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Adaptive Institutional Change and Economic Transition: from "Fence-breaking" to a Market Economy in Vietnam

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ABSTRACT
This study analyzes Vietnam's economic transition from the perspective of institutional change, emphasizing the role of adaptive dynamics and the interaction between formal and informal institutions. Drawing on a historical institutional approach combined with process tracing, the study reconstructs the trajectory from the pre-Đổi Mới period, through the phenomenon of "fence-breaking," to the phases of transition, institutionalization, and contemporary development. The findings show that economic reform in Vietnam has not followed a linear or purely top-down logic, but rather constitutes a dynamic process in which practical experiences function as mechanisms of experimentation and learning, shaping formal reforms. This process has led to the emergence of a "hybrid" institutional structure that provides flexibility in economic governance while simultaneously generating institutional bottlenecks in the current development stage. Theoretically, the study contributes by extending the institutional economics framework toward an integrated approach, conceptualizing institutional change as an evolutionary, context-dependent process shaped by multi-actor interactions. Practically, the findings suggest that further institutional reform in Vietnam should focus on improving implementation quality, enhancing transparency, and fostering adaptive mechanisms in the context of digital transformation and deepening international integration.

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Introduction

The transition from a centrally planned economy to a market-oriented system in Vietnam since the Sixth National Congress of the Communist Party has become one of the most representative cases of institutional reform among developing economies. Unlike Eastern European countries that adopted "shock therapy," Vietnam pursued a gradual, flexible, and highly experimental reform path (Communist Party of Vietnam, 1986; 1991; Fforde & de Vylder, 1996). This process not only reflects top-down adjustments initiated by the state but also embodies endogenous dynamics emerging from society, particularly within the productive sector and everyday economic practices (Riedel & Turley, 1999).

Within the framework of institutional economics, institutions are commonly understood as the "rules of the game" that shape the behavior and incentives of economic actors (North, 1990; 1991). Studies in this tradition often emphasize the role of formal institutional design and

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state capacity in promoting economic growth (Williamson, 2000; Acemoglu & Robinson, 2012). However, such approaches tend to conceptualize institutional change as a deliberate and linear process. In reality, many developing economies demonstrate that institutional transformation unfolds under conditions of uncertainty, characterized by complex interactions between formal and informal institutions (Rodrik, 2007; Ostrom, 2005).

Vietnam provides a compelling illustration of the non-linear nature of institutional reform. A defining feature of this process is the phenomenon of "fence-breaking" (phá rào)–activities that operated beyond the constraints of central planning to address bottlenecks in production and distribution. Initially informal and even considered violations of official regulations, these practices were gradually recognized and institutionalized into formal policies (Phong, 2025a; 2025b). Kerkvliet (2005) demonstrates that "everyday politics," particularly in agriculture, played a crucial role in driving policy changes at the national level. This suggests that institutional change does not solely originate from state design but also emerges from bottom-up adaptive processes.

Although a substantial body of literature has examined Vietnam's economic transition (Fforde & de Vylder, 1996; Leung & Riedel, 2001; Tran et al., 2009), most studies focus on the role of the state or the analysis of reform policies. Few have systematically investigated how informal practices have shaped formal institutions over time. Meanwhile, recent analyses highlight that institutional bottlenecks and governance fragmentation remain major constraints on Vietnam's growth and development (Pincus, 2023). This underscores the need for a theoretical framework capable of explaining interactions across different institutional levels and among diverse actors in the transition process.

Against this backdrop, this paper addresses the central question: how has institutional change in Vietnam been shaped through the interaction between informal practices and formal policy reforms? Accordingly, the study pursues two main objectives. First, it develops an analytical framework of "adaptive institutional change," emphasizing learning, experimentation, and iterative adjustment under conditions of uncertainty. Second, through the Vietnamese case, the paper contributes to transition theory by demonstrating that institutional reform is not always the outcome of top-down design but is often the product of continuous interaction between the state and society.

In terms of contributions, this study is twofold. Theoretically, it extends the institutional economics framework by incorporating informal dynamics and bottom-up forces into the analysis of institutional change. Practically, it offers a reinterpretation of Vietnam's Đổi Mới process, highlighting the importance of adaptability and context-specific conditions. More broadly, the study suggests that developing economies should avoid mechanically adopting "best practices" and instead design reform trajectories that align with their historical and institutional contexts (Rodrik, 2007; Acemoglu & Robinson, 2012).

Theoretical Framework

The theoretical framework of this study is grounded in institutional economics, combined with transition theory and recent approaches to adaptive institutional change. The objective is to develop an integrated analytical framework that explains Vietnam's transformation not merely as a process of policy design, but as a dynamic interaction between formal and informal institutions.

First, within the tradition of institutional economics, North (1990, 1991) defines institutions as the "rules of the game," encompassing both formal rules (laws, policies) and informal constraints (norms, conventions). Institutions play a central role in reducing uncertainty and shaping economic behavior. This perspective is further developed by Williamson (2000), who emphasizes governance structures and transaction costs as key elements in institutional analysis. Meanwhile, Coase (1960) highlights the role of transaction costs in the formation of efficient institutional arrangements, whereas Ostrom (2005) stresses the diversity and self-organizing capacity of institutional systems. Thus, institutions should not be understood as static structures, but as dynamic systems influenced by context and multiple actors.

