Fixed Exchange Rate, Export Promotion, and Foreign Exchange Reserves Accumulation: A Feasible Path for Vietnam to Achieve Economic Center Status

Jiayi You

School of Economics, Zhejiang University, Hangzhou, China
3220102116@zju.edu.cn

Abstract. This paper explores the path for Vietnam's transition from an "economic periphery" to an "economic center", focusing on the synergistic effects of its fixed exchange rate policy, export-oriented strategy, and foreign exchange reserves accumulation. Since adopting a limited floating exchange rate system pegged to the US dollar in 1999, Vietnam has promoted export growth and strengthened investor confidence through exchange rate stability. Export expansion has driven foreign direct investment and sustained reserve accumulation, enhancing financial system stability and policy credibility. However, Vietnam's growth model still relies heavily on low-value-added manufacturing and external demand. To achieve long-term sustainable growth and elevate its global economic status, Vietnam must implement structural reforms—such as gradually relaxing capital controls, increasing R&D investment, and shifting to higher value-added industries. This study offers insights into how emerging economies can leverage macroeconomic policy tools to upgrade their structures and enhance resilience to external shocks.

Keywords: Vietnam, Fixed Exchange Rate, Export-oriented Strategy, Foreign Exchange Reserves, Economic Transformation.

1 Introduction

In the context of the rapidly evolving global economic landscape, more emerging economies are seeking to move away from their position as “economic peripheries” and toward the global financial center. The term "economic periphery" refers to developing economies that rely on export-driven growth, implement capital controls and fixed exchange rate systems, and integrate into the global financial system through foreign exchange reserve accumulation [1]. As a key emerging economy in Southeast Asia, Vietnam has shifted from a largely agricultural country to a manufacturing and export-driven economy, guided by an export-oriented strategy based on a fixed exchange rate and foreign reserve accumulation.

Since 1999, Vietnam has adopted a limited floating exchange rate system pegged to the US dollar, helping stabilize the exchange rate and maintain a relatively stable monetary environment [2]. This policy has supported exports and FDI, driving growth. By

M. M. Husin (ed.), *Proceedings of the 2025 International Conference on Financial Innovation and Marketing Management (FIMM 2025)*, Advances in Economics, Business and Management Research 353,
https://doi.org/10.2991/978-94-6463-874-5_79

reducing exchange rate fluctuations, the system has provided stable prices and expectations for exporters, attracting foreign investment. Meanwhile, the steady increase in Vietnam's foreign exchange reserves has enhanced economic stability [3]. This paper will examine how fixed exchange rate policy, export growth, and reserve accumulation have jointly promoted Vietnam's development.

However, Vietnam's current model remains dependent on external demand and foreign capital, with a relatively simple economic structure. Sustainable growth requires structural reforms—such as loosening capital controls and adopting more flexible exchange rate mechanisms—to reduce dependence, stimulate innovation, and improve competitiveness.

Vietnam also faces the challenge of balancing inflation and GDP growth. Research by Nguyen Hoang Tien indicates that inflation below 6% supports growth, while higher rates have adverse effects [4]. Therefore, maintaining inflation control is crucial for stability.

This paper aims to analyze how Vietnam's exchange rate and reserve strategy have supported growth and assess the sustainability of this model. It will also explore how structural reforms can help Vietnam evolve from a "peripheral economy" to an "economic center," providing insights for other emerging economies balancing growth and transformation.

2 The Impact Mechanism of Fixed Exchange Rate, Export Promotion, and Foreign Exchange Reserves Accumulation on Vietnam's Economy

After the 1997 Asian Financial Crisis, most Asian emerging market economies began rebuilding exchange rate controls and capital restrictions, adopting export-oriented strategies and accumulating large foreign exchange reserves to enhance financial security. Dooley et al. summarized this model as the "Revived Bretton Woods System" in the Asian periphery, highlighting the rise of a fixed exchange rate - centered peripheral system in Asia. Vietnam is one of the representative countries within this system, and its development path closely follows the "exchange rate stability—export promotion—reserve accumulation" triangle structure described in the literature.

2.1 Fixed Exchange Rate: Creating Stable Expectations and Ensuring Export and Investment

Since 1999, Vietnam has established a limited floating exchange rate system pegged to the US dollar. The central bank sets the daily mid-rate and defines fluctuation bands, essentially forming a "pegged exchange rate" to maintain stability. This system has continued to the present, offering stable exchange rate expectations and price foundations for exporters and foreign investors.

The State Bank of Vietnam guides expectations by publishing the mid-rate and fluctuation bands daily and intervenes in the market when rates approach the band limits. For example, under depreciation pressure near the upper limit, it uses foreign exchange reserves for spot or forward transactions, adjusts policy rates, or injects short-term liquidity to stabilize sentiment. This mechanism has strengthened confidence in exchange rate stability and reduced volatility risks from external shocks.

