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Liberalization and Growth in Vietnam

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Abstract

Due to a planned economy and several wars, growth and prosperity in Vietnam were low for a long time. Following market-oriented reforms, such as the privatization of agricultural enterprises and the authorization of private companies, growth in Vietnam has accelerated. The stabilization of public finances, inflation, and the exchange rate have contributed significantly to growth. Nevertheless, the gradualist liberalization process is not yet complete, as there is still no truly open financial market and state-owned enterprises still account for a large share of domestic value added. As a result, growth momentum is driven primarily by foreign direct investment and exports. More reforms are necessary to catch up with more advanced East Asian industrialized nations such as Thailand, South Korea, and Japan.



1. Introduction

Vietnam has a history spanning two millennia. At the end of the Vietnam War in 1975, it was a poor country plagued by hunger. Around 80 percent of the population engaged in subsistence farming. Per capita income and life expectancy ranked among the lowest in all of Asia. Nevertheless, the literacy rate was relatively high, especially in Hanoi and other northern cities. Imperial Vietnam, which lasted until 1945 and bore similarities to China under the Qing Dynasty, had a large number of civil servants who, like the Chinese mandarins, were required to complete an elite education involving rigorous examinations. Fforde and de Vylder (1996) link this to a strong cultural tendency toward bureaucracy, which, following the end of the Second World War, paved the way for technocratic communism.

The economic thought of the revolutionaries and later heads of state Ho Chi Minh (1945–1969) and Le Duan (1969–1986) was strongly influenced by the Soviet Union’s Stalinist development and planning model from the late 1920s and 1930s. The state was viewed as the central agent of the socio-economic transformation from an agrarian society to a proletarian one, in a country that was to be industrialized, urbanized, egalitarian, and detached from concepts like nation, family, or tradition (Fforde and de Vylder 1996). Industrial production (steel, cement, chemicals, and paper) took place exclusively in state-owned enterprises that remained under central control. A state planning commission allocated capital, labor, and raw materials. There were few incentives for increasing efficiency, improving quality, or fostering innovation. An oversized administrative apparatus drove up costs, while productivity stagnated.

In agriculture, collectivization in North Vietnam in 1959 and 1960—which was extended to the former South after the war ended in 1975—had led to inefficient large cooperatives managed by inexperienced party cadres. A rigid work-point system provided no incentives for performance. The available resources were insufficient to finance the ambitious goals, especially since large segments of the rural population did not pay taxes (Fforde & de Vylder 1996). At the same time, comparatively little was invested in agriculture, as industrialization was prioritized (Ravallion and van de Walle 2008). The supply of food to the growing urban population was not always guaranteed.

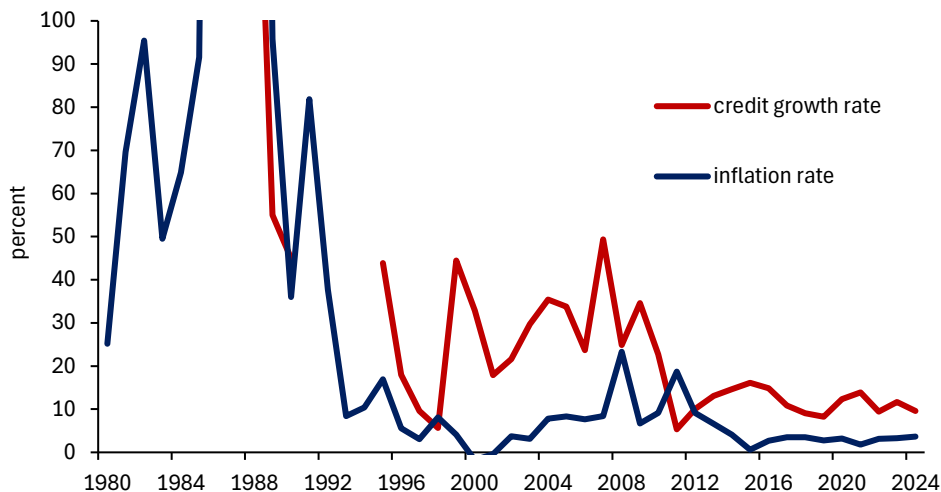
To feed its population, Vietnam was therefore forced to import staple foods such as rice, which exacerbated its financial difficulties. The loss of financial support from China in 1979 ultimately forced reforms that continue to this day and have been accompanied by remarkable growth rates. In light of recent reform efforts in Argentina (Kleinheyer and Schnabl 2025), the study provides insight into the reform process and its impact on growth and prosperity. It thus updates earlier studies (see, for example, Fforde and de Vylder 1996, Dodsworth et al. 1996).



2. Stages of the Reform Process

When Vietnam overthrew the Maoist Khmer Rouge regime in neighboring Cambodia in 1979, a war with China ensued. Due to the immense cost of the wars against the U.S., Cambodia, and now China, the Vietnamese state became heavily indebted both domestically and internationally—especially to the Soviet Union—and by the early 1980s had virtually no foreign exchange reserves left (McCarty 2001). The central bank’s purchase of government bonds, intended to support reconstruction, led to rising inflation, which exceeded 90% in the first half of the 1980s (Fig. 1). While state-set prices for nearly all consumer and capital goods managed to curb inflation, they led to supply shortages and strengthened black markets, which undermined the legitimacy of the state planning commission and, by extension, the party (Ravallion and van de Walle 2008).

Fig. 1: Inflation and credit growth



Source: International Monetary Fund

2.1 *Đổi Mới*: Gradualism Instead of Shock Therapy

A turning point for Vietnam came at the 6th Congress of the Communist Party of Vietnam (1986) as Nguyễn Văn Linh was elected General Secretary, a man who, like his Soviet counterpart Gorbachev, belonged to the reform-oriented wing of his party. Nguyễn (1988) openly admitted that the “centralist-bureaucratic” planned economy had failed in crucial respects and that Vietnam’s economy was stagnating. Other congress participants argued that Vietnam could only repay its high foreign debt through increased exports. The dual exchange rate system in place at the time—featuring a black-market rate and an overvalued official exchange rate—was sharply criticized due to the inefficiencies it entailed (Trương Chinh 1987).



Thus, acceptance of more market-oriented approaches prevailed, as did the effort to combat corruption and reduce excessive bureaucracy. The reforms became known under the term *Đổi Mới* (“renewal” in English). For the economy, this meant a gradual liberalization that initially focused on deregulation, followed by fiscal consolidation, liberalization of interest rates, and finally (limited) convertibility of the national currency, the dong.

As the reforms gained momentum in the early 1990s, there was increasing talk of a Vietnamese shock therapy. However, unlike in Eastern Europe of the early 1990s, the Vietnamese reforms were implemented gradually. Officials who inflexibly towed the party line were gradually replaced by more pragmatic ones who paid closer attention to economic realities and allowed certain rule-breaking among the population (most notably in agriculture) within the continuing planned-economy structures. Instead of top-down reforms, in which governments impose liberalization against the will of entrenched groups, Vietnam initially saw liberalization at the micro level, while the subsequent macroeconomic stabilization process remains unfinished to this day.¹ Furthermore, following an initial wave of privatization, the state retained control over key sectors, such as energy companies. Thus, *Đổi Mới*—more of a catch-all term than a concrete state doctrine—had a looser bottom-up character that the term “shock therapy” fails to capture.

2.2 Steps Toward Privatization

An impetus for the reforms can be found in the market-oriented approach retained by local farmers in South Vietnam, where the practice of “fence-breaking” (*Phá rào*) became established within the post-unification planned economy. In secretly kept gardens outside of the cooperatives, people grew food for their own consumption or to be sold “under-the-counter” at market prices. A black market for other products flourished, eventually spilling over into the north of the country (Fforde and de Vylder 1996).

In 1981, faced with a particularly poor harvest that threatened famine across the country, the government legalized the sale of agricultural surplus production—that is, all production exceeding state-set quotas—at market prices, a practice that had previously been tolerated only in the poorest regions. Since this de facto legalization of “fence-breaking” gave farmers an incentive to increase productivity, crop yields surged across the country. Shortly thereafter, the government pursued minor deregulations in the markets for agricultural equipment. As a result, in 1985, Vietnam was able to feed itself without imports for the first time in a decade (Fan et al. 2004).