However, traditional approaches often assume that institutional change is a deliberate and linear process. To address this limitation, recent studies have shifted toward analyzing institutional change as an evolutionary process, shaped by historical context and path dependence. This perspective is reinforced by Dutraive (2009), who emphasizes that economic development is closely linked to the continuous evolution of institutional structures through interactions between actors and their specific socio-economic environments. In a similar vein, Kingston and Caballero (2009) argue that institutional change can arise from multiple mechanisms, including both gradual adjustments and more abrupt transformations. Likewise, Greif (2006) and Nelson (1994) highlight the co-evolution of institutions, technology, and economic structures, underscoring the close interdependence between institutional change and development dynamics. Notably, Bromley (2019) critiques purely market-based approaches, arguing that institutions are not merely instruments of economic coordination but also reflect deeper power relations and social norms. Complementing this perspective, Andrews et al. (2017) propose the problem-driven iterative adaptation (PDIA) framework, in which institutional reform is understood as a process of experimentation, learning, and continuous adjustment, rather than the application of externally derived "best practices."

Alongside institutional economics, transition theory provides an important analytical lens for understanding post-planned economies. Kornai (1980, 1992) characterizes centrally planned economies through the concept of the "economics of shortage," while subsequent studies emphasize the transition toward surplus economies and marketization (Nuti, 2023). Roland (2000) analyzes the distinction between rapid and gradual reform strategies, highlighting the role of political and institutional factors. These perspectives are complemented by Stiglitz (1994), who criticizes "shock therapy" approaches and underscores the importance of sequential and context-sensitive reforms.

In addition, China's transition experience offers an important comparative reference. Qian and Xu (1993), as well as Lau et al. (2000), demonstrate that reform can proceed without creating "losers" through the dual-track system. These analyses suggest that institutional change does not necessarily require radical transformation, but can instead occur through hybrid and gradually adaptive mechanisms.

Building on these theoretical strands, this study proposes an integrated analytical framework termed "adaptive institutional change." This framework emphasizes three core elements. First, institutions are multi-layered systems that include both formal and informal components, which continuously interact (North, 1990; Ostrom, 2005). Second, institutional change is an evolutionary process, shaped by context and historical trajectories, rather than following a fixed pathway (Greif, 2006; Rodrik, 2007). Third, non-state actors, through everyday practices and informal innovations, can play a critical role in driving reform (Kerkvliet, 2005; Andrews et al., 2017). This perspective is also consistent with domestic scholarship, which highlights the central role of institutions in economic development. Luan et al. (2021) argue that institutions are not only frameworks regulating economic behavior but also key determinants of development trajectories, particularly in transition economies such as Vietnam. This reinforces the argument regarding the adaptive and context-dependent nature of institutional change.

This theoretical framework enables a reinterpretation of Vietnam's transition as a process of continuous adaptation, in which informal practices are not merely responses to institutional constraints but also sources of institutional innovation. In doing so, the study aims to contribute to institutional economics by emphasizing the role of bottom-up dynamics in shaping institutional change.

Methodology

This study adopts a qualitative approach grounded in historical institutionalism to examine institutional change in Vietnam as a dynamic process shaped by specific historical and contextual conditions. This approach enables the integration of theoretical analysis with empirical evidence to explain how institutions emerge, evolve, and become institutionalized over time (Greif, 2006). At the same time, the study builds on North's (1990, 1991) perspective by conceptualizing institutions not only as formal rules but also as informal norms and enforcement mechanisms.

In terms of research design, the paper employs process tracing to analyze the key stages of institutional transformation in Vietnam. This method allows for the identification of sequences of events and causal mechanisms, thereby clarifying how informal practices–such as "fence-breaking"–were gradually transformed into formal institutions. Kingston and Caballero (2009) emphasize that institutional change often occurs through diverse and non-linear mechanisms; therefore, process tracing is particularly suitable for capturing such complexity. In addition, the study draws on the problem-driven iterative adaptation (PDIA) framework proposed by Andrews et al. (2017), which conceptualizes institutional reform as a process of experimentation, learning, and continuous adjustment under conditions of uncertainty.

The data for this research are primarily drawn from secondary sources, comprising three main categories. First, official policy documents and formal texts–most notably those of the Communist Party of Vietnam (1986, 1991)–provide a foundation for analyzing reform orientations and the role of the state in the transition process. Second, both international and domestic academic studies on institutional economics and economic transition, such as Fforde and de Vylder (1996), Riedel and Turley (1999), Kornai (1980, 1992), and Rodrik (2007), are used to construct the theoretical framework and offer comparative perspectives. Third, empirical studies on Vietnam–including analyses of "fence-breaking," institutional reforms, and development bottlenecks (Phong, 2025a, 2025b; Kerkvliet, 2005; Pincus, 2023)–provide evidence to support and illustrate the study's arguments.

The analytical strategy follows an interpretive approach, combining inductive and deductive reasoning. Initially, theoretical concepts from institutional economics (North, 1990; Williamson, 2000) and transition theory (Roland, 2000; Stiglitz, 1994) are used to construct a preliminary analytical framework. Subsequently, through the examination of specific historical cases in Vietnam's economic development, this framework is refined and extended to better reflect empirical realities. This approach is consistent with Rodrik's (2007) argument that development models should be grounded in context-specific conditions rather than based on universal templates.

An important feature of the methodology is the simultaneous consideration of multiple institutional levels, ranging from macro-level policies to micro-level practices in everyday economic life. This allows for an analysis of the interactions between the state and society, as well as the role of informal actors in driving institutional change (Ostrom, 2005; Kerkvliet, 2005). As such, the study not only focuses on the outcomes of reform but also seeks to uncover the underlying mechanisms and dynamics of the transition process.

