

Policy Paper

40-Years Vietnamese economic reforms - socialist versus social orientation

A policy debate

Abstract:

During the Cold War, economic systems were largely divided between centrally planned and market-based models. Since the late 20th century, many countries have transitioned toward market-oriented systems, often adapting them to their specific institutional and political contexts. This also applies to the Socialist Republic of Vietnam, which has undergone a profound transformation from a centrally planned economy to a market-oriented system. This paper, presented at the conference 'Vietnam's 40-Year Đổi Mới Renovation Policy' on 14 April 2026 in Hanoi, outlines Vietnam's dynamic economic transition process and its unique concept of a 'socialist-oriented market economy'. As the socialist dimension of this model remains only partly defined, the paper explores whether elements of the German social market economy could provide a relevant reference framework for Vietnam's future economic and social development.

Vietnam's Market Economy with a Socialist Orientation

After repeated failures to meet economic output targets under the centrally planned system in the 1980s, the country faced severe financial, economic, and social challenges. In response to this acute state failure¹, in 1986 (at the 6th Party Congress) the Vietnamese political leadership formally abandoned central planning and began introducing market-oriented policies. These so-called *Đổi Mới* (Renovation) reforms initiated a development process during which Vietnam has not only achieved sustained economic growth² but has also made remarkable progress in social development:

- Vietnam has reduced poverty dramatically, from nearly 60 % in the early 1990s to below 5 % in 2026 and is now actively pursuing the United Nations Sustainable Development Goals (SDGs).³
- Moreover, the country has transitioned from a low-income to a lower-middle-income economy, and its current five-year socio-economic development plan (2026–2030)⁴ reflects its broader long-term strategy toward industrialization, modernization, and set an official goal to become a high-income, developed country by 2045.

¹ State failure describes a situation when State interventions in market processes lead to sub-optimal results.

² Vietnam has maintained strong GDP growth for several decades, typically averaging around 8-9 %, making it one of the leading performers in Asia.

³ Vietnam is actively pursuing the United Nations Sustainable Development Goals (SDGs), as formalized in the National Action Plan for the implementation of the 2030 Agenda, adopted by the Prime Minister under Decision No. 633/QĐ-TTg on 10 May 2017.

⁴ Communist Party of Vietnam (2026): Resolution of the 14th National Congress, Socio-Economic Development Plan 2026–2030.

Historical Background, *Đổi Mới* versus *Cởi Trói*:

Several measures have been taken to reform the state's role in economic management to ensure it does not inhibit the functioning of the market mechanisms and to enable it to move from detailed management tasks to more indirect interventions via the legal system or macroeconomic regulatory instruments. Four main stages of development can be distinguished:

- 1) **1988 Land reform:** Shortly after introducing *Doi Moi*, the government adopted new land laws that leased out former cooperative land to individual farmers and for the first time gave them the right to decide what to produce on their own. As a result, agricultural output increased so much that within 2 years, Vietnam was transformed from a rice-importing to an exporting nation.
- 2) **1990/91 Recognition of private ownership:** For the first time, Vietnam has officially recognized the lawful existence of non-state economic sectors by issuing the *Company Law* and the *Private Enterprise Law*.
- 3) **1995/96 Liberalization of foreign trade:** The re-establishment of formal diplomatic relations with the USA and the joining of ASEAN and the Asia Free Trade Area (AFTA) constituted the starting point for an opening of international economic relations – allowing private enterprises to engage in import/export activities.
- 4) **1999 Right of business freedom:** Clarification of entrepreneurs' basic rights to operate in all business arenas not explicitly forbidden by law.
- 5) **2007 WTO Accession:** The integration in international trade relations led to a rapid increase of Foreign Direct Investments as well as Trade Activities. The number of newly registered enterprises is still growing significantly.

Looking back, it becomes clear that the Vietnamese reform process is not only about renovation (*Đổi Mới*) of existing institutions, rather the Vietnamese have been freed to engage in economic activity. Therefore, colloquially the reform process is often called *Cởi Trói* (release).

Nearly four decades after initiating *Đổi Mới*, the Communist Party continues to advocate a market economy with a socialist orientation. Renunciation of socialist ideals remains unlikely because the Party has closely linked its legitimacy and long-term goals to their implementation. However, the term “socialist” remains somewhat ambiguous, as acknowledged by Vietnamese Communist Party and government officials.⁵ In several respects, current practices diverge from the traditional concept of socialism, for example, about ownership of production factors, which in theory should be collectively owned by the workforce. Political think tanks, such as the Hồ Chí Minh Academy, are actively developing updated interpretations of socialism and adapting the ideology to contemporary economic and social conditions. In modern terms, socialism is understood as a process in which the interests of the people are paramount and serve as the state's guiding principle.

⁵ Dinh Van An, “Building Institutions for a Market Economy with Socialist Orientation in Vietnam,” *Vietnam Economic Management Review*, No. 1 (2006), p. 19.