¹ For more information on the shock therapy implemented under Javier Milei in Argentina, see Ferrero, Bernardo, and Bagus (2025), as well as Kleinheyser and Schnabl (2026).



However, these early reforms were accompanied by a sharp rise in food prices. Harvest surpluses were traded at much higher prices than the state-set fixed prices. For the millions of mainly urban civil servants, this price hike stung, as their salaries were not indexed to inflation and their opportunities for bartering with farmers were limited. Ultimately, it was their dissatisfaction that prompted Vietnam's political leadership to pursue further reforms (Fforde and de Vylder 1996).

The 1986 Party Congress not only confirmed these previous liberalizations but also legalized the establishment of private enterprises (Drabek 1990). In 1990, Vietnam introduced the "*Law on Private Enterprises*" and a "*Companies Law*," which officially laid the legal foundations for private enterprises. This was followed in 2000 by the *Enterprise Law*, which significantly simplified the process of establishing new businesses.

Before *Đổi Mới*, Vietnam had a traditional socialist-style single-bank system. The State Bank of Vietnam served simultaneously as the central bank, a commercial bank, and the payment system. Loans were distributed according to political goals, not creditworthiness. This was overhauled between 1988 and 1990, as a two-tier banking system was introduced. The former State Bank became the central bank. At the same time, four state-guaranteed commercial banks were spun off from the State Bank of Vietnam². This was followed by the gradual abolition of state-backed loans and the liberalization of interest rates. Starting in 1997, private and cooperative banks were formally authorized, and foreign banks were granted access to the credit market (Vietnam Law Library 1997).

2.3 Macroeconomic Stabilization

The government began lifting price controls on consumer goods in 1987. Initially, this applied to non-essential goods such as clothing, household goods, and electronics; later, it also extended to many staple foods (Doan 2005). The deregulation led to a renewed rise in inflation as the previously suppressed inflation was unleashed (Fig. 1). To cushion the population's loss of purchasing power, the government decided to peg wages to inflation. This triggered a wage-price spiral that brought inflation at a level of over 300% until 1988. At the same time, state-owned banks, still mid-reform, continued to provide companies with cheap credit (Drabek 1990). Real economic growth in the first two years of *Đổi Mới*, 1986 and 1987, was lower than in the first half of the 1980s (Fig. 2).

Faced with growing public discontent, the government finally adopted a series of stabilization measures in 1989. In addition to cutting subsidies for numerous state-owned enterprises, a restructuring of these enterprises was pursued, which halved their number by 1994 through privatizations, mergers, and liquidations (Fan et al.

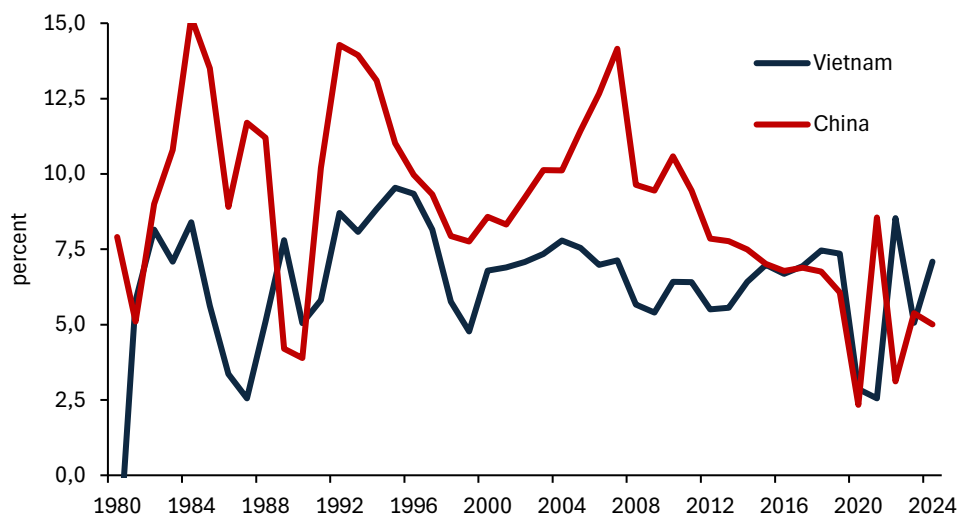
² Vietnam Bank for Agriculture, Bank for Investment and Development of Vietnam, Vietnam Industrial and Commercial Bank, and Bank of Foreign Trade of Vietnam.



2004). International organizations such as the International Monetary Fund, which had recommended similar measures for China a few years earlier, advised the government (International Monetary Fund 2018).³ The share of state-owned enterprises in economic output declined, while the private service sector in particular grew. Industrial enterprises, however, were to remain largely in state hands well into the early 2000s (see Chapter 5).

At the same time, the public administration was streamlined and the army, which withdrew its last troops from Cambodia in 1989, was downsized. At least 1.5 million civil servants lost their jobs during this period (Fan et al. 2004). The budget deficit, which in the 1980s had likely often reached double-digit percentages of gross domestic product⁴, fell to low single-digit levels by the turn of the millennium. In 1998, a balanced national budget was achieved (Fig. 3), but then moderately increased again.

Fig. 2: Real GDP growth of Vietnam and China



Source: International Monetary Fund

Thanks to fiscal consolidation, the central bank was able to raise the key interest rate in 1989, bringing the real interest rate into positive territory. Commercial banks, which had only been formally independent of the central bank for a year, curtailed lending. The decline in credit growth contributed significantly to the drop in the inflation rate, which fell from just under 800% in the winter of 1986–87 to 8.4% in 1993 (Fig. 1). The interest rate hike bolstered confidence in the currency

³ While the downsizing of the state sector was praised by Western observers and portrayed as a part of a much-needed large-scale reform program (see Weinglass 1990), media within the communist bloc sought to downplay it by making comparisons to Lenin’s New Economic Policy (NEP) in the early Soviet Union. In this view, both the USSR in the mid-1920s and Vietnam in the late 1980s merely phased out the rigid measures implemented during an earlier war (Fforde and de Vylder 1996).

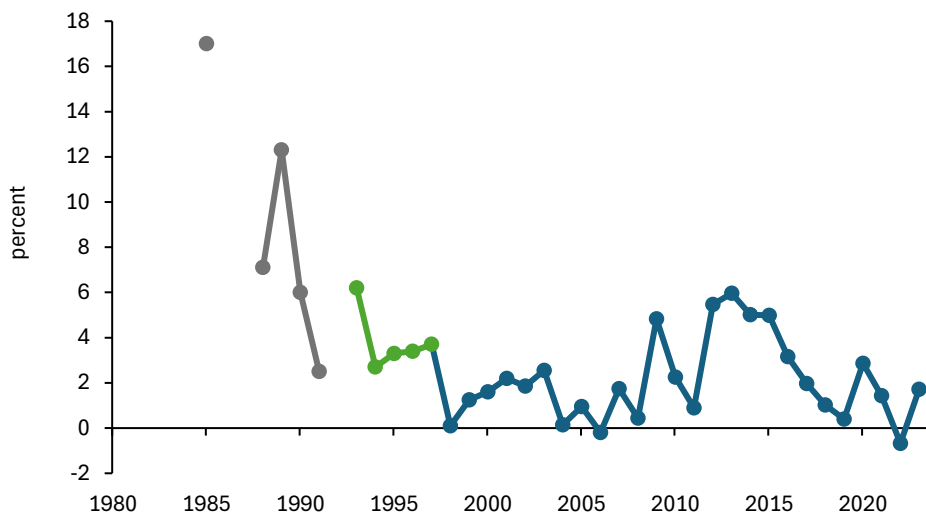
⁴ Data on government revenue and expenditure during this period are incomplete.



and the banking system, leading to an increase in private savings (Fforde and de Vylder 1996). With growing deposits, commercial banks were able to expand lending again in the late 1990s, a trend reflected, among other things, in the rise of snack bars and street stalls in cities.

There are several reasons for the sharp rise in exports in the 1990s. Deregulation, particularly the removal of price controls and quotas, as well as the restructuring of state-owned enterprises, led to efficiency gains and thus increased international competitiveness (Fforde and de Vylder 1996). The lifting of U.S. sanctions in 1994 and Vietnam's accession to ASEAN also contributed, bringing much-needed foreign exchange into the country. The growing foreign exchange earnings helped Vietnam reduce its foreign debt and improved the country's standing among foreign investors. The gradual devaluation of the official dong exchange rate brought it closer to the black-market rate.

