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The Ethnic Chinese and Economic Development in Vietnam: an Instrumental

Variable Approach

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Abstract

The ethnic Chinese immigrants are commonly known to have played an important role in facilitating trade and commercial activities in the economic history of host countries in Southeast Asia. This paper carries out an econometric analysis to evaluate the impact of the ethnic Chinese on the economic development in Vietnam during the period of market reform. In order to address the endogeneity of the geographical distribution of this ethnic group, we note an important historical episode that, between 1978 and 1981, the Vietnamese Communist Party's policies to transform the South Vietnam to a centrally planned economy and the deterioration in Sino-Vietnamese diplomatic relationship caused a large number of the ethnic Chinese population to flee abroad and, in particular, to the refugee camp in Guangxi province of China. We exploit this mass outflow of the Chinese population in constructing instrumental variables to extract the exogenous variation in the share of Chinese population across provinces. We find that southern provinces had smaller share of Chinese population in 1989 than northern provinces, and more importantly, that the difference was large when the share of Chinese population was large to begin a decade earlier. We also find that provinces located closer to the refugee camps tend to have smaller share of Chinese population in 1989, and again that the proximity to the refugee camps seems to be more important for provinces which had a larger presence of the ethnic Chinese population in 1979. In the second stage instrumental variable regression, we find positive correlations between the 1989 share of ethnic Chinese population and indicators of economic performance such as per capita Gross Domestic Product (GDP), per capita non-state industrial productions, share of workforce working in state-sector, and population density, and negative correlation between the share of ethnic Chinese and share of population living in poverty. The results suggest that the ethnic Chinese had positive effects on the economic development of Vietnam and these effects seem to persist to date, suggesting that the historical shocks that negatively affected some of the regional economies in Vietnam in the 1970s and 1980s have had long term negative impacts even after the decades of the market reform.

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