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Contents

China's BRI and the Transformation of Western Aid

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Abstract

As Chinese BRI was actively invested in transportation infrastructure and other sector projects on a continent-wide scale, developed countries in the West competed with and against it. While connectivity in Asia and Africa has served to promote economic integration in the region, it has also triggered geopolitical rivalries. While it would be desirable for donors to cooperate in development policy and strategy, share development regimes, and compete openly, it seems difficult to achieve such a vision at the present situation.

Keywords: Keywords: connectivity, BRI, OECD, regional integration, FOIP

In Asia and Africa, transportation infrastructure is being developed and renovated, and road networks, maritime transportation networks, and IT and telecommunications networks are expanding. In many regions, regional connectivity is improving in tandem with the expansion of trade, investment, and financing. This is due to the expansion of international trade, investment, and loans resulting from the development of the global economy since the 1990s, and the economic growth of Asia and Africa in response to this expansion. In terms of processes, there was the resolution of the heavy debt problems of African countries in the early 2000s, followed by the expansion of the scale of emerging economies, led by China, which increased demand for products from developing countries. At the same time, as China's infrastructure investment in the field of connectivity progressed, other traditional donors responded by expanding their investments and loans in the same field. In addition, governments in Asia and Africa, as well as ASEAN and the African Union (AU), began to emphasize the importance of cross-border transportation and connectivity in the context of regional integration and trade liberalization. Among these, China's Belt and Road Initiative (BRI), the subject of this paper, was particularly groundbreaking.

This study, as a current status review, will identify trends in the construction of transportation infrastructure in countries along China's BRI, and further analyze the direction of diplomacy and aid from Western developed countries stimulated by these trends. Section 1 outlines the basic framework of regional connectivity, followed by an analysis of the BRI. In Section 2, a review of the connectivity strategies of each country and region is conducted by looking at ASEAN, Africa and the Western developed countries. Section 3 examines present and future trends in international development regimes and investment aid. Regarding the future aspects, there is uncertainty about the next Trump administration policy. Finally, "Conclusion" briefly summarizes the overall message. Although this paper is mainly desk research, the author conducted field surveys on BRI projects in six countries during 2022–24: Cambodia, Malaysia, Ethiopia, Kenya, Egypt, and Nigeria. Cambodia and Nigeria were conducted with research colleagues, while the remaining countries were conducted independently. The experience of survey has been useful in the analysis, but the individual field surveys are not mentioned here.

1. Basic Framework for Regional Connectivity

Regional connectivity refers to the links between one point in a region and other points inside and outside the region, and ESCAP (2014) identified increased inter-country connectivity as the strengthening of networks in four areas: trade and transport, ICT, energy, and people-to-people. ASEAN countries and the Asian Development Bank (ADB) discussed the importance of cross-border infrastructure in their response to the global financial crisis following the collapse of Lehman Brothers. The first "ASEAN Master Plan for Connectivity (MPAC)" was adopted in 2010 (ASEAN, 2010). A Connectivity Coordinating Committee was established as a mechanism within ASEAN. The European Union (EU) created "the EU Asia Connectivity Strategy" in 2018, which stated that connectivity includes not only hard infrastructure, but also non-physical, institutional, and soft elements such as free trade agreements and national legislation. Plageman et al. (2021) noted that state-led connectivity strategies have become a major aspect of the recent multipolar world. This includes geopolitical national strategies such as China's BRI and the Free and Open Indo-Pacific Strategy (FOIP) of Japan and other countries.

China's BRI was proposed by Xi Jinping in 2013 to build a land and sea trade route between China and Europe, which would build and improve infrastructure between China and the countries along the route and promote trade and investment to share prosperity as an economic zone. Since the BRI was an unprecedentedly large investment and aid package, there was much debate over the policy motives of the BRI. One of these was the "debt trap," in which China secured long-term access to public facilities in recipient countries by making them unable to repay their debts (Hurley et al., 2018; Parker & Chefitz, 2018). On the other hand, the defensive argument was that Chinese investment and economic cooperation have been very helpful in promoting investment and manufacturing in the host country (Brautigam, 2009). Neither of these views, and somewhere in between, is the view that China's over-supply policies and measures are the basic motivation for the BRI.

China's BRI was launched in the 2010s, a period of rapid economic growth in each region, and large investments and loans were made. Various types of infrastructure facilities such as the ports, trunk roads, bypass roads, airports, railroads were constructed. Both the BRI and the Asian Infrastructure Investment Bank (AIIB), a Chinese-led multilateral lending institution, focused on expanding connectivity in each region. Chinese investments and loans had a short lead time from commitment to implementation and completion: Chinese engineers and workers were responsible for major construction designs; the materials and equipment used were made in China; and the foreign currency invested was funded by Chinese banks. It is often pointed out that the BRI reproduced the "trinity structure of trade, investment, and ODA" of Japanese aid in the 1960s and 1970s (Nakagawa, 2021; Shimomura and Ohashi, 2013; Brautigam, 2009). The host government was given the expectation that infrastructure development and economic promotion could be undertaken in earnest, and the development of road systems and maritime networks was initiated in full swing. The World Bank, ADB, AfDB (African Development Bank), Japan, France, and the European Commission (EC) have been providing loans in this area for some time, and infrastructure connectivity has partially begun to form. A good example of the consolidation of investments and loans from various countries is the orbital transportation network around Cairo in Egypt, where France and Japan are assisting with the subway networks, Siemens' equipment is being used for high-speed trains, and China is financing the light rail system. Still, the state of infrastructure development in Africa remains at a basic stage. While

the Rural Access Index in East Asia and the Pacific was estimated at 94%, Africa was at 30% (Iimi, 2016; World Bank, 2006).

It was clear that China's foreign and cooperation policy, including the BRI, sought to influence the regions along the sea routes from China through the South China Sea, the Strait of Malacca, the Indian Ocean, the Red Sea, and the Mediterranean Sea to Europe. These regions were important trade and investment partners, and also the centers of global economic growth in the 2000s-2010s. Fundamentally, the sea routes are thought to have had six strategic characteristics. (1) To create an environment friendly to China by providing investment aid to disputing parties and neighboring countries in the South China Sea, where territorial disputes are occurring; (2) To secure a safe environment for navigation around the Strait of Malacca; (3) To reduce Indian influence by investing in countries surrounding India in the Indian Ocean and instead increase China's influence in the region; (4) To create China's direct access to Indian Ocean through the construction of trunk roads and ports from the inland route; and (5) To form a stable route to secure resources, markets, and export processing zones in Africa through Chinese investments and loans, and (6) To secure access to European shipping routes through the Suez Canal safely. The BRI land routes are mainly orbital systems, roads, communication networks and pipelines from China's western regions to Europe via Russia and Central Asia, and multiple routes to the Indian Ocean, including Pakistan, which will not be discussed here.

To examine whether the objectives of the BRI have been achieved, it is necessary to clarify what its policy objectives were. Officially, its objectives were summarized in two points: to "focus on connectivity and deepen practical cooperation" and to "achieve win-win and joint development" (National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce, 2015). More comprehensively, it could be expressed as "utilizing its expanding economic power to provide economic benefits to neighboring countries to build good relations and stabilize China's surrounding environment, while at the same time increasing China's economic, political, and security influence in the surrounding region (Iida, 2019). This explanation is diplomatically correct, as the expression is aimed at securing a favorable international environment for China, but the point at the beginning of the quotation, "to utilize its expanding economic power," is actually a powerful motive, as it maintains the production and sales activities of SOEs (State Owned Enterprises) with strong ties to the Chinese Communist Party (CCP). This can be paraphrased as the promotion of an over-supply policy by the CCP.

On the other hand, the BRI had many large loan projects and the low internal rate of return in some of these projects led to serious debt problems in some countries. This is also a governance problem in the countries along the BRI route. China's infrastructure construction projects in developing countries have been financed mainly by loans from the Export-Import Bank of China, but the outstanding debt has been growing rapidly, placing a heavy burden on the governments of the borrowing countries. It is undeniable that the biggest factor that has pulled many developing countries into default is their debt to China: in 2020 Zambia suspended payment of some of its external debt and agreed in principle with its creditor countries to settle its debt in 2023; in 2022 Sri Lanka suspended payment of its external debt and agreed in principle to settle its debt in 2023; and in 2022 Ghana suspended payment of its external debt and agreed in principle to settle its debt in 2023. In 2022 Ghana suspended some debt payments and offered a debt restructuring plan that included principal reduction in 2023; Ethiopia selectively suspended debt payments at the end of 2023. The countries with the largest debts to China are Pakistan, Angola, Sri Lanka, Ethiopia, and Kenya, in that order (World Bank, 2023). China is not a member of the

OECD or the Paris Club, and the Export-Import Bank and other banks are working with their counterpart finance ministries to settle their debts individually.

Under these circumstances, China suggested a revision of its BRI policy at its annual forum in 2023. After confirming that the BRI policy has been a success to date, China stated that its next goal is to expand into the "smaller, greener and smarter" sectors (Reuter, 2023). Smaller" means reducing the proportion of large infrastructure facilities and is expected to diversify target sectors. Smarter" will focus on more technologically advanced products and technology transfer, such as AI and IT communications, while "Greener" will be a sincere commitment to addressing environmental issues in general and the concerns of local residents in addition to solar and hydroelectric power generation. The change in sector coverage is that coal-fired power generation has already been removed from the scope of the BRI. If BRI declines in volume over the medium term, it is possible to expect a narrowing of the focus of the major loan recipients. If China's economy continues to stagnate and the debt problems of developing countries do not improve, the focus will be narrower than before.

Although China has been very positive about the BRI, it is undeniable that large-scale infrastructure projects have caused land expropriation and environmental degradation in developing countries, and even when the projects themselves were operational, the low internal rate of return caused debt problems, and these events have led to a review of BRI's priority sectors in 2023. Although the Chinese government has not officially acknowledged this, it is believed to be aware of these problems among themselves. The Chinese government has therefore begun discussing "shared development" with partner governments (BRI Forum, 2023). However, it is unclear whether a truly fundamental review will be undertaken. Another possible interpretation is that China's oversupply has shifted from steel and concrete to semiconductors and solar power, and this may be a reflection of that shift. Incidentally, the number of heads of state and government participating in the BRI Forum was 37 in 2019 but decreased to 23 in 2023, reflecting the absence of European countries.

2. Regional Connectivity Strategies

ASEAN region

ASEAN has long emphasized connectivity: the ASEAN Declaration on Connectivity was issued at the 2009 ASEAN Leaders' Summit, leading to the creation of the ASEAN Community, and the MPAC was prepared in the following year. ADB issued "Infrastructure for a Seamless Asia," which affirmed the importance of efficient and seamless connectivity in Asia and beyond for a competitive, prosperous, and integrated region. In 2012, ADB issued "Infrastructure for Asian Connectivity," which pointed out that the formation of connectivity would prepare for a regional integration, and introduced the programs of Mekon River Delta Development and others. The Joint Declaration "ASEAN 2025: Forging Ahead Together" adopted at the 2015 ASEAN Summit recognizes "Strengthening of Connectivity" was one of ASEAN's action goals. These interactive processes predated China's launch of the BRI.

China's BRI was launched in 2013, followed by the respective FOIP initiatives from Japan in 2016, the U.S. and Australia in 2017, and India in 2018. As the discussion on the Indo-Pacific evolved, the "AOIP (the ASEAN Outlook on the Indo-Pacific)" was adopted by the Leaders'

Summit in 2019. The ASEAN-Japan Summit was held in the same year issued a joint statement on AOIP cooperation. The ASEAN Connectivity Coordination Committee (ACCC) was held its first meeting in 2023. ASEAN connectivity consists of three elements: physical connectivity, such as transportation, information and communication technology (ICT), and energy; institutional connectivity, such as liberalization and promotion of trade, investment, and services; and people-to-people connectivity, such as education, culture and tourism. Strengthening them is considered essential for community building because it contributes to ASEAN's competitiveness and robustness.

Transportation connectivity in Asia has great potential. According to the ASEAN MPAC, assessments of physical connectivity progress are mixed. The Asean Highway Network (AHN) is showing remarkable progress, with fewer narrow roads. In the Singapore to Kunming railroad, the section from Cambodia to Vietnam and Laos has not yet been funded, but the Neak Loeung Bridge was completed in 2015 with Japanese assistance. The railroad from Malaysia's Thai border to the outskirts of Kuala Lumpur will be built by China's ODF by the end of 2027. For the ship network and maritime transport, investment plans for three routes (Indonesia-Malaysia, Indonesia-Malaysia-Thailand, and Philippines-Indonesia) have been given the same priority. As for IT telecommunication infrastructure, since the Trump administration has eliminated China, there is a tendency to avoid China in laying submarine cables to connect between the U.S. and Southeast Asia.

Africa region

The theme of the 7th TICAD (Tokyo International Conference on African Development) in 2019 was to achieve high quality infrastructure, sustainable cities and improved connectivity. Connectivity was discussed by the AU, New Partnership for African Development (NEPAD), AfDB, and others working on the development of economic corridors and regional integration. AU-NEPAD expressed that economic corridor development would be important for the realization of Agenda 2063 adopted in 2013. In 2024, AfDB announced that it will make an initial investment in the AGIA (Alliance for Green Infrastructure in Africa) project development fund. AGIA is a $10 billion initiative jointly established by AfDB, AU, and the infrastructure investment group Africa50 (Africa50 2024a). Africa 50 was established by 31 countries and AfDB to seek for the desirable solutions to accelerate infrastructure provision to be identified in Agenda 2063 as part of the PIDA (Programme for Infrastructure Development in Africa) in 2012 (Africa50 2024b). The AfDB provided $13 billion for road corridor projects in each sub-region between 2004 and 2022. As a result, 18,000 km of corridors with 25 all-weather highways, 27 one-stop border posts (OSBP), and 18 bridges were built (AfDB, Nov. 9. 2023).

Expanding multifaceted connectivity in each region was an important challenge, but it was not an easy task in low and low-middle income countries that did not even have their own road systems in place. Asia was hit twice by the global financial crisis, and Africa continued to experience economic malaise and accumulated debt problems until the 1990s. Owing to the large application of HIPCs, African countries were enabled to consider large scale infrastructure projects in the 2000s. While 37 developing countries became eligible countries for HIPCs, 31 countries were African countries. Foreign investments and loans that had been suspended were restarted under HIPCs and accelerated with the addition of Arab oil-producing countries and China. Moreover, the demand for Africa's natural resources grew in response to the growth of

emerging economies, and many countries experienced a commodity boom.

In recent years, the AU Development Agency has initiated the AUBGS (The African Union Strategy for Integrated Border Governance) in collaboration with Agenda 2063, and the AUBP (African Union Border Programme) is being promoted by the member states, the regional economic community, and the AU. The creation of a unified economic zone at AU level, free trade market, and sub-regionalism is important for Africa. This would mean a departure from colonialism, which connected African countries with the European suzerain states to export raw materials and import not much by road and port. However, the route of Chinese transportation infrastructure is ironically similar to that of the imperial Western powers, as raw materials are transported from the African country to the outside by road and port. The sea route from China crosses the Indian Ocean to reach the eastern side of the continent, including Mombasa in Kenya and Dar es Salaam in Tanzania. Traded goods are transported to not only Kenya and Tanzania, but also inland countries such as Zambia, Malawi, Uganda, Rwanda, and many other countries. At the Port of Mombasa, Japan is using yen loans to build a container terminal and EPZ. Japan mentioned the purpose of FOIP in Prime Minister Abe's speech at the 6th TICAD meeting in Nairobi in 2016, and included Africa in the scope of FOIP. While Japan's stance is seen as an economic competition with China's BRI, the U.S. FOIP did not include Africa due to military judgements (Weinstein and Chou, 2024; The Government of Japan, 2023; Teh, 2023).

Although there are numerous connectivity projects being implemented on the east side of the African continent, neither China nor Japan has yet reached the stage where these projects can be networked together, and it is time to seriously consider an efficient transport network for East Africa. At this point, it is an important crossroads to decide whether each country should focus on creating strategic hubs or try to create further synergies through cooperation, but there are few opportunities to promote the latter option at present. China's standard gauge railroad (SGR) lines in Kenya and Ethiopia and Djibouti are both loss-making, so it is unlikely that SGR will be extended further from Kenya to neighboring countries. Second, the "Lamu Port and Lamu-Southern Sudan-Ethiopia Transport Corridor (LAPSSET)," of which Japan was also involved in the initial vision, is composed of highway, oil pipeline, port, SEZ, and others. The port was built with investment from the Kenyan government, loans from the Chinese government, and contracted out to Chinese SOE, but has not been used regularly, and other infrastructure projects have been halted.

Reactions from the U.S., Europe and Japan

Inspired by China's BRI, the economic strategies and development assistance of Europe, the U.S., and Japan have also undergone a transformation. Japan, with its soft loan scheme, is a typical example, competing with China's Official Development Finance (ODF) in Asia and Africa, which is a combination of ODA and OOF (Other Official Flows). A typical example of Sino-Japanese competition would be the bidding for the bullet train between Jakarta and Bandung in Indonesia. Japanese yen loans were more concessionary, but lost the bid. China's typical ODF is a loan from the Export-Import Bank, but the interest rate and repayment period are closer to commercial loans, and the quality is not as high as yen loans. Instead, China did not ask the Indonesian government for a government guarantee of the debt, which is said to have been a factor in the reversal.

Recently, the EU has been promoting its Global Gateway Initiative in developing countries,

announcing at the EU-AU Summit in February 2022 that it will invest a total of €300 billion in a wide range of infrastructure-related investments by 2027, half of which will be directed to the African region (EC, 2022). Furthermore, at the G7 Summit in the same year, US President Biden suggested the idea of a Global Infrastructure Investment Partnership, and at the G20 Summit in September 2023, he announced the "IMEC (The India-Middle East-Europe Economic Corridor)" with the EU, India, Saudi Arabia, UAE, France, Germany, and Italy. This initiative is clearly a response to China's BRI, which is considering a logistics route that avoids the current passage of vessels through the Suez Canal. While Japan's international shipping is predicated on the Suez Canal route, the IMEC agreement outlines the concept of a route from India to the UAE by ship and from the UAE to Saudi Arabia, Jordan, and Israel by rail through to the Mediterranean (White House, 2023). This would affect Egypt's vested interests and major ports on the east coast of Africa. Was IMEC the reason the U.S. did not include Africa in the FOIP? The reaction of governments and industries to this will be mixed, but it will also be necessary to determine whether IMEC is a realistic plan or an attempt to deter the direction of the expanded BRICS.

While it is difficult to measure the extent to which the BRI has increased China's geopolitical influence in the South China Sea, Indian Ocean, and off the coast of Africa, there are a number of infrastructure facilities that have been built or renovated with Chinese cooperation. For example, there are the ports of Kyaukpyu in Myanmar, Hambantota and Colombo in Sri Lanka, and Karachi and Gwadar in Pakistan in the Indian Ocean, where China's PLA (People's Liberation Army) navy can call at these ports. In Myanmar, Japan has developed a port in the Thilawa Area of Yangon Bay, which was in competition with China's Kyaukpyu Port development, including the SEZ in the hinterland. India and Japan were supposed to collaborate with the East Container Terminal in the Colombo port. However, a cabinet decision made by President Rajapaksa awarded the order on the East Container Terminal to China's SOE, and this decision was confirmed by President Dissanayake in 2024. As for China, COSCO (China Ocean Shipping Company) is investing shares in Laem Chabang port in Thailand with the historical collaboration of Japan. China supports the Ream naval base in Cambodia, but the U.S. protests that it would be military cooperation (Miller 2018). Right next to Ream is the port of Sihanoukville, the only international port in Cambodia that Japan continues to support, where JICA has acquired half of the listed shares, or 12.5% of the total from Sihanoukville Autonomous Port (PAS). Finally, there is Chittagong Port in Bangladesh, which China promised to support but declined, and now Japan is providing deepwater port support to Matarbari Port nearby. Port construction by BRI is basically for commercial purposes, but some can be utilized for military purposes. Japan also launched Official Security Assistance (OSA) in 2022, where, unlike ODA, it can provide military assistance to the facilities like the port. This type of assistance is planned to be implemented in FOIP waters.

3. International Development Regime and the Direction of Aid

An International Development Regime is a system in which donors influence each other to form a framework based on common norms and rules, and other donors provide assistance to developing countries according to those norms and rules, with both global and regional frameworks are considered (Inada, 2024). International institutions are not narrowly defined as actual international organizations, but rather a loose framework and common rules (soft

international norms), such as international policy dialogue and coordination, as well as a development trend and the aspect of international normative consciousness that is spreading. In developed Western countries, the OECD-DAC (Development Assistance Committee) has long been a forum for international rule and norm formation, policy dialogue, and aid collaboration. China has ignored the partnership with the DAC and is receptive to the UN's Sustainable Development Goals (SDGs). It also participates in the international and regional organizations such as IMF/World Bank and ADB, but has created the AIIB and NDB (New Development Bank) and is promoting original activities in multilateral aid.

To give a quantitative look, China's total ODF is shrinking in size, topping out in 2016 and down at $74.5 billion in 2022 and $92.4 billion in 2023 (Aid Data, 2024). Incidentally, some believe that $240 billion in debt relief measures were granted in 2021 to 128 deals in 22 debtor countries (Wooley, 2023). Although this is thought to be mainly for the deferral of interest on the debt, it is extremely large and would have at least influenced the policy of reducing new loans. In contrast, ODA from developed Western countries has been increasing steadily in recent years, reaching $204 billion in 2022 and $223.7 billion in 2023, with the U.S. leading at $66 billion in 2023, followed by Germany at $36.7 billion, and Japan, which has been on a long-term downward trend, in the third place at $19.6 billion.

Developed countries have also shifted to national interest-oriented aid, stimulated by China's ODF, and since the late 2000s, the leadership of European politics has shifted from the center-left to the center-right and populist parties. When the center-left parties were in power, they worked enthusiastically to reduce poverty and coordinate aid in foreign assistance, but center-right governments have increased aid oriented toward the national interest. The European economy grew at 2% in the early 2000s but declined to 1% in the late 2000s-early 2010s, and the political and economic environment in Europe changed as well; Noël and Thérien (2008) found that leftist governments were multilateralist and interested in reducing international economic disparities, while right-wing governments are more national-interest oriented and have little interest in development assistance. The national interest-centered aid promoted by Japan is the STEP (Special Terms for Economic Partnership) Loan, which is based on the use of Japanese technology. This is a tied loan to non-low-income countries (LICs), and its origin was the Asian economic crisis. Although this loan does not violate the 1997 OECD tied aid credit regulation, for example, in the 2011 OECD peer review of Japan's aid, it was pointed out that this loan "is not consistent with the advocacy for further untied loans" in the 2008 Accra Action Plan (OECD, 2011).

The OECD-DAC, as a group, has recommended untied aid. There is a wide variety of substantial tied aid, including subcontracts, and the OECD reports that 61% of development assistance contracts are awarded to donor country firms as a result (OECD, 2021). Japan is in the highest group of these, at over 80%[1]. In the case of Japanese aid, the fact that grant aid is virtually tied while being called untied has increased this ratio, and now with the addition of STEP loans, and despite efforts to promote untied aid within the DAC, the newly added Eastern European countries have increased the tied ratio, creating a loose atmosphere. The overwhelming use of tide aid by China, which uses its own companies, equipment, and technicians, has been seen as problematic, but it appears that China is not alone in the trend of tied problem.

In terms of regional implications, it is significant that China has highlighted the connectivity perspective, which has been a challenge in Asia and Africa, across regions. If

connectivity is accompanied by sustainability, it will certainly help regional integration. However, sustainability is not sufficient, and debt problems have arisen. In Asia, China tends to reduce the Export-Import Bank's loan and increase their Development Bank's loan. Development bank loans are provided to joint ventures between Chinese and local firms in the form of BOT and PPP schemes. The advantage of this is that the government can reduce the number of projects under its jurisdiction by having the Chinese company collect the fees, as in the case of express toll roads, and even if the company is unable to repay the debt, it does not immediately become an intergovernmental debt problem. The difference is that such BOTs and PPPs are more common in Asia, where private capital is available for BRI, while in Africa they are basically loans from the Export-Import Bank. For many developing countries, the competition for investment and loans between Western developed countries and China has made it a "buyer's market." However, the relative weakening of the political and economic policy pressure of the Western developed countries due to this competition is not only a disadvantage for the West, but may also have the indirect effect of preserving (semi-)authoritarian governments in developing societies.

It was noted that China's economy has experienced a decline in performance in recent years due to slowing growth and a real estate recession, and that BRI has been on a downward trend for the past several years. In the Indo-Pacific, several regime initiatives have emerged in response to the growing interdependence of regional economies and to counter China's military expansion into the South China Sea and a growing BRI. While the U.S. FOIP concept has a strong power-based countervailing tone, Japan's FOIP under the Kishida administration emphasized the "rule of law." On the other hand, the international order that China aims for through the BRI and the Shanghai Cooperation Organization (SCO) is ultimately the restoration of power and cooperation in the Global South, and China has taken a stance not to inherit the current international order that originated in the West. BRICS is important as a core group for this purpose. However, India is in both BRICS and FOIP. There is also no specific agreement on the definition of the Global South among the members of BRICS (Haug et al., 2021). Although it has its origins in the Non-Aligned diplomacy, Third World, and G77 during the Cold War, it is undeniable that it is a vague, pragmatically oriented aggregate at this point in time. However, a practice has emerged in which a leading developing country speaks on behalf of the Global South.

The US IPEF (Indo-Pacific Economic Framework for Prosperity) was proposed in 2021 to replace the TPP (Trans-Pacific Partnership), but with 14 participating countries[2]. However, the Trump administration will possibly focus more on unilateralism than IPEF. And, the coverage of FOIP partner countries could be wide stretching out from Indian Ocean, Oceania, South China Sea, to Pacific. The "Development Cooperation Charter" approved by Japan's Cabinet in 2023 more clearly states "national interest" as the objective of assistance, and also states that "especially under the vision of a Free and Open Indo-Pacific (FOIP), Japan will endeavor to maintain and strengthen a free and open international order based on the rule of law and cooperate with developing countries to enable them to proactively engage in such an international order and enjoy its fruits, unaffected by force or coercion (Foreign Affairs homepage, 2023)." This is an implicit strategic recognition against the BRI, and is a rare step into realpolitik for a Japanese ODA charter.

China is trying to increase business opportunities while making the BRI the basis of its future international development regime. The inclusion of the UAE and Iran in the expanded

BRICs and the inclusion of the UAE and Algeria in the NDB (New Development Bank) were probably aimed at attracting other resource-rich countries as partners, rather than China being the sole sponsor of future regional economic development. The U.S.'s IMEC was probably intended as a check on China's efforts not only toward India but also toward the UAE and Saudi Arabia. The FOIP–West–IPEF international regime and the BRI–BRICS–RCEP international regime have overlapped and formed a potential rivalry in these international development regime concepts. However, the arrival of Trump's second term administration has added an element of uncertainty. In addition, there is a movement among ASEAN countries to join both the OECD and the expanded BR.

Conclusion

The ideal actor option would be to create a cooperative relationship between China and traditional donors. This is a difficult topic from a power politics perspective. However, if the two sides anticipate further deterioration of their relationship and jointly discuss measures to prevent it, this may be cooperation. Considering the welfare and human rights of people in developing countries, it is obviously better for developed countries and emerging countries, democratic countries and authoritarian countries, to cooperate rather than to confront each other. The Global South is not the exclusive domain of China. It is highly significant for developed Western countries to form a new common ground with the Global South in the international community. One of the advantages of democracy is the ability to improve political and economic systems through self-examination and internal criticism. It is also significant to enhance a system in which donors have common goals and cooperate with each other in the areas of development assistance and investment, and it is necessary for China to be involved in encouraging such cooperation. As the bipolar system between the U.S. and China strengthens, it is important for many countries to move toward a third pole. However, the developed countries themselves, like the emerging countries, are currently focused on their national interests and cannot afford to cooperate with each other.

In development policy, a restructuring of the OECD-DAC is essentially required: the momentum for international cooperation, which was led by the central left governments in Europe around 2000, has fallen apart, and some developed countries are changing their own ODA to an ego-pursuit type in view of the national interest-centered ODF, especially BRI, of emerging countries. The OECD should continue its dialogue with China. As a traditional donor, one way is to press China to disclose information on ODF relations with developing countries and to show cooperation on debt issues. Another way is to demand that China comply with environmental and governance guidelines, and instead seek to connect with Chinese BRI infrastructure projects to improve overall connectivity. Simply offering this type of dialogue would have a psychologically appeasing effect. Of course, the main objective of such aid coordination is to improve the overall effectiveness of infrastructure projects in developing countries. If such a policy direction cannot be adopted, BRI and FOIP, AIIB-NDB and Bretton Woods, and BRICS and OECD may gradually move in a hostile direction, which is truly undesirable.

Notes

1 In the same group are Austria (94.1%), Finland (94.7%), Greece (100%), Hungary (100%), New Zealand (88.6%), Poland (82.8%) and the United States (87.8%). Conversely, the groups with less than one-third Tide share are Belgium (17.8%), Germany (21%), Iceland (10.5%), Italy (12.5%), Korea (26.1%), Luxembourg (0.6%), and Portugal (17.1%).

2 Compared to the 12 countries in the TPP, four North and South American countries are missing, and six more countries (Indonesia, Thailand, the Philippines, India, South Korea, and Fiji) have been added, making the TPP more Asian-oriented.

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The Evolution of Vietnam's Poverty Reduction Policies since 1990s

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Abstract

This paper explores the evolution of Vietnam's poverty reduction policies from the 1990s to the present, highlighting key strategies, successes, challenges, and future directions. The research examines how Vietnam, once one of the world's poorest nations, has managed to reduce its poverty rate from 58% in 1993 to less than 10% by the 2020s. The central research questions address how Vietnam' s poverty reduction strategies have evolved over time, the effectiveness of these policies, and the ongoing challenges in sustaining poverty reduction. Key findings indicate that while Vietnam has made remarkable progress in reducing poverty, significant challenges remain, particularly in addressing regional disparities, poverty among ethnic minorities, and the impacts of climate change. The paper concludes with recommendations for future policies focused on inclusive growth, sustainable livelihoods, and social equity. The findings provide valuable insights for policymakers and development practitioners in Vietnam and other developing countries facing similar challenges.

Keywords: Vietnam, Poverty Reduction, Economic Growth, Social Development, Policy Evolution

1. Introduction

In the late 20th century, Vietnam was grappling with the aftermath of decades of war, economic isolation, and a centrally planned economy that struggled to meet the needs of its population. The country faced widespread poverty, particularly in rural areas, where the majority of its population resided. The economic model that had been in place since the reunification of the country in 1975 was largely based on socialist principles, with heavy state control over resources and production. This model, while intended to promote equality and social welfare, resulted in stagnation, inefficiency, and widespread poverty.

In 1986, the Vietnamese government initiated a series of economic reforms known as **Đổi Mới** (Renovation), which marked a critical turning point in the country's development trajectory. These reforms aimed to transition the economy from a centrally planned system to a socialist-oriented market economy. The early results were promising, with significant improvements in economic growth and a gradual reduction in poverty levels. However, by the early 1990s, it became clear that a more targeted approach to poverty reduction was necessary to address the deep-rooted issues of inequality and deprivation that persisted across the country.

Poverty reduction has been at the heart of Vietnam's development agenda since the 1990s. The government recognized that sustained economic growth, while necessary, was not sufficient to lift millions of its citizens out of poverty. A comprehensive and inclusive approach was required, one that would address the multi-dimensional nature of poverty and ensure that the benefits of growth were equitably distributed. Poverty reduction was not only a moral imperative but also a crucial component of national stability and social cohesion. It was understood that a failure to address poverty could lead to social unrest, hinder economic development, and perpetuate cycles of deprivation for future generations.

Moreover, Vietnam's commitment to poverty reduction was also influenced by its engagement with international organizations and donors, who provided both financial and technical support. The alignment of Vietnam's poverty reduction strategies with global initia-

tives such as the Millennium Development Goals (MDGs) and later the Sustainable Development Goals (SDGs) further underscored the importance of this issue on both national and international stages.

This paper seeks to explore the evolution of Vietnam's poverty reduction policies from the 1990s to the present, examining the key strategies implemented, their outcomes, and the lessons learned. The main research questions guiding this study is: How have Vietnam's poverty reduction policies evolved since the 1990s, and what have been their impacts on the socio-economic development of the country?

To address these two questions, the paper will analyze the evolution of Vietnam's poverty reduction policies through three decades. Section 2 provides an overview of the socio-economic context in Vietnam during the 1990s, setting the stage for the analysis of poverty reduction policies. In section 3, we examine the early poverty reduction policies implemented in the 1990s, focusing on their objectives, strategies, and outcomes. Section 4 delves into the evolution of these policies during the 2000s, highlighting significant shifts in approach and the broader socio-economic impacts. Section 5 discusses the reforms and adjustments made in the 2010s. The subsequent section explores ongoing challenges and outlines potential future directions. Finally, the Conclusion concludes the paper by summarizing the key findings and offering recommendations for future policy development.

2. Vietnam in the 1990s: Socio-Economic Context

The 1990s marked a period of profound transformation in Vietnam, driven by the economic reforms initiated under the **Đổi Mới** (Renovation) policy introduced in 1986. The Đổi Mới reforms sought to transition Vietnam from a centrally planned economy to a socialist-oriented market economy, emphasizing the liberalization of trade, the decentralization of economic decision-making, and the encouragement of private sector growth. By the early 1990s, Vietnam had begun to experience the positive effects of these reforms. The country witnessed a significant increase in economic growth, with Gross Domestic Product (GDP) growth rates averaging 7–8% annually during the 1990s. For instance, Vietnam's GDP grew by 8.1% in 1992, 8.8% in 1995, and 6.2% in 1999 (World Bank, 2001). This growth was driven primarily by the agricultural sector, which benefited from land reforms, market liberalization, and increased access to inputs and technology.

However, despite these economic gains, poverty remained pervasive, particularly in rural areas where approximately 80% of the population resided. The rural economy was heavily dependent on subsistence agriculture, and many rural households lacked access to basic services, infrastructure, and markets. As a result, income inequality began to widen, with urban areas, particularly major cities like Hanoi and Ho Chi Minh City, seeing more rapid economic progress than rural regions.

In the early 1990s, poverty was a defining characteristic of life for the majority of Vietna m's population. According to the World Bank and General Statistics Office of Vietnam (GSO), approximately 58% of the population lived below the national poverty line in 1993. This figure was even more stark in rural areas, where the poverty rate exceeded 66%, compared to around 25% in urban areas (World Bank, 1995).

Poverty in Vietnam during this period was not merely a lack of income but was also

characterized by limited access to education, healthcare, clean water, and other essential services. Many households were trapped in a cycle of poverty due to inadequate agricultural productivity, lack of land tenure security, and poor infrastructure. Additionally, the country's education and health systems were underfunded and ill-equipped to meet the needs of a rapidly growing population, further exacerbating the challenges faced by the poor.

Table 1 below provides a snapshot of key socio-economic indicators in Vietnam in the early 1990s:

Table 1 *Key socio-economic indicators in Vietnam in the early 1990s*

Indicator	1990	1995	Source
Populationc (millions)	66.2	73.7	GSO, 1999
GDP per capita (current USD)	98.5	239.9	World Bank, 2001
Poverty rate (% of population)	58.0	45.0	World Bank, 1995
Rural poverty rate (%)	66.0	55.0	World Bank, 1995
Urban poverty rate (%)	25.0	15.0	World Bank, 1995
Life expectancy at birth (years)	67.3	69.7	UNDP, 1996
Literacy rate (% of population 15+)	88.0	90.3	GSO, 1999

One of the significant challenges Vietnam faced in the 1990s was the pronounced disparity between urban and rural areas. Urban areas, benefiting from greater access to markets, infrastructure, and investment, experienced more rapid economic growth and poverty reduction compared to rural areas. For example, while the poverty rate in urban areas decreased from 25% in 1990 to 15% in 1995, rural poverty rates remained stubbornly high, decreasing only marginally from 66% to 55% during the same period (World Bank, 1995).

Regional disparities were also evident, with the northern mountainous regions, the Central Highlands, and the Mekong Delta being particularly disadvantaged. These areas were characterized by difficult terrain, poor infrastructure, and a higher concentration of ethnic minority populations, who faced additional barriers to economic participation and access to services. Ethnic minority groups, such as the Hmong, Dao, and Khmer, had significantly higher poverty rates compared to the Kinh majority, reflecting deeper structural inequalities (van de Walle & Gunewardena, 2001).

The 1990s were a pivotal decade for Vietnam as the country began to emerge from the shadows of war and economic isolation. While the Đổi Mới reforms set the stage for economic growth, the persistence of widespread poverty highlighted the need for more targeted and comprehensive poverty reduction policies. The socio-economic landscape of Vietnam in the early 1990s, characterized by high poverty rates, regional disparities, and infrastructure deficits, provided the context in which these policies were developed. Understanding this context is crucial for analyzing the evolution and impact of Vietnam's poverty reduction strategies in subsequent decades.

3. Early Poverty Reduction Policies (1990s)

The early 1990s saw the establishment of social safety nets, such as the Social Guarantee

Fund for Veterans and Families and the Fund for the Poor, aimed at providing support to the most vulnerable populations. These initiatives laid the groundwork for more comprehensive poverty reduction strategies that would be developed in the following decades.

The National Program on Hunger Eradication and Poverty Reduction (HEPR) 1998–2000

As Vietnam transitioned from a centrally planned to a market-oriented economy during the Đổi Mới period, the government quickly realized that economic growth alone was insufficient to alleviate the widespread poverty that persisted across the country. In response, the government introduced a series of targeted policies aimed at addressing the socio-economic challenges faced by the poor. Among the most significant early initiatives was the National Program on Hunger Eradication and Poverty Reduction (HEPR), which was officially launched in 1998, although its roots can be traced back to earlier efforts in the 1990s (Government of Vietnam, 1998).

The HEPR program represented a comprehensive approach to poverty reduction, focusing on both immediate relief and long-term development. The program was designed to address the multi-dimensional nature of poverty by targeting not only income poverty but also the underlying causes such as lack of education, poor health, inadequate infrastructure, and limited access to credit and markets.

The HEPR program aimed to reduce income poverty by lifting one million people out of poverty annually during its implementation, while also improving access to essential services such as education, healthcare, clean water, and sanitation, particularly in rural areas. Recognizing the reliance of Vietnam's rural poor on agriculture, the program focused on enhancing agricultural productivity through access to credit, improved seeds, fertilizers, and training in modern farming techniques. Additionally, it prioritized rural infrastructure development, including roads, irrigation systems, and electricity, to boost connectivity, reduce transportation costs, and improve market access. HEPR also targeted vulnerable groups, such as ethnic minorities, women, and those in remote areas, by enhancing their access to education, healthcare, and employment opportunities.

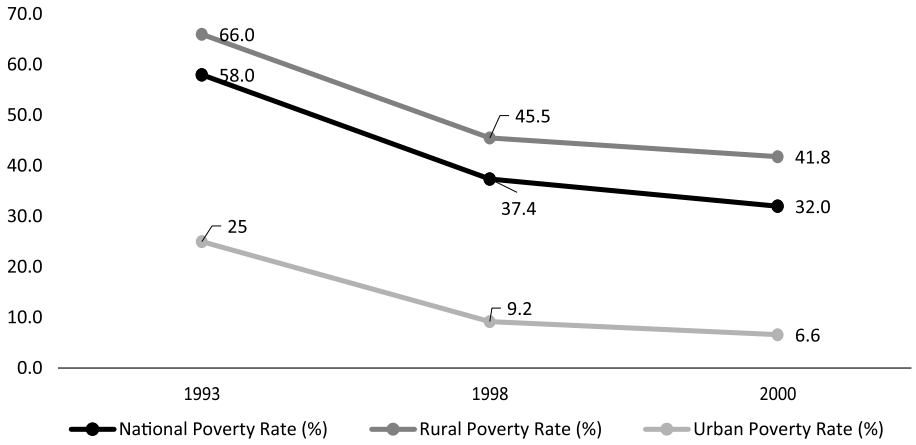
The implementation of the HEPR program involved a decentralized approach, with provincial and local governments playing a key role in identifying the specific needs of their communities and designing appropriate interventions. This was a significant shift from the top-down approach that had characterized previous poverty alleviation efforts in Vietnam.

Funding for HEPR came from a combination of sources, including the central government budget, local government contributions, and international aid. The World Bank, the United Nations Development Programme (UNDP), and several bilateral donors provided financial and technical assistance to support the program. In 1999 alone, the government allocated approximately VND 1,500 billion (around USD 100 million at the time) to HEPR-related activities, reflecting the program' s high priority (World Bank, 1999).

The HEPR program had a significant impact on poverty reduction in Vietnam during its initial years of implementation. According to Pincus and Sender (2008), the HEPR program played a crucial role in reducing the national poverty rate by focusing on agricultural development, improving rural infrastructure, and providing targeted support to vulnerable groups. By the end of 2000, the national poverty rate had fallen from approximately 58% in 1993

to 32% (GSO, 2000). This represented a reduction of nearly 26 percentage points over a period of seven years, one of the most rapid declines in poverty recorded globally during that time. Figure 1 below summarizes the reduction in poverty rates during the HEPR program's initial phase:

Figure 1 *Vietnam's poverty rates 1993–2000*



Source: *World Bank 1995, World Bank 1999, GSO 2000.*

The program's impact was particularly pronounced in rural areas, where poverty rates dropped from 66% in 1993 to 41.8% in 2000. This decline was attributed to several factors, including improved agricultural productivity, better access to markets and services, and the expansion of rural infrastructure. The poverty rate in urban areas also declined, albeit at a slower pace, due to the already lower levels of poverty in these areas.

Despite its successes, the HEPR program faced several challenges and limitations. Firstly, while the national poverty rate declined significantly, regional disparities persisted. Poverty reduction was less pronounced in the northern mountainous regions and the Central Highlands, where poverty rates remained high due to difficult terrain, limited infrastructure, and the concentration of ethnic minorities (van de Walle & Gunewardena, 2001). Secondly, although HEPR succeeded in reducing poverty levels, questions remained about the sustainability of these gains. Many households that were lifted out of poverty remained vulnerable to external shocks, such as natural disasters, economic downturns, and health crises, which could push them back into poverty. Thirdly, while HEPR improved access to basic services, the quality of these services varied widely across the country. In some areas, schools and health clinics were understaffed and poorly equipped, limiting their effectiveness in reducing poverty. Last but not least, the implementation of HEPR was hampered by a lack of reliable data and effective monitoring mechanisms. This made it difficult to assess the program' s impact accurately and to identify areas that required further intervention.

The HEPR program provided several important lessons for subsequent poverty reduction efforts in Vietnam. It underscored the importance of a multi-dimensional approach to poverty reduction, addressing not only income generation but also the underlying causes of poverty, such as access to education, healthcare, and infrastructure. Its decentralized implementation empowered local governments to design and execute interventions tailored to their specific

needs, a strategy that has since influenced other poverty reduction initiatives in Vietnam. Additionally, HEPR's focus on vulnerable groups, including ethnic minorities and people in remote areas, emphasized the value of targeted interventions to reduce disparities and promote equitable sharing of economic growth benefits.

Building on the successes and lessons learned from HEPR, the Vietnamese government launched the National Target Program for Poverty Reduction (NTPPR) in 2001. NTPPR represented a continuation and expansion of the HEPR program, with a renewed focus on sustainable development and the integration of poverty reduction efforts with broader socio-economic development strategies.

NTPPR aimed to reduce the national poverty rate to below 10% by 2010, with specific targets for reducing poverty among ethnic minorities and in remote areas. The program emphasized the need for continued investment in rural infrastructure, education, and healthcare, as well as the development of income-generating activities, particularly in agriculture and small-scale industries.

4. Poverty Reduction Strategies in the 2000s

The 2000s marked a significant phase in Vietnam's economic and social development, characterized by rapid economic growth and substantial progress in poverty reduction. By the turn of the century, Vietnam had established itself as a leading example of successful poverty alleviation among developing countries. However, the government recognized that sustaining this momentum required more comprehensive and long-term strategies that went beyond the immediate gains achieved in the 1990s. The 2000s saw the implementation of several pivotal policies aimed at deepening poverty reduction efforts, focusing on both economic growth and social inclusion.

The Comprehensive Poverty Reduction and Growth Strategy (CPRGS)

The Comprehensive Poverty Reduction and Growth Strategy (CPRGS), launched in 2002, was a cornerstone of Vietnam's poverty reduction efforts in the 2000s (Government of Vietnam, 2002). The CPRGS was designed as a multi-sectoral strategy, explicitly linking poverty reduction with economic growth, governance reforms, and social development (Klump, 2007). This approach was aligned with the Millennium Development Goals (MDGs) and was supported by major international donors, including the World Bank and the International Monetary Fund (IMF). The CPRGS was significant because it represented a shift from purely poverty-focused initiatives to a more integrated approach that linked poverty reduction with broader economic growth objectives.

The CPRGS aimed to achieve sustained poverty reduction by promoting pro-poor economic growth, improving governance, and enhancing social development. As noted by Norlund et al. (2003), the strategy focused on structural reforms, such as improving market access for poor households, enhancing the efficiency of public spending, and promoting private sector development. It aligned closely with the Millennium Development Goals (MDGs), which set global targets for poverty reduction, education, health, and gender equality. The strategy emphasized the importance of creating an enabling environment for the poor to participate in

and benefit from economic growth.

The key objectives of the CPRGS focused on fostering sustained economic growth that is inclusive and benefits the poor, promoting social equity and inclusion to ensure disadvantaged groups such as ethnic minorities and residents of remote areas are not left behind. It also emphasized governance reforms to create more responsive and accountable structures that address the needs of the poor while enhancing the capacity of local governments and communities to effectively implement poverty reduction initiatives.

The implementation of the CPRGS was supported by a range of international donors, including the World Bank, the International Monetary Fund (IMF), and bilateral donors. These organizations provided both financial support and technical assistance, helping to align Vietnam's poverty reduction efforts with international best practices.

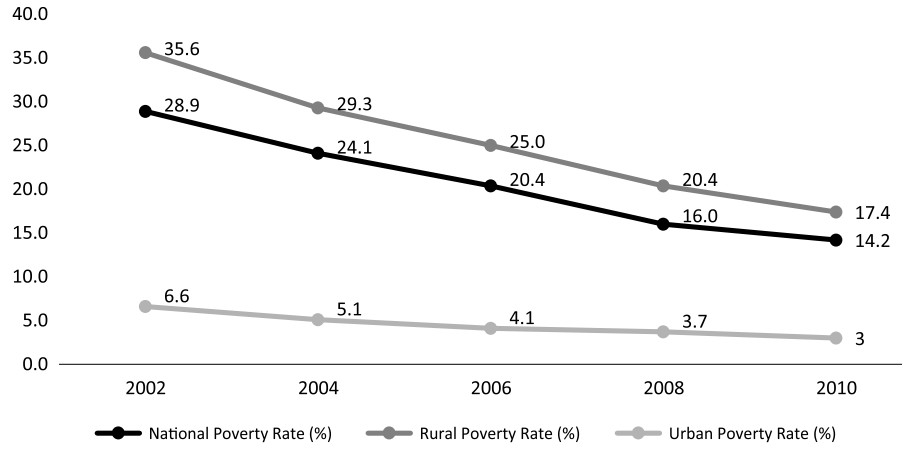
A significant aspect of the CPRGS was its emphasis on decentralization. Provincial and local governments were given greater autonomy to design and implement poverty reduction programs tailored to their specific contexts. This approach recognized the diverse socio-economic conditions across Vietnam's regions and sought to empower local authorities to address the unique challenges faced by their communities.

The CPRGS also introduced a more rigorous monitoring and evaluation framework. This was crucial for tracking progress towards poverty reduction targets and ensuring accountability. The strategy encouraged the use of data and evidence-based approaches in policy formulation, which was a departure from the more ad hoc approaches of the 1990s.

The CPRGS had a significant impact on poverty reduction in Vietnam. Between 2002 and 2010, the national poverty rate declined from 28.9% to 14.2% (World Bank, 2012). The strategy contributed to a broad-based improvement in living standards, with gains observed across various social indicators, including education, health, and access to basic services.

Figure 2 below illustrates the decline in poverty rates during the implementation of the CPRGS:

Figure 2 *Vietnam's poverty rates, 2002–2010*



Source: *World Bank 1995, World Bank 1999, GSO 2000.*

While the CPRGS was effective in reducing overall poverty, disparities remained. Rural areas continued to experience higher poverty rates compared to urban centers, and poverty

among ethnic minorities remained a persistent challenge. These disparities underscored the need for more targeted interventions, particularly in the most disadvantaged regions.

However, the CPRGS also faced challenges, particularly in terms of implementation and coordination. As highlighted by Binh (2008), the decentralized nature of Vietnam' s governance structure sometimes led to inconsistencies in policy implementation across regions, with some areas benefiting more than others. Moreover, while the CPRGS successfully reduced income poverty, it was less effective in addressing disparities in access to services and opportunities, particularly for ethnic minorities and residents of remote areas (Baulch, 2011).

National Target Program for Poverty Reduction (NTPPR) 2006–2010

Building on the success of the CPRGS, the Vietnamese government launched the National Target Program for Poverty Reduction (NTPPR) 2006–2010 (Government of Vietnam, 2007). The NTPPR was part of a broader effort to institutionalize poverty reduction as a core component of national development planning. The NTPPR aimed to reduce the national poverty rate to below 10% by 2010, with specific targets for reducing poverty in rural areas, among ethnic minorities, and in remote regions. The program sought to achieve these targets through a combination of direct interventions and support for income-generating activities.

The NTPPR focused on key components such as developing rural infrastructure, including roads, schools, health clinics, and irrigation systems, to improve living conditions in rural areas. It prioritized enhancing access to and the quality of education and healthcare services, particularly in disadvantaged regions. The program also supported income-generating activities by providing credit, training, and technical assistance to help poor households engage in more productive economic endeavors. Additionally, it strengthened social protection systems through measures like cash transfers, food assistance, and health insurance to support vulnerable populations.

The NTPPR was implemented at the national level but with significant involvement from provincial and local governments. The program was financed through a combination of central government funds, local contributions, and international aid. The World Bank, Asian Development Bank (ADB), and other development partners played a crucial role in financing and providing technical assistance for the program.

A distinctive feature of the NTPPR was its emphasis on community participation. Local communities were involved in the planning and implementation of poverty reduction projects, which helped to ensure that interventions were relevant and sustainable. This participatory approach also increased the accountability of local authorities and fostered a sense of ownership among beneficiaries.

The NTPPR made significant strides in reducing poverty, particularly in rural areas. By 2010, the national poverty rate had fallen to 14.2%, with substantial improvements in access to education, healthcare, and basic infrastructure (GSO, 2011). The program also contributed to a reduction in regional disparities, with some of the poorest regions, such as the northern mountainous areas, experiencing notable declines in poverty rates. According to World Bank (2013), the program' s success was largely due to its emphasis on participatory approaches, where local communities were actively involved in designing and implementing poverty reduction initiatives. This not only ensured that the interventions were tailored to local needs but also increased community ownership and sustainability.

However, the NTPPR faced several challenges. One of the main issues was the sustainability of poverty reduction gains. While many households were lifted out of poverty, they remained vulnerable to external shocks, such as natural disasters, economic downturns, and health crises. This vulnerability was particularly pronounced in regions with high levels of dependence on agriculture, where fluctuations in commodity prices or weather conditions could have a significant impact on household incomes.

Another challenge was the persistence of poverty among ethnic minorities. Despite targeted interventions, poverty rates among ethnic minority groups remained much higher than the national average. For example, in 2010, the poverty rate among ethnic minorities was still over 50%, compared to the national rate of 14.2% (World Bank, 2013). This highlighted the need for more tailored approaches that addressed the specific challenges faced by these communities.

The Role of Social Protection and Safety Nets

A critical component of Vietnam's poverty reduction strategies in the 2000s was the expansion of social protection and safety nets. Recognizing the importance of protecting the poor from economic shocks, the government introduced several social protection programs aimed at providing a safety net for the most vulnerable.

One of the key initiatives was the Social Assistance Program for the Poor, which provided cash transfers and food assistance to poor households. The program was designed to complement the income-generating activities supported by the NTPPR, ensuring that poor households had a minimum level of income and access to basic necessities. The program was particularly important in rural areas, where economic opportunities were limited, and many households relied on subsistence agriculture.

Another important initiative was the expansion of health insurance coverage for the poor. The government introduced a subsidized health insurance scheme that provided free or low-cost health care to poor households. This was a significant step in improving access to healthcare services, particularly for rural and ethnic minority populations, who had previously faced significant barriers to accessing healthcare.

The expansion of social protection programs in the 2000s had a positive impact on poverty reduction. According to a study by the World Bank (2013), households that received social assistance were more likely to escape poverty and less likely to fall back into poverty. The study also found that social protection programs helped to reduce income inequality, particularly in rural areas.

Regional Disparities and the Ethnic Minority Challenge

Despite the overall success of Vietnam's poverty reduction strategies in the 2000s, regional disparities and the persistence of poverty among ethnic minorities remained significant challenges. The northern mountainous regions, the Central Highlands, and the Mekong Delta were among the areas that continued to experience high levels of poverty, despite targeted interventions.

Ethnic minorities, who constitute about 15% of Vietnam's population, were disproportionately affected by poverty. While the national poverty rate declined significantly during the 2000s, the poverty rate among ethnic minorities remained stubbornly high, reflecting

deep-rooted structural inequalities (Baulch et al., 2011). These inequalities were linked to factors such as limited access to education, healthcare, and markets, as well as cultural and linguistic barriers.

To address these challenges, the government introduced several targeted programs aimed at improving the living standards of ethnic minorities. These programs included initiatives to improve access to education, provide vocational training, and support the development of small-scale industries in ethnic minority communities. However, the effectiveness of these programs was mixed, with some regions and communities benefiting more than others.

In short, the 2000s were a transformative decade for poverty reduction in Vietnam. The introduction of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) and the National Target Program for Poverty Reduction (NTPPR) marked a shift towards more comprehensive and long-term strategies that integrated poverty reduction with broader economic and social development goals. These strategies were successful in reducing the national poverty rate, improving access to basic services, and fostering economic growth. However, challenges remained, particularly in addressing regional disparities and the persistent poverty among ethnic minorities. The experience of Vietnam in the 2000s highlights the importance of targeted interventions, community participation, and the need for sustainable and inclusive approaches to poverty reduction. As Vietnam continues to evolve, these lessons will be crucial in guiding future poverty reduction efforts and ensuring that the benefits of economic growth are shared equitably across all segments of society.

5. Continuing Reforms and Policy Adjustments (2010–2024)

The 2010s Context

The period from 2010 to 2020 represented a critical decade in Vietnam's socio-economic development, marked by continued economic growth, deeper integration into the global economy, and significant progress in poverty reduction. However, as Vietnam advanced, new challenges emerged, requiring adjustments to existing poverty reduction policies. These challenges included widening income inequality, persistent poverty among ethnic minorities, the impacts of globalization, and the growing threat of environmental degradation. In response, the Vietnamese government implemented a series of reforms and policy adjustments aimed at ensuring that the benefits of economic growth were more broadly shared and that poverty reduction efforts were sustainable.

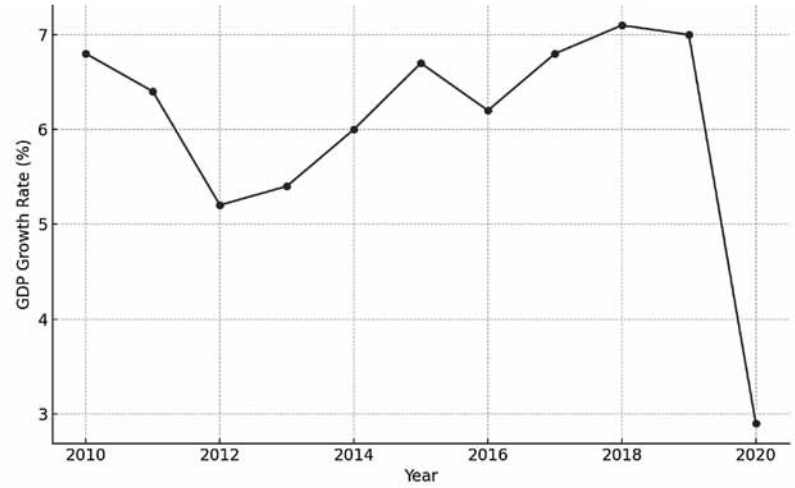
During this period, Vietnam's accession to the World Trade Organization (WTO) in 2007 set the stage for further economic liberalization and integration, culminating in the signing of several major trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA). These developments had profound implications for the country' s economic growth, poverty reduction, and social equity.

Globalization and economic integration significantly contributed to Vietnam's economic growth, which in turn had a positive impact on poverty reduction. Vietnam's GDP grew at an average annual rate of 6.8% between 2010 and 2020, one of the highest growth rates in the world (World Bank, 2020). This robust economic growth was driven by the expansion of export-

oriented industries, increased foreign direct investment (FDI), and the country's participation in global supply chains.

The graph below (Figure 3) shows Vietnam's GDP growth rate from 2010 to 2020, illustrating the country's sustained economic performance during this period.

Figure 3 *Vietnam's GDP Growth Rate (2010–2020)*



Source: *World Bank, 2020.*

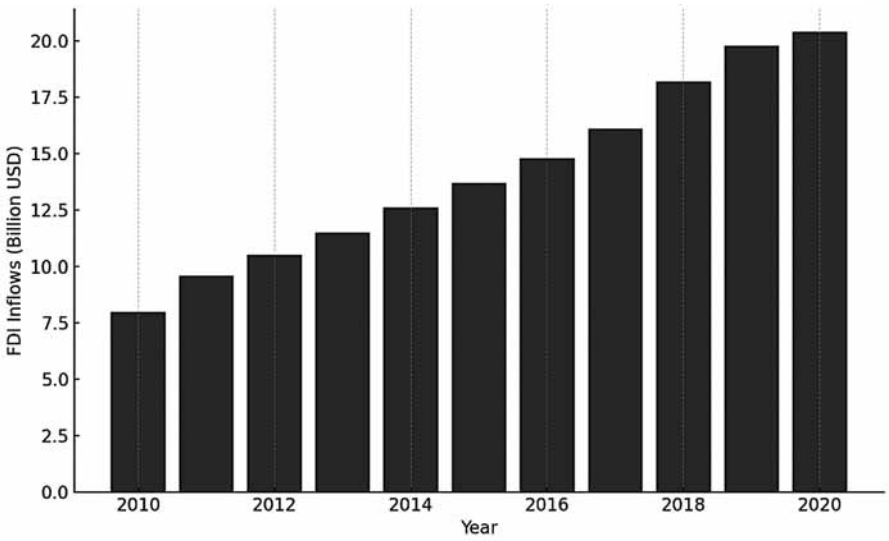
This economic growth was closely linked to poverty reduction. As industries expanded and new jobs were created, especially in manufacturing and services, many households experienced significant income gains. The national poverty rate continued to decline during this period, falling from 14.2% in 2010 to 6.7% in 2020 (GSO, 2021). The reduction in poverty was most pronounced in urban areas, where economic opportunities were more readily available, and in regions that were more integrated into the global economy.

Foreign direct investment (FDI) played a crucial role in Vietnam' s economic integration and poverty reduction efforts. The country's favorable investment climate, strategic location, and competitive labor costs attracted significant FDI, particularly in the manufacturing sector. Between 2010 and 2020, Vietnam received an average of $15–20 billion in FDI annually, with a significant portion directed towards export-oriented industries (UNCTAD, 2021).

The graph below (Figure 4) shows the annual FDI inflows to Vietnam from 2010 to 2020. While FDI had a positive impact on poverty reduction, it also contributed to regional disparities. Most FDI was concentrated in urban areas and more developed regions, where infrastructure and labor markets were more advanced. This concentration of investment further widened the gap between urban and rural areas, as rural regions, particularly those with poor infrastructure and limited human capital, attracted less investment and therefore experienced slower economic growth and poverty reduction.

Vietnam's deeper integration into the global economy, through trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA), created new economic opportunities but also exposed the country to external economic shocks. Globalization had a mixed impact on poverty reduction in Vietnam. On one hand, increased access to international markets boosted exports,

Figure 4 *FDI Inflows to Vietnam (2010–2020)*



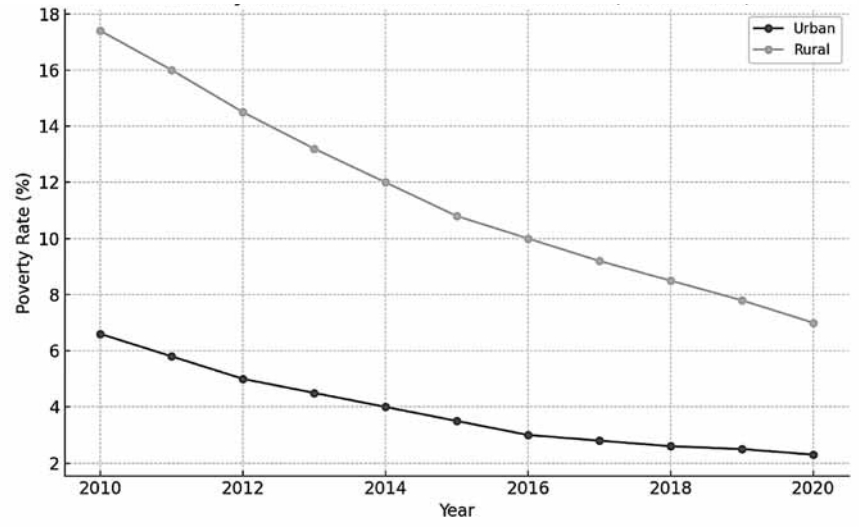
Source: *UNCTAD, 2021.*

particularly in sectors such as textiles, electronics, and agriculture, creating jobs and reducing poverty. On the other hand, globalization also led to increased competition and the restructuring of traditional industries, which disproportionately affected low-skilled workers and rural communities.