Fig. 3: Budget deficit of Vietnam

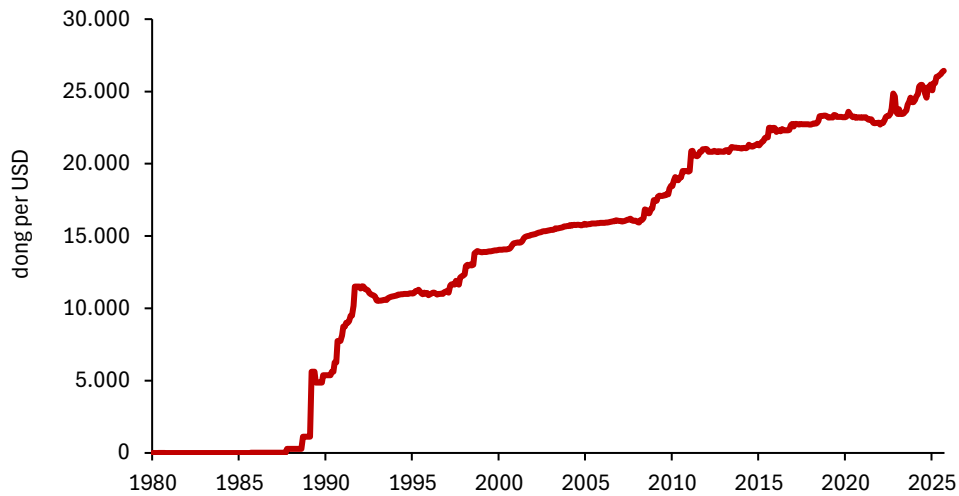


Sources: McCarty 2001 (grey), Khieu 2014 (green), International Monetary Fund (blue).

Since 1980, the Vietnamese dong had lost massive value due to high inflation. This initially led to a currency reform in 1985, in which 10 “old” dongs were converted into one “new” dong (redenomination). With further devaluations that began in earnest in 1988, inflation and the exchange rate stabilized by 1993. Nevertheless, the dong continued to depreciate over the long term, albeit at a slower pace: from about 12,000 VND per U.S. dollar around 1993 to over 25,000 VND per U.S. dollar today. Since the 2000s, Vietnam has pursued a renewed policy of controlled, gradual devaluation against the US dollar to promote exports. The so-called crawling peg reduces short-term exchange rate fluctuations (Vu 2022) on the one hand, but on the other hand continues to allow for higher inflation rates than in the U.S.

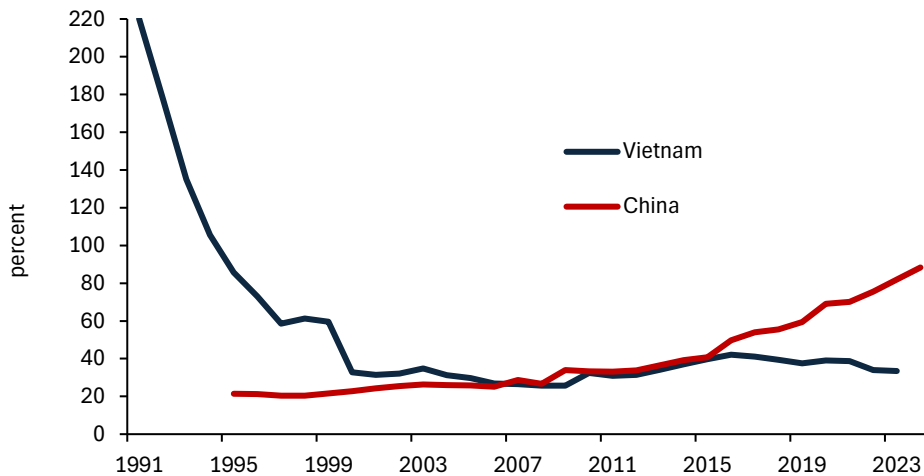


Fig. 4: Exchange rate of the Vietnamese dong



Source: International Monetary Fund

Fig. 5: Debt-to-GDP-ratios of Vietnam and China



Source: International Monetary Fund

By the turn of the millennium, the reforms—despite repeated setbacks—had led to macroeconomic stabilization: through spending cuts, high growth, and remaining inflation, public debt as a percentage of gross domestic product fell from over 400% in 1990 to less than 60% (Fig. 5). Economic growth rates of nearly 10% (Fig. 2) helped keep debt permanently low, which in turn is a prerequisite for persistently low inflation rates. Thanks in part to continued moderate inflation, public debt as a share of gross domestic product now lies in the mid-range and is significantly lower than China's (Fig. 5).



3. Impact on Trade, Growth, and Distribution

For countries with low per capita income, foreign trade is of particular importance because purchasing power is greater in industrialized countries. Particularly in East Asia, where raw materials are scarce but labor is cheap, the economic catch-up process has therefore traditionally been based on industrial production combined with exports (*export-led growth*, Tyler 1981). The liberalization of foreign trade is therefore an important component of growth policy.

3.1 Development of Foreign Trade – in Absolute Terms, by Sector, and Regionally

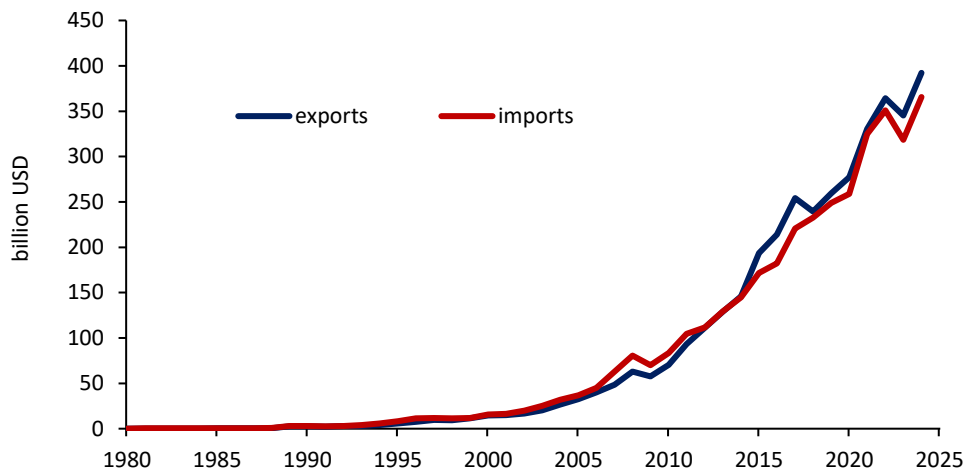
With an export volume of just under 400 billion U.S. dollars in 2024 (Fig. 6), Vietnam is now among the ten largest exporting nations in Asia. The average annual growth rate of exports over the past 10 years was 11 percent, making Vietnam the world's fastest-growing exporting nation during this period. Exports equaled around 90 percent of gross domestic product in 2024, reflecting a high degree of openness. Vietnam's growth, as in other East Asian countries, has been export-driven. Since exports usually exceeded imports, Vietnam has generally maintained a trade surplus since 2015, a fact that also earned Vietnam a prominent position in Donald Trump's trade policy (see Chapter 5).

The export structure has changed (Fig. 7). From the late 1980s to the mid-1990s, agricultural products and raw materials dominated. Overall, the country significantly expanded its rice production, but in some mountainous regions, land that had proven unsuitable for rice cultivation was converted into farmland for coffee, rubber, tea, and pepper during the post-Đổi-Mới decollectivization process (Nguyễn et al. 2017). The country became one of the world's leading rice exporters and the second-largest supplier of coffee. In addition, Vietnam exported seafood.

At first, industry played a minor role in exports; most industrial enterprises produced for the domestic market. From the mid-1990s through the late 2000s, crude oil and other raw materials became increasingly important. Following the development of offshore oil fields, particularly Bạch Hổ, crude oil accounted for up to 25 percent of total exports in some years. Agricultural goods remained important, but their share steadily declined. At the same time, the textile and footwear industries began to grow thanks to foreign direct investment in Vietnam, and with them, exports.