Nevertheless, the study has certain limitations. The reliance on secondary data may constrain the direct verification of hypotheses, while the qualitative approach may be influenced by the researcher's interpretation. However, by triangulating multiple sources of evidence and theoretical perspectives, the study aims to ensure a high level of reliability and explanatory power in analyzing institutional change in Vietnam.

Results

Pre-reform period (Pre-1986)

Prior to 1986, Vietnam's economy operated under a centrally planned model, deeply influenced by the Soviet-style socialist economic system. A defining feature of this model was the comprehensive control of the state over production, distribution, and consumption through a system of planning targets and subsidy mechanisms. In this context, the private sector was strictly constrained, while state-owned enterprises and cooperatives played a dominant role in the economy (Communist Party of Vietnam, 1986; Ninh, 1990; Tran & Le, 2017).

From a theoretical perspective, this economic model corresponds to what Kornai (1980) described as the "economics of shortage," in which demand persistently exceeds supply and resources are allocated inefficiently due to the absence of market mechanisms. This condition was clearly reflected in Vietnam's pre-reform reality, where production activities frequently faced shortages of raw materials, goods were scarce, and the distribution system was administratively rigid (Phong, 2025a). At the same time, state-administered pricing mechanisms failed to reflect actual supply–demand relations, thereby distorting market signals and weakening production incentives (Nguyen, 2017).

However, the actual functioning of the economy did not fully conform to the logic of central planning. As early as the late 1970s and early 1980s, "fence-breaking" practices began to emerge in both production and commodity circulation, particularly in agriculture and light industry. Faced with persistent shortages and practical constraints, production units proactively sought more flexible arrangements, such as output contracting, off-plan exchanges, and expanded autonomy in production decisions (Phong, 2025a). Although initially informal in nature, these practices played a crucial role in sustaining economic activity and laid the groundwork for subsequent reforms (Phong, 2025b).

Studies on economic thinking in Vietnam also suggest that, during this period, there were notable shifts in theoretical awareness, even though these changes had not yet been fully institutionalized. Phong (2025b) and Pham (2025) show that debates on the role of the market, economic efficiency, and enterprise autonomy began to emerge among scholars and policymakers. At the same time, recent analyses highlight that a multi-sector economic model and the coexistence of different forms of ownership had already begun to take shape prior to Đổi Mới (Tran, 2020; Pham, 2025).

Overall, the pre-1986 period can be understood as a phase of accumulating institutional contradictions, in which the centrally planned model revealed its inherent limitations while informal practices gradually developed as adaptive responses to practical realities. It was precisely the interaction between the crisis of the formal system and the emergence of informal mechanisms that generated momentum for subsequent reforms. This interpretation is consistent with the perspectives of Kornai (1992) and Stiglitz (1994), who argue that planned economies often contain endogenous forces that drive transition, rather than relying solely on external shocks.

"Fence-breaking" as a driver of institutional change

In Vietnam's economic transition, "fence-breaking" (phá rào) was not merely a situational economic phenomenon but also a critical mechanism driving bottom-up institutional change. The concept refers to actions that deviated from the centrally planned system in order to overcome constraints in production and distribution. According to Phong (2025a), "fence-breaking" emerged as an inevitable response to prolonged shortages and the rigidity of the economic management system, as economic actors were compelled to seek flexible solutions to sustain their activities. This observation is consistent with János Kornai's (1980) characterization of the shortage economy, in which formal institutional constraints generate incentives for informal adaptive behavior.

One of the most prominent and influential manifestations of "fence-breaking" occurred in agriculture. Prior to the formal introduction of contract-based policies, many localities spontaneously implemented output contracting arrangements at the group and household levels to improve productivity and address stagnation in cooperatives. As noted by Phong (2025a), these initiatives were initially considered deviations from the planned system but quickly demonstrated their effectiveness in practice. Kerkvliet (2005) shows that such "everyday practices" generated pressure on the state to adjust its policies, ultimately leading to the formal institutionalization of output contracting in agriculture.

In industry and distribution, "fence-breaking" also took various forms. State-owned enterprises, constrained by planning targets yet facing shortages of inputs and limited market access, actively sought alternative channels for exchange outside the plan. Phong (2025a) describes the phenomenon of "breaking the fence" in distribution, whereby production units sold goods outside official distribution systems or negotiated directly with partners to secure inputs and outputs. These practices gave rise to a form of "parallel market," which coexisted with the formal system but played a crucial role in sustaining the flow of goods within the economy.

Importantly, "fence-breaking" was not merely a short-term coping strategy but also a process of learning and cognitive transformation. Phong (2025b) indicates that through practical experimentation, policymakers and managers gradually recognized the positive role of market mechanisms and the need to grant greater autonomy to production units. This contributed to a shift in economic thinking from rigid central planning toward a more flexible approach, thereby laying the foundation for subsequent formal reforms (Nguyen, 2017; Tran, 2020). In this sense, "fence-breaking" can be understood not only as an economic phenomenon but also as a process of institutional learning. It reflects a broader transformation in development thinking, in which practice plays a leading role in shaping theoretical understanding and policy orientation. According to Pham (2025), Vietnam's Đổi Mới was not merely an adjustment of economic mechanisms but a fundamental shift in thinking, in which practical experiences became the basis for theoretical formulation and policy direction. This reinforces the argument that institutional change in Vietnam is adaptive and learning-based.