As noted by World Bank (2013), while globalization contributed to economic growth, the benefits were not evenly distributed. While urban areas and the more developed regions of the country experienced significant economic gains, rural areas, particularly those with limited access to global markets, lagged behind. This growing urban-rural divide posed a challenge for policymakers aiming to ensure that the benefits of globalization were shared equitably. While urban centers such as Hanoi, Ho Chi Minh City, and Da Nang thrived as hubs of economic activity and benefited from increased foreign investment, rural areas, especially in the northern mountainous regions and the Central Highlands, continued to experience higher poverty rates. The graph below (Figure 5) illustrates the disparity in poverty rates between urban and rural areas from 2010 to 2020. This disparity reflects the uneven distribution of economic opportunities and the slower pace of development in rural regions. While globalization and economic integration created jobs and boosted incomes in urban areas, many rural communities, particularly those reliant on subsistence agriculture, saw fewer benefits. These communities often lacked the infrastructure, education, and skills necessary to participate fully in the global economy, limiting their ability to benefit from globalization.

Urbanization was another significant trend during the 2010s, with Vietnam experiencing rapid urban growth. While urbanization contributed to economic development and poverty reduction in urban areas, it also created new challenges. The influx of people into cities led to the expansion of informal settlements, where residents often lacked access to basic services such as clean water, sanitation, and healthcare. Urban poverty became an increasingly important issue, particularly as the cost of living in cities rose. Many migrants to urban areas found employment in the informal sector, where jobs were often precarious and wages low. This highlighted the need for policies that addressed the specific needs of urban poor populations, including access to

Figure 5 *Poverty Rates in Urban and Rural Areas (2010–2020)*

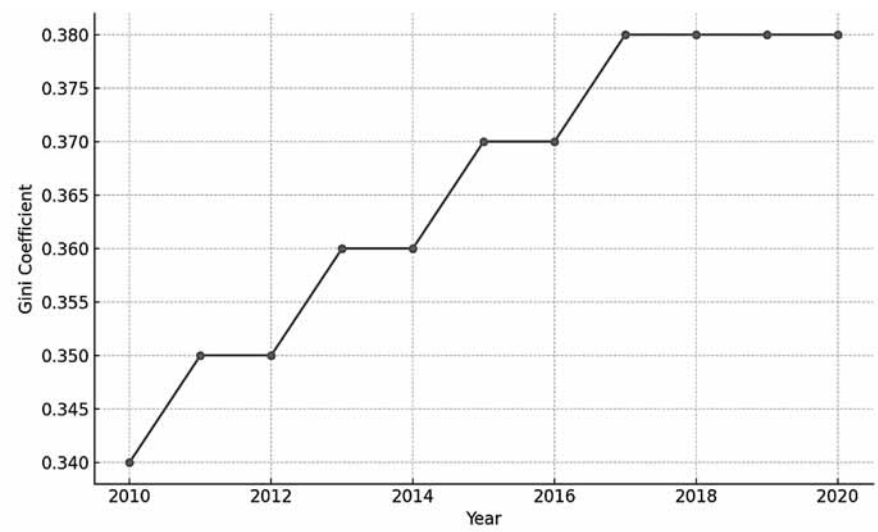


Source: *General Statistics Office of Vietnam, 2021.*

affordable housing, social protection, and decent work opportunities.

Despite the overall positive impact of globalization and economic integration, it also brought new challenges, particularly in terms of inequality and vulnerability. As the economy grew, so did the disparity between the richest and the poorest segments of society. According to the Gini coefficient, a measure of income inequality, Vietnam's inequality increased from 0.34 in 2010 to 0.38 in 2020 (World Bank, 2020). This increase in inequality reflected the unequal distribution of the benefits of globalization, with wealthier, more educated, and urban populations benefiting more than poorer, less educated, and rural populations. The graph below (Figure 6) illustrates the trend in income inequality in Vietnam during this period.

Figure 6 *Gini Coefficient in Vietnam (2010–2020)*



Source: *World Bank, 2020.*

In addition, workers in low-skilled jobs, particularly in export-oriented industries, were vulnerable to external shocks, such as fluctuations in global demand, changes in trade policies, and economic downturns. The COVID-19 pandemic, for example, highlighted the vulnerability of these workers, as many lost their jobs or experienced reduced incomes due to the global economic slowdown.

Furthermore, the shift towards a more globalized economy also had environmental implications that affected poverty reduction efforts. Industrialization and urbanization, driven by globalization, contributed to environmental degradation, which disproportionately impacted the poor, particularly in rural areas. Issues such as air and water pollution, deforestation, and climate change posed significant threats to livelihoods, particularly for those dependent on agriculture and natural resources.

The Socio-Economic Development Strategy (SEDS) 2011-2020

The Socio-Economic Development Strategy (SEDS) 2011-2020 (Government of Vietnam, 2011) was the overarching policy framework guiding Vietnam's development during this decade. Building on the achievements of the previous two decades, the SEDS emphasized the need for sustainable economic growth, social equity, and environmental protection. The strategy identified three strategic breakthroughs: improving market institutions, developing human resources, and building modern infrastructure. These priorities were aligned with the goal of transforming Vietnam into an industrialized and modernized country by 2020.

The SEDS 2011-2020 prioritized reducing poverty in remote and ethnic minority areas through targeted investments in education, healthcare, infrastructure, and income-generating activities. It emphasized sustainable development by integrating economic growth with improvements in social services and environmental sustainability, ensuring that poverty reduction strategies addressed long-term challenges. The strategy also focused on promoting inclusive growth by reducing regional disparities and ensuring that vulnerable groups, particularly in disadvantaged areas, shared in the benefits of development.

The implementation of the SEDS involved coordinated efforts across various levels of government, with significant support from international donors. However, the strategy faced several challenges, particularly in addressing the deep-rooted issues of inequality and regional disparities. While the national poverty rate continued to decline, reaching 9.8% in 2016 (World Bank, 2023), certain regions, especially the northern mountainous areas and the Central Highlands, continued to lag behind.

A major challenge in implementing the SEDS was the need to balance economic growth with environmental sustainability. Rapid industrialization and urbanization led to environmental degradation, which disproportionately affected the poor, particularly in rural areas. As noted by McElwee (2016), environmental degradation, such as deforestation and pollution, threatened the livelihoods of many rural communities, undermining poverty reduction efforts.

National Target Program on Sustainable Poverty Reduction (NTP-SPR) 2012-2015 and 2016-2020

In line with the SEDS, the government launched the National Target Program on

Sustainable Poverty Reduction (NTP-SPR) 2012-2015 (Government of Vietnam, 2012), followed by the National Target Program on Sustainable Poverty Reduction (NTP-SPR) 2016-2021 (Government of Vietnam, 2016). This two-stage program represented a continuation and refinement of earlier poverty reduction initiatives, with a stronger emphasis on sustainability and inclusivity.

The NTP-SPR 2010-15 aimed to reduce the national poverty rate to below 5% by 2015 and halve the poverty rate among ethnic minorities by promoting sustainable livelihoods through the development of agriculture, forestry, and small-scale industries in rural and disadvantaged areas. It focused on improving access to essential social services such as education, healthcare, clean water, and sanitation while enhancing local government and community capacity to manage and implement poverty reduction projects. Additionally, the program sought to expand social protection initiatives to provide a robust safety net for the most vulnerable populations.

The NTP-SPR 2010-15 made significant progress in reducing poverty, particularly in some of the most disadvantaged regions. By 2015, the national poverty rate had fallen to 7.0%, with improvements observed in access to education, healthcare, and basic infrastructure (GSO, 2016). The program also contributed to a reduction in the poverty rate among ethnic minorities, although these groups continued to experience higher levels of poverty compared to the national average. The program's emphasis on sustainable livelihoods was particularly successful in improving the economic resilience of poor households. Initiatives such as agroforestry projects, vocational training, and support for small-scale enterprises helped many households diversify their income sources, reducing their vulnerability to economic shocks.

The National Target Program on Sustainable Poverty Reduction (NTP-SPR) 2016-2020 marked a significant evolution in Vietnam's approach to poverty reduction by introducing a multidimensional poverty measure. Prior to this period, poverty in Vietnam was primarily assessed based on income levels alone. However, recognizing the limitations of an income-based approach, the Vietnamese government, in consultation with international development partners, adopted a multidimensional poverty framework that considers various dimensions of well-being beyond income. The new multidimensional poverty measure includes indicators related to education, health, living conditions, access to social services, and information access, among others. This shift was driven by the understanding that poverty is a complex and multifaceted issue that cannot be fully captured by income alone. For example, a household might have an income above the poverty line but still face significant deprivation in terms of access to clean water, education, or healthcare.

By adopting this approach, the NTP-SPR 2016-2020 aimed to provide a more comprehensive understanding of poverty and to target interventions more effectively. This change enabled policymakers to identify households that, while not income-poor, were still vulnerable to various forms of deprivation. The program thus focused not only on increasing income levels but also on improving the overall quality of life for the poor, ensuring more equitable access to essential services and resources.

The introduction of the multidimensional poverty measure was also aligned with Vietnam's commitment to the Sustainable Development Goals (SDGs), particularly Goal 1, which calls for ending poverty in all its forms everywhere. The NTP-SPR 2016-2020 was instrumental in reducing multidimensional poverty, particularly in rural and ethnic minority areas, by addressing the diverse needs of poor households through a holistic approach to poverty reduction.

However, the NTP-SPR during the 2010s also faced several challenges. One of the main issues was the difficulty in reaching the most isolated and marginalized communities, particularly in mountainous regions. The high cost of infrastructure development in these areas, combined with logistical challenges, limited the program's impact. Additionally, while the program made progress in reducing poverty, the quality of education and healthcare services in some regions remained inadequate, limiting the potential for long-term poverty alleviation.

Poverty Reduction Policies from 2021 to Present

Building on the progress made under the National Target Program on Sustainable Poverty Reduction (NTP-SPR) 2016–2021, Vietnam entered a new phase of poverty reduction starting in 2021. This period has been characterized by the ongoing challenges of recovering from the economic impacts of the COVID-19 pandemic, addressing the evolving nature of poverty in the context of a rapidly changing economy, and further refining policies to target the most vulnerable populations. The Vietnamese government has continued to prioritize poverty reduction as a key component of its socio-economic development strategy, aligning its efforts with both national goals and international commitments such as the Sustainable Development Goals (SDGs).

The Socio-Economic Development Strategy 2021–2030 (Government of Vietnam, 2021) outlines Vietnam's long-term vision for development, with poverty reduction remaining a central objective. The strategy emphasizes inclusive growth, sustainable development, and social equity, with a strong focus on narrowing the gap between urban and rural areas, and between different regions and population groups. The strategy focuses on reducing the multidimensional poverty rate by addressing deprivations in education, health, and living conditions while prioritizing interventions for vulnerable groups such as ethnic minorities, women, and those in remote or disadvantaged areas to ensure access to essential services and income-generating opportunities. It also emphasizes promoting sustainable livelihoods through the adoption of sustainable agricultural practices, support for small and medium-sized enterprises (SMEs), and expanded access to vocational training, aiming to build resilience against economic shocks and environmental changes.

The National Target Program for Sustainable Poverty Reduction 2021–2025 continues the work of its predecessor, focusing on both income-based and multidimensional poverty reduction. The program sets specific targets, such as reducing the national poverty rate by 1–1.5% per year and the poverty rate in particularly disadvantaged areas by 3–4% per year. The program also places a strong emphasis on reducing multidimensional poverty, with a goal of lowering the multidimensional poverty rate by 1.5–2% annually.

The program focuses on several key components to address poverty reduction effectively. To support vulnerable populations post-COVID-19, the government has implemented targeted measures such as cash transfers, food aid, and subsidies for essential services while helping businesses, particularly SMEs, recover and create jobs. Emphasizing digital inclusion, the program aims to bridge the urban-rural divide by expanding internet and digital service access in rural areas, fostering opportunities for education, healthcare, and income generation. With Vietnam's vulnerability to climate change, the program also prioritizes environmental sustainability and climate resilience by promoting climate-smart agriculture, green infrastructure, and community-based disaster risk management. Additionally, improving access

to social services remains a central goal, with efforts to expand health insurance coverage, enhance rural education quality, and strengthen inclusive social protection systems.

As Vietnam moves forward, the lessons learned from the 2010s and early 2020s will be crucial in guiding future poverty reduction efforts. The focus on sustainable livelihoods, social protection, and environmental sustainability will continue to be key priorities in ensuring that the benefits of economic growth are equitably shared and that poverty reduction efforts are resilient to the challenges of globalization and environmental change. The government's commitment to achieving the SDGs by 2030 will also play a crucial role in guiding these efforts.

6. Current Challenges and Future Directions

Vietnam's poverty reduction policies have evolved significantly since the 1990s to address the challenges unique to each period of its development. In the 1990s, the focus was on basic poverty relief through targeted support, emphasizing agricultural productivity and infrastructure development to tackle widespread poverty in rural areas. Moving into the 2000s, the approach shifted to more integrated strategies with the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), linking poverty reduction with broader economic growth, governance reforms, and community participation to address persistent regional disparities. The 2010s marked a significant evolution, with a focus on sustainable development and multidimensional poverty, recognizing that poverty encompassed more than just income — addressing access to education, healthcare, and other essential services became key. This period also highlighted the need for targeted support to ethnic minorities and vulnerable groups to reduce inequalities. In the 2020s, Vietnam's policies have become more inclusive and climate-resilient, incorporating digital inclusion, post-pandemic recovery, and sustainable livelihood initiatives to mitigate the impacts of globalization and climate change. These evolving strategies reflect Vietnam's adaptive response to emerging challenges, aiming to ensure inclusive growth that leaves no one behind.

Vietnam's impressive progress in poverty reduction over the past few decades has been widely recognized as a development success story. However, despite significant achievements, several challenges persist, particularly in the context of rapid economic transformation, environmental sustainability, and social inclusion. As Vietnam continues to evolve, addressing these challenges will be critical to ensuring that poverty reduction efforts are sustainable and that the benefits of economic growth are equitably shared across all segments of society. This section discusses the current challenges Vietnam faces in its poverty reduction efforts and outlines potential future directions for policy and development.

Persistent Regional Disparities

One of the most pressing challenges in Vietnam's ongoing poverty reduction efforts is the persistence of regional disparities. While urban areas and economically developed regions have seen significant improvements in living standards, rural areas, particularly those in the northern mountainous regions, the Central Highlands, and the Mekong Delta, continue to experience higher levels of poverty. These disparities are driven by several factors, including differences in infrastructure, access to education and healthcare, and economic opportunities.

The persistence of poverty in these regions is closely linked to the limited economic diversification and reliance on subsistence agriculture. Many rural communities lack access to the infrastructure and markets necessary to engage in more productive economic activities, limiting their ability to benefit from broader economic growth. Addressing these disparities will require targeted investments in rural development, including infrastructure, education, healthcare, and support for income-generating activities.

Poverty Among Ethnic Minorities

Ethnic minorities in Vietnam, who constitute about 15% of the population, continue to experience disproportionately high levels of poverty. While the national poverty rate has fallen significantly, poverty rates among ethnic minority groups remain much higher. According to the General Statistics Office (GSO), as of 2020, the poverty rate among ethnic minorities was over 20%, compared to the national average of 6.7% (GSO, 2021).

The challenges faced by ethnic minorities are multifaceted and include limited access to education, healthcare, and markets, as well as cultural and linguistic barriers. Many ethnic minority communities reside in remote and mountainous areas, where infrastructure is underdeveloped, and economic opportunities are scarce. Addressing poverty among ethnic minorities will require a comprehensive and culturally sensitive approach that takes into account the specific needs and circumstances of these communities. Potential strategies for supporting ethnic minority communities include expanding access to education and vocational training tailored to the needs of ethnic minority youth to enhance their employment prospects and economic opportunities. Investing in infrastructure, such as roads, electricity, and internet access in remote areas, can improve connectivity to markets and services, fostering economic integration. Additionally, delivering social services like healthcare and education in culturally sensitive ways can increase their effectiveness and accessibility, ensuring they meet the unique needs of ethnic minority communities.

