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Vietnam's entrepreneurship paradox: How can entrepreneurs thrive without political and economic freedom?

If entrepreneurship and democracy go hand in hand, how do we explain Vietnam? Vietnam has edged upwards in the direction of democracy, but the Communist government still severely constrains political rights, including civil liberties like freedom of expression, while economic freedom remains uneven and lacklustre. Yet the country has outperformed its economic development level since 2010; by 2014 had produced a unicorn, or start-up valued over USD1 billion; and in 2018 boasted Asia's third-largest tech start-up ecosystem.

A new study** cracks this paradox. Applying political science to split democracy into various political and economic freedoms, it also examines culture and institutions. The researchers weave together firm-level data and indices of freedom, growth and entrepreneurship to track the last thirty-odd years. Milestone market reforms post-1986 included allowing entrepreneurship, promoting exports and inviting foreign direct investment (FDI); and, in 1992, recognising private property rights, which let entrepreneurs keep the fruits of their labours. The study suggests that despite low absolute levels, the relative "edging upwards", especially on economic freedoms (fiscal, monetary and labour-related, alongside property rights), spurred the innovative opportunity-driven entrepreneurship that has helped Vietnam out of poverty into lower-middle income status.

Three institutional and cultural mechanisms stood out. First, Vietnam is a "compressed" developer, where the state adaptively implements policy. Entrepreneurship has occurred despite around, not due to, state planning, which targeted FDI and big business anyway. In undemocratic contexts, entrepreneurs strive to avoid both direct large competitors and government control. In Vietnam they flowed into unregulated "institutional voids" (especially software) – adjacent to targeted industries (hardware) and watered by their knowledge spillovers, but beyond government's heavy hand.

Second, relaxing immigration controls lured back diaspora Vietnamese who had succeeded as entrepreneurs abroad.

confident Vietnam's low freedoms would keep growing, they voted with their feet and lost host nations with much higher absolute freedoms. For instance, five celebrated MIT graduates repatriating from the US helped form start-ups. In effectively a political spillover, the adaptive state pragmatically heeded their and other's advice for replicating American success. Ho Chi Minh City has even promoted a new innovation hub as "Vietnam's Silicon Valley".

Third, pro-entrepreneurship culture created a virtuous circle, inspired by and inspiring homegrown successes like the game app Flappy Birds. In 2014, 94% of Vietnamese believed their children's generation would enjoy greater prosperity, and, stunningly for a socialist country, 95% supported a free-market system.

Key economic freedoms that edged upwards relatively while still being restrained in absolute terms include property rights, reorienting to a market economy, trade and immigration. Political freedoms remain minimal. Seemingly Vietnam has loosened its political hold just enough to ignite (economic growth and) entrepreneurship, without so far contemplating anything like full democracy. One case study nation does not set a rule, but, with China, Vietnamese entrepreneurship suggests this traditional pairing can be decoupled – at least for now.

** The full study results are available in an article authored by David Audretsch and Antje Fiedler: "The Vietnamese entrepreneurship paradox: how can entrepreneurs thrive without political and economic freedom?" *Journal of Technology Transfer* (2021). <https://doi-org.ezproxy.auckland.ac.nz/10.1007/s10961-021-09873-2>

