R|EVOLUTIONS
GLOBAL TRENDS & REGIONAL ISSUES

# “More Than Numbers: Picking national Winners in the 21st Century,” Essay by Richard Hornik,

*R/evolutions: Global Trends & Regional Issues*, Vol 3, No. 1, 2015, (ISSN: 2449-6413), pp. 160-174.

# MORE THAN NUMBERS
## PICKING NATIONAL WINNERS IN THE 21ST CENTURY

RICHARD HORNIK

essay

LOW-WAGE INDUSTRIAL LABOR IS LIKE A RECEDING HORIZON IN A GLOBALIZED ECONOMY: IT IS ALWAYS MOVING AWAY FROM WHEREVER YOU STAND. IN THE 1950S, MADE IN JAPAN WAS AN EPITHET SYNONYMOUS WITH CHEAPLY MANUFACTURED JUNK. BY THE 1970S NEW ENTRANTS LIKE SOUTH KOREA, TAIWAN, SINGAPORE AND HONG KONG – THE FOUR DRAGONS – COULD BEAT THE JAPANESE ON PRICE, BUT JAPAN HAD THE CAPITAL AND THE PHYSICAL AND SOCIAL INFRASTRUCTURES TO GRADUATE TO CREATING HIGHER VALUE-ADDED PRODUCTS. THEN CHINA CAME ALONG AND BEGAN TO DOMINATE THE LOW-END PORTION OF THE GLOBAL SUPPLY CHAIN, AND AT A SCALE SO ENORMOUS THAT IT SEEMED TO SUCK THE OXYGEN FROM ANY POTENTIAL COMPETITOR. THