

*Lars Herold*

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# Building a Market Economy in North Korea and Vietnam

KEY LESSONS FROM THE CHINESE,  
RUSSIAN, AND GERMAN EXPERIENCES

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# Abstract

The appropriate turnaround strategy for a country depends largely on its starting position, the level of political complexity and consensus, the degree of ideological indoctrination, understanding of basic principles of a market economy, as well as the availability of external partners for support through financial resources or skills. The following success factors apply commonly to the turnaround approaches observed in Germany, Russia, and China:

- Keep a realistic time frame in mind when communicating the objectives and potential benefits of the transition
- Accept and communicate the possibility of mistakes and necessary policy corrections along the transition process early on
- Build and maintain political support and maintain long-term perspective
- Emphasize the creation of SMEs, which is at least equally important as privatization

For *North Korea*, even under favorable circumstances the introduction of a functioning market economy will be a task that will take at least one to two generations. A quick unification with the South appears to be neither likely nor suitable for North Korea due to the enormous wealth and ideology gap between the North and the South. A gradual opening seems more suitable, with a short-term focus on "feeding the nation" and building basic infrastructure, a medium-term emphasis on liberalizing the tight ideology and encouragement of entrepreneurial activity, and a long-term prospect of economic growth and eventual unification.

In *Vietnam*, the first wave of reforms, which was launched in the late 1970s, has subsided due to opposing political forces. The "young" generation of leaders, which has risen to power, needs to adjust the ideological rhetoric in a way that embraces the fundamental principles of a market economy and unites the political currents to resume the reform process. At the heart of the country's road to market economy are the overhaul of the administration, the creation of a sound institutional and legal framework, and the setting of positive incentives for private enterprise.

僅獻給我的母親、父親和弟弟，  
感謝你們無條件的愛。

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