RAPID AND SUSTAINABLE GROWTH IN VIETNAM: LESSONS FROM THE "MIRACLE" EAST ASIA

Pham Dinh Long, Ho Chi Minh City Open University
Duong Tien Ha My, Ho Chi Minh City Open University

ABSTRACT

Over the last decades, economists have argued about the economic growth of East Asian countries such as Japan, South Korea, Hong Kong (China), and Taipei (China) and Singapore. Although economists agree that these countries have achieved impressive growth, they offer conflicting interpretations in relation to the origins of such growth. The main purpose of this paper is to synthesize and systematize studies and assessments of economists to draw lessons for rapid and sustainable growth in Vietnam. Notably, it is suggested that due to market imperfections, the government should apply incentives policies to encourage areas such as infrastructure, human capital, finance, and technology.

Keywords: Rapid and Sustainable Growth, Neo-classical Economics, The "miracle" East Asia, Vietnam.

JEL classification: O11, P21

INTRODUCTION

For decades, the world has witnessed the miraculous development of Asian countries including Japan, South Korea, Hong Kong (China), and Taipei (China) and Singapore. These countries have achieved impressive success and become advanced economies in the world. This is reflected in indicators such as high growth rates, an increase in per capita income, trade balance, a narrowing gap between these countries and the West. Furthermore, certain countries have succeeded in reducing income inequalities and removing poverty as well as improving the lives of people (World Bank, 1993, 2001).

For instance, in the 1970s some Leftist critics described Korea as "a house built on sand" or "tottering neo-colony". Many economists in this period also expressed skepticism whether Korea could escape their economic dependence on the United States. Nevertheless, during the following decades, Korea has experienced remarkable achievements. Wade (1992) shows that the country has successfully implemented at least four indicators. First, Korea is the only country moving from "periphery" to "semi-periphery" between 1938-1950 and 1975-1983. Second, it has achieved great success in industrial transformation. The other two successes of Korea are related to international trade and poverty reduction.

Asia's miracle growth has led to numerous debates among different economic schools. Some perspectives may be contradictory. In such a context, the paper aims to synthesize and systematize studies and assessments in order to serve two objectives. First, it provides an overview of the growth of East Asian economies. Second, it suggests lessons for the rapid and sustainable growth of Vietnam in the future. This is based on the perspectives of Belkin (2009) and Salamzadeh (2020) that the contribution of theory can be made through studying the relationship between different schools and considering theories in a new context.

Citation Information: Long, P. D., My, D. T. H. (2020). Rapid and sustainable growth in Vietnam: lessons from the "miracle" East Asia. Journal of Management Information and Decision Sciences, 23(2), 145-149.

The paper is divided into 5 sections. After the introduction, section 2 discusses the neoclassical approach to the growth of East Asian countries. Section 3 mentions controversies over the approach of neoclassical economics. Lessons for Vietnam and policy implications are presented in section 4. Section 5 concludes the main contributions of this study and suggests further research.

THE MIRACLE EAST ASIA AND THE NEO-CLASSICAL ECONOMICS APPROACH

Neoclassical economics emphasizes the self-regulating and self-adjusting market. Consequently, economists of this school suggest that the government should intervene in the economy as little as possible. Specifically, the government should only supply public goods such as infrastructure or economic stability, and leave the rest for the market. This is because the government intervention can lead to market distortions which cause negative impacts. Neoclassical economists argue that the miraculous development of East Asia countries strongly affirms the effectiveness of such ideas.

Notably, they indicate that the keys for this success are free market and little government intervention (White & Wade, 1988). Riedel (1988) concludes that the success of East Asia is strong evidence for the validity of neoclassical economics principles including the self-regulation of the market. Accordingly, he mentions: "… neo-classical economic principles are alive and well, and working particularly effectively in the East Asian countries. Once (…) the most obvious distortions corrected, markets seem to do the job of allocating resources reasonably well, and certainly better than centralized decision-making" (Riedel, 1988). For this reason, the author recommends that governments should eliminate extensive control strategies for industrialization, as they are barriers to development. Meanwhile, Lawrence & Weinstein (2001) focus on studying the relationship between trade and growth in Japan. The authors suggest that liberalization between Japan and other East Asian countries might lead to "future dynamic gains".

CONTROVERSIES ABOUT THE VIEW OF NEOCLASSICAL ECONOMICS REGARDING THE EAST ASIA'S SUCCESS

There are various debates about the findings of neoclassical economists. For instance, in a book called Rethinking the East Asian miracle published by World Bank, Jomo (2001) suggests that studies in The East Asian Miracle: Economic Growth and Public Policy (World Bank, 1993) may not fully explained "the undeniable achievements of state intervention". The author thus reconsiders the role of the government in the success of East Asian countries.

Doraisami and Rasiah (2001) claim that the government support has a positive and necessary impact on exports, especially in the early stages of industrialization, "in the form of information, coordination, marketing, finance, and incentives." Market forces alone may not be able to solve these issues.

