

Good Enough for Jazz: Vietnam's Road to Be an Emerging Market

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Abstract

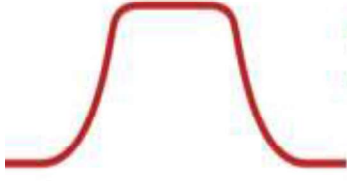
In political economic studies, it is widely discussed the development patterns of most-income countries, especially the ones which are seen, once upon a time, as the “third-world” countries such as Japan, South Korea, China. Although their stories are charming and interesting, for us, the processes that these countries went through constitute very complex and hard-to-believe images for other countries in which, even in today, poverty is literally a crucial problem. On the other hand, there are stories in the economic history which offer, arguably, simpler and trackable ways of development for the countries which are already being suffered by hunger, economic instability such as Sub-Saharan African countries and closed economies of Asia. Vietnam, as an old low-income country, constitutes a hopeful adaptable example to deal with the “scarcity-generating mechanisms” of “under-developed” countries. In this paper, firstly, we are going to describe briefly what were the mechanisms that generate poverty in Vietnam. Then, we will look to how and which legislative, economic regulations and institutions converted a closed, interventionist economy into a coordinated export-oriented one which brought economic growth. Lastly, we will try to understand implications of this economic success and discuss in which ways Vietnam's road to be an emerging market can constitute a sample for other low-income countries.

Keywords: Vietnam, Economic Growth, Growth Measurement, Developing Economies, Wealth Data

JEL Codes: N15, N25, O10, O47, O53

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Düşük Gelir Grubundan Büyüyen Bir Ekonomiye: Vietnam'ın Hikâyesi

Özet

Siyasal İktisat çalışmalarında, özellikle Japonya, Güney Kore, Çin gibi bir zamanların “üçüncü dünya” ülkeleri olarak görülen, şimdi ise yüksek gelir grubu ülkelerinin kalkınma modelleri yaygın olarak tartışılmaktadır. Hikayeleri hem uluslararası gözlemcilerin hem de akademisyenlerin ilgisini çekse de bu ülkelerin geçirdiği dönüşüm, bugün hala yoksulluğun hayati bir sorun olduğu düşük gelir grubundaki ülkeler için çok karmaşık ve uygulanması zor gözükten modeller teşkil etmektedir. Öte yandan Vietnam'ın, halihazırda açıklıktan ve ekonomik istikrarsızlıktan mustarip olan Asya'nın içe dönük ekonomi ekonomileri ve Sahra altı Afrika ülkeleri için daha basit ve izlenebilir bir siyasi ve iktisadi politika seti sunduğunu düşünüyoruz. Bu yazıda, öncelikle Vietnam'da fakirliği var eden “mekanizmaların” neler olduğunu kısaca açıklayacağız. Daha sonra hangi hukuki ve ekonomik düzenlemelerin kapalı, müdahaleci bir ekonomiyi ihracat odaklı bir ekonomiye dönüştürdüğünü inceleyeceğiz. Bu dönüşümün getirdiği ekonomik başarıyı sayısal verilerle ortaya koyduktan sonra, bu başarının etkilerini anlamaya çalışacak ve Vietnam'ın dönüşümünün diğer düşük gelirli ülkeler için nasıl bir örnek teşkil edebileceğini tartışacağız.

Anahtar Kelimeler: Vietnam, Ekonomik Büyüme, Büyüme Ölçümü, Gelişen Ekonomiler, Varlık Verileri