Figure 1 shows that from 1999 to 2023, although the VND depreciated from around 13,943 to 23,787 VND/USD, the overall fluctuation was modest. Meanwhile, FDI net inflows rose from about 1.4 billion USD to 18.5 billion USD, a twelve-fold increase—demonstrating a strong correlation between exchange rate stability and foreign investment. Stability not only sustains exports but also enhances foreign investors' expectations, leading to the formation of export-oriented industry clusters in electronics, textiles, and machinery [5]. This reflects how Vietnam, as a typical "peripheral economy," has used exchange rate stability and capital controls to support structural transformation and economic growth.

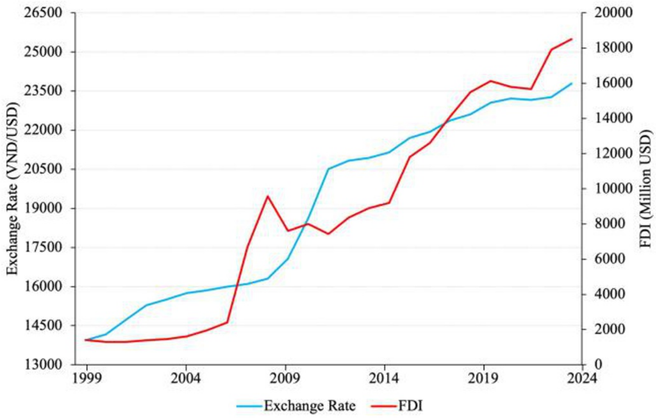

Fig. 1. Vietnam Exchange Rate and FDI (1999-2023) (Picture credit: Original)

2.2 Export Promotion: Driving Growth, Industry Clustering, and Upgrading

Vietnam’s export-oriented strategy is the core driver of its economic growth. The total value of foreign trade as a percentage of GDP exceeded 100% in 1999 and has continued to rise, reaching 184% in 2022 and 166% in 2023. The main export products include electronics, textiles, furniture, and mobile phones. By 2024, Vietnam’s export structure will remain concentrated in the manufacturing sector. Electrical machinery and electronics are the largest categories, with an export value of 192.1 billion USD, accounting for 38.4%. The second largest category is machinery, including computers, with an export value of 74.2 billion USD, or 14.8%. Footwear exports total 33.9 billion USD (6.8%), and furniture and clothing each amount to around 19.3 billion USD (3.9%). The top five categories contribute over 67% of total exports, highlighting Vietnam’s comparative advantage in electronics assembly and light industry. The growth of exports has driven the development of related industrial chains and expanded local manufacturing [6]. More importantly, large-scale exports have brought Vietnam employment, fiscal revenues, and foreign exchange income, forming a positive cycle of "export—investment—growth."

2.3 Foreign Exchange Reserves Accumulation: Enhancing Institutional Credibility and Strengthening the Financial System

With growing trade surpluses and net capital inflows, Vietnam has steadily accumulated foreign exchange reserves. By 2023, reserves had reached 90.355 billion USD—over ten times the level of the early 2000s. This high reserve level strengthens Vietnam’ s capacity to handle international financial volatility and enables the central bank to intervene in the exchange rate [7]. For instance, during the 2020 global pandemic and capital flow shocks, the State Bank of Vietnam actively used reserves to intervene in both spot and forward markets, stabilizing the VND/USD rate, curbing depreciation expectations, and reinforcing market confidence.

Dooley et al. argue that peripheral economies often use export earnings to purchase bonds from core countries not for returns, but as a strategic investment to maintain currency stability and credibility. This “reserve-for-growth” approach is evident in Vietnam: reserve accumulation has improved the nation’s credit rating, lowered sovereign borrowing costs, and enhanced policy credibility—further supporting its export-led development model.

3 The Feasibility of the Coordinated Advancement of Fixed Exchange Rate, Export Promotion, and Foreign Exchange Reserves Accumulation

3.1 The Interaction Between Fixed Exchange Rate and Export Growth

First, a fixed exchange rate eliminates the uncertainty caused by exchange rate fluctuations, creating a stable environment for international trade and cross-border investment. According to the Mundell-Fleming model, in an open economy with high capital mobility, a fixed exchange rate provides expected stability, avoiding increased trade costs from exchange rate fluctuations. In Vietnam’s case, the fixed exchange rate policy stabilized export prices, reduced transaction uncertainty, and facilitated sustained growth in foreign trade. By stabilizing the exchange rate, Vietnam ensured the price competitiveness of its exports, which is especially important in a globalized trade environment.

Moreover, this policy aligns with Keynesian theory, which suggests that a country can stabilize growth through effective exchange rate and foreign reserve policies. A stable exchange rate boosts international investor and exporter confidence, reduces uncertainty, and promotes domestic growth and global integration. Vietnam’s fixed exchange rate policy provided stable expectations, attracted foreign investment, and enhanced global industrial competitiveness.

3.2 The Positive Feedback Between Export Growth and Foreign Exchange Reserves Accumulation

Export growth directly drives the accumulation of foreign exchange reserves. According to the “Reserve for Growth Theory,” Vietnam, through its stable exchange rate policy, has promoted export growth, leading to a substantial increase in foreign exchange earnings. Foreign exchange income enhances the country's payment capacity and provides a source of funding for reserve growth. Vietnam has used part of these earnings to purchase foreign exchange reserves, increasing its financial security buffer and supporting future exchange rate interventions.

The Trilemma Theory further explains this process. In a globalized economy, a country cannot simultaneously achieve exchange rate stability, free capital movement, and an independent monetary policy. Vietnam has chosen fixed exchange rates and capital controls, giving up monetary policy independence to ensure exchange rate stability and controllable capital flows. This choice created a stable macroeconomic environment for exports. At the same time, foreign exchange reserve accumulation has enabled effective intervention during international financial fluctuations, maintaining exchange rate stability and further supporting exports and capital inflows.

3.3 The Synergistic Effect of the Three Factors: Positive Cycle and Policy Transmission

The fixed exchange rate, export growth, and accumulation of foreign exchange reserves form a positive cycle, with each factor reinforcing the others at different stages of economic growth. Export growth brings more foreign exchange income, which increases the scale of reserves and promotes economic growth. The increase in reserves provides the government with more resources to stabilize the exchange rate, supporting export growth. Moreover, reserve accumulation improves Vietnam’s international credit rating, reduces financing costs, and attracts foreign investment, creating a virtuous cycle.

However, despite this positive cycle driving short-term growth, Vietnam still faces risks from external shocks. Over-reliance on external demand and the fixed exchange rate policy may hinder structural transformation. Keynesian theory suggests a country should diversify its industrial structure and expand domestic demand while maintaining exchange rate stability, to reduce external dependence and enhance resilience. Therefore, Vietnam should gradually promote economic diversification, increase domestic consumption, and reduce reliance on external economic factors for more balanced growth.

4 Vietnam's Current Economic Status and Challenges

As an important emerging economy in Southeast Asia, Vietnam’s economic growth in recent years has been remarkable [8]. Since the implementation of the "Doi Moi" (Renovation) policy in 1986, Vietnam has transformed from a predominantly agricultural and impoverished country into one of the global manufacturing and export-driven economies. By 2024, Vietnam's nominal GDP reached 465.8 billion USD, ranking 34th among major global economies. The country has maintained high economic growth, with a real GDP growth rate of 5.82% in 2024, and is playing an increasingly significant role in global trade and investment.

Currently, Vietnam’s economy is still primarily export-driven. The total value of foreign trade as a percentage of GDP exceeded 100% in 1999, rising to 184% in 2022 and 166% in 2023. Major exports include electronics, textiles, furniture, and mobile phones. By 2024, Vietnam’s export structure remains concentrated in manufacturing.

Electrical machinery and electronics are the largest category, valued at 192.1 billion USD (38.4%), followed by machinery and computers at 74.2 billion USD (14.8%). Footwear exports total 33.9 billion USD (6.8%), and furniture and clothing each account for around 19.3 billion USD (3.9%). The top five categories together contribute over 67% of exports, highlighting Vietnam's international comparative advantage in electronics assembly and light industry.

These data suggest Vietnam is moving from an "economic periphery" to the "center" in the global economic system. However, challenges remain. Externally, global economic uncertainty—such as trade tensions, capital flow volatility, and exchange rate risks—poses threats to Vietnam's economy. Internally, its industrial structure still relies on low-value-added manufacturing and lacks strong technological innovation. In 2023, only 5.1% of Vietnamese enterprises engaged in R&D, reflecting weak innovation investment. Vietnam's FDI has grown significantly since 2010, with foreign capital playing a prominent role. This structure makes Vietnam vulnerable to global value chain shocks, lacking the autonomous innovation capacity to buffer external fluctuations [9,10].

5 Conclusion

Looking ahead, for Vietnam to move from an "economic periphery" to an "economic center," it must maintain exchange rate and financial stability while advancing structural reforms to boost endogenous growth. Regarding the exchange rate system, Vietnam could gradually introduce more flexible adjustment mechanisms while ensuring basic stability, to enhance monetary policy independence and resilience to external shocks. Under capital account openness, developing effective foreign exchange intervention tools and a macro-prudential framework will help prevent financial risks.

In terms of industrial upgrading, Vietnam needs to move from low-value-added processing to high-value-added, technology-intensive industries. This requires stronger innovation incentives and enhanced industry-academia-research collaboration to support technological research. In 2023, only 5.1% of enterprises engaged in R&D, highlighting the urgent need to boost innovation. The government should promote technological investment through R&D subsidies, tax incentives, and SME innovation programs.

Vietnam must also invest in human capital through education reform, vocational training, and mechanisms to attract and retain skilled talent, ensuring alignment with emerging industries. A domestic demand-driven growth model should be encouraged by upgrading consumption and developing the service sector to reduce external dependence and enhance resilience.

Vietnam's experience offers valuable lessons for other emerging economies. Amid global uncertainty, balancing reform and stability remains a common challenge. Only by maintaining financial stability and promoting innovation, industrial upgrading, and institutional reform can an economy shift from a "follower" to a "leader."

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