Jomo (2001) indicates that government intervention is particularly essential and important in at least four areas, namely trade, finance, human resources, and technology and marketing. Notably, Chin and Jomo (2000) and Chin (2001) show that in the long run, since the private sector may not invest adequately in facilities, the government should have specific policies to support this sector. Meanwhile, Felker and Jomo (1999) argue that the government should spend resources to invest in technology or provide support for investment in technology. Such investment can be costly, but it brings great benefits to the whole society.

Citation Information: Long, P. D., My, D. T. H. (2020). Rapid and sustainable growth in Vietnam: lessons from the "miracle" East Asia. Journal of Management Information and Decision Sciences, 23(2), 145-149.

Another study which strongly criticizes the view of neo-classical economists is Amsden (1989). The author rejects the notion that the miraculous growth of East Asian countries is due to free market and little government intervention. Instead, she suggests that a key to the rapid growth of East Asian countries is the government intervention in the market. Explaining why countries such as Korea have achieved results that many other countries fail to do, the author indicates that "It may be said that growth has been faster in Korea not because markets have been allowed to operate more freely but because the subsidization process has been qualitatively superior: reciprocal in Korea, unidirectional in most other cases" (Amsden, 1989).

Other perspectives believe that domestic demand is an important resource to promote economic development. In China's Democracy Path, Fang (2015) emphasizes that China government has implemented various policies to expand domestic demand, especially consumer demand, to maintain economic development. In this regard, Nejati et al. (2011) indicate that purchase behaviour, especially towards ecological products, can be enhanced through subjective norms. Thus, the authors suggest companies should employ suitable strategies in the context of increasing consumer demand for eco-friendly products.

LESSONS FOR VIETNAM AND DISCUSSION

The average growth rate of Vietnam over the past 10 years (from 2007 to 2017) is around 6.11%. We strive to promote a fast and sustainable economy. Certainly, this is not simple in the context of VUCA (volatility, uncertainty, complexity and ambiguity). Furthermore, due to the increasingly flat world and the dramatic spillover of the 4.0 technology revolution, decisions and policies of developed economies will quickly affect smaller countries including Vietnam. Therefore, we need a suitable direction in developing the economy.

In this regard, Bui (2019) employs the Autoregressive Distributed Lag (ARDL) approach to study the relationship between inflation and stock index in Vietnam during 2004-2018. Notably, it is shown that a significant rise in inflation can negatively affect stock index. Based on such a finding, the author suggests that in order to enhance the stock market and grow sustainably, a country should develop proper policies to control inflation.

Meanwhile, Nguyen et al. (2019) investigate the impact of government expenditure on economic growth in 10 Southeast Asian countries (ASEAN), namely Vietnam, Thailand, Indonesia, the Philippines, Singapore, Malaysia, Myanmar, Laos, Cambodia and Brunei. They indicate that government spending affects economic growth and that this optimal spending should be approximately 21.05% of GDP. Consequently, the authors suggest that the government can contribute to economic growth by maintaining appropriate spending levels.

Yusuf (2001) suggest that countries need to focus on four main strands which are macroeconomic fundamentals, bureaucracy, activist policies and a pragmatic approach. World Bank (1993, 2001) recommended that in order to increase economic growth, several factors need to be considered. These include macroeconomic stability, high savings and investment rates, low level of poverty, high quality workers, enhanced export, successful industrialization, foreign direct investment (FDI) attraction and technology transfer. Such findings are supported by Ito (1997, 2000).

Based on the aforementioned studies, we suggest that for the rapid and sustainable development, Vietnam government should consider to apply suitable policies. Particularly, the government may implement specific measures (for example, by tax and subsidy) to

Citation Information: Long, P. D., My, D. T. H. (2020). Rapid and sustainable growth in Vietnam: lessons from the "miracle" East Asia. Journal of Management Information and Decision Sciences, 23(2), 145-149.

encourage businesses which operate effectively and to "punish" ineffective businesses. Moreover, the government should control inflation and public expenditure to promote economic growth. Finally, they should invest or have incentives policies in areas such as technology, education, trade and finance. This will serve as a foundation for boosting the market and the private sector, thereby enabling the economy to grow rapidly and sustainably.

CONCLUSION

Rapid and sustainable growth has always been the target of countries in the world. World Bank (2001) argues that countries in the region have opportunities to bridge the gap with developed countries. However, each country has its own difficulties to address in order to achieve rapid and sustained economic growth (Stiglitz, 2001).

We suggest that the role of government in the economy is undeniable. This is further confirmed through the 1997 crisis and the 2008 financial crisis, as well as the 4.0 technology revolution. In fact, the government should consider to enact incentives policies in areas such as infrastructure, human capital, finance, and technology to promote the economy. This assessment is similar to the reviews of studies including Long et al. (2018, 2019), Ito (1997, 2000), Jomo (2001) and World Bank (2001).

REFERENCES

Amsden, A. H. (1989). *Asia's next giant: South Korea and late industrialization.* New York: Oxford University Press.