JEL Kodlar: N15, N25, O10, O47, O53

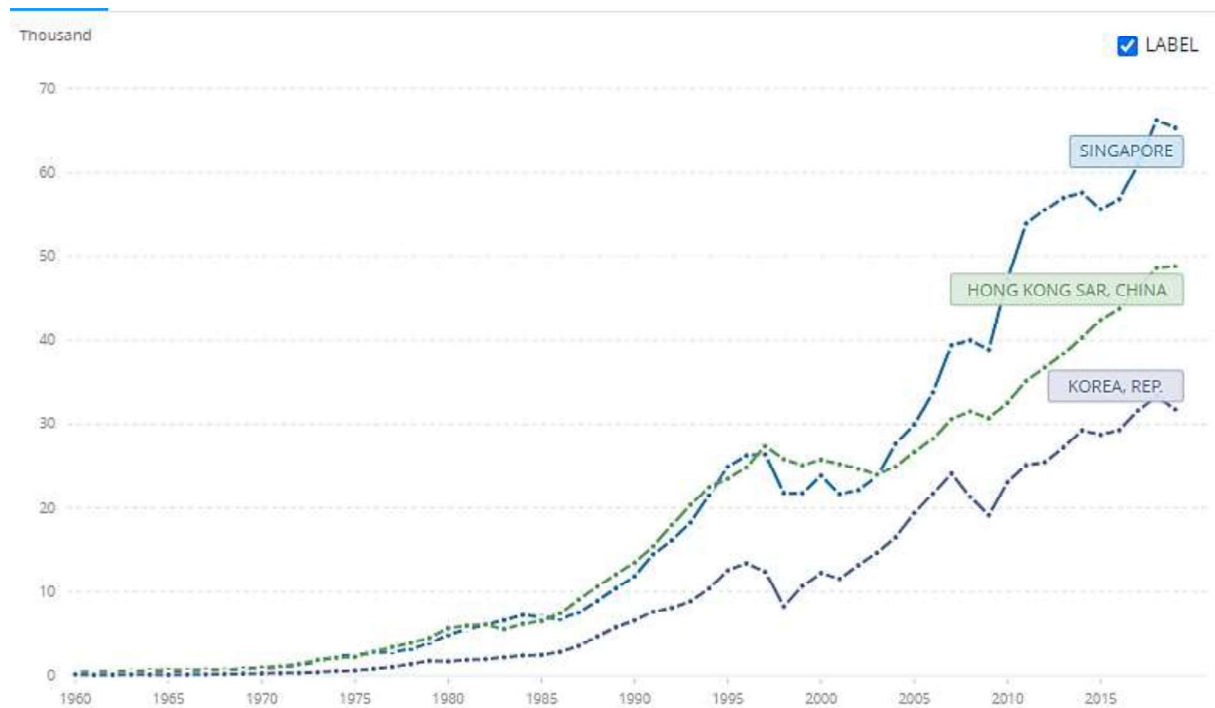
1. Introduction

Good enough for jazz; that is, it is good enough, so, it meets the purpose, although it is not perfect. The story of Vietnam's development may be best explained by this pattern; it may not be the miracle of the century or the Tiger or Dragon of Asia, but it is good enough.

The four countries of South Asia; Singapore, Hong Kong, South Korea and Taiwan, were described as “Asian Tigers” due to their development in the last quarter of the last century. The common feature of the Asian Tigers was their rapid industrialization and export orientation. Hong Kong and Singapore have become influential on financial centers globally, while South Korea and Taiwan have made notable breakthroughs in the automotive, electronics and IT sectors.

Graph-1:GDP per capita (current US\$) - Singapore, Hong Kong SAR, China, Korea, Rep.

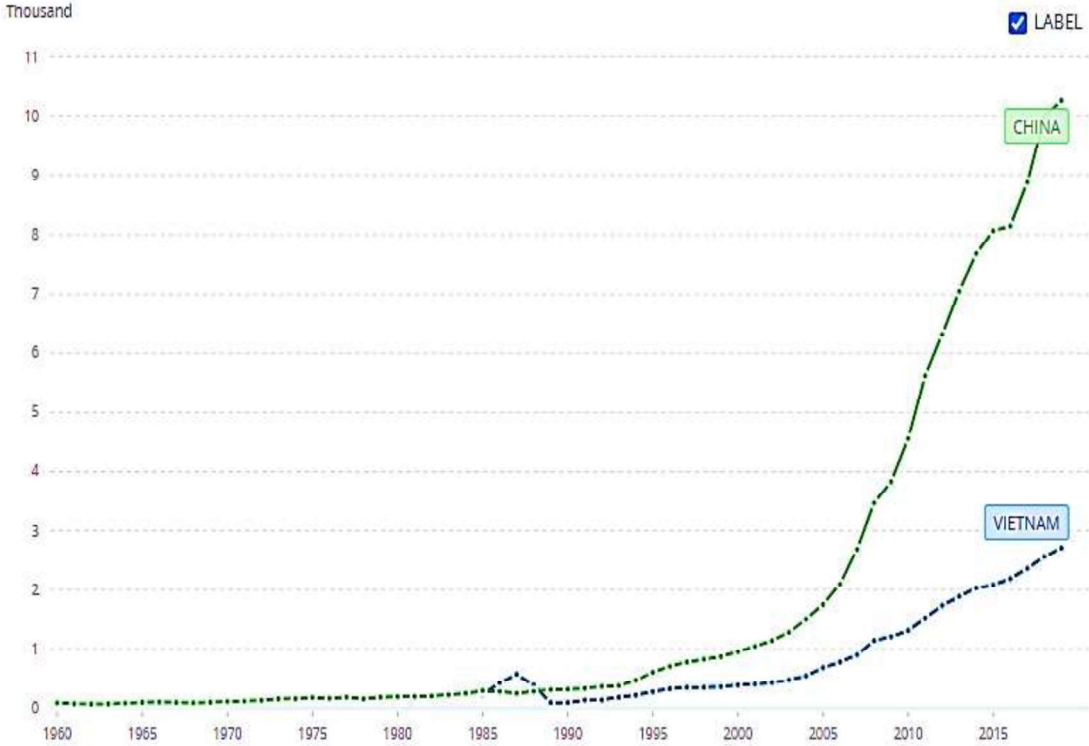
Source:<https://data.worldbank.org/share/widget?indicators=NY.GDP.PCAP.CD&locations=SG-HK-KR>