From a theoretical perspective, this phenomenon can be interpreted as a form of informal institutional change, whereby new rules emerge from practice before being formally institutionalized. North (1990) emphasizes that informal norms and practices can play a decisive role in shaping formal institutions. Complementing this view, Andrews et al. (2017) argue that institutional reform often occurs through problem-driven iterative adaptation (PDIA), in which practical solutions are gradually tested and refined rather than imposed through predefined models. The Vietnamese case demonstrates that “fence-breaking” represents precisely such a process of experimentation, where economic actors search for viable solutions under conditions of constraint and uncertainty.

Nevertheless, “fence-breaking” unfolded within an unstable institutional environment, where the boundary between legality and illegality was often blurred. This created risks for participating actors and reflected inconsistencies within the formal institutional framework. Yet, this “gray zone” also functioned as an institutional laboratory, where new ideas could be tested before gaining broader acceptance. As Pincus (2023) notes, many institutional bottlenecks in Vietnam have only been resolved when practical realities compelled policy systems to adapt.

In sum, “fence-breaking” represents a crucial intermediate stage in Vietnam’s institutional transition. It reflects the interaction between formal institutional constraints and bottom-up adaptive dynamics, while highlighting the role of informal practices in shaping the trajectory of reform. In doing so, the Vietnamese case provides strong evidence for the argument that institutional change is not solely the product of deliberate policy design but also the outcome of experimentation and adaptation in practice (Rodrik, 2007; Acemoglu & Robinson, 2012).

Economic transition in Vietnam

After 1986, Vietnam entered a period of transition from a centrally planned economy to a socialist-oriented market economy. Unlike Eastern European countries that adopted “shock therapy” reforms, Vietnam pursued a gradual, experimental, and highly adaptive approach to transition (Fforde & de Vylder, 1996; Roland, 2000). This process did not follow a comprehensive blueprint from the outset; rather, it was shaped by a combination of top-down policy reforms and bottom-up adaptive practices that had already emerged during the “fence-breaking” phase (Phong, 2025a).

One of the defining features of Vietnam’s transition has been the progressive expansion of market mechanisms in resource allocation, while maintaining the regulatory role of the state (Phong, 2025a; Pham, 2025). According to Riedel and Turley (1999), Vietnam implemented a series of key reforms, including price liberalization, trade opening, and state-owned enterprise reform, thereby creating conditions for the development of the private sector. However, these reforms were not implemented simultaneously; instead, they followed a flexible and sequential approach, reflecting a “step-by-step” strategy adapted to domestic political and economic conditions.

From the perspective of transition theory, Vietnam’s model can be compared to the “reform without losers” approach observed in China (Lau et al., 2000). Under this model, elements of the market economy are introduced alongside the existing system, resulting in a hybrid institutional structure rather than a complete replacement. Qian and Xu (1993) argue that such an approach helps reduce the political costs of reform and maintain social stability. In Vietnam’s case, the coexistence of state, collective, and private sectors reflects a multi-sector economy in which diverse forms of ownership and operational mechanisms exist simultaneously (Tran, 2020).

Empirical studies also highlight the critical role of the state in guiding and coordinating the transition process. Leung and Riedel (2001) argue that the Vietnamese state did not withdraw from the economy but instead shifted toward a “developmental” role by establishing legal frameworks and supporting emerging economic sectors. At the same time, analyses by

Tran et al. (2009) indicate that institutional quality significantly influences growth performance, particularly in reducing transaction costs and improving resource allocation efficiency.

However, the transition process has also faced significant challenges. The persistence of “institutional bottlenecks,” such as limitations in public governance, lack of transparency, and fragmentation within the policy system, has constrained the effectiveness of reforms (Pincus, 2023). Moreover, the maintenance of a hybrid institutional system has generated inherent tensions between different economic sectors and policy objectives. These issues suggest that transition is not a linear process but rather a complex and evolving one that requires continuous adjustment.

From an institutional perspective, the Vietnamese case reinforces the argument that institutional change is not solely the result of deliberate policy design but also emerges from the interaction between formal and informal elements. As Douglass North (1990) emphasizes, formal institutions can only function effectively when they are aligned with prevailing social norms and practices. This is particularly evident in Vietnam, where formal reforms have often been built upon practices that were previously tested during earlier stages.

In summary, Vietnam’s economic transition can be understood as a process of adaptive institutional change, in which reforms are implemented in a flexible manner and tailored to specific contextual conditions. This model has not only enabled Vietnam to achieve significant long-term economic growth but also provides an important case study for transition theory, particularly in highlighting the role of informal institutions and bottom-up dynamics in shaping reform processes (Rodrik, 2007; Acemoglu & Robinson, 2012).

Institutionalization

Following the “fence-breaking” phase and the initial stages of transition, Vietnam’s economic reform process entered a phase of institutionalization, in which informal practices and practical innovations were formalized into official rules and policies. This marked a critical turning point, signaling a shift from spontaneous change toward the construction of a more stable and legally grounded institutional framework.

One of the core elements of this institutionalization process was the gradual development of a socialist-oriented market economy. According to Nguyen (2017), this process aimed to establish an institutional system that simultaneously upholds market principles while maintaining the guiding role of the state. This was reflected in the creation of legal frameworks governing different economic sectors, reforms of the pricing system, and the gradual expansion of enterprise autonomy. At the same time, the separation between the state’s regulatory function and its ownership role in state-owned enterprises was identified as a key requirement for improving governance efficiency and reducing conflicts of interest (Nguyen, 2012).

The institutionalization process was also closely linked to the restructuring of the economy toward greater diversification of economic sectors. Tran (2020) shows that Vietnam transitioned from a unified economic model to a multi-sector system in which the private sector and foreign-invested enterprises have increasingly played important roles. This transformation reflects not only policy adjustments but also the accumulation of practical experience, particularly from earlier “fence-breaking” activities. As a result, economic institutions have gradually evolved toward greater flexibility, aligning with the demands of integration and development.