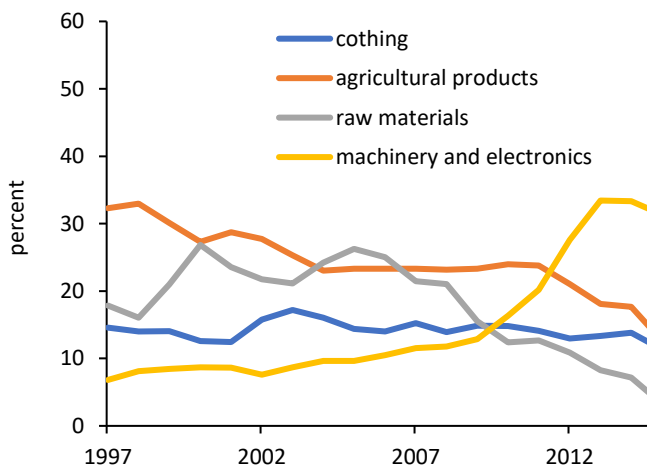
Fig. 6: Exports and imports of Vietnam



Sources: International Monetary Fund, General Statistics Office of Vietnam

Starting in the 2010s, the focus of exports shifted to manufactured goods such as electronics, machinery, computers, telephones, and textiles. Integration into global supply chains, accession to the WTO in 2007, and massive direct investment from Korea, Japan, and Taiwan made electronics the most important export product, while the share of crude oil declined.⁵ Products from the Korean conglomerate Samsung accounted for 22.7 percent of Vietnamese exports in 2016 (Viet Nam News 2017). Today, Vietnam’s export structure increasingly resembles that of other industrialized East Asian economies. However, Vietnam often focuses on assembly as the “final link” in a supply chain. The high-value-added stages of production (design, software, components) mostly still take place in Japan, South Korea and China.

Fig. 7: Contributions of various product categories to Vietnamese exports

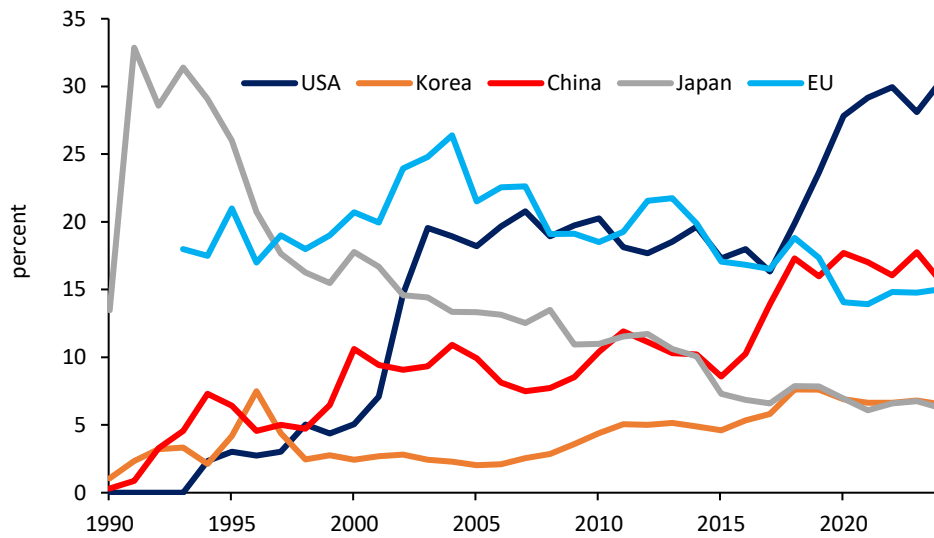


Sources: World Trade Organisation, General Department of Customs (Vietnam)

⁵ See Akamatsu (1962) on the change in the export structure during the economic catch-up process, which he termed the “Flying Geese Pattern.”



Fig. 8: Regional export structure of Vietnam



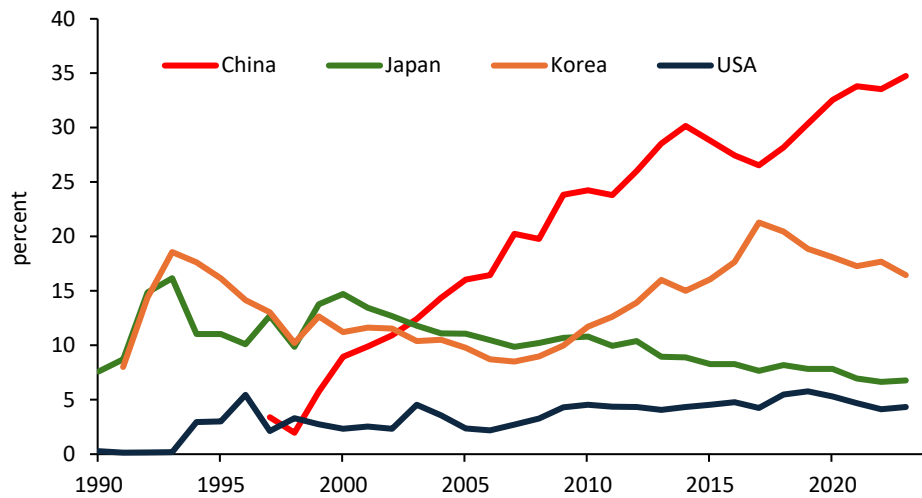
Source: International Monetary Fund

In the 1990s, Japan, the ASEAN countries, and the EU were still Vietnam’s most important trading partners. With the rise in industrial production and the end of the U.S. embargo in 1994, exports to the U.S. began to increase in the late 1990s, reaching the level of the EU by 2007 (Fig. 8). The U.S. became an important export market particularly for electronics, furniture, textiles, and footwear, while the EU was also a key market for electronics as well as machinery and tools. In many cases, manufacturing was relocated from China to Vietnam due to the comparable work culture and lower labor costs — and also for geostrategic reasons under the “China Plus One” strategy to reduce dependence on China (FedEx 2021). Exports to East Asia consist primarily of electronics, processed foods, and intermediate goods such as auto parts. Russia, once the most important trading partner, has steadily lost significance, with the exception of arms deliveries to Vietnam. *Đổi Mới* has thus brought about a shift from regionally and ideologically determined trade toward integration into global value chains.

On the import side, China has increasingly dominated since the early 2000s. While less than 20% of Vietnam’s imports came from China in 2005, the share today stands at approximately 35% (Fig. 9). The rise in imports of machinery and chemicals in particular—as intermediate goods for industrial production in Vietnam—has been accompanied by a growing trade deficit with China. Most recently (2025), this deficit amounted to \$115.6 billion, a figure viewed with concern in Vietnam (Hong 2024). Despite China’s great importance for Vietnam’s growth, a clear majority of Vietnamese people are critical of China’s economic influence (Seah et al. 2022).



Fig. 9: Regional import structure of Vietnam



Source: International Monetary Fund

3.2 Facets of Integration

Vietnam has acceded to numerous trade agreements. It is a member of the ASEAN Free Trade Area (since 1995), which aims to make Southeast Asia more internationally competitive as a manufacturing hub through the elimination of intra-regional tariffs and the promotion of intra-regional value chains, and of the WTO (since 2007). In 2018, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) entered into force (excluding the U.S.), under which Vietnam, along with 10 other Pacific Rim countries, agreed on, among other things, a far-reaching reduction of tariffs and rules for direct investment.⁶ This was followed in 2020 by the EU-Vietnam Free Trade Agreement (EVFTA), under which the EU largely liberalized approximately 99% of tariffs on Vietnamese goods immediately. Vietnam committed to gradually eliminating nearly all tariffs on EU goods over a period of up to 10 years.