Belkin, L. Y. (2009). Emotional contagion in the electronic communication context: Conceptualizing the dynamics and implications of electronic emotional encounters in organizations. *Journal of Organizational Culture, Communications and Conflict*, *13*(2), 105-122.

Bui, T. N. (2019). Inflation and stock index: evidence from Vietnam. *Journal of Management Information and Decision Sciences*, *22*(4), 1-11.

Chin, K. F. (2001). Financing Manufacturing in Malaysia: Experience, Issues, and Challenges. Jomo K. S. ed., *Southeast Industrialization*. Basingstoke: Palgrave.

Chin, K. F., & Jomo, K. S. (2000). Financial Sector Rents in Malaysia. Jomo K. S. & Khan M., eds., *Rents, Rent-Seeking, and Development*. New York: Cambridge University Press.

Doraisami, A., & Rajah R. (2001). *Fiscal Incentives for Promotion of Manufactured Exports in Malaysia.* Jomo K. S. ed., *Southeast Asia's Industrialization.* Basingstoke: Palgrave.

Fang (2015). *China's Democracy Path*. Springer-Verlag Berlin Heidelberg.

Felker, G. (2000). Industrial Policy and Industrialization in Malaysia and Thailand. Jomo K. S. ed., *Southeast Asia's Ersatz Industrialization.* Basingstoke: Macmillan.

Ito, T. (1997). *What Can Developing Countries Learn from East Asia's Economic Growth?* Annual World Bank Conference on Development Economics 1997. 183-200.

Ito, T. (2000). *Perspectives on Asian Economic Growth: Neoclassical Growth vs. Flying Geese Growth*. Economic Planning Agency, Japan, ed., The East Asian Economic Growth with Industrial Structural Changes, Chapter 1, Economic Planning Agency, Tokyo.

Jomo, K. S. (2001). Rethinking the Role of Government policy in Southeast Asia. *Rethinking the East Asia Miracle*. Stiglitz, J. E. And Yusuf, S., 461-508, New York: Oxford University Press.

Lawrence, R. Z., & Weinstein, D. E. (2001). Trade and Growth: Import-led or Export-led? Evidence from Japan and Korea. *Rethinking the East Asia Miracle*. Stiglitz, J. E. And Yusuf, S., 379-408, New York: Oxford University Press.

Long, P. D., Ngoc, B.H., & My, D.T.H. (2018). The relationship between foreign direct investment, electricity consumption and economic growth in Vietnam. *International Journal of Energy Economics and Policy*, *8*(3), 267-274

Long, P. D., Ngoc, P.T.B., & Görg, H. (2019). Trade Liberalization and Labor Market Adjustments: Does Rent Sharing Matter? *Emerging Markets Finance and Trade*, *55*, 1-14.

Nejati, M., Salamzadeh, Y., & Salamzadeh, A. (2011). Ecological purchase behaviour: insights from a Middle Eastern country. *International Journal of Environment and Sustainable Development*, *10*(4), 417-432.

Citation Information: Long, P. D., My, D. T. H. (2020). Rapid and sustainable growth in Vietnam: lessons from the "miracle" East Asia. Journal of Management Information and Decision Sciences, 23(2), 145-149.

Nguyen, T. M. L., Phan, T. H. N & Phan, T. T. (2019). The Optimal Public Expenditure Decision: A Case Of Economic Growth In Southeast Asian Countries. *Journal of Management Information and Decision Sciences*, *22*(2), 1-14.

Riedel, J. (1988). Economic Development in East Asia: Doing What Comes Naturally? Helen Hughes, ed., *Achieving Industrialization*, 9-13, Cambridge, U.K.: Cambridge University Press.

Salamzadeh, A. (2020). What constitutes a theoretical contribution? *Journal of Organizational Culture, Communications and Conflicts*, *24*(1), 1-2.

Stiglitz, J. E. (2001). From Miracle to Crisis to Recovery: Lessons from four decades of East Asian experience. *Rethinking the East Asia Miracle*. Stiglitz, J. E. And Yusuf, S., 509-526, New York: Oxford University Press.

Yusuf, S. (2001). The East Asian Miracle at the Millennium. *Rethinking the East Asia Miracle*. Stiglitz, J. E. And Yusuf, S., 2-53, New York: Oxford University Press.

Wade, R. (1992). East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence. *World Politics*, *44*(2), 270-320.

White, G., & Wade, R. (1988). *Development States and Markets in East Asia: An Introduction*. Gordon White, ed., *Developmental States in East Asia.* New York: Macmillan Press.

World Bank (1993). *The East Asian miracle: Economic growth and public policy*. New York: Oxford University Press.

World Bank (2001). *Rethinking the East Asian miracle*. Washington, DC: World Bank and Oxford University Press.

Citation Information: Long, P. D., My, D. T. H. (2020). Rapid and sustainable growth in Vietnam: lessons from the “miracle” East Asia. Journal of Management Information and Decision Sciences, 23(2), 145-149.