Impact of Climate Change and Environmental Degradation

Climate change and environmental degradation pose significant threats to poverty reduction efforts in Vietnam. As a country highly vulnerable to the impacts of climate change, Vietnam faces increasing risks from rising sea levels, more frequent and severe weather events, and changes in agricultural productivity. These risks are particularly acute in rural areas, where many communities rely on agriculture and natural resources for their livelihoods.

The Mekong Delta, one of Vietnam's most productive agricultural regions, is particularly vulnerable to the impacts of climate change. Rising sea levels and increased salinity intrusion threaten the viability of rice production, a critical source of income and food security for millions of people. Similarly, the Central Highlands, which is prone to droughts, faces challenges in maintaining coffee production, a key export commodity.

Addressing the impacts of climate change on poverty reduction requires integrating climate resilience into development planning and poverty reduction strategies. This involves promoting climate-smart agriculture by adopting drought-resistant crops, improving irrigation systems, and implementing sustainable land management practices to enhance agricultural resilience. Investments in disaster risk reduction, such as early warning systems, climate-

resilient infrastructure, and community-based disaster preparedness, are essential to minimize the vulnerability of poor communities to climate-related shocks. Additionally, protecting and restoring natural ecosystems like forests and wetlands not only mitigates the impacts of climate change but also provides rural communities with alternative income sources through activities such as ecotourism and sustainable forestry.

Urbanization and the Growing Urban-Rural Divide

Rapid urbanization in Vietnam has led to significant economic growth and poverty reduction in urban areas. However, it has also contributed to a growing divide between urban and rural areas. While cities like Hanoi and Ho Chi Minh City have thrived as economic hubs, rural areas, particularly those not well-connected to urban centers, have seen slower progress.

Urbanization has also brought about new challenges, including the rise of informal settlements, where many migrants live in precarious conditions with limited access to basic services. The growing cost of living in cities has made it difficult for low-income residents to afford housing, healthcare, and education, leading to increased urban poverty.

To address these challenges, Vietnam must adopt policies that promote balanced urban and rural development. Strategies include fostering integrated urban-rural development by strengthening economic linkages through rural-urban supply chains, improving transportation networks, and supporting rural enterprises that cater to urban markets. Expanding access to affordable housing, healthcare, and education in urban areas is crucial for reducing urban poverty and improving living conditions for low-income residents. Additionally, inclusive urban planning that considers the needs of all residents, including low-income and marginalized groups, is essential for creating more equitable and sustainable cities.

Ensuring Social Equity in a Rapidly Changing Economy

As Vietnam continues to integrate into the global economy, ensuring social equity will be critical to sustaining poverty reduction gains. The rapid pace of economic change, driven by globalization, technological advancements, and industrialization, has created new opportunities but also new challenges in terms of inequality and social exclusion.

Income inequality has been rising in Vietnam, with the wealthiest segments of society benefiting more from economic growth than the poorest. This growing inequality poses a risk to social cohesion and long-term economic stability. Addressing this challenge will require policies that promote inclusive growth and ensure that the benefits of development are broadly shared.

Key strategies for reducing inequality include implementing progressive taxation policies and expanding social protection programs, such as unemployment insurance, pensions, and healthcare subsidies, to provide a safety net for vulnerable populations. Investing in human capital by improving access to quality education and healthcare, particularly for disadvantaged groups, is crucial to ensuring equal opportunities for participation in and benefits from economic growth. Additionally, promoting decent work through fair wages, safe working conditions, and social protections can help reduce inequality and enhance living standards for the working poor.

7. Conclusion

Vietnam's journey from one of the world's poorest countries to a lower-middle-income nation with impressive poverty reduction achievements is a testament to the effectiveness of its development policies over the past few decades. This paper has explored the evolution of Viet nam's poverty reduction strategies from the 1990s to the present, highlighting the major initiatives, their impacts, and the challenges that have arisen along the way.

The 1990s laid the foundation for poverty reduction with the introduction of the Đổi Mới (Renovation) reforms and the National Program on Hunger Eradication and Poverty Reduction (HEPR). These initiatives were crucial in stabilizing the economy and reducing poverty by fostering economic growth, improving rural infrastructure, and addressing the immediate needs of the poor.

In the 2000s, Vietnam shifted to more comprehensive and long-term strategies, most notably through the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) and the National Target Program for Poverty Reduction (NTPPR). These strategies linked poverty reduction with broader economic and social development goals, contributing to substantial improvements in living standards and a significant decline in poverty rates.

The 2010s continued this trajectory with the Socio-Economic Development Strategy (SEDS) 2011–2020 and the National Target Program on Sustainable Poverty Reduction (NTP-SPR) 2012–2015 and 2016–2021. These programs emphasized sustainability and inclusivity, recognizing the need to address persistent regional disparities, the challenges faced by ethnic minorities, and the impacts of climate change on poverty reduction efforts. The SEDS 2021–2030 and NTP-SPR 2021-2025 focus on reducing multidimensional poverty, particularly among vulnerable groups such as ethnic minorities and those in disadvantaged areas, while promoting inclusive growth, sustainable livelihoods, and climate resilience. These strategies emphasize narrowing regional disparities, enhancing access to social services, and supporting economic recovery post-COVID-19 to ensure equitable development across the country.

The success of Vietnam's poverty reduction policies can be attributed to several factors, including strong government commitment, effective use of international aid, and the implementation of comprehensive and targeted strategies. Vietnam's approach to poverty reduction has been characterized by its adaptability and responsiveness to changing socio-economic conditions, allowing the country to achieve rapid and sustained progress.

Table 2 in the Appendix summarizes the evolving polices during the four decades.

However, the limitations of these policies have also become evident over time. While economic growth has been a key driver of poverty reduction, it has not been sufficient to address the structural inequalities that persist in certain regions and among specific population groups. The benefits of growth have been unevenly distributed, with urban areas and more developed regions experiencing greater gains than rural and disadvantaged areas. Moreover, the environmental challenges posed by rapid industrialization and urbanization, as well as the vulnerability of certain regions to climate change, highlight the need for more sustainable approaches to poverty reduction. These challenges underscore the importance of integrating social, economic, and environmental considerations into future poverty reduction strategies.

Looking ahead, Vietnam's poverty reduction efforts will need to focus on addressing the remaining challenges and ensuring that progress is sustainable and inclusive. Vietnam's experience in poverty reduction offers valuable lessons for other developing countries facing

similar challenges. The country's success demonstrates the importance of strong government commitment, the effective use of international aid, and the implementation of comprehensive and targeted strategies. However, it also highlights the need for continuous adaptation and innovation in the face of new challenges, such as climate change, globalization, and rising inequality.

As Vietnam continues its journey towards becoming an upper-middle-income country, ensuring that poverty reduction efforts are sustainable, inclusive, and resilient to future challenges will be critical. By focusing on social equity, environmental sustainability, and inclusive growth, Vietnam can build on its successes and continue to improve the living standards of all its citizens, leaving no one behind.

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Appendix

Table 2 *A comparative analysis of poverty reduction policies and their impacts in Vietnam*

Period	Key Policies	Approach	Focus Areas	External Support	Successes	Challenges
1990s	• National Program on Hunger Eradication and Poverty Reduction (HEPR)	• Basic poverty relief, targeted assistance	• Income poverty reduction • Agricultural productivity • Rural infrastructure development • Access to basic services	• Initial assistance from bilateral donors and UNDP • Technical and financial support mainly for rural development initiatives	• Poverty rate dropped from 58% (1993) to 32% (2000) • Significant improvement in rural areas	• Persistent regional disparities • Limited infrastructure in remote areas
2000s	• Comprehensive Poverty Reduction and Growth Strategy (CPRGS) • National Target Program for Poverty Reduction (NTPPR)	• Integrated with economic growth and governance reforms	• Pro-poor growth • Social inclusion and equity • Improved access to services • Community participation	• Strong financial and technical support from the World Bank and IMF • Alignment with Millennium Development Goals (MDGs) • Collaboration with various UN agencies	• Poverty rate dropped from 28.9% (2002) to 14.2% (2010) • Improved infrastructure and basic services	• High poverty rates among ethnic minorities • Urban- rural inequality remained significant
2010s	• Socio-Economic Development Strategy (SEDS) 20112020 • National Target Program on Sustainable Poverty Reduction (NTPSPR)	• Sustainable and multidimensional poverty reduction	• Multidimensional poverty • Rural infrastructure development • Targeted support to ethnic minorities • Social services improvement	• Continued support from the World Bank, UNDP, and bilateral donors. • Assistance for capacity building and monitoring frameworks. • Support from the Asian Development Bank (ADB) for rural infrastructure	• National poverty rate reduced to 6.7% by 2020 • Better targeting of nonincome poverty aspects	• High vulnerability among ethnic minorities • Climate change challenges impacting livelihoods
2020s	• Socio-Economic Development Strategy 20212030 • National Target Program for Sustainable Poverty Reduction 20212025	• Inclusive, climate resilient growth	• PostCOVID19 recovery • Digital inclusion • Climate resilience • Targeting vulnerable groups	• Post-COVID-19 recovery support from World Bank and UNDP. • Focus on Sustainable Development Goals (SDGs). • Technical support for climate resilience and digital inclusion	• Continued decline in poverty rate to 5.7% in 2023 • Increased focus on climate adaptation and digital access	• Environmental sustainability concerns • Ongoing regional disparities and urban-rural divide

Diversity and Innovation in Japanese Companies:

A systematic review

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Abstract

This systematic review combines insights from studies conducted in Japan to explore how diversity in gender, age, cognitive, and national origin influences product, process, and organizational innovation. In today's business landscape, diversity is pivotal in shaping organizations worldwide. In Japan, in response to the economic stagnation and aging society, government initiatives were established to promote workplace diversity to drive innovation. Yet, the country's homogeneous and hierarchical corporate culture presents distinct challenges. The studies examined in this paper cover a wide range of industries and methodologies, providing a comprehensive overview. Findings indicate that cognitive diversity consistently fosters innovation, while gender diversity generally shows positive impacts, with occasional mixed or negative results. National origin and age diversity yield mixed outcomes, often hindered by cultural factors, communication barriers, and limited research. At last, this review highlights the need for inclusive organizational strategies that effectively leverage diverse perspectives, ultimately enhancing Japan's competitiveness and adaptability.

Keywords: Innovation, Systematic review, Diversity, Corporate culture, Japan

1. Introduction

Once the world leader in technological innovation and economic growth, Japan has faced stagnation in recent decades. Following its rapid post-war development, Japan emerged as a hub for global innovation known as the Japanese economic miracle. However, it has struggled to maintain its competitive edge in the 21st century (Fukao et al., 2016). One significant factor contributing to this decline is Japan's aging population (Zhou, 2018). With one of the highest proportions of elderly citizens and lowest birthrates globally, the shrinking workforce has led to labor shortages, which in turn diminish economic productivity (Matanle & Sato, 2010).

Japan is also one of the most homogeneous societies in the world, with minimal ethnic diversity (Ono & Ono, 2015). As its aging population accelerates, the need for foreign workers has become more urgent to mitigate labor shortages (Nguyen, 2021). However, integrating foreign workers into society presents great challenges, as social and cultural integration has often proven difficult (Kim & Streich, 2020).

In parallel, Japan's male-dominated corporate environment limits the diversity of perspectives within organizations, as women remain underrepresented in full-time positions and leadership roles (Smirles, 2017). This lack of gender diversity may restrict the range of ideas available for driving innovation. Additionally, the country's deeply rooted corporate hierarchy discourages risk-taking and conflict, further stifling diverse perspectives that could foster creative solutions (Tai & Mai, 2016). These cultural and demographic factors have collectively contributed to this economic stagnation, with Japanese businesses struggling to adapt to the demands of a globalized economy.

Recognizing these challenges, the Japanese government has recently implemented initiatives to increase diversity and inclusion within organizations, aiming to support innovation and economic growth (*Diversity, Equity, and Inclusion,* n.d.). This study, therefore, examines various research papers on the efforts companies ensured to introduce diversity and inclusion

and assesses their impact on fostering innovation performance within the unique cultural context of Japan.

Research question and objectives

This systematic review addresses the following research question: **"How do different types of diversity — gender, cognitive, age, and national origin — affect innovation in Japanese companies?"** While there is ample evidence from Western studies that diversity positively influences innovation, it is unclear whether these findings apply to Japan's unique cultural and corporate environment. Given Japan's homogenous and hierarchical corporate culture, the relationship between diversity and innovation may differ significantly from that in the West. Thus, we develop the following hypotheses:

H1: Cognitive diversity positively impacts innovation outcomes in Japanese companies.
H2: Gender diversity has mixed results on innovation, potentially weakened by cultural factors.
H3: National origin diversity has positive effects on innovation in Japanese companies, with potential challenges related to social integration.
H4: Age diversity contributes to innovation through cross-generational collaboration, though its effects may be moderated by hierarchical and seniority norms in Japanese corporate culture.

To confirm or deny the hypotheses set, this study's focus is twofold. First, the systematic review presents an overview of the evidence studying diversity and its impact on innovation, as well as assessing the current state of research on diversity and innovation in Japan, identifying trends, gaps, and conflicting findings. Second, a meta-analysis conducted to quantitatively synthesize the evidence, providing a clearer understanding of the overall effect of diversity on innovation in Japanese companies.

2. Literature review

Demographic and societal challenges in Japan

Japan has long been regarded as an economic powerhouse, particularly during the late 20th century when it was a global hub for innovation in fields such as electronics, automotive technology, and manufacturing (An & An, 2017). However, in recent decades, Japan has faced significant challenges that have slowed its economic growth and repressed its capacity for innovation. As a result of becoming one of the world' s most rapidly aging societies, coupled with persistently low birth rates. This demographic shift is exerting significant pressure on the workforce, with fewer younger workers to sustain industries and meet the demands of an aging population (Kamio & Espinoza, 2023; Muto et al., 2016). The resulting labor shortages and declining productivity have prompted concerns about Japan's long-term economic resilience and their ability to maintain competitive innovation levels.

In addition to its aging population, Corporate culture in Japan has traditionally been characterized by male dominance, homogeneity, and conformity (Smirles, 2017). Gender inequality in the workforce remains a significant issue, with women not only underrepresented in leadership positions and decision-making roles but also as full-time workers to begin with. This male-dominated corporate structure has been a barrier to diversity in the workplace,

limiting the potential for varied perspectives that could drive innovation.

Japanese society is also deeply hierarchical, both in societal structures and within the workplace (Omura et al., 2018). This hierarchical nature reinforces compliance, discourages risk-taking, and suppresses the expression of diverse ideas and perspectives, which are crucial ingredients for innovation (Keum & See, 2017). These cultural and structural characteristics have contributed to Japan's stagnation in terms of economic performance and innovation in recent decades, despite its earlier dominance on the global stage.

Diversity and business performance

The concept of diversity as a driver of business performance and innovation has been well-studied in Western contexts, where diversity is often linked to increased creativity, problem-solving ability, and overall business success (Makkonen, 2022; Wang et al., 2019). In diverse teams, varied perspectives and experiences may lead to the generation of more creative solutions to complex problems. Research by Wang et al. (2019) argues that teams with diversity in national origin — composed of individuals from different cultural backgrounds — are more effective at problem-solving and innovation than homogeneous teams. National origin diversity allows teams to draw on a broader range of cultural perspectives, which enhances their ability to approach problems creatively and adapt to global markets. Gender and cultural diversity have also been shown to correlate with enhanced innovation performance, as diverse teams are better able to understand and serve a diverse customer base (Patrício & Franco, 2022).

