Vietnam: the next Asian Tiger?

Cao Sơn Nguyễn[1]

[1] Faculty of Management, University of Lodz
Lodz, Poland

Vietnam is on its way to becoming a significant economic development success story. This Southeast Asian country has been recognized as one of the best performing economies in the world over the past few decades.

The spectacular growth of large emerging economies in East Asia over the past six decades has amazed economists, businesses, and governments. First, it was Japan in the post-World War II era [1], followed by the Four Tigers (Hong Kong, Singapore, South Korea, and Taiwan) in the 1960s [2], and then China's growth miracle since 1978 [3]. Vietnam is seen by many experts as the next emerging giant. For instance, in 2005, Vietnam was included in Goldman Sachs' Next Eleven. This was a group of eleven countries whom they believed had the greatest potential to become the next group of major economies in the 21st century, based on a set of indicators, such as education and demographics [4]. In 2009, the Economist Intelligence Unit included Vietnam in CIVETS [5]. This was a group of six countries whom they touted to become the next generation of emerging market economies, based on factors such as low public debt, favorable demographics and rising levels of foreign direct investment (FDI). PricewaterhouseCoopers (PWC) predicted that Vietnam could be one of the fastest growing economies in the world over the 2015–2050 period [6].

Current signs show that Vietnam is well on its way to imitating the growth miracles of Japan, the Four Tigers, and China. The average annual growth rate of Vietnam's GDP and GDP per capital in the last three decades reached 6-7% per year. Even during the COVID-19 pandemic, Vietnam is still one of only a few economies in the world to achieve GDP growth in 2020. GDP growth slowed down to 2.58% in 2021 due to the appearance of the Delta variant but rebounded to more than 8% in 2022 [7]. The Economist predicts that if Vietnam can maintain a 7% pace over the next decade, this nascent Asian Tiger will follow the same trajectory as South Korea and Taiwan [8].

Besides, recently there has been a series of major shocks to the global economy resulting from international and global events such as the US-China trade war, the pandemic, and the Russia-Ukraine war. Vietnam has proven itself to be a relatively safe and stable location for foreign investors. Consequently, Vietnam becomes vital link in supply chain as businesses pivot from China. The accelerating shift to countries such as Vietnam is part of a growing "China plus one" strategy to redraw global supply chains. As rivalries grow between China and the US over technology and security, more companies fear curbs on what and where they can manufacture [9].

Nevertheless, despite successful growth rates in the last decades, Vietnam is still facing a number of challenges in its efforts to sustain economic development and attract foreign investments, including bureaucracy and lack of transparency of the legal frameworks, infrastructure and transportation, and labor force.

Much has been discussed about legal and infrastructure issues. Regarding the labor force, Vietnam is currently enjoying a "golden population structure" that lasts for more than 30 years (from 2009 to 2039 in the case of Vietnam), that is, during such period working-age population (the population aged between 15 and 64) is about double the dependent population (people under age 15 and over age 64). Specifically, the percentage of the working-age population rose from around 56 % in 1986 to over 70 % in 2014 [10]. Thus, many studies have mentioned the great advantage of Vietnam with an "abundant labor force", "cheap labor" etc., since it was one of the important reasons to attract foreign investment and promote the development of labor-intensive manufacturing industries.

However, the main problem is that Vietnam's labor force has relatively low technical qualifications and lacks skills. The proportions of labor with professional and technical qualifications were 10% in 1999, 15.5% in 2009, 22.8% in 2018, and 26.1% in 2021 [11], showing a slow-moving improvement in labor quality compared to the economic growth rate and labor restructuring. Consequently, the labor productivity of Vietnam is not high. During the last two decades, although labor productivity growth increased rapidly, reaching an annual average of 4.77% from 2011 to 2018 (compared to 3.17% in 2007-2010), the productivity growth rate of Vietnam has always been lower than the economic growth rate. This shows the fact that current Vietnam's economic growth is mainly based on expanding the production scale and utilizing more labor rather than based on labor productivity. Thus, in the era of knowledge and technology, it is essential to improve the quality of human resources by increasing the number of well-trained employees so that Vietnam can maintain economic growth and attract more foreign investments to avoid the "middle-income trap" and the risk of "getting old before getting rich" when the period of the "golden population structure" is over.

Vietnam has received the strong trend of foreign investment, but the question is whether the country has the infrastructure (both legal and physical) and adequate labor force to develop further.

Will Vietnam be able to imitate the success of past Asian Tigers?

Contact

Cao Sơn Nguyễn

Faculty of Management, University of Lodz (Lodz, Poland)

Email: son.ngcao@gmail.com

References

[1] E.F. Vogel, Japan as Number One: Lessons for America", Cambridge, MA: Harvard University Press (1979).
[2] E.F. Vogel, The four little dragons: The spread of industrialization in East Asia. Cambridge, MA: Harvard University Press (1991).
[3] E.F. Vogel, Deng Xiaoping and the transformation of China. Cambridge, MA: The Belknap Press of Harvard University Press (2011).
[4] J. O'Neill, D. Wilson, R. Purushothaman, A. Stupnytska, How solid are the BRICs? Goldman Sachs Economic Research Group Global Economics Paper No. 134 (2005).
[5] CIVETS - Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa http://www.economist.com/.../theworldi.../2009/11/acronyms_4.
[6] PricewaterhouseCoopers, The World in 2050. Will the Shift in Global Economic Power Continue? (2015) http://www.pwc.com/.../world-in-2050-february-2015.pdf.
[7] Vietnam's General Statistics Office.
[8] The Economist, Vietnam's Economy: The Other Asian Tiger (2016).
[9] Orla Ryan, , Vietnam becomes vital link in supply chain as business pivots from China (2023), https://www.ft.com/content/29070eda-3a0c-4034-827e-0b31a0f3ef11.
[10] Vietnam's General Statistics Office.
[11] H.T. Phuong, 'Relationship between Labor and Economic Growth in Vietnam: Practice and Forecast,' European Journal of Business and Management Research, vol. 6, no. 4 (2021), pp. 289-293.