Legal Framework

The initial decision to transform the Vietnamese economic system was followed by a comprehensive reform of the legal framework that defines the roles of the state and the market. Several key areas illustrate this transformation:

1. **Existence of Enterprises:** With the issuance of the Law on Foreign Investment in 1987, the Company Law and the Private Enterprise Law in 1990, and regulations on State-owned Enterprises in 1995, Vietnam officially recognized the existence of non-state economic players. The Law on Enterprises and the Common Law on Investment, both enacted in 2005, established an equal legal framework for domestic and foreign investors.
2. **Foreign Trade Liberalization:** Since 1988, foreign enterprises have been permitted to engage in import and export activities, and licensing procedures have been continuously simplified. Trade barriers within the Asian region were reduced by Vietnam's membership in the ASEAN Free Trade Area (AFTA) in 1995 and in the Asia-Pacific Economic Cooperation (APEC) forum in 1998. Milestones in international trade include the Bilateral Trade Agreement with the United States in 2000 and Vietnam's accession to the World Trade Organization in 2007. Since then, Vietnam has concluded several Free Trade Agreements, including the EU-Vietnam Free Trade Agreement (EVFTA) in 2020, further integrating the country into global markets.
3. **Macroeconomic Management:** The shift from a one-tier to a two-tier banking system in 1997⁶ was crucial for implementing sound monetary policy. While the legal framework has not yet fully ensured the independence of the State Bank, most prices are now determined by market mechanisms. Price controls gradually rose in 1992 and 2002, and today, market-based pricing is the norm across most sectors.
4. **Production Factors:** The Labour Code of 1994 established the first legal basis for the labour market by recognizing the right to freely seek employment and the right of employers to select employees. A revised Labour Code came into effect in 2013, further modernizing labour regulations. Efforts continue to improve transparency and consistency in the real estate market, including the unification of registration regulations and clearer land use planning.

The Vietnamese Party and government aim to realize socialist ideals such as equality and solidarity by leveraging market principles. This approach is reflected in successive five-year socio-economic development plans, including the 2026–2030 plan, which emphasizes promoting higher economic growth, improving the quality, efficiency, and competitiveness of the national economy, ensuring social security and welfare, and enhancing people's material and spiritual well-being.

The Basic Concept of the German Social Market Economy

Several countries have chosen not to follow the model of a liberal market economy⁷. In contrast, the guiding principle of a social market economy goes beyond providing an economic regulatory

⁶ In 1997, the National Assembly passed the Law on the State Bank of Vietnam and the Law on credit organizations. Based on the provisions of the law, four state commercial banks gained their independence from the State Bank and a series of joint stock banks, joint venture banks and foreign branches appeared on the Vietnamese financial market. Currency-printing and credit supply functions were separated institutionally.

⁷ Models of non-liberal market economies are: (i) „Rheinischer“ Capitalism (in Germany, the Netherlands, Belgium and Austria), (ii) State Capitalism (in France and Italy) and (iii) Scandinavian Capitalism (Sweden, Norway and Denmark).

framework by including both economic and social dimensions. Historically, the concept represents a cross between liberalism and socialism and is based on the following principles, which are reflected in the German legal framework and ongoing policy debates:

- Competition among best performers as the path toward innovation and economic wealth (*Leistungswettbewerb*)
- Equal opportunities for all to participate in the economic process (*Chancengleichheit*)
- Fair shares of economic gains for everyone (*Verteilungsgerechtigkeit*)
- Private ownership of assets and entrepreneurship combined with social responsibility toward the less fortunate (*Eigentum verpflichtet*)
- Solidarity among members of society to share individual risks (*Solidaritätsprinzip*)
- Dialogue and compromise as characteristics of social bargaining processes

The term Social Market Economy describes a market economy guided by a set of systemic regulations that ensure both maximum personal freedom and social equity. As in a liberal market economy, fundamental economic decisions, what to produce, how, where, with which inputs, and for whom, are left to individuals. Production and consumption are coordinated through the market, based on the belief that it is the most effective mechanism for allocating resources.

State intervention in the economic process is considered justified only in cases of:

- The *self-destructive potential of the market* (that leads to the creation of monopolies, cartels – i.e. market failure). In economic theory, a well-functioning market increases the welfare of a country's inhabitants,
- The *danger of market failures* (esp. regarding externalities⁸ and the provision of public goods⁹) and
- The *market's indifference* to social problems¹⁰.

Based on the principles mentioned above, a regulatory framework was designed to ensure both market efficiency and social sustainability and was then codified in the German Basic Constitutional Law. This regulatory framework recognizes inter-dependence, and guarantees compatibility, of the legal, social and economic order. It also defines the interventions which must be designed not to distort competition and disturb (efficient) market processes. Only the distribution of the results of economic processes may be re-adjusted. Such adjustments are advocated to foster social balance.¹¹

⁸ In economics, an externality is a cost or benefit resulting from an economic transaction that is borne or received by parties not directly involved in the transaction. An externality occurs when a decision causes costs or benefits to third party stakeholders, often, although not necessarily, from the use of a public good. For example, manufacturing that causes air pollution imposes costs on others when making use of public air.