However, the positive relationship between diversity and innovation is highly context and culture dependent. In the U.S. and Europe, where individualism is valued, diverse ideas are often encouraged and harnessed to drive innovation. In contrast, in more collectivist cultures like Japan, diversity may not naturally translate into better business outcomes unless accompanied by changes in corporate culture and management practices. This cultural context suggests that diversity's impact on innovation may vary significantly based on how well diversity is integrated into the organizational structure.

Diversity and innovation in Japan: conflicting findings

The link between diversity and innovation in Japan has been explored, though the findings are mixed. Some studies align with the Western perspective, suggesting that diversity may indeed enhance innovation in Japanese companies. For instance, Edamura and Inui (2022) found that companies with more gender-diverse teams were more likely to develop innovative products and processes leading to more patent applications and less research bias. Similarly, National institute of science and technology policy (2018) explored various types of diversity, including nationalities, genders, and professional backgrounds within research organizations, and concluded that diversity is beneficial for introducing new research fields, increasing motivation among researchers, and bringing in new cultural perspectives.

However, other studies have raised doubts about the effectiveness of diversity in the Japanese context. For example, Kang and Nabeshima (2020) found that while national origin diversity within teams can positively influence organizational innovation, this effect does not increase indefinitely. Instead, as national origin diversity grows, it begins to introduce challenges, resulting in an inverted-U-shaped effect on innovation, in particular, the prevalence

of one region over the others could bring about the creation of smaller isolated groups. This suggests that beyond a certain point, the potential for miscommunication and conflict may outweigh the benefits of diverse perspectives.

The need for a systematic review

Given the mixed findings on the relationship between diversity and innovation in Japan, there is a clear need for a systematic review to assess the current state of research. This review seeks to synthesize empirical evidence from various studies to understand how different types of diversity -gender, cognitive, age, and national origin- affect innovation in Japanese companies. By conducting this review, the goal is to provide a comprehensive overview of the existing research, identify trends, and highlight gaps in the literature that could inform future studies. Furthermore, this review aims to address whether diversity can serve as a lever for innovation in Japan's distinctive corporate environment, and if so, under what conditions it may thrive.

3. Theoretical framework

Schein's Organizational Behavior Theory

Schein's theory of organizational behavior (OBT) emphasizes the role of shared values, beliefs, and norms within organizations, which shape employees' behavior and interactions. Schein (1990) posits that organizational culture strongly impacts how diverse perspectives are received and integrated. In contexts with high conformity, as seen in Japan, diversity may struggle to thrive without explicit support from organizational culture, making Schein's theory ideal for analyzing workplace diversity's impact on innovation.

Hofstede's Corporate Culture Model

Hofstede's model identifies cultural dimensions -such as individualism vs. collectivism, power distance, and uncertainty avoidance- that influence organizational behavior across countries. Japan scores high on collectivism and power distance, reflecting a hierarchical and conformist corporate culture that values harmony over individual expression (Hofstede & Bond, 1984). This model provides valuable insights into the impact of Japan's cultural norms on diversity, helping to contextualize both the potential benefits and challenges of integrating diverse perspectives within Japanese organizations.

4. Methodology

Search strategy

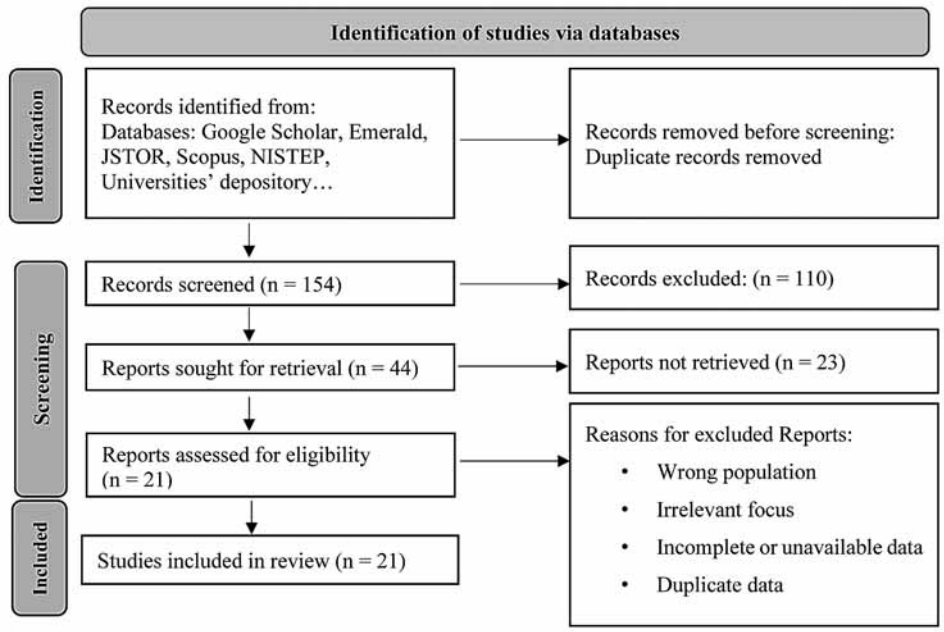
The systematic review aimed to gather comprehensive evidence on the relationship between diversity and innovation in Japanese companies. The search process involved multiple academic databases, including Google Scholar, Emerald, JSTOR, Scopus, NISTEP, Universities'

depository and others. Additionally, gray literature such as conference proceedings and government reports was reviewed to ensure inclusivity. The keywords used in the search were: "diversity AND innovation in Japan", "gender diversity AND innovation in Japanese companies", "cognitive diversity AND innovation in Japan", "age diversity AND innovation performance in Japan", and "national origin diversity AND innovation in Japan". The search targeted studies published in 21st century, in both English and Japanese, focusing on empirical studies, case studies, and qualitative reports examining diversity in business settings in Japan.

Inclusion/Exclusion criteria

The review included studies that met the following criteria: (1) research conducted on Japanese companies or organizations, (2) studies that explicitly measured the impact of one or more types of diversity (gender, cognitive, age, national origin) on innovation, and (3) peer-reviewed articles, reports, or conference papers. Studies were excluded if they focused on the wrong population, the focus was irrelevant e.g. financial performance, marketing performance, were theoretical without data-driven insights, or had incomplete or unavailable data, and finally duplicate data.

Figure 1 *Prisma model for inclusion/exclusion of research reports*



Synthesis approach

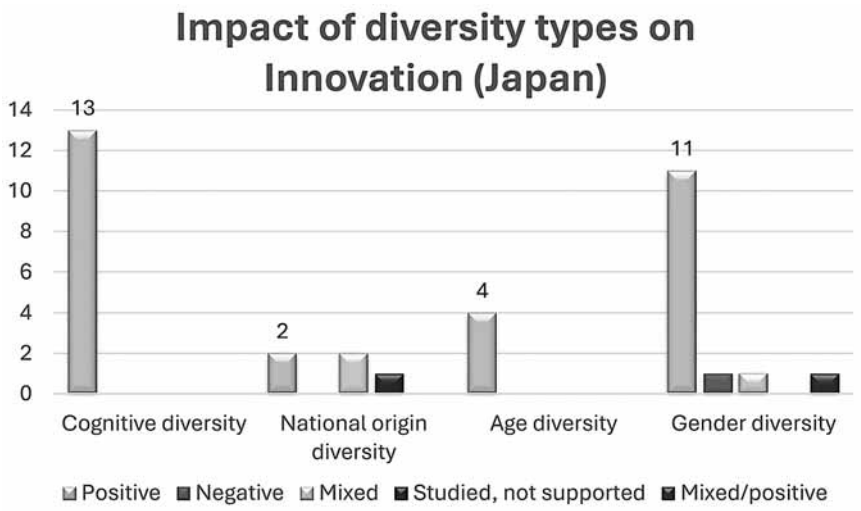
A combination of qualitative and quantitative synthesis was applied. Qualitative synthesis involved summarizing the key themes and findings from the studies, while quantitative synthesis involved conducting a meta-analysis where possible. A random-effects model was employed to calculate the overall effect sizes, given the expected variability among studies in terms of methodologies and sample populations. Cohen' s d was calculated to measure the effect

sizes, and a forest plot was generated to visually present the combined results of the studies. The meta-analysis estimated effect sizes for qualitative studies according to a standardized approach based on the set of papers reviewed (Onwuegbuzie, 2003).

5. Data discussion and interpretation

To address the set hypotheses comprehensively the following data discussion and interpretation included content analysis followed by a meta-analysis

Figure 2 *Examining the influence of various diversity types on innovation in Japan*



This chart illustrates the impact of different types of diversity on innovation within Japanese companies, showcasing the frequency of positive, negative, mixed, and unsupported findings across four diversity categories: cognitive diversity, national origin diversity, age diversity, and gender diversity.

The figure highlights that cognitive diversity and gender diversity are particularly associated with positive outcomes in fostering innovation, represented by 13 and 11 studies, respectively. In contrast, findings related to national origin diversity are less pronounced or less studied, with only 2 studies showcasing positive results and a small number of mixed or unsupported outcomes. Finally, age diversity demonstrates moderate positive support, with 4 studies reporting positive results, and no studies reporting mixed or negative outcomes.

While negative, mixed, or unsupported findings are present in some diversity types. Taken as a whole, the trend indicates that cognitive and gender diversity play a significant role in promoting innovation within Japanese business settings.

Cognitive diversity

In the systematic review, 13 papers covered cognitive diversity, with all reporting positive outcomes related to innovation. These studies consistently found that teams with diverse

skillsets, speciality, and ways of thinking achieved greater innovative outcomes. More in detail, cognitive diversity demonstrated an improvement in radical innovation, decision-making processes, and the quality of solutions by preventing groupthink and encouraging more dynamic problem-solving. Additionally, these diverse teams showed increased productivity, accelerated problem-solving, and actively filed patents, demonstrating practical gains in creativity and efficiency.

According to Schein's Organizational Behavior Theory (OBT), these outcomes stem from the rich variety of perspectives within cognitively diverse teams, which strengthen the organization's adaptability and capacity for innovation. Schein's theory emphasizes that diverse knowledge bases and problem-solving approaches within teams allow for more effective learning and the co-creation of novel solutions (Tierney & Schein, 1986), these attributes were evident in the reviewed studies, as teams minimized risk, improved productivity, and found unique ways of solving issues.

Hofstede's Corporate Culture Model also supports these findings in Japan, as organizations that encourage low power distance within team settings can harness cognitive diversity effectively (Bhagat & Hofstede, 2002). The positive results from Japan align with global trends observed in Western contexts, where cognitive diversity fosters open dialogue, collaborative learning, and improved radical innovation. Thus, these studies affirm that cognitive diversity is a critical driver of innovation in Japanese companies.

Gender diversity

The systematic review findings indicate that well-managed gender diversity in Japanese companies is associated with positive outcomes, such as increased patent registrations, broader perspectives in team decision-making, higher innovative performance, and greater innovation-oriented investments. These results suggest that gender diversity contributes to enhanced creative capacity and strategic innovation when effectively integrated into the organizational culture.

However, certain studies highlight that Japan's male-dominated corporate environment can present challenges. Traditional cultural factors, including ingrained norms and hierarchical structures, sometimes lead to friction and communication barriers within diverse teams. These issues can result in mixed or, in a few cases, negative outcomes for innovation when gender diversity is not adequately supported by inclusive practices. One study specifically noted that social integration challenges in gender-diverse teams could hinder creativity and innovation. Interestingly, the presence of a strong, universal leader was shown to mitigate such negative effects, facilitating a more cohesive and productive environment despite potential cultural resistance.

These mixed findings emphasize the importance of proactive management and supportive leadership to maximize the benefits of gender diversity. Organizations must develop strategies that address communication barriers and foster an inclusive culture that values diverse perspectives to fully leverage gender diversity as a driver for innovation.

According to Schein's Organizational Behavior Theory (OBT), the positive outcomes are rooted in the diverse viewpoints that gender diversity brings to organizations, enhancing shared learning and broadening the skill set within teams. Schein suggests that when diversity is effectively managed, it strengthens the organization's culture by integrating different perspec-

tives that drive innovative thinking (Schein, 1992; Tierney & Schein, 1986). This theory is reflected in the reviewed studies, where gender diversity contributed to both innovation and strategic investments in new ideas.

Hofstede's Corporate Culture Model offers additional insights, as Japan's high power distance and masculinity may sometimes create challenges in leveraging gender diversity (Triandis & Hofstede, 1993). Few studies indicated that male-dominated and traditional cultural factors led to communication barriers, occasionally resulting in friction within teams. Notably, one study found that while diversity — mainly gender and national origin — had a negative impact due to social integration issues, the presence of a universal leader helped mitigate these negative effects.

Age diversity

Despite Japan's ongoing discussions around its aging society, age diversity remains surprisingly under-researched in relation to innovation. The studies that do exist, however, report promising results. Age-diverse teams contributed to both product and process innovation, with notable improvements in patent registration, more dynamic decision-making in R & D, and enhanced risk management. Teams with varied ages also benefited from boosted creative thinking, which enriched collaborative problem-solving.

According to Schein's Organizational Behavior Theory, age diversity can drive innovation by incorporating both the experience of older workers and the fresh perspectives of younger team members. This blend of perspectives aligns with Schein's concept of shared learning, where diverse experiences within an organization strengthen its adaptability and creative potential. Age diversity facilitates a transfer of cognitive knowledge and broadens the range of problem-solving approaches, particularly valuable in Japan's R & D settings.

Using Hofstede's Corporate Culture Model, the studies' findings also align with Japan's high value on seniority within hierarchical structures, where age diversity may be more naturally accepted compared to other diversity types. The respect for seniority in Japanese culture may potentially enable more productive cross-generational collaboration, allowing teams to combine stability with innovation in decision-making.

Despite these positive findings, the limited research on age diversity highlights a significant gap. Given Japan's aging workforce, further studies on age diversity's impact on innovation are crucial to understand how cross-generational dynamics can best support Japanese companies in remaining competitive.

National origin diversity

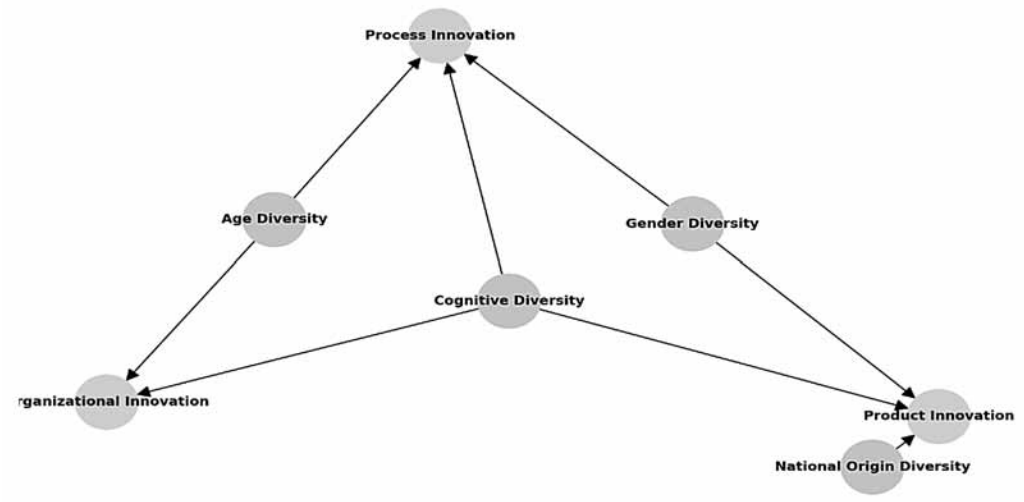
Research on national origin diversity in Japan is also limited, with results ranging from positive to mixed. Studies that found positive effects noted that foreign workers may contribute with diverse perspectives, generate distinctive solutions, and foster new research fields, enhancing overall motivation and introducing fresh cultural insights into Japanese organizations. These benefits align with global research, suggesting that diverse cultural backgrounds enhance innovation by bringing a broader set of viewpoints to the workplace.

