

Exchange rate policy in relation to economic development in Vietnam after Doi moi

Nguyen Kim Thu

This thesis attempts to show the relationship between exchange rate arrangements and other economic variables in the Vietnamese economy from 1992 to 2007 in order to establish the primary goal of Vietnam's exchange rate policy in the short run. This thesis also investigates the economic development in East Asia and the corresponding changes in the exchange rate arrangements in those countries to draw some lessons for Vietnam's long-run exchange rate policy.

As will be analyzed in this thesis, while the exchange rate arrangement has had a profound effect on the financial stability of Vietnam, it has had a limited influence on the trade balance, given the current trade structure. Therefore, it seems that the exchange rate policy in Vietnam should aim at keeping financial stability, rather than maintaining export competitiveness.

This thesis's second focus is to examine the long-term economic development prospects and forecast the future exchange rate arrangement in Vietnam, based on the experiences of other East Asian countries. With the current economic development trend, i.e., attracting foreign direct investment (FDI) to industrial production and increasing the role of the foreign-invested sector in export performances, Vietnam seems to have been following other East Asian countries. From the development path of those East Asian countries, it is expected that Vietnam will achieve tremendous industrial development if it can accelerate the FDI-led, export-oriented industrialization process. This thesis then examines the links between FDI-led, export-oriented industrialization with exchange rate arrangements in East Asian countries. It is pointed out that as FDI inflows increased and the export-oriented industrialization process was realized, most East Asian countries experienced local currency appreciation and shifted to more flexible exchange rate regimes. The links between FDI-based industrialization and exchange rate arrangements would provide useful lessons for Vietnam in its exchange rate management policy.