In addition, institutional reform has sought to address the inherent limitations of the previous system, particularly issues related to resource allocation efficiency and governance capacity. Nguyen (2017) notes that one of the major challenges has been the persistence of the "ask–give" mechanism and administrative barriers, which reduce market efficiency and generate high transaction costs. Consequently, institutional reform has extended beyond the issuance of new policies to include improvements in implementation quality and the enhancement of transparency in governance. However, the process of institutional development continues to face structural constraints. According to Thao (2017), issues such as the persistence of the "ask–give" mechanism, lack of transparency, and overlapping policy frameworks remain prevalent, undermining the effectiveness of the market economy. These challenges indicate that institutionalization involves not only the formalization of rules but also deeper reforms in governance mechanisms and state administration.

Nevertheless, the institutionalization process in Vietnam has not been fully synchronized or complete. Tran (2020) argues that the coexistence of multiple institutional elements, both formal and informal, has resulted in a "hybrid" structure in which market rules and administrative mechanisms operate simultaneously. While this hybrid system provides flexibility in economic management, it also generates tensions and inconsistencies in policy implementation. In many cases, formal regulations lag behind practical developments, creating a gap between "rules on paper" and "practices in reality."

From an institutional perspective, the institutionalization phase in Vietnam can be understood as a transition from informal to formal rules, while maintaining continuous interaction between these two levels. This aligns with North's (1990) argument that formal institutions are often built upon pre-existing social norms and practices. In Vietnam's case, policy reforms were not simply imposed from above but emerged through the accumulation and selective incorporation of practical experiences.

In summary, institutionalization has played a pivotal role in consolidating and stabilizing the outcomes of Vietnam's economic reforms. It has not only legitimized changes that emerged from practice but also laid the foundation for the long-term development of a socialist-oriented market economy. However, the hybrid nature of the institutional system also introduces new challenges, requiring continued reform and refinement in subsequent stages.

Contemporary Vietnam

Entering the current phase, Vietnam's economy has achieved significant progress in terms of growth and integration, while simultaneously revealing structural limitations related to institutional quality. Recent studies indicate that, despite successfully transitioning to a socialist-oriented market economy, Vietnam continues to face "institutional bottlenecks" that constrain the efficiency of resource allocation and long-term competitiveness (Pincus, 2023). These limitations reflect not only issues in policy design but also challenges in implementation quality and coordination across different levels of governance.

One of the most prominent issues is the incomplete development of the market-oriented institutional framework. According to Tran et al. (2009), institutional quality has a significant impact on economic growth performance in Vietnam, particularly through channels such as reducing transaction costs, improving investment efficiency, and enhancing the business environment. More recent studies emphasize the need for "institutional breakthroughs" to overcome development constraints in the new phase. Nguyen and Pham (2025) argue that current institutional reforms in Vietnam should focus on improving governance effectiveness, enhancing the business environment, and strengthening policy transparency. These orientations reaffirm the central role of institutions in promoting growth and transforming the development model (Pham, 2025). However, in practice, the persistence of administrative barriers, lack of transparency, and the “ask–give” mechanism continues to undermine the effectiveness of reforms. This suggests that institutional transformation requires not only the enactment of formal regulations but also improvements in governance capacity and policy implementation (Pham, 2025). In the context of digital transformation, institutional shortcomings have become even more evident, as legal frameworks have not kept pace with the rapid evolution of the economy. Thang and Thang (2025) note that the gap between commercial institutions and the realities of the digital economy is creating new barriers to innovation and integration. This highlights the urgent need to further refine institutions in a more flexible and adaptive manner to respond to the changing economic environment.

Recent empirical studies in Vietnam also provide additional evidence of the strong relationship between institutional quality and economic outcomes. Tien (2025) shows that institutional quality is strongly correlated with economic growth, with factors such as governance effectiveness, transparency, and policy stability playing key roles in improving productivity and attracting investment. Similarly, Toan and Truc (2021) emphasize that institutions influence growth not only through macroeconomic variables but also by shaping the behavior of economic actors, reducing transaction costs, and creating a stable and predictable business environment. Complementing these empirical findings, recent analyses of development thinking in Vietnam highlight the increasingly important role of institutions in the current development stage. According to Pham (2025), after four decades of Đổi Mới, institutional changes reflect not only adjustments in economic mechanisms but also a transformation in governance thinking and development perceptions. This suggests that institutional quality affects not only economic outcomes in a narrow sense but also shapes long-term development trajectories by influencing expectations, behavior, and policy orientation across the entire economy.

In addition, the relationship between institutions and the informal economy remains an important issue in contemporary Vietnam. Toan and Quen (2023) find that institutional quality has a direct impact on the size of the informal sector, with weaker institutions tending to expand activities outside the formal framework. This reflects the persistence of “informal” dynamics that were evident during the earlier “fence-breaking” period; however, in the current context, these dynamics may become obstacles to modernization and integration if not effectively managed.

Another notable feature is the persistence of a “hybrid” institutional structure in the contemporary Vietnamese economy. As Pincus (2023) observes, Vietnam currently operates within a system where market elements coexist with administrative management mechanisms, creating flexibility but also generating inherent tensions. This partly reflects continuity from earlier stages of transition, where reforms were implemented in an adaptive and incremental manner rather than through radical transformation. This situation can also be interpreted through the lens of “institutional voids,” where incomplete market mechanisms compel economic actors to seek alternative solutions to sustain their activities. According to Khanna and Palepu (2010), firms in emerging economies often adapt flexibly to incomplete institutional environments, thereby contributing to the formation of semi-formal economic practices.

