

THE LONG-TERM IMPACT OF A PROXY WAR ON FOREIGN DIRECT INVESTMENT: THE CASE OF U.S. BOMBING FROM 1965 TO 1973 ON INVESTMENT IN VIETNAM

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ABSTRACT

Can foreign intervention in civil wars or proxy wars create a long-term impact on economic exchanges between the foreign intervenors and the intervened state? Could the regions belonging to the two opposing and warring sides in the civil war react differentially to economic exchanges with the foreign intervening powers?

We draw on one of the longest and most brutal wars of the second half of the 20th century: the Vietnam War (1955–1975). It involved the United States and the Soviet Union supporting opposing sides in a conflict to advance their geopolitical interests. The U.S. forces carried out the longest and most intense aerial bombardment in the recorded history.

Since 1995, U.S. investment in Vietnam has grown rapidly. Leveraging detailed data on U.S. bombing campaigns in Vietnam, our analysis reveals no statistically significant overall association between bombing intensity and U.S. investment. However, in the former North Vietnam region, provinces exposed to higher bombing intensity experienced reduced U.S. investment inflows. By contrast, in the former South Vietnam region, provinces with elevated bombing levels saw a corresponding increase in U.S. investment. This can be attributed to the differing nature of U.S. bombing: In North Vietnam, U.S. bombing attacked the Northern regime, whereas in South Vietnam, it defended South Vietnam.

At the same time, the provinces with high-intensity bombing in South Vietnam have less investment from Russia and the former Soviet Union republics. But investment from Russia and former Soviet Union in general does not significantly increase in Northern Vietnam.

Keywords: Vietnam War, War, U.S. Bombing, North and South Vietnam, Foreign direct investment

INTRODUCTION

The existing literature examining the long-term impacts of armed conflicts on economic exchanges between the warring states typically focuses on interstate wars where each party is a homogenous polity. In reality, foreign intervention in civil wars or proxy wars are a recurring phenomenon. Can foreign intervention in civil wars or proxy wars create a long-term impact on economic exchanges between the foreign intervenors and the intervened state? Could the regions belonging to the two opposing and warring sides in