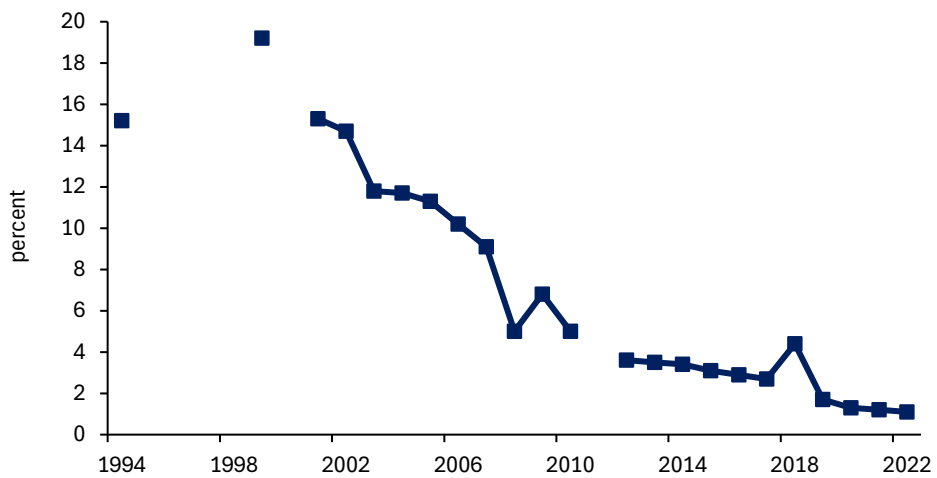
2022 marked the launch of the Regional Comprehensive Economic Partnership (RCEP), initiated by China, which includes 15 countries in the Indo-Pacific region representing approximately 30% of global GDP and 30% of the world's population. In addition, Vietnam is a member of China's Belt and Road Initiative ("New Silk Road") infrastructure project, under which Hanoi's public transportation network was expanded, though the project has faced criticism due to a lack of transparency and budget overruns (Hong 2024). Overall, the agreements significantly reduced Vietnam's tariff levels (Fig. 10) and the tariff levels of its trading partners for Vietnamese goods. They integrated Vietnam into regional and global value chains and attracted foreign investment (Fig. 11), which further boosted trade.

⁶ The United Kingdom became a member in 2023.



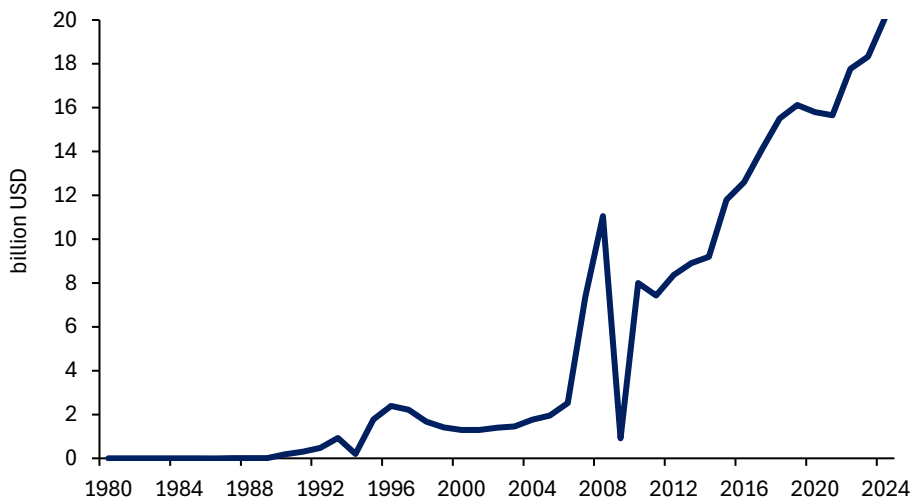
Vietnam increased its attractiveness for foreign direct investment through tax incentives, such as a multi-year suspension of corporate income tax for companies newly established in Vietnam (typically U.S. firms originating from China). In special economic zones, such as IT-oriented “High Tech Parks,” taxes for newly established companies were permanently reduced. (Minority) stakes in state-owned enterprises were made easier for foreign investors to acquire. Japanese companies are strongly represented through numerous joint ventures in the automotive and energy sectors as well as stakes in transportation companies such as the state-owned Vietnam Airlines, while interest from American and European investors is lower.

Fig. 10: Tariff level of Vietnam (weighted average)



Source: World Bank

Fig. 11: Foreign direct investment in Vietnam

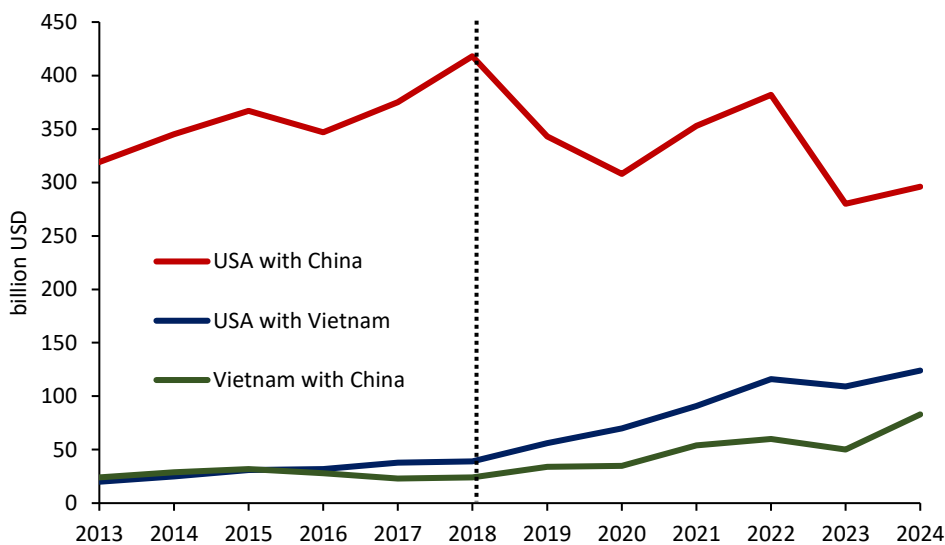


Sources: United Nations Trade & Development, World Bank



Vietnam’s integration into the highly integrated East Asian economy (McKinnon and Schnabl 2003) is being facilitated by the shift of economic activity away from China. Western companies that had originally focused heavily on China as a manufacturing hub are partially relocating their production capacities to other countries in order to minimize risks such as rising labor costs, tariffs, and political uncertainties. China is increasingly using its economy to advance geopolitical goals, which has raised concerns about economic freedom in China (Zhang 2024).⁷ Many companies are shifting to “Alt-Asia”⁸ —a collective term for South and Southeast Asian countries—with Vietnam currently seen as the biggest beneficiary (Tofall 2023).

Fig. 12: Bilateral trade deficits



Source: UN Comtrade

In the wake of U.S. President Donald Trump’s confrontational tariff policy, Chinese exports increasingly appear to be making their way to the U.S. via southern neighboring countries under false labeling, a practice also known as transshipping (Jeyaretnam 2025). Numerous Chinese manufacturers have chosen Vietnam, which was subject to only low U.S. tariffs until 2025 as export channel. Fig. 12 shows that a declining U.S. trade deficit with China since 2018 has been accompanied by a rising trade deficit with Vietnam. At the same time, Vietnam’s trade deficit with China has increased. For numerous product categories affected by U.S. tariffs, a sharp increase in imports from Vietnam can be observed after 2018, while Vietnam imports

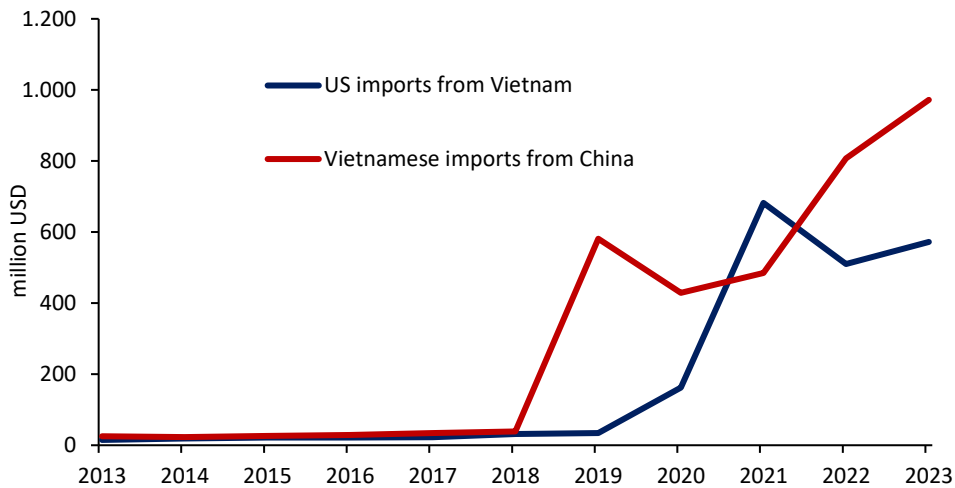
⁷ For example, China responded to Lithuania’s steps toward recognizing Taiwan in 2021 with tariffs, a trade boycott, and the expulsion of Lithuanian companies (Davidson 2021). China’s strict “Zero Covid” policy, which was accompanied by months-long factory closures and supply chain disruptions (Sun et al. 2024), has also increased the skepticism of many entrepreneurs and investors regarding China as a safe business location.