From a theoretical perspective, the contemporary Vietnamese context reinforces the argument that institutional change is an ongoing process without a clearly defined endpoint. As North (1990) emphasizes, institutions continuously evolve in response to changes in the economic and social environment. In Vietnam’s case, this is reflected in the continued implementation of institutional reforms aimed at addressing emerging challenges associated with development and international integration.

In summary, contemporary Vietnam represents a new stage in the process of institutional transition, where achievements in economic growth are accompanied by challenges related to institutional quality and governance capacity. Continued efforts to refine institutions, improve implementation effectiveness, and reduce institutional bottlenecks will be crucial for sustaining long-term economic growth.

Growth and restructuring

In the recent development phase, Vietnam's economic growth has not only depended on expansion in scale but has become increasingly linked to the restructuring of the economy and improvements in institutional quality. After more than three decades of Đổi Mới, Vietnam has achieved impressive growth rates; however, the growth model based on low-cost labor and resource exploitation has gradually revealed its limitations. This has created a need to transition toward a growth model driven by productivity, innovation, and institutional efficiency (Nguyen, 2025; Pham, 2025).

One of the key approaches in this phase is economic restructuring aimed at improving the efficiency of resource allocation across sectors. According to Nguyen (2025), restructuring is not limited to adjustments in sectoral composition but also involves a transformation in development thinking and institutional reform to create a more conducive environment for economic actors. This is closely associated with improving governance quality, reducing transaction costs, and enhancing transparency within the economic system.

Recent studies also emphasize the role of "strategic breakthroughs" in the new growth model. Khuyen (2025) identifies three key pillars: institutional improvement, human resource development, and the construction of a modern and integrated infrastructure system. Among these, institutions are considered the foundational element, providing direction and enabling other factors to operate effectively. This highlights a shift from a purely growth-oriented mindset toward a more comprehensive approach in which institutions play a central role.

At the level of growth models, recent research proposes an integrated approach that combines economic, institutional, and social dimensions. Dien (2025) argues that an integrated growth model can help Vietnam better utilize existing resources while minimizing inefficiencies in the development process. In this context, institutional improvement is not only intended to promote growth but also to support more sustainable and inclusive development outcomes.

However, the restructuring process and the transition to a new growth model also face significant challenges. One major issue is the slow pace of institutional reform, particularly in areas such as state-owned enterprises, financial markets, and public governance. Mallon (2015) points out that although Vietnam has made considerable progress in economic reform, there remains a gap between policy design and implementation in practice. This reduces the effectiveness of restructuring programs and limits productivity gains.

Furthermore, the persistence of "hybrid" institutional elements also affects the restructuring process. As discussed in previous sections, the coexistence of market mechanisms and administrative management creates both opportunities and challenges. On the one hand, it allows for stability during the transition; on the other hand, it may lead to inconsistencies and hinder innovation. This calls for continued institutional reform toward greater transparency, coherence, and alignment with the requirements of a modern market economy.

From a development theory perspective, the Vietnamese case illustrates the close relationship between institutions and economic growth. Hall and Jones (1999) argue that differences in productivity across countries largely stem from the quality of "social infrastructure," including the institutional and policy frameworks that shape the economic environment. This perspective highlights the foundational role of institutions in creating incentives for investment, innovation, and efficient resource allocation. In Vietnam's context, this becomes particularly evident as institutional reforms not only address the shortcomings of the previous system but also serve as a prerequisite for sustaining long-term growth.

In summary, growth and restructuring in contemporary Vietnam cannot be separated from the process of institutional improvement. The transition toward a more efficient and sustainable growth model requires not only economic adjustments but also deep institutional and governance reforms. From a long-term perspective, recent analyses suggest that while Vietnam's Đổi Mới has achieved significant successes, it also faces new challenges related to growth quality and institutional capacity. According to Le (2025), after four decades of reform, the policy challenge has shifted from expanding scale to enhancing efficiency, fostering innovation, and improving institutions to support a new phase of economic take-off. This is a complex and long-term process, but one that will be decisive for Vietnam's future development trajectory.

Discussion

Comparison with institutional theory

From the perspective of institutional theory, the Vietnamese case provides important evidence for both the relevance and the limitations of classical approaches. Within the tradition of institutional economics, North (1990, 1991) emphasizes that institutions–as the "rules of the game"–play a central role in reducing uncertainty and shaping economic behavior. Under this framework, institutional change is typically understood as the outcome of adjustments to formal rules aimed at improving economic efficiency. Similarly, Williamson (2000) highlights the role of governance structures and transaction costs in explaining the formation and evolution of institutions.

However, the Vietnamese experience suggests that institutional change does not fully conform to the top-down design logic assumed in these theories. The phenomenon of "fence-breaking" and the subsequent transition reflect an adaptive mechanism of change, in which informal rules play a critical role in shaping formal reforms. This aligns with Bromley's (2019) argument that institutions are not merely sets of economic rules but also embody power relations and social norms, and therefore cannot be transformed solely through policy design.

In addition, more recent theories of institutional change offer a more flexible analytical framework. Kingston and Caballero (2009) argue that institutional change can occur through multiple mechanisms, including gradual adjustments, adaptive processes, and even informal transformations. The Vietnamese case clearly illustrates this form of change, as informal practices such as "fence-breaking" functioned as an "institutional laboratory," where new rules were tested before being formally institutionalized.

