addressing the challenges posed by an ageing society.