⁸ However, “Alt Asia” should not be understood as either a political or a military entity. Among the “Alt Asian” countries, there are in some cases high trade barriers, significant differences in education and prosperity, as well as varying degrees of economic interdependence with China.



more of these products from China—for example, computer keyboards, as shown in Fig. 13. Iyoha et al. (2025) conclude that 9 percent of Vietnam’s export growth between 2018 and 2021 is attributable to transshipment. In their account, genuine domestic value-added accounts for approximately 40 percent of export growth.⁹

Fig. 13: Trade with computer keyboards



Source: UN Comtrade (HS Code 84716060)

Furthermore, Vietnam’s official trade data may actually underestimate the trade surplus (Hiep 2018). “Mirror statistics,” such as the official U.S. data, show higher imports from Vietnam. The ratio between the Cost, Insurance, and Freight (CIF) values measured by the importing country and the Free on Board (FOB) values measured by the exporting country should actually be around 1.05, because transportation and insurance costs are not included in the FOB values (Fiallos et al. 2024).¹⁰ However, the CIF/FOB ratio for the U.S. and Vietnam has significantly exceeded this value since early 2021. In some quarters the U.S. imported 25% more from Vietnam than Vietnam exported to the U.S. Phan and Nguyễn (2020) argue that geography (long land borders with numerous illegal or poorly guarded border crossings), corruption among authorities, and a lack of cooperation with international trade organizations are responsible for the statistical anomalies. Peter Navarro, an advisor to Donald Trump, has even stated the belief that one-third of all Vietnamese exports to the U.S. are Chinese goods that have been rerouted (Bao 2025).

⁹ Iyoha et al. (2025) use transaction-specific microdata (Panjiva trade data and Vietnamese business surveys) to measure trade diversion: they define trade flows as diverted when products with an identical eight-digit HS code are imported from China into a Vietnamese province and exported from the same province to the U.S. within a single quarter. This approach is more granular than the one more commonly found in scientific literature, which aggregates data from all Vietnamese provinces and yields diversion rates of around 20 percent (instead of 9).

¹⁰ Tariffs are not included in either of these figures, as they are only due upon customs clearance after importation; see: U.S. Customs and Border Protection (2026). For greater geographical distances, 1.1 can be considered an upper limit (Phan and Nguyễn 2020).



Fig. 14: Mirror statistics Vietnam-USA



Source: International Monetary Fund

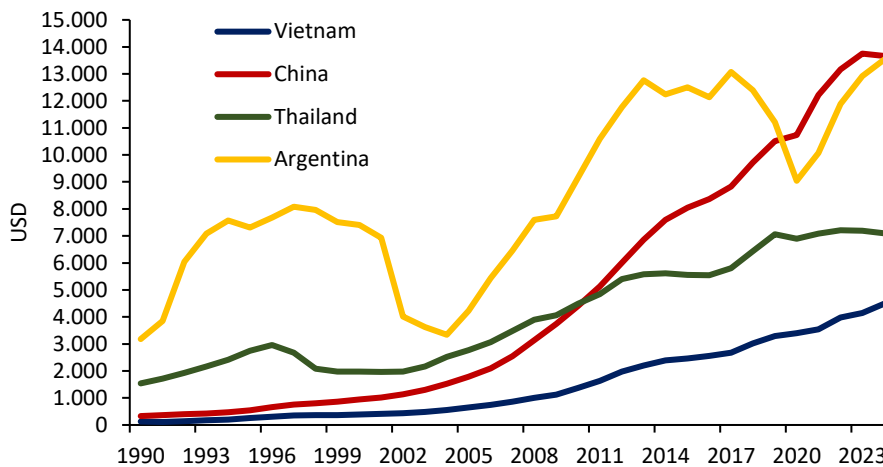
Another aspect of international integration is labor migration: Vietnam is among the countries with the largest number of workers abroad, currently two to three million, most of whom work in the medium- and low-wage sectors of Japan, South Korea, and Taiwan. Their remittances home account for about 5% of Vietnam’s GDP (World Bank Group 2022).

3.3 Growth and Distribution Effects

Vietnam’s transition from a subsistence economy to an export-oriented industrial nation is reflected in one of the highest growth rates in East Asia (Fig. 2). In terms of income levels, Vietnam ranks in the upper middle range in Southeast Asia with a gross domestic product per capita of \$4,717 (2024) and a purchasing power parity (PPP)-adjusted gross domestic product per capita of \$14,415 (2024) (Fig. 15). This is still significantly lower than in other emerging economies such as Argentina. The proportion of the population living below the poverty line—defined by the World Bank as the threshold for basic subsistence—is now only 4.2%, which is one of the lowest rates in Southeast Asia. The majority of the population has access to clean drinking water (International Monetary Fund 2018).



Fig. 15: Real GDP per capita of selected countries



Source: World Bank

Vietnam’s financial market, however, remains underdeveloped (see also Chapter 4). The market capitalization of (non-financial) listed companies relative to GDP is low at around 40 percent (Vietnam News Agency 2025). The volume of outstanding corporate bonds relative to GDP, at 11 percent, has fallen significantly short of the government’s targets (Kim 2022). In other ASEAN countries, it stands at up to 50 percent. The underdeveloped capital market contributes to the “missing middle”: only about 3 percent of registered Vietnamese companies are medium-sized. Many small businesses that do not qualify for bank loans are unable to grow due to a lack of reliable financing instruments (Jones et al. 2025).

The level of education is high relative to the country’s still relatively low level of prosperity. Vietnam enrolls nearly all children in primary and secondary school and has a correspondingly high literacy rate. With a Human Capital Index¹¹ of 0.69, the country ranks ahead of all other developing countries, including China (Gatti et al. 2020). Furthermore, Vietnamese students perform well on international benchmark tests such as PISA, particularly in mathematics and science. In many cases, they even outperform European industrialized nations (Dang 2023). However, the higher education sector is considered weak, with relatively few first-year students per year and a lack of prestigious universities.

4. Financial Market Liberalization

According to McKinnon (1973), financial market liberalization is an essential prerequisite for growth. It is not enough for savings to grow simply as prosperity increases. Only a free financial system that grants loans based on the expected returns of investment projects promotes growth. Since, in Vietnam’s planned economy, loans were traditionally granted by state-owned banks based on political

¹¹ The HCI is compiled by the World Bank and measures the expected productivity level of future workers by age 19 based on education and health.

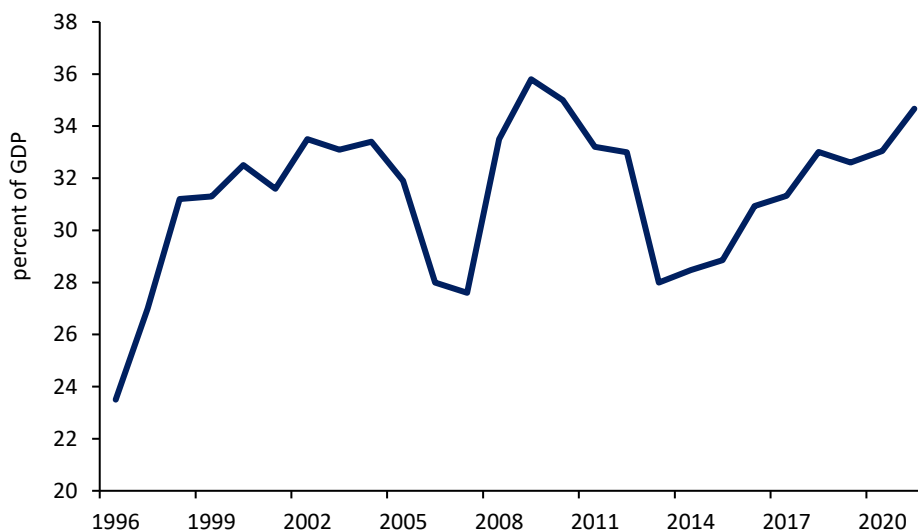


criteria, the privatization of banks and the liberalization of lending are important prerequisites for further growth. Stabilizing price levels is a key prerequisite for stable bank lending.

