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Endogenous growth theory and regional performance: The moderating effects of special economic zones

Wei-Hwa Pan*, Xuan-Thang Ngo

Department of Business Administration, National Yunlin University of Science and Technology, Taiwan, ROC

A R T I C L E I N F O

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A B S T R A C T

Previous studies have explored regional performance from the perspective of endogenous growth theory. This empirical investigation is conducted on a panel dataset of 64 Vietnamese provinces and integrates moderated regression analysis. Statistically, the empirical results did not fully support the endogenous growth model in cases in which regional per capita income tended to converge across different regions, while improved foreign direct investment (FDI) inflow, capital investment, and degree of openness did have significant positive impacts on GDP growth. This study questions the validity of endogenous growth theory in the early stage of a less developed country. Furthermore, results indicate that internationalization activities positively affect regional performance for provinces that have established special economic zones (SEZs) through liberal state regulation.

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1. Introduction

Vietnam's integration into the world economy began with market reform in 1986 via Doi Moi policy. Vietnam pursued substantial economic reform, which dealt with two issues: (i) restructuring the domestic economy; and (ii) opening up the economy to external trade and investment. Moreover, in 1995, diplomatic relations between Vietnam and the US were normalized, which provided FDI with a more secure environment and the large export market of North America. Since 1986, Vietnam's real GDP has grown from 2% to about 8% and has become one of the fastest growing economies in the region.

Vietnam's regional development performance is determined by a number of different explanatory variables that this study classifies into three major categories: international economic integration, human resource factor, and government policy. The integration process refers to international linkages such as inward FDI, imports, and exports with respect to the degree of openness. Human resources largely refer to the existing distribution of population and advanced human capital, which is the key factor of production that FDI is aiming for in Vietnam. Policy refers to the political decisions that create the conditions for competitive economic activities such as major capital investment projects and the establishment of special economic zones.

Numerous studies, both theoretical and applied, have attempted to identify the factors of regional economic growth within a single country. Despite the lack of a unifying theoretical framework, there are widely used methods for determining regional economic performance and growth resulting from a multitude of different factors. These methods involve two major approaches: (1) Solow's growth model, a neoclassical approach, which has advanced the importance of investment, and (2)

* Corresponding author.

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Romer and Lucas's theory of endogenous growth, a more recent theory, which has emphasized human capital and innovation capacity. Moreover, early research makes important contributions to an understanding of economic growth through the perspectives of applied cumulative causation, new economic geography, and institutional economics.

To empirically study the factors of economic performance, researchers base their studies primarily on the work of Solow (1956) or Cass (1965). Recently, however, researchers have considered the concepts introduced by Barro and Sala-i-Martin (1996) to explore economic convergence and divergence, by testing the validity of the exogenous and endogenous growth theories. In addition, any discussion of economic growth emphasizes the need to study the determinant of income per capita growth, and few researchers focus on the determinant of innovation growth. A number of cross-national studies have been conducted in previous decades on regional growth. However, the debate regarding the determinants of regional growth within a country is still limited (Chi-Keung, 2010). An interesting approach that applying these neoclassical theories for determining economic growth and that differentiating the gaps between regional per capital income was widely adopted, targeting at developed economies such as the US (Barro and Sala-i-Martin, 1996; Chi-Keung, 2010), EU (Liviu-Stelian, 2011; Marelli, 2010), and Australia (Ramakrishnan and Cerisola, 2004) as well as developing economies such as Brazil (Ferreira, 2000), India (Somasekharan, 2011), and Indonesia (Vidyattama, 2007). Nevertheless, in the case of less developed socialist country where the state is still the dominant determinant in economic affairs, we have not yet clearly understood whether the models can be applied or not.

This study contributes to various specialists such as regional development specialists, policymakers, and investors and explores their views on a number of issues concerning economic performance and regional growth potential. Initially, this study solely focused on the issue of regional performance, since this specifically could test the validity between the main growth theories (that is, the neoclassical and the endogenous growth theory). Eventually, though, the focus shifted to two other interesting aspects determining economic performance: the crucial role and moderating effect of special economic zones and the economic convergence or divergence in a less developed country like Vietnam.

2. Economic overview of Vietnam: two decades of integrations

Although Vietnam's macroeconomic performance during the last few years has been remarkably successful—second only to China by GDP growth, the most serious concern may be related to the regional income and development disparity. Vietnam implemented two five-year plans (1976–1980 and 1981–1985) to rebuild and develop the economy on its own—this ten-year period was characterized by slow economic growth. Since the 1986 Doi Moi policy, Vietnam has made significant progress in economic reform, which dealt with two issues: (i) restructuring the domestic economy and (ii) opening up the economy to external trade and investment. These reforms have resulted in real GDP growth, increasing from an average of 3.9% during 1986–1990 to 8.2% during 1991–1995. Moreover, in 1995, diplomatic relations between Vietnam and the US were normalized, which provided a more secure environment for FDI and export potentials in the North America. Therefore, in 1996 and 1997, real GDP growth remained at around 9%. Starting in 1997 and continuing into 1998, the growth rate stalled at 7% before the Asian financial crisis. The growth rate rebounded from the crisis to 7.7% and remained stable at 6%average yearly growth from 2000 to 2005. Income per capita increased 30% in real terms while inflation stayed below 5% until 2004.

This rapid economic growth was accompanied by an extraordinary increase in trade and foreign investment (see Fig. 1). The ratio of merchandise trade (exports plus imports) to nominal GDP was only 15% as late as 1988but increased markedly to

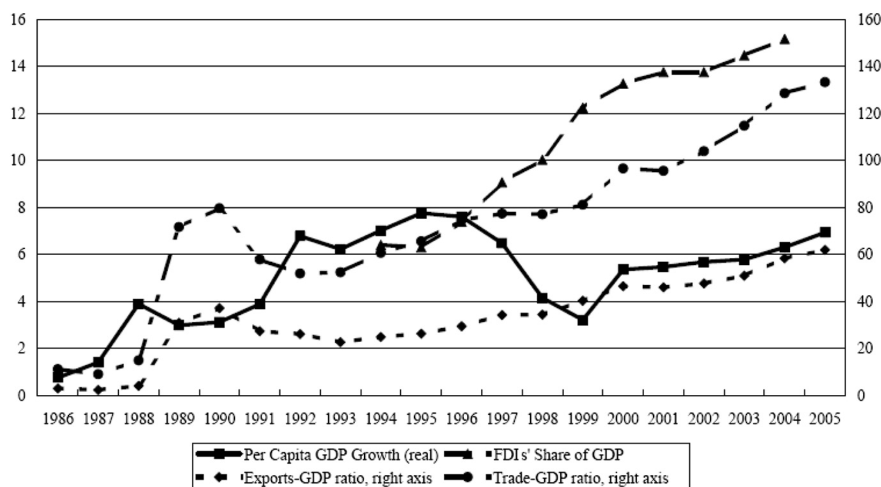

Fig. 1. GDP ratio from 1986 to 2005 (percent).
Source: composed from General Statistics Office of Vietnam (GSO), 2008.

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