This nearly 30-year process of high economic growth and transformation was shown as a model for many countries during the liberalization period in the 1980s. While the efficiency of human resources was increased through education, savings were increased, and the public sector supported the growth process by making large savings. This development process was shaken by the Southeast Asian crisis that broke out in 1997, but continued thereafter.

When talking about the rising Tigers of Asia, we should also refer to China, the "Dragon" of Asia. China, which did not make itself apparent economically much until the 1980s, in fact, experienced serious misery, also began to mention itself after these dates. In the 1980s, China also switched to an export-oriented strategy. Since there was an abundance of labor, workers were prepared to work on low wages and as costs were low, there were significant increases in supply. Besides, as the rate of urbanization was low and the consumption of the countryside was insufficient, there had been a huge surplus of supply that can be exported and China grew rapidly. The world's major brands and multinational companies had begun to shift their production to this country due to cheaper costs. China's rapid capitalist transformation was surprising. After all, China has become the second largest economy in the world with this rise.

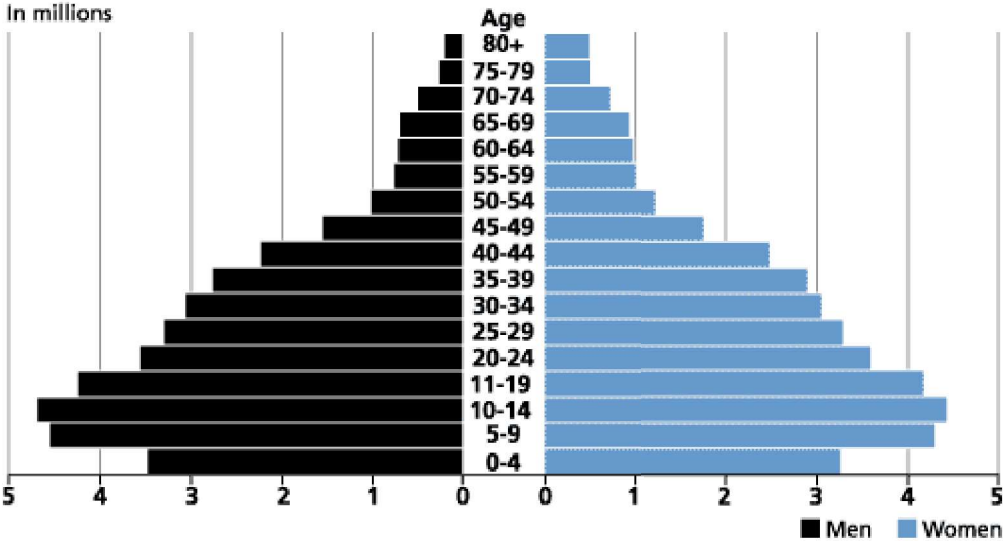
Graph-2: GDP per capita (current US\$) - Vietnam, China



Source: <https://data.worldbank.org/share/widget?indicators=NY.GDP.PCAP.CD&locations=VN-CN>

Vietnam, which was as poverty-stricken as a Sub-Saharan country as a result of the long war before 1990, has the second fastest growth rate in the world after 1990, reminds us of the miracle of the Asian Tigers mentioned above. The Economist (2016) estimates that if Vietnam can maintain a 7% pace over the next decade, it will follow the same path as Asian Tigers.

Graph-3: Vietnam Population Pyramid 2000



Source: Ministry of Health, Health Statistical Yearbook 2000.

Vietnam's one of biggest advantage is its rapidly growing labor force. About 75 percent of the population in the country is under the age of 40, and the literacy rate is quite high. As Vietnam transitioned to a higher-value economy, the importance of creating productive jobs to meet its labor needs increased more. Equipping this young workforce with sufficient skills is also an agenda for the expanding manufacturing and service sector (Elder, 2014). Vietnam has set a goal of increasing the proportion of trained employees to 60-62% by the end of 2019, and 24-25% of employees have a certificate (VNA, 2019). Another important driver of the economy is international trade agreements.

Vietnam's participation in the Association of South East Asian Nations (ASEAN) Free Trade Agreement in 2001. With Vietnam's participation into the World Trade Organization (WTO) in 2006, it became the first developing Asian country to join the WTO after China in 20th century. WTO membership led to significant changes in the country's economic and trade regime to integrate with world trade. Also, allowing trade liberalization for Vietnam, it facilitated access to foreign markets, and thus increased exports, especially in textiles. In addition, the extra power it received from the Trans Pacific Partnership (TPP), a joint trade agreement with the United States that covers 11 countries which is signed in 2015, has also had a big impact on Vietnam's growth. On the other hand, these agreements and WTO membership together with the protection of intellectual property rights, privatization of state-owned enterprises, such as the need to make legal arrangements to the agenda, made the country more attractive for foreign investors (Ni, 2016).

In developmental studies, it is widely discussed the development patterns of most-income countries, especially the ones which are seen, once upon a time, as the "third-world"

countries such as Japan, South Korea, China. Although their stories are charming, the processes that these countries went through constitute a complex and hard-to-believe image for other countries in which, even in today, poverty is literally a crucial problem.

On the other hand, there are stories in the economic history which offer, arguably, simpler and trackable ways of development for the countries which are already being suffered by hunger, economic instability such as Sub-Saharan African countries and closed economies of Asia. Vietnam, as an old less-income country, constitutes a hopeful and adaptable example for these cases as we will show. We argue, Vietnam's transformation is based on simply its structural transitions which allow the market to do its job. Therefore, Vietnam's road would be a path for other low-income countries we wish this article to contribute for further research on Vietnam in that regard.

2. Literature Review

2.1. Which Success?

These words are repeatedly mentioned so far in this article: Development, growth, success. This section aims to make a sense of what is meant by these words for Vietnam's case. If we consider Vietnam as a "new Asian Tiger", it is necessary to understand what the concepts mentioned above also mean in the context of the Asian Development. The rise and development of Asia has shown itself in all areas of social life, such as the transition to a market economy, migration from rural areas to city, transition from the labor-intensive production to the advanced use of technology and women's role in the economy. One of the evidence of how successful Asian countries were in this process is that, while they were in the group of countries with the lowest income level at the end of the Second World War, they made huge strides along with the development process and rose to the top position in terms of income level. Development has not only been limited to the economic dimension; it has been realized in many areas such as art, sports, philosophy, environment, urbanization, politics.

In the development of Vietnam, which is next to the 4 Tigers of Asia and The Dragon of Asia, the wind in the region has also had an effect. It has been a good alternative to China with its young workforce army and policies that attract foreign investment. In the same way, Vietnam has achieved surprising rankings in education, as we have seen in South Korea before. In the PISA 2009 assessment of 15-year-olds, Korea is the top-performing OECD country in reading and mathematics and among the top-performing OECD countries in science (OECD, 2014). Vietnamese education experts also regularly examine curriculum reform in high-performing countries such as Korea. Based on the PISA results in 2012, Vietnam is one of the highest performing countries among the countries taking part in the test, despite being one of the countries with lower income per capital. Vietnam is one of the highest performing countries among the countries taking part in the test, despite being one of the countries with lower income per capital.

In addition, A McKinsey Global Institute report (2019) finds that \$12 trillion could be added to global GDP by 2025 by advancing women's equality. For Vietnam, the official equality of men and women in society is recognized as one of the legacies of the socialist revolution. In the Vietnam, women composed almost half of small business entrepreneurs, with labor force participation almost at the level, making it one of the highest rates in the world.

Vietnam has a very fragmented structure due to many years of war and occupation, as well as ethnic differences. There are more than 50 ethnic elements in the country, and there are obvious differences between the northern and southern parts. Similar contrasts arise in the approach to relations with the West and with China. The Vietnam War resulted in the victory

of North Vietnam at the same time as the Eastern Bloc. The United States, with a great military force, was defeated and separated from the war. It is estimated that more than eight million tons of explosives were dropped on rural and urban areas by American forces during the air war. In Vietnam, the hardest hit by poverty are those who are usually engaged in agriculture in the countryside, so the bombs left over from the war prevent the soil from regenerating or becoming fertile (Trueman, 2015).

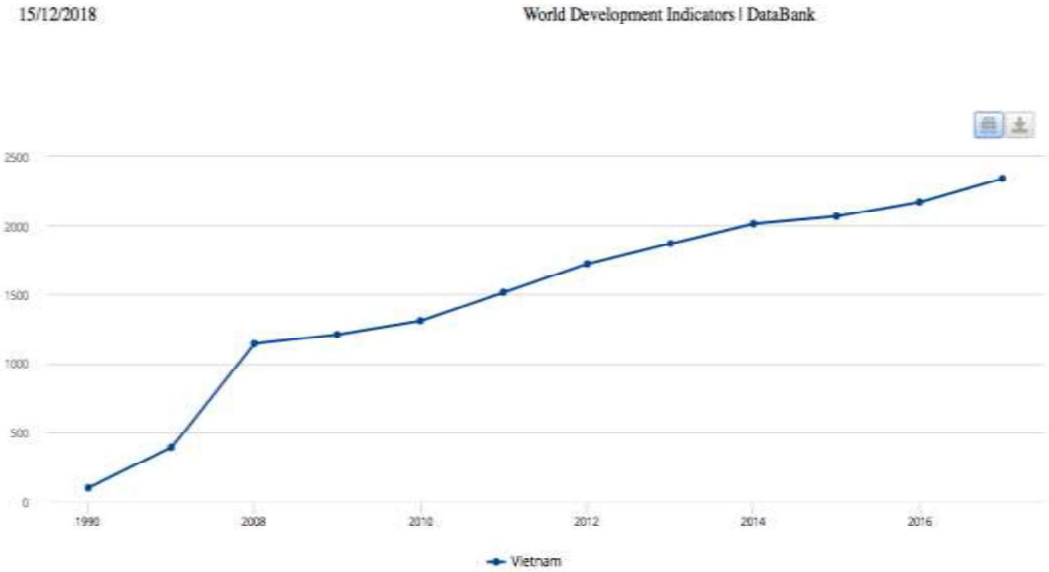
Table-1: Poverty Rate Using International Standard (%)

	1993	1998	2002	2004	2006	2008	2010	2012
National average	58.1	37.4	28.9	19.5	16.0	14.5	20.7	17.2

Source: General Statistics office of Vietnam, 1993-2013, https://www.gso.gov.vn/Default_en.aspx?tabid=491

As it is showed on the chart, in 1990s, Vietnam’s poverty rate is very similar to Sub-Saharan African countries and millions of people were living under the hunger threshold. There is a dramatic decline which will be evaluated as success through the paper.

Graph-4: GDP per Capita, Vietnam

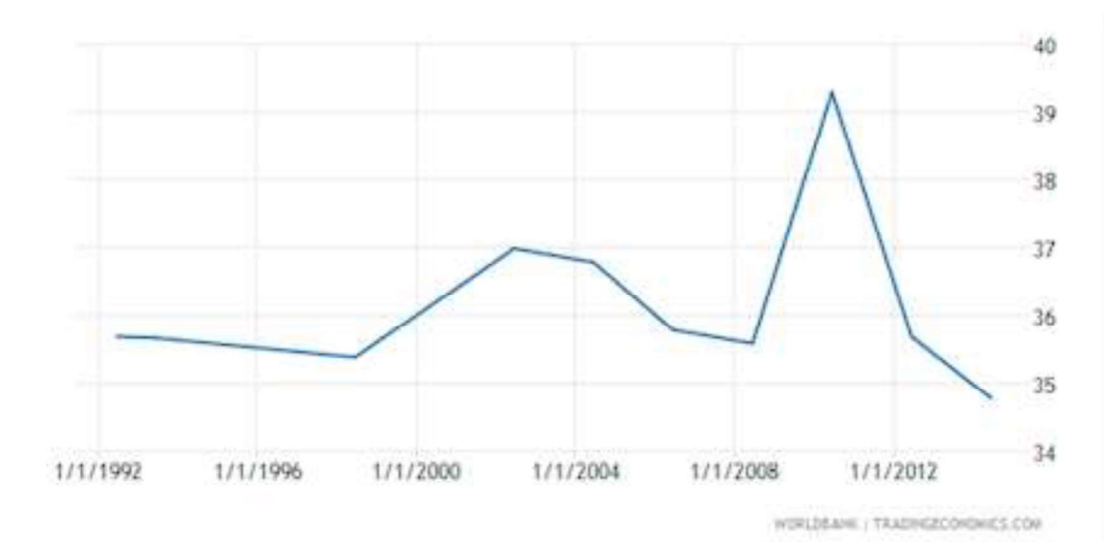


Source: World Development Indicators
 Series : GDP per capita (current US\$)
 Created on: 12/14/2018

“Vietnam has achieved tremendous results in reducing poverty and improving the quality of life for millions. The decline in poverty amongst ethnic minorities is encouraging, and more focused efforts on improving their incomes can further broaden their opportunities and reduce persistent inequalities,” (Ousmane Dione, World Bank Country Director for Vietnam)

