



The Economic Reform in Vietnam – Is it time to re-write an economic history?

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Sombart (1929) said that “Facts are like beads: they require a string to hold them together, to connect them. But if there is no string, if there is no unifying idea, then the most distinguished authorities cannot help producing unsatisfactory work.” The current economic history of Vietnam (1976-present) needs a string. We did have at least one – the orthodox explanation of the Economic Reform as a leading engine of the economy. But I am in this paper constructing another theory, in which the Reform is treated endogenously. My string is:

Military Victory of the North over the South (1975) → belief in the supremacy of Socialism → grand socialist reform imposed on the South (1976) → the failure in all aspects, but most obviously in agriculture, leading to severe food shortage (real reduction in standard of living compared to before the war, and for the first time in the history of the South, farmers ate something worse than rice) → punching the lower bound → reaction → the “market-oriented” reform rooted and started from the agriculture (late 1970s, early 1980s) → successful as a traditional agricultural country → reforms spread out to the economy as a whole in all aspects (1986) → market economy gradually established → the shift away from Soviet (as its fall) and China (as the border war broke out) to Japan, ASEAN and Western partners (late 1980s, early 1990s) → further reforms and adjustments toward market and international integration → economic success and development of market economy with its all characteristics (mid 1990s) → reach its peak after the Bilateral Trade Agreement with the US in effect → challenging VCP’s monopoly and therefore its existing interests → hitting the upper bound → reaction (1996-7) → conservative signs of attempt at recovering the role of state’s economic power (slightly change in SOE share, investment and the raise of other policies) → an counter-reform actions because SOE is low productive → the economy slowdown, accidentally added up by the Asian Financial Crisis (1997-8) → growth slowdowns and inflation tends to become even deflation (2002) → try to recover by (almost secretly) expending credit to SOE, and state’s investment → consequently inflation unexpectedly rocketed in 2004 (at the end, the SBV’s Governor admitted the credit expansion) → sign of returning to the right track (present)