Compared with classical institutional theory, the approaches of North and Williamson remain valuable for explaining the role of institutions in economic growth and efficiency. However, they are insufficient to fully account for institutional change in transition economies such as Vietnam, where informal dynamics and bottom-up forces play a decisive role. As Bromley (2019) emphasizes, institutions must be understood in relation to their specific social and historical contexts, rather than as a set of rules that can be independently designed.

Accordingly, this study suggests the need to extend the institutional framework toward a more integrated approach, in which institutional change is conceptualized as a continuous adaptive process combining both formal and informal elements. This perspective not only provides a more comprehensive explanation of the Vietnamese case but also contributes to the development of institutional theory in a direction that is more flexible and better suited to the realities of developing economies.

Comparison with transition theory

From the perspective of transition theory, the Vietnamese case both confirms several classical propositions and poses challenges to standard models of post-planned economic reform. In foundational studies, Kornai (1980, 1992) characterizes centrally planned economies by a state of “chronic shortage,” in which soft budget constraints and administrative allocation mechanisms lead to persistent inefficiencies. Transition, in this view, is understood as the shift from a shortage economy to a market system governed by price mechanisms and competition. The Vietnamese case broadly aligns with this description, as post-Đổi Mới reforms progressively dismantled the subsidy system and expanded the role of the market.

However, unlike many Eastern European economies, Vietnam did not adopt a “shock therapy” approach but instead pursued a gradual reform strategy. Roland (2000) argues that transition strategies vary depending on political and institutional contexts, and that sequential reforms can reduce social costs and preserve stability. The Vietnamese experience demonstrates the effectiveness of this approach, as reforms were implemented incrementally, allowing the system to adapt without generating major disruptions.

Notably, Vietnam’s experience shares important similarities with China’s transition model, where reforms were carried out through a “dual-track system.” Qian and Xu (1993) argue that China’s success lay in allowing market mechanisms to develop alongside the planned system rather than replacing it immediately. Similarly, Lau et al. (2000) suggest that reforms can proceed without creating “losers” if new mechanisms are introduced in ways that do not undermine the interests of existing groups. Vietnam followed a comparable logic by maintaining the state sector while gradually expanding the private sector and deepening market integration.

Nevertheless, the Vietnamese case also highlights the limitations of traditional transition theories. Classical models often assume that reforms are designed and implemented in a top-down manner, whereas the Vietnamese experience underscores the critical role of bottom-up dynamics, particularly “fence-breaking” practices in the early stages. This suggests that transition is not merely a process of institutional replacement but also one of accumulation and adaptation of economic practices within a specific context. To address this limitation, recent studies have proposed alternative approaches that conceptualize transition as a more flexible and evolutionary process. In this regard, Tran and Santarelli (2018) employ organizational ecology theory to emphasize the role of adaptation and selection among economic organizations within a changing institutional environment, thereby offering a complementary perspective to traditional transition models.

In sum, relative to transition theory, Vietnam can be understood as a “hybrid” case that combines elements of gradual reform with informal adaptive mechanisms. This case not only reinforces the argument regarding the diversity of transition pathways but also highlights that the success of reform depends on the ability to adjust flexibly to contextual conditions, rather than adhering to a single standardized model.

Development perspective

From a development theory perspective, the Vietnamese case provides important evidence supporting the view that there is no single development model applicable to all countries. Rodrik (2007) argues that countries must develop their own "recipes" for growth ("one economics, many recipes"), grounded in their specific institutional, historical, and economic contexts. The Vietnamese experience clearly reflects this argument, as its transition process did not follow a standardized trajectory but was instead characterized by experimentation, adaptation, and context dependence.

A key element in Rodrik's (2007) approach is the role of the state in promoting development through experimental and continuously adjusted policies. This perspective aligns closely with Mazzucato (2021), who emphasizes that the state's role extends beyond "fixing market failures" to actively "shaping markets." In the Vietnamese context, the state has played a central role in guiding reform, from legitimizing "fence-breaking" practices to establishing the institutional framework for a market economy. However, unlike the proactive and strategic intervention model proposed by Mazzucato, the role of the Vietnamese state has been more adaptive, responding to changes emerging from practice rather than fully directing the transformation process.

In addition, the problem-driven iterative adaptation (PDIA) approach developed by Andrews et al. (2017) offers a particularly suitable analytical framework for interpreting the Vietnamese case. According to this perspective, institutional reform should not rely on replicating "best practices," but rather should be grounded in specific problems and implemented through iterative processes of experimentation, learning, and adjustment. This is clearly reflected in Vietnam's reform trajectory, where policies have often been formalized only after practical solutions had been tested at the local level.

Nevertheless, the Vietnamese case also reveals the limitations of contemporary development approaches. While an adaptive model helps reduce risks and maintain stability, it may also lead to fragmented reforms and the persistence of institutional bottlenecks in the long term. This raises questions about the capacity to shift from an adaptive model toward a more proactive and strategic development approach, as suggested by Mazzucato (2021).

In summary, from a development perspective, Vietnam can be regarded as a representative case of an "experimentation and adaptation" approach, consistent with the arguments of Rodrik (2007) and Andrews et al. (2017). At the same time, it suggests that the role of the state in development should be understood flexibly–not only in terms of policy design but also in terms of its capacity to learn and adjust in a continuously evolving context.