Following the decrease in poverty rate, there is a steady increase in GDP per capita starting from 1990s to the 2010s. These two different data correspond with the wake of two milestones of Vietnam economic history which transformed economy from a communist economy into a coordinated-market economy. Besides the success which is shown above, transition to a more capitalist, competitive market, generally, comes with the question of distribution of wealth and social equality. Although it is argued liberal economy policies will not be helpful for social equality whether there are welfare policies or not (Önder, 2020), Vietnam's liberal economic success speaks for a growth which is shared by the society as a whole. In addition to increase in GDP per capita data, GINI index will be also useful to analyze the issue of distribution. Besides the decline of poverty rate, GINI coefficient also implies that there are not much more unequal distribution of wealth. From 1990s, while the size of pie is consistently growing, there is no much more differences in the relative share of diners. This is another success of Vietnam economy.

Graph-5: Vietnam – GINI Index



Source: <https://tradingeconomics.com/vietnam/gini-index-wb-data.html>

2.2. Inefficiency-Generating Mechanisms of Vietnam:

In the article “Why People Cannot Feed Themselves”, Lappe, et al. (1977) makes sense of how being fed, as a primary physical purpose of human beings, becomes a deadlock for millions of people. To explain the situation, they coined a term, “Scarcity-Generating Mechanisms”, which implies that the extreme poverty has its historical roots and societies are made underdeveloped mostly by colonial powers. While their explanation focuses on exogenous factors of underdevelopment, we intend to describe internal factors of Vietnam's underdevelopment before 1990s and will refer these factors as inefficiency-generating mechanisms.

While U.S forces were leaving the country after Vietnam War in 1975, they also left, as expected, a huge backlash of leftist populism against capitalism, free market and free trade. During the post-war period, any commercial activity was closely controlled by the State, and was unlawful unless expressly authorized by law (Odell and Castillo, 2008). Agricultural

production, which will be the locomotive of the growth after renovations, on the other hand, was strictly under the control of state. There were individual and collective lands and cooperatives were forced to deploy people to work for collective fields in which most of the profit is taken by state (Kerkvliet, 2005). Besides these, trade and private enterprises were mostly controlled by state which led a non-competitive market, a huge cartelization around the bureaucratic elites and a disequilibrium for various products, therefore, a huge shadow economy.

Taking into account these restrictive policies of state, it is not surprising to encounter with a highly-cartelized, non-competitive economy. We argue that these two features of Vietnam economy before renovations are the endogenous mechanisms behind the underdevelopment. For an economy, firstly, structures such as cartels, as Olson stated, could be understood as a “Distributional Coalitions” which primarily seeks to maximize their profits by expand their share from the economic pie instead of increasing the pie by increasing the efficiency (1983). Since interventionist economic policies paved the way for these kind of coalitions, sources were not used efficiently, generated a shared decline for the country’s economy. Secondly, non-competitiveness, since there is less incentives for producers or sellers to make their product better for customers, made markets functioning in an inefficient way. These all together made less attractive and riskier for people to participate in economic activities and constituted inefficiency-generating mechanisms on macroeconomic level.

2.3, Milestones of Development: Top-Down Reforms of Vietnam

From 1975 to 1986, Vietnam economy suffered by obstacles on production, inefficiencies in using and distributing of sources and debt issues. These after war years strengthened the hands of reformists in the Communist Party. In 1986, at the sixth Party Congress, it is decided to give up highly-centralized economy and to adopt a market-based economy firstly to abandon poverty trap by encouraging the foreign direct investment. One of the most important decisions were following:

- “Concerted efforts to increase the production of food, consumer goods and exportable items.” (Stern, 1987). Which implies an open economy, integrated market and export oriented production.
- “To regenerate the planning bureaucracy while making the economic management system more efficient by decentralizing authority and making room for more independent decision-making” (Stern, 1987).
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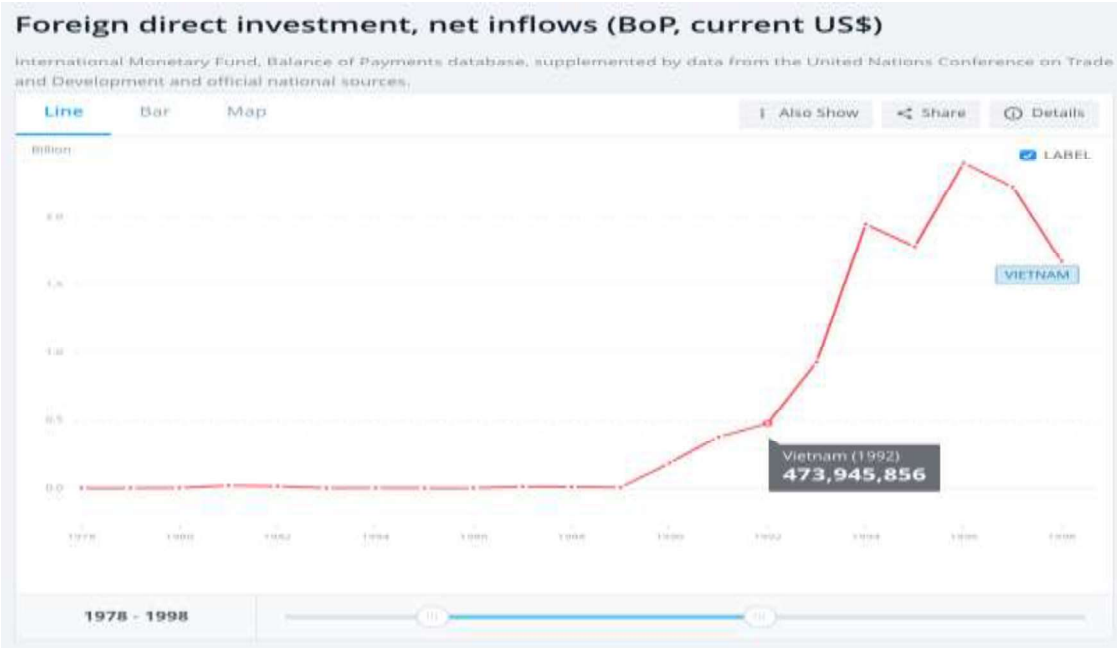
These decisions were implying an open economy, integrated market and export oriented production. Fundamentally, the state was building a less governed and a more liberal economy. As confirming Polanyi’s argument on liberal economy, which argues that a free-market economy, ironically, requires a series of politic and economic regulations to come into existence (Polanyi, 1944).

In 1990, Law on Private Enterprises which provided a legal basis to private firms was enacted, while Companies Law acknowledged Joint-stock company and private limited liability company (Katariina, Hakkala and Kokko, 2007). Although reforms of 1986 gave way to private entrepreneurship, this law could be seen as an important step to provide property rights for individuals making feel more secure local and foreign investors.

The other dramatic transformation occurred in 1992, following Doi Moi, constitution of the country was revised in line with requirements of a coordinated-market economy. Doing so,

the state was redefining its position on economic activities by defining one of state's object as "promote a multicomponent commodity economy functioning in accordance with market mechanisms under the management of the State and following a socialist orientation." (Socialist Republic of Vietnam Constitution, art 15, 1992). Besides that, constitution of 1992 was officially recognizing the role of private sector. This meant the market were opened to foreign investors now, granting them with the legal ownership on their property. By the new constitution, state accepted its borders and reinvent its relationship with citizens, investors, lands, and properties.

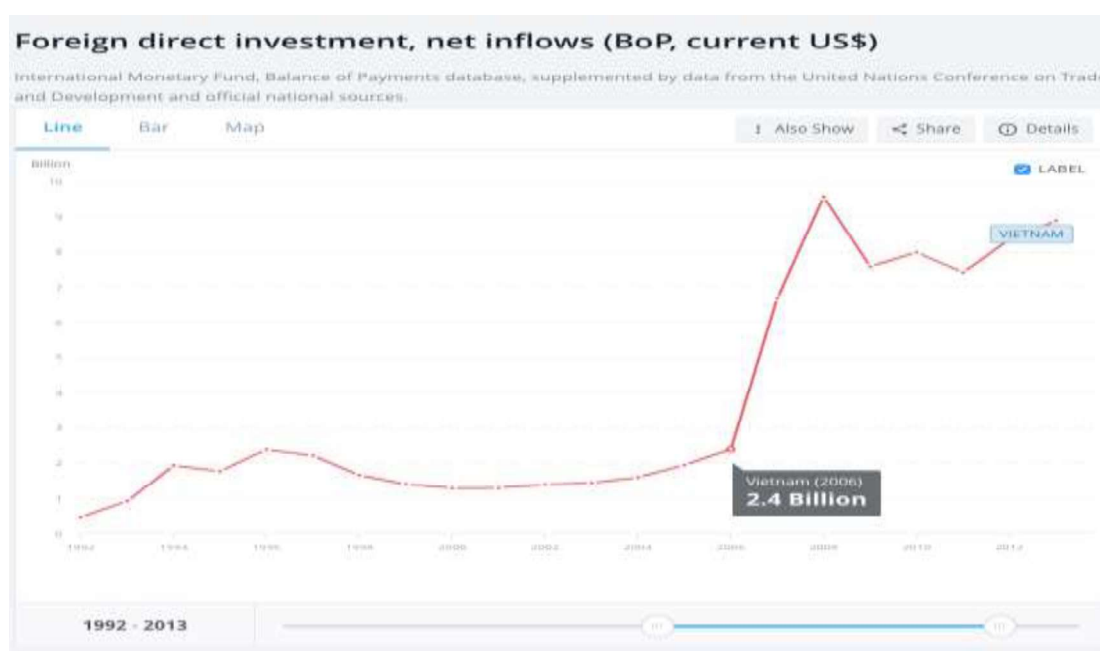
Graph-6: Foreign Direct Investment, Net Inflows 1978-1998