However, some studies identified an inverted-U-shaped effect: as national origin diversity increases beyond a certain point, the positive effects begin to diminish. When nationals of the

same region dominate, isolated subgroups may form, leading to communication barriers that hinder workplace cohesion and innovation. In addition, one study highlighted that social integration issues led to decreased creativity, though the presence of a diversity manager so-called universal leader mitigated some of these negative effects by fostering cohesion and alignment within the team (Satoko & Kosuke, 2016).

Hofstede's Corporate Culture Model suggests that Japan's relatively high collectivism and power distance could influence these mixed results. The model indicates that effective leadership may be key to harmonizing diverse perspectives within a collectivist context. Notably, one study could not confirm or deny the correlation between national origin diversity and innovation, highlighting a gap in understanding how this diversity impacts Japanese organizations under varying conditions. These findings underscore the need for further research into how national origin diversity interacts with Japan's cultural context to optimize innovation outcomes.

Figure 3 *Conceptual diagram summarizing hypothized relationships between different types of diversity and innovation categories*



The conceptual diagram summarizes hypothesized relationships between various types of diversity and categories of innovation, as identified in the papers reviewed for this systematic review. It illustrates that:

1. Age diversity has been studied in connection with organizational innovation and process innovation, suggesting that a diverse age range within a workforce may contribute to advancements in organizational structure and process improvements.
2. Cognitive diversity has been linked to all types of innovation, supporting the idea that a variety of cognitive perspectives and problem-solving styles can drive the development of new processes and innovative products.
3. Gender diversity is associated with both product and process innovation, where a balanced gender representation is hypothesized.
4. National origin diversity is also tied to product innovation, implying that cultural diversity from various national backgrounds brings unique insights, fostering innovation in product creation.

The diagram highlights these specific relationships while revealing gaps in the literature.

For instance, organizational innovation have not been widely studied in relation to gender diversity and national origin diversity. These gaps suggest potential areas for future research, where exploring these unexamined relationships could provide a more comprehensive and detailed understanding of how different types of diversity contribute to various aspects of innovation in organizations.

6. Quantitative analysis: meta-analysis

To evaluate the overall effect of diversity on innovation in Japanese companies, we conducted a meta-analysis using a random-effects model. The initial fixed-effect model yielded limited insights due to variability in sample sizes, industries, and statistical results across studies, making the results sensitive to these differences. Consequently, the random-effects model was better suited to account for the heterogeneity in the data.

Steps in meta-analysis

Calculating weighted effect sizes: We calculated effect sizes (Cohen's d) from each study, representing the impact of different types of diversity on innovation.
Calculating variance and standard error: Each study's variance and standard error were calculated to determine the precision of effect size estimates, adjusting for differences in study quality and sample size.

Performing meta-analysis: Using Cohen's d values across studies, we calculated an overall, weighted effect size to determine the average impact of diversity on innovation in the Japanese context.

Forest plot: A forest plot was generated to visually summarize individual study results and display the total effect size. This plot also helped illustrate the variability in effect sizes across studies, highlighting the robustness of the findings.

The meta-analysis was performed using the R statistical package, providing a comprehensive quantitative synthesis of the relationships between both variables.

Table 1 *Effect sizes calculated and estimated for each study*

Study ID	*Sample size*	*Effect size (r)*	*Standard error (SE)*	*95% CI Lower*	*95% CI Upper*
1	1990	−0.0028	0.0224	−0.0468	0.0412
2	7500000	3.2300	0.0004	3.2292	3.2308
3	795	0.8921	0.0355	0.8223	0.9619
4	52687	0.2900	0.0044	0.2814	0.2986
5	—	0.8921	—	—	—
6	15	3.6000	0.2582	3.0930	4.1070
7	2000	0.0101	0.0224	−0.0339	0.0541
8	25964	0.0430	0.0062	0.0308	0.0552
9	1338	0.0017	0.0273	−0.0520	0.0554
10	17	0.0220	0.2425	−0.4533	0.4973

11	—	0.8921	—	—	—
12	42000	0.0710	0.0049	0.0615	0.0805
13	—	0.8921	—	—	—
14	1	0.8921	1.0000	−1.0679	2.8521
15	225	2.3000	0.0667	2.1693	2.4307
16	173	0.0650	0.0760	−0.0842	0.2142
17	894	0.0650	0.0334	−0.0006	0.1306
18	188	0.1050	0.0729	−0.0379	0.2479
19	1	0.8921	1.0000	−1.0679	2.8521
20	1	3.2500	1.0000	1.2900	5.2100
21	41	0.3300	0.1562	0.0238	0.6362

Note: High effect sizes in this analysis may be influenced by factors such as large regression coefficients, small or specialized samples, and low outcome variability. These factors can inflate effect sizes, so interpretations should consider these context-specific influences.

Table 2 *Meta-analysis summary table*

Statistic	Value	Formula / Calculation	Explanation
Overall effect size	0.87	Combined effect size= Σ(new weihgt$_i$×effect size$_i$)/ Σ new weight$_i$	The combined effect size represents the pooled estimate of effect sizes from the included studies, accounting for both within- and between-study variance.
Cochran's Q	$Q > 1$	Q= Σ(Weihgt$_i$×(Effect Size$_i$− Weighted Average Effect Size)^2)	The Cochran's Q statistic is significantly greater than 1, indicating considerable variation among studies
I^2 (Heterogeneity)	100%	$I^2 = \max(0, Q-(k-1)/Q)\times 100\%$	I^2 represents the percentage of total variation across studies due to heterogeneity rather than chance. A high I^2 (e.g., 100%) indicates substantial heterogeneity.

The meta-analysis revealed substantial heterogeneity, as evidenced by high values for Q and I^2. This variability likely reflects differences in study contexts, populations, and methodologies across the included studies. As mentioned before, the use of a random-effects model was therefore appropriate, providing a pooled effect size that accounts for both within-study and between-study differences. Further research might explore specific moderators — such as diversity type or organizational context — to better understand the conditions under which diversity factors have the strongest impact on innovation outcomes.

Combined effect size interpretation

The meta-analysis yielded a combined effect size of approximately 0.87. This value suggests a moderate to strong positive effect, indicating that diversity in its various forms -cognitive,

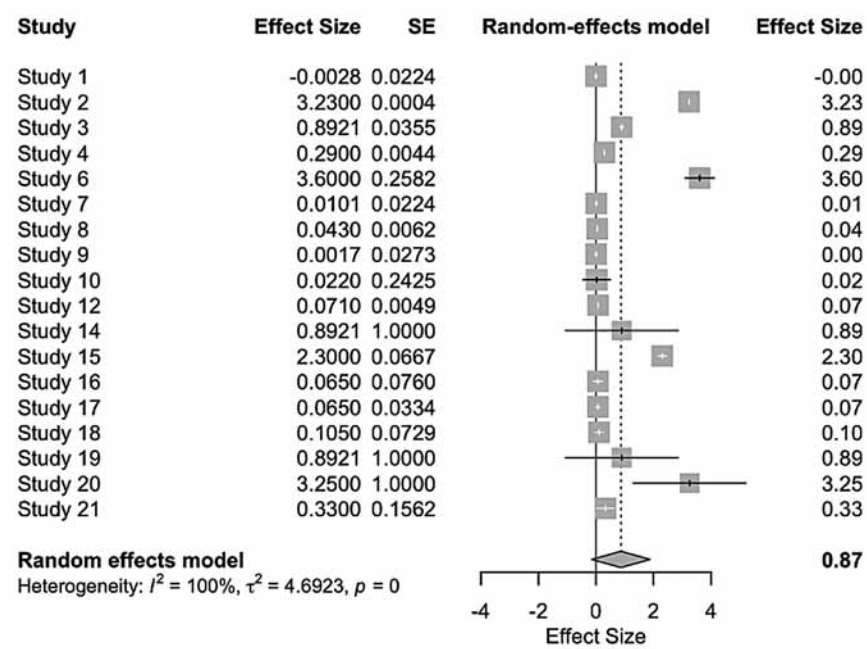
gender, age, and national origin- generally has a positive impact on innovation within Japanese companies.

Interpretation

A combined effect size of 0.87 implies that diversity contributes significantly to innovative outcomes. According to Cohen's conventions, this effect size falls between moderate and strong, meaning that diversity can substantively enhance innovative performance across sectors. This finding supports the idea that diversity initiatives in Japanese workplaces can be instrumental for fostering creativity, improving problem-solving, and enhancing overall productivity.

These results align with Schein's and Hofstede's frameworks, as diverse perspectives foster collaborative learning and broaden decision-making approaches, essential for effective innovation. Given Japan's unique cultural dynamics, these findings underscore the potential for diversity to drive innovation when managed with cultural sensitivity and strong leadership.

Figure 4 *Forest plot*



The forest plot generated from the meta-analysis using R package indicates a moderate to strong positive effect, with a standardized mean difference (SMD) of 0.87. This combined effect size is statistically significant, supporting the positive impact of diversity on innovation.

Some individual studies did not show significant results, but the majority indicate positive effects. High heterogeneity suggests that variability in effect sizes is substantial, likely stemming from differences in methodologies, sample types, study characteristics, and contextual factors across studies. Nonetheless, the predominance of positive results reinforces the conclusion that diversity positively influences innovation in Japanese companies.

This interpretation of the forest plot underscores the robustness of the findings despite the high heterogeneity, affirming diversity' s role as a beneficial factor.

7. Practical implications

Our findings suggest strategies for Japanese corporate policy management practices:

Promote cognitive diversity: Cognitive diversity has shown consistent benefits for innovation. Companies may foster this by actively recruiting individuals with different educational backgrounds, technical skills, and work experiences. Moreover, providing training to develop flexibility in collaboration across disciplines may leverage the workplace efficiency, reducing the risk of groupthink and helping the company become resilient to changing markets.

Gender diversity initiatives: While gender diversity may offer potential innovation benefits in Japanese context, it requires intentional inclusion practices. Companies should implement gradually inclusive practices that can assist address existing communication barriers and create a more equitable workplace.

Encourage intergenerational teams: Companies may consider creating more intergenerational project teams that combine the experience and insight of senior employees with the fresh perspectives and technical proficiency of younger staff. Structured initiatives, such as reverse mentoring programs and knowledge-sharing sessions, can bridge generational gaps and encourage a collaborative environment where employees of all ages feel valued for their contributions.

Balance national origin diversity: National origin diversity may enrich the workplace with distinctive cultural insights and quasi-global perspectives. However, such initiative should be carefully managed to prevent miscommunication and isolation. To leverage this diversity effectively, companies may invest in cross-cultural training, team-building activities that bridge cultural differences, and establishing inclusive communication norms may help team members from different cultural backgrounds collaborate more effectively, enabling innovation while promoting a cohesive team culture.

8. Conclusion

In conclusion, this systematic review demonstrates that diversity holds substantial potential for driving innovation within Japanese companies. However, to fully harness these benefits, companies should implement these strategies thoughtfully, addressing both structural and cultural barriers that may limit effective collaboration. Targeted programs that promote inclusive practices can help Japanese companies leverage the diverse talents and perspectives of their workforce, thus gaining a competitive edge in a global market.

Moreover, this review highlights key research gaps, particularly regarding age and national origin diversity. While cognitive and gender diversity have received considerable attention, age and national origin diversity remain under-explored elements that may offer contributions to company performance and innovation. Future empirical studies are necessary to understand how Japanese companies can incorporate these aspects of diversity, potentially uncovering new pathways to enhance creativity, resilience, and adaptability in an evolving business environment.

The findings of this review underscore that diversity is not merely a social objective but a strategic asset that can lead to tangible business benefits when managed effectively.

Companies that design diversity initiatives aligned with organizational goals and tailored to specific challenges in the Japanese context can amplify the positive impact of a diverse workforce. By fostering an environment where varied perspectives are valued and integrated, organizations can cultivate a culture of continuous innovation, positioning themselves to better navigate future challenges.

In sum, the strategic implementation of diversity initiatives can transform diversity from an aspirational goal into a practical and impactful element of Japanese corporate policy, enabling companies to foster a more inclusive, dynamic, and innovative workplace. This review encourages both scholars and practitioners to continue exploring and investing in diversity as a core component of sustainable business success in Japan.

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Appendix

The list of all 21 studies included in the systematic review:

1. **Wang et al.** (2024). *Board Gender Diversity and Firm Performance: Recent Evidence from Japan.* Empirical study on 1990 Japanese firms across various industries.
2. **Byeongwoo Kang, Kaoru Nabeshima** (2020). *National Origin Diversity and Innovation Performance.* Empirical study on 7.5 million patents across various industries.
3. **Dale Griffin, Kai Li, Ting Xu** (2020). *Board Gender Diversity and Corporate Innovation: International Evidence.* Empirical study with 759 companies from various industries.
4. **INUI Tomohiko, NAKAMURO Makiko, EDAMURA Kazuma, OZAWA Junko** (2014). *Does Board Diversity Influence Firms' Innovative Activity? Evidence from firm-level micro data in Japan.* Quantitative analysis with 52,687 entries.
5. **Takahiro Nishi** (2019). *Ownership and Board Diversity, Innovation: Evidence from Japan.* Empirical research on Japanese corporate governance reforms.
6. **BAHAR Geni Gayani Mali** (2020). *The Impact of Board Diversity on Accounting, Market and Operational Performance of Japanese Corporations.* Master's Thesis with a sample of 15 companies.
7. **Takanori Tanaka** (2019). *Gender Diversity on Japanese Corporate Boards.* Empirical study with 2000 firms across various industries.
8. **Hideaki Miyajima, Keisuke Nitta** (2006). *The Multidimensional Evolution of Japanese Boards of Directors.* Empirical study on board changes from 1998–2004 with 25,964 companies.
9. **Kazuma EDAMURA, Tomohiko INUI** (2022). *Diversity of Researchers and Patent Application Behavior.* Empirical study with a sample of 1338 companies.
10. **Hibi Shogo, Saito Miai, Ouchi Kichi** (2018). *Diversity of the Board and R & D Activities.* Empirical study on 17 companies from various industries.
11. **Souichirou Kozuka** (2019). *Diversity in Japanese Companies' Boardroom.* Empirical study on the effects of gender diversity in boardrooms.
12. **Katsuyuki Kubo, Thanh Thi Phuong Nguyen** (2021). *Female ceos on Japanese Corporate Boards and Firm Performance.* Empirical study with 42,000 companies.
13. **Yuko Hayashi** (2015). *Diversity and Innovation: Empowering Women Fosters Innovation.* Empirical study across various industries.
14. **Masuda Tomoka, Uenishi Keisuke** (2020). *Innovation Through Diversity Management in Practical Education.* Case study on engineering education.
15. **Yingxue Xiao** (2021). *Impact of Employee and Management National Diversity on Firm's Innovation Capability.* Empirical study on 225 firms.
16. **Hajime Ushimaru, Mehran Doulatabadi** (2022). *Workplace Diversity and Innovation: The Moderating Effects of Transactive Memory and Inclusion Climate.* Empirical study on 173 employees.
17. **National Institute of Science and Technology Policy** (2018). *Survey on Researcher Mobility and Diversity in Research Organizations.* Empirical study with 894 organizations.
18. **Miura Takahiro, Matsumoto Kuniko** (2022). *Disciplinary Diversity and Innovation in Research Organizations.* Empirical study on 188 teams.
19. **Bloombergnef, Sasakawa Peace Foundation** (2020). *Gender Diversity and Climate Innovation.* Empirical study with a single environmental industry focus.

20. **Sotaro Shibayama** (2008). *Knowledge Diversity and Technological Innovation in Pharmaceutical Research.* Empirical study on 195 drug researchers.
21. **Suzuki Satoko, Takemura Kosuke** (2016). *Effects of Diversity in Innovation: Role of Universal-Diverse Leaders.* Empirical study with 41 teams from Japanese companies.

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