4.1 Development of Savings and Lending

Since the stabilization of the monetary system in the 1990s, Vietnam has exhibited relatively high savings formation. The aggregate gross savings rate has risen sharply since the 1990s and stood at about 35% of GDP in 2023. This places Vietnam above the global average of approximately 23% and significantly above most emerging economies. The household sector makes a significant contribution, with a savings rate estimated at approximately 20% of GDP (Banking Review 2025). According to the World Bank, Vietnam, like other East Asian countries, has structural factors that encourage saving (World Bank Group 1993). These include a high growth rate, a (still) young population, and underdeveloped social safety nets.

Fig. 16: Aggregate gross savings rate

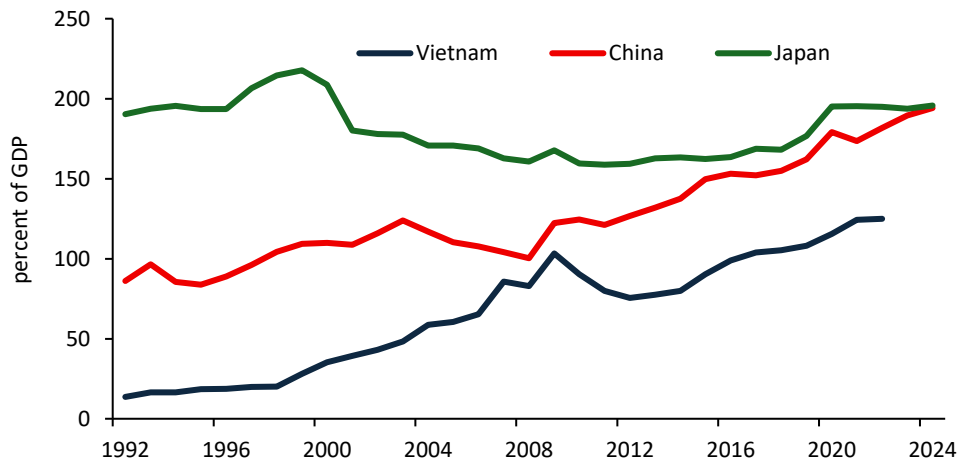


Source: World Bank

Accordingly, the stock of outstanding bank loans to the private sector has grown significantly, from 14 percent of GDP in 2014 to 125 percent in 2022. While this combination of high savings and robust lending does boost growth, excessive credit growth can also pose a risk to the financial system. In recent years, the rising volume of non-performing loans has drawn criticism, with the lack of established domestic rating agencies being cited as a shortcoming (Nguyễn 2025). Vietnam's central bank had most recently set a target of significantly expanding credit. The target for 2025 was a 16% credit expansion, which would have exceeded real growth by around 8% (State Bank of Vietnam 2025).



Fig. 17: Outstanding loans to the private sector



Source: World Bank

4.2 Stock Market Development

The Vietnamese stock market officially launched in 2000 with only two listed companies on the Ho Chi Minh City Securities Trading Center, often referred to as HoSE. Initially, the market was small, illiquid, and simply organized, but it grew relatively rapidly over the course of 25 years. Driven by the privatization of state-owned enterprises, the rising number of start-ups, and increasing institutional professionalism, market capitalization grew to approximately \$218 billion by 2025. The VN Index, comprising the 100 largest HoSE-listed companies, rose from 100 points at market launch to over 1,800 points. In 2005, the Hanoi Stock Exchange opened as the country's second-largest stock exchange.

Fig. 18: VN Index



Source: Investing.com



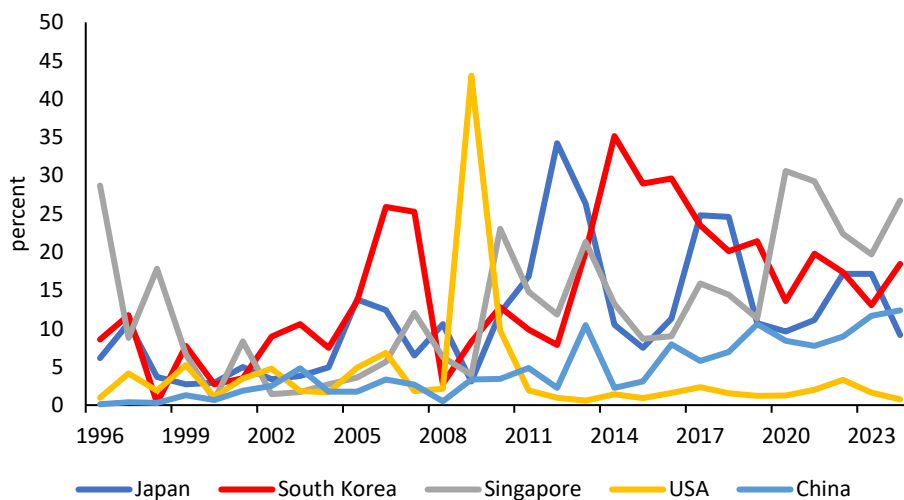
Compared to other Southeast Asian markets, Vietnam’s stock market is smaller than those of Malaysia, Thailand, or Singapore, but it exhibits the highest growth momentum. However, this does not make it attractive to all foreign investors. For example, the HoSE prohibits short selling, charges very high fees by regional standards (especially for retail investors), and also has a high proportion (30%) of former state-owned enterprises among its listed companies, many of which are potentially mispriced (Voice of Vietnam 2018).

These weaknesses explain why, until recently, Vietnam was classified as a “frontier market” (or equivalent) by all reputable index providers, meaning that the openness and reliability of its capital markets were viewed as being on par with those of a developing country. Most recently, however, FTSE Russell announced Vietnam’s upgrade to “emerging market” status, with the relaxation of financing regulations for foreign investors being the decisive factor (Banerjee 2025). China, Malaysia, Turkey, and Poland are also considered “emerging markets.”

4.3 Development of Capital Inflows

Vietnam is now one of the most attractive destinations for foreign direct investment (FDI). FDI has risen steadily over time (Fig. 11). In 2024, Vietnam received direct investment totaling \$20 billion, which corresponds to approximately 4% of gross domestic product. These investments originate predominantly from Asia. Singapore has recently overtaken Japan and South Korea, which had long been the leading origin countries (Fig. 19). FDI inflows are concentrated in the manufacturing sector (Dinh and Eckhardt 2016).

Fig. 19: Contributions of various countries to FDI inflows

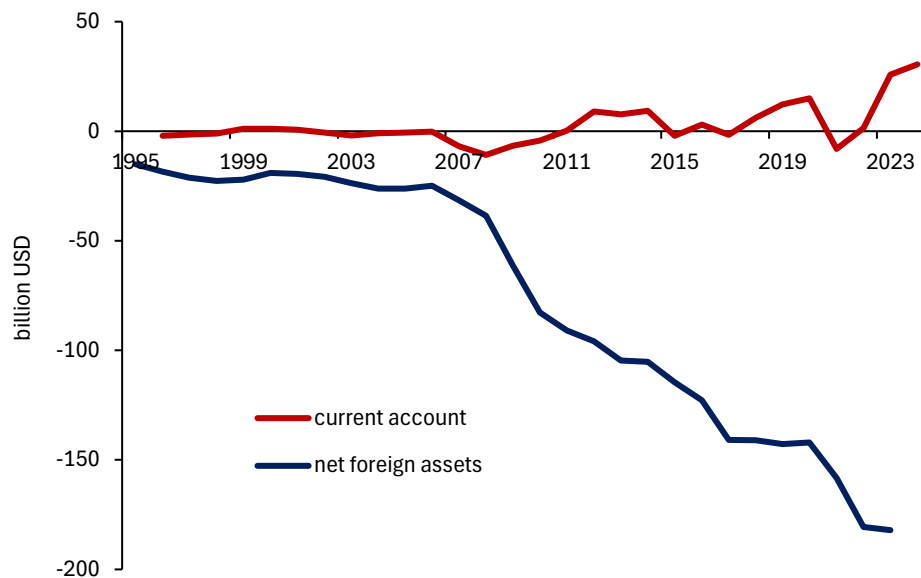


Source: Ministry of Planning and Investment (Vietnam)



The high savings rates, which exceed investment levels, form the basis for persistent current account surpluses. These are typically accompanied by net capital outflows and thus by rising net foreign assets—but not in Vietnam. Similar to Ireland¹², *net foreign liabilities* are rising despite high and persistent current account surpluses (Fig. 20, net foreign liabilities shown as negative net foreign assets), with the process having accelerated since 2007. This is because Vietnam has seen large inflows of direct investment since joining the WTO, which are recorded as an increase in foreign liabilities (Hoàng 2023). If the profits from foreign production facilities in Vietnam are reinvested, this is recorded as a further capital inflow, i.e., as an increase in net foreign liabilities.