⁹ In economics, a public good is a good that is non-rivalries and non-excludable. This means consumption of the good by one individual does not reduce the amount of the good available for consumption by others; and no one can be effectively excluded from using that good.

¹⁰ Environmental goods are considered public goods and therefore their utilization is managed by the state.

¹¹ The following motives are considered justified: i) Support economically weaker members of society in case of existential risks, ii) Ensure equal opportunities for all to participate in economic processes and reduce imbalances between generations.

Legal Framework

A selection of laws forms the basis of the German social market economy:

1. **German Basic Law**
 - Specifies that the Federal State has a responsibility towards social equity both among individuals and provinces¹² (the German Federal State is a “social state”¹³)
 - Ascertains the objective of macroeconomic stability
2. **Competition Law (Gesetz gegen Wettbewerbsbeschränkungen, 1958)**
 - Includes the prohibition of cartels
3. **Law for Stability and Growth (Stabilitäts- und Wachstumsgesetz, 1967)**
 - Defines four objectives: stable price levels, high employment rates, foreign trade equilibrium, and adequate and continuous economic growth
 - The achievements of these objectives ensure the macroeconomic stability stipulated in the German Constitution
4. **Stakeholder Orientation**
 - German corporation law (Aktiengesetz) requires large corporations to have a supervisory board composed of members elected by shareholders and employee representatives in equal shares
 - Non-formalized dialogue gives various interests such as capital, labor, consumers, and the public a voice and often leads to formal social partnerships, for example, alliances for jobs or initiatives for more junior training positions
5. **Social Laws**
 - The first attempts to mitigate poverty caused by industrialization were initiated by Chancellor Otto von Bismarck
 - In 1883, health insurance was introduced, followed by accident insurance in 1884 and unemployment insurance in 1927
 - These and other social insurances are funded by compulsory contributions from both employers and employees

Achievements of the German Social Market Economy

Some of the key achievements of the German social market economy are:

- High degree of macroeconomic stability
- Absence of major workers’ strikes, for example, compared to France
- Protection of social freedoms¹⁴
- Broad coverage of social security and a high degree of social inclusion
- Legitimacy of the economic and political system
- Strong public and political awareness of environmental protection and an international leading role in green growth policies
- High standards in business ethics

¹² Art. 107 Abs.2 Satz 1 Grundgesetz (German Basic Constitutional Law): The German variation of a Social Market Economy also includes an elaborate financial equalization scheme between the Federal Government and the Länder (provinces), which aims at balancing the living standards across the country, and might be combined with structural policy measures to raise living standards in those areas.

¹³ Art. 20 Grundgesetz (German Basic Constitutional Law).

¹⁴ ‘Social freedom’ is the concept philosophers, political scientists, and economists are often concerned with - often without realizing it - when dealing with the subject of liberty.

All these factors have contributed to the improved competitiveness of German industry by providing a well-educated workforce that is able to adapt during economic downturns, good infrastructure, and a stable macroeconomic and political environment.

Conclusion

In the past, the Vietnamese growth process was inclusive, directly benefiting the poor by providing basic economic opportunities such as land use rights and the right of business freedom. The quality of current economic growth is different, as fewer people benefit directly and the accumulation of wealth occurs disproportionately, for example through trade liberalization and privatization. Disparities within society are likely to widen due to the concentration of growth in certain geographic areas or among specific social groups, which contradicts the official commitment to a market economy with a socialist orientation. In theory, the traditional notion of socialism implies a redistribution of economic gains to ensure equal shares for all members of society, going beyond the objective of a social market economy, which aims for fair shares for everyone. This normative ambition may explain why the socialist character of the Vietnamese economic system has not yet been clearly defined.

Independent of the ongoing policy debate regarding the term socialism, the objectives of the social market economy are not very different. It can serve as a model for the future refinement of the Vietnamese economic system. Furthermore, it offers solutions for addressing unequal distribution, one of Vietnam's most pressing challenges:

- **Intragenerational equity:** Germany has developed a social security system to narrow the gap between rich and poor individuals and enable society to share individual risks. Another redistributive mechanism¹⁵ is fiscal equalization between German states, which redistributes a percentage of revenue from wealthier to poorer states.
- **Intergenerational equity:** Measures have been implemented to counter social problems that could inhibit future economic activity.

However, both countries differ widely in their approach to the individual and the state. German culture is more individualistic, placing a high value on individual freedom and self-responsibility, while Vietnam expects and accepts a strong role for the state, which can influence individual lives. This cultural difference helps explain why the Vietnamese state remains deeply involved in the economy, continuing to play a significant role in organization, ownership, management, and distribution.

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¹⁵ Financial equalisation scheme between the Federal Government and the Länder (Länderfinanzausgleich).