Vietnam reinterpretation

Building on the synthesis of institutional, transition, and development theories, the Vietnamese case can be reinterpreted as a model of adaptive institutional change in which bottom-up dynamics play a central role. Studies on Vietnam have shown that the Đổi Mới process was not merely the result of top-down policy design, but rather the product of complex interactions between the state and society. Kerkvliet (2005), in particular, emphasizes the role of "everyday politics," whereby citizens, through adaptive practices in production and daily life, contributed to shaping policy changes at the national level. This suggests that informal practices are not only responses to institutional constraints but also sources of institutional innovation.

In addition, economic analyses of Vietnam reinforce the argument regarding the non-linear nature of the transition process. Fforde and de Vylder (1996) argue that Vietnam's economic reform was characterized by "spontaneity under control," in which many significant changes emerged from practice before being formalized into policy. This contrasts with design-based transition models, where the state plays a central role in shaping reform trajectories. Instead, Vietnam represents a model in which the state functions both as a coordinating agent and as a learner from practice.

However, this process has also led to distinctive features in the current institutional structure. According to Pincus (2023), Vietnam operates within a "hybrid" institutional system in which market elements coexist with administrative management mechanisms. While this structure provides flexibility in economic governance, it also generates "institutional bottlenecks" related to governance, resource allocation, and policy effectiveness. This reflects the legacy of the transition process, in which informal elements and adaptive mechanisms continue to coexist with and influence formal institutions.

From a theoretical perspective, the Vietnamese case challenges linear models of institutional change. Rather than a clear transition from a centrally planned system to a market economy, Vietnam demonstrates a process of institutional evolution that is hybrid and context-dependent. This reinforces the argument that institutional change should be understood as a dynamic process, in which formal and informal elements continuously interact and adapt to one another.

In summary, the reinterpretation of the Vietnamese case suggests that transition is not merely a transformation of economic structures but also a change in the modes of institutional operation. Vietnam is not an outlier, but rather an illustration of the diversity of development pathways, in which adaptation and interaction among actors play a decisive role. In this sense, the study contributes to a broader understanding of institutional change by emphasizing the importance of bottom-up dynamics in developing economies. This perspective is also consistent with comparative studies of development in Asia. Vu (2010) argues that countries in the region do not follow a single development model but instead pursue diverse pathways shaped by historical, institutional, and political contexts. The Vietnamese case demonstrates a process of adaptive and path-dependent transition, thereby reinforcing the argument for the diversity and flexibility of development models.

Conclusion

This study has analyzed Vietnam's economic transition from the perspective of institutional change, emphasizing the role of adaptive dynamics and the interaction between formal and informal elements. By reconstructing the trajectory from the pre-Đổi Mới period, through the phenomenon of "fence-breaking," the transition process, institutionalization, and contemporary development, the findings demonstrate that economic reform in Vietnam has not been a linear process nor purely the result of top-down design. Rather, it is a dynamic process in which practical experiences have played a crucial role in shaping and driving institutional change.

From a theoretical standpoint, the study contributes to extending the institutional economics framework by highlighting the importance of informal factors and adaptive mechanisms in institutional transformation. The Vietnamese case shows that classical institutional theories, while valuable in explaining the role of formal rules, are insufficient to fully account for transition processes in developing economies. Instead, a more flexible analytical framework is required, in which institutional change is understood as an evolutionary process shaped by historical context and interactions among diverse actors.

From the perspective of transition and development theories, the study confirms that there is no universal model of reform. Vietnam has followed an adaptive transition path that combines gradual reforms with practical experimentation. This approach has not only helped maintain stability during the transition but has also enabled the accumulation of experience and the continuous adjustment of policies over time. However, this characteristic has also resulted in the persistence of “hybrid” institutional structures and bottlenecks in the current stage of development.

In practical terms, the findings suggest that further institutional improvement in Vietnam should focus on enhancing the quality of policy implementation, rather than merely issuing new regulations. This requires strengthening the capacity of the state apparatus, improving accountability, and reducing administrative barriers that increase transaction costs for businesses. At the same time, promoting transparency and consistency within the policy system will help reinforce market confidence and improve the efficiency of resource allocation. Moreover, Vietnam should continue to draw on lessons from its past adaptive processes–particularly flexible mechanisms and policy experimentation–to design solutions suited to the evolving context. In the context of accelerating digital transformation and deepening international integration, institutional frameworks need to be designed in a more open and adaptive manner, capable of supporting innovation and fostering sustainable long-term growth.

However, the study is subject to several limitations. First, the reliance primarily on secondary data and qualitative methods may not fully capture the micro-level dynamics of institutional change, particularly the behavior of firms and economic actors in specific contexts. In addition, the synthetic and generalizing approach adopted in this study may limit the ability to precisely measure the impact of individual institutional factors on economic outcomes. Therefore, future research could be extended by incorporating quantitative methods, utilizing micro-level or panel data to test hypotheses more rigorously. At the same time, conducting case studies at the sectoral or local level would help clarify the underlying mechanisms and variations in institutional change processes, thereby providing deeper empirical evidence to support the arguments advanced in this study.

In conclusion, the Vietnamese case demonstrates that institutional change is not merely the result of deliberate top-down policy design, but also the outcome of continuous processes of learning, experimentation, and adaptation in practice. This process reflects complex interactions among the state, the market, and social actors, giving rise to a development trajectory that is both context-specific and path-dependent. Such insights not only contribute to a deeper understanding of Vietnam’s development pathway but also suggest that transition economies should adopt flexible reform strategies rather than relying on standardized models. Furthermore, the study contributes to the broader theoretical literature on institutional change by emphasizing the role of informal dynamics and adaptive mechanisms in development processes, particularly in the context of deepening globalization and digital transformation.

Disclosure Statement

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