Fig. 20: Current account and net foreign assets of Vietnam



Source: Hutchins Center on Fiscal & Monetary Policy

¹² Ireland is a global hub for technology and finance, where many multinational companies have subsidiaries. The massive direct investments flowing from foreign parent companies to their subsidiaries in Ireland generate, for accounting purposes, rising liabilities to foreign countries. Meanwhile, while the profits generated in Ireland are largely repatriated to the parent companies, contributing to current account surpluses, these are small compared to the FDI inflows. In the balance of payments, net foreign assets continue to drift into negative territory. Related to this phenomenon is the fact that Ireland's gross domestic product far exceeds its gross national income (as is also the case in Vietnam). For years, GDP has been considered unsuitable for measuring prosperity in Ireland because large foreign companies record substantial profits, intangible assets (e.g., patents), and royalty fees there, but these flow out of the country as dividends and are thus not available to the Irish population (Burke-Kennedy 2017).



5. Outlook

Through market-oriented reforms, Vietnam has achieved significant growth, which has been accompanied by noticeable gains in prosperity. At around \$4,700, the gross domestic product per capita is significantly higher than that of neighboring Cambodia (\$2,800) and Laos (\$2,100), but significantly lower than that of Thailand (\$7,940), China (\$13,800), Argentina (\$14,360), and Japan (\$34,700). Catching up to the level of wealthy countries—a goal the Vietnamese government has set for 2045—remains a distant prospect. To achieve this, annual real per capita economic growth would need to average at least 6% over roughly two decades. The World Bank emphasizes that this will require greater investment in technology and innovation, as well as further institutional reforms (World Bank Group 2025).

Tô Lâm, Secretary General of the Communist Party of Vietnam since 2024, has repeatedly acknowledged that Vietnam has only a short window of opportunity to move up the global value chain (The Financial Times View 2025). The communist politician has even been compared to Javier Milei for his reform plans. At the start of his term, he launched the “Burning Furnace” anti-corruption campaign (Pham 2024) and enshrined the private sector in law as the “driving force” behind Vietnam’s economy (Hung 2025). With the goal of large-scale de-bureaucratization, he merged provinces, eliminated ministries, and dismissed a large number of civil servants (Guarascio and Nguyễn 2024). He also promised the privatization of many unproductive state-owned enterprises, which was intended to bring about a new growth momentum (Baccini 2019).

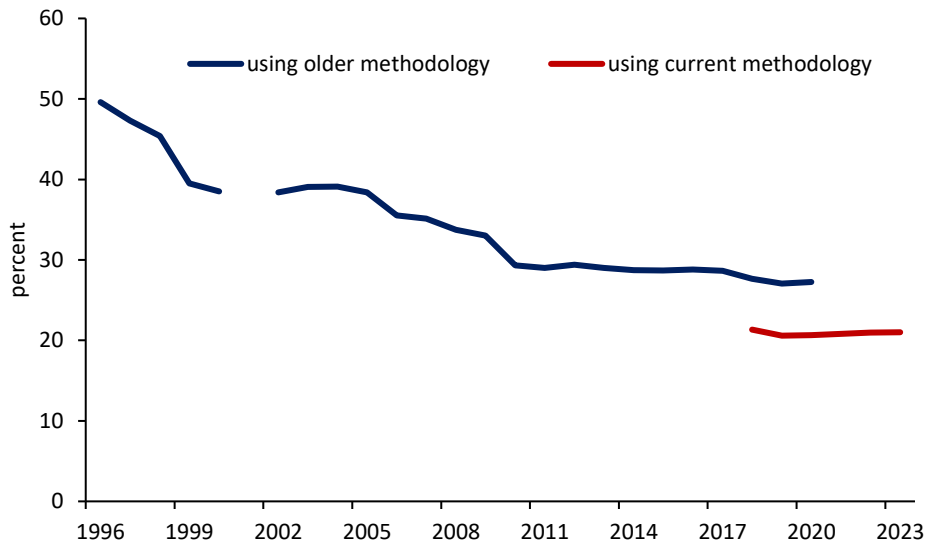
However, privatization has hardly been an issue during his tenure so far. State-owned enterprises still account for over 20 percent of Vietnam’s total value added (Fig. 21). This share is thus still slightly above the average for ASEAN countries and is very high compared to industrialized nations such as South Korea (approx. 8%) and Japan (approx. 4%). In practice, Vietnamese state-owned enterprises receive preferential access to public procurement contracts and enjoy privileges such as subsidies, preferential loans, state-backed loan guarantees, and exemptions from antitrust and insolvency regulations (Jones et al. 2025). This suggests that the gradualist reform process is stalling because the Communist Party wants to retain control over the economy and the allocation of capital.

Growth is therefore driven primarily by foreign direct investment in Vietnam and demand for Vietnamese products abroad. Over the past 30 years of gradual reforms, Vietnam has created jobs primarily through increased exports. Today, 54% of Vietnam’s workforce is employed in export-oriented industries, a global record (World Bank Group 2024). Exports are dominated by foreign firms, which often rely on intermediate goods from China. Only 5 percent of workers in Vietnam are highly skilled (World Bank Group 2024). Vietnam also faces demographic challenges due to an aging population. The fertility rate, which has been below two children per



woman since the 1990s, has not recovered despite policies encouraging larger families, meaning Vietnam’s population is expected to decline starting in 2040.

Fig. 21: Contribution of state-owned enterprises to GDP



Source: General Statistics Office of Vietnam

One challenge is particularly pressing: Vietnam’s role between the major economic and political powers of China and the United States.¹³ Since the start of Donald Trump’s second term, the United States has targeted Vietnam due to their large trade deficit. On “Liberation Day” in April 2025, the Trump administration imposed a 46% tariff on approximately 90% of Vietnam’s exports to the United States (DHL 2025). Following intensive negotiations, Washington and Hanoi agreed in mid-2025 on a new 20% tariff on the majority of Vietnamese exports to the U.S., while Vietnam lowered its import tariffs on numerous U.S. goods (Lakshmi 2025). In addition, a 40% tariff was imposed on goods suspected of transshipment (Jeyaretnam 2025). Some Vietnamese business owners view the transshipment tariffs positively, as they are thought to protect “honest” Vietnamese companies from “unfair” competition from China (Stevenson 2025).

Fears that Vietnam might turn away from the U.S. have not been confirmed so far. Admittedly, the recent increase in Vietnamese purchases of military equipment from Russia has caused irritation in the U.S. (Cave 2025). At the same time, the

¹³Vietnam’s foreign and security policy is based on the officially enshrined principle of “strategic autonomy,” the aim of which is to preserve the country’s freedom of foreign policy decision-making and avoid dependencies on individual major powers. An expression of this strategic autonomy is the so-called “Four Noes Policy,” which consists of the rejection of military alliances (1), joining forces with one state against another (2), foreign military bases on Vietnamese territory (3), and the use or threat of force in international relations (4). The first three “no’s” were defined in the 1990s in light of the collapse of the Soviet Union and China’s rapid rise (Zeberlein 2023).



expedited approval process for a new Trump golf club near Hanoi (Wong and Ma 2025) and Vietnam's participation in Donald Trump's "Board of Peace" have shown that Vietnam continues to strive for good relations with Washington (Sennhauser 2026). In addition to its stated "strategic autonomy," China's claims to Vietnamese islands in the South China Sea also prevent Vietnam from moving closer to China and Russia. To counter China's maritime activities, Vietnam is building patrol ships with Japanese and American support (Vu 2020) and exchanging information with Western intelligence agencies.

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