Source: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2013&locations=VN&start=1992&view=chart>

To not to exceed the extent of this paper, we will step over to the 2006 in which another milestone for Vietnam economy to be integrated into world economy is achieved. In 2006, Vietnam joined to World Trade Organization following the China. Here, it is needed to be understood the FDI competence of Vietnam and China. Since these two countries have very similar geopolitical location and both of them offer their comparative advantage on human resources to the foreign investors, their integration processes went together. After China joined to WTO, Vietnam had to join to attract investors. Although Vietnam is relatively late-comer, joining into WTO had another dramatic increase on FDI.

Graph-7: Foreign Direct Investment, Net Inflows 1992-2013



Source: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2013&locations=VN&start=1992&view=chart>

During the Covid-19 pandemic, FDI rates were maintained due to continued interest in Vietnam's industrial areas. Vietnam's manufacturing industry, consisting of high-tech and some digital technology weighting products, remains a very serious source of revenue even in a global pandemic. Vietnam's IT sector is experiencing impactful growth thanks to low costs and the contribution of an educated young workforce, the country is now the eighth largest provider of IT services in the world (Samuel, 2019). Although this impressive development parallels the Vietnamese government's desired shift towards high-tech production, low-tech products such as garment and textiles still rank among Vietnam's top five exports (Nguyen, 2020).

Conclusion

Good enough for jazz; Vietnam's development story has lessons for other countries. Among Asia's Tigers and Dragons, Vietnam's rise will be one of Asia's new economic miracles, perhaps going beyond this "good enough" pattern. As we can see in the example of Vietnam, economic development predicts a change in the economic structure and output distribution, as well as economic growth in the long run. These changes (Nafziger, 2006), which cover a wide area from improving the financial welfare of individuals who constitute the poor in the society to decreasing the share of the agricultural sector in production and increasing the shares of the industry and services sector, from increasing the quality in the education system to and raising skilled workforce, and the fact that it is not realized at the same level causes the difference between poor and rich countries in terms of income and living standards to increase day by day.

The East Asian model, in which the government invests in the main sectors of new industries in the private sector, is still effective, as we see in Vietnam's economic development story. Vietnam's rapidly growing young population, the education system developed on the basis of other developed Asian countries, international trade agreements and undoubtedly foreign investments have been the cornerstones of its development. Whereas a highly-

cartelized, non-competitive economy constituted inefficiency-generating mechanisms on macroeconomic level, Vietnam's new economic model makes country more attractive and less risky. The Vietnamese market continues to increase its importance with an increasing momentum in parallel with the Vietnam economy that has been expanding and developing since the first half of the 2000s. Vietnam is getting closer to its position as "the shining star of South East Asia" with its exit from the closed economic model that attaches importance to agriculture.

Vietnam, from 1990s onwards, has exhibited an impressive development performance on global standards. Between 1990-2016, its GDP per capita has increased from 95 US dollars, to 2170 US dollars and poverty rate fall from 58% to the under of 17%. As we argued previously, these developments are results of the legal and economic regulations of state towards a market economy. Providing property rights, competitiveness in markets, integrating into the world economy, Vietnam escaped its poverty trap and became an example for other "underdeveloped" countries. However, there are still debatable issues and further questions exist for Vietnam. Such as, it is interesting that economic liberalization and development did not go parallel with political rights and development on civil liberties. According to Freedom House 2018 report, Vietnam is considered in "not free" status and there is no much change since 1999 which is the first year Vietnam's score is evaluated. It could be argued that, similar to China, Vietnam is growing within an economically coordinated capitalism and a politically authoritative rule. It remains a further question for further research that is this system sustainable? Or a more existential question is that how much valuable an economic growth coming without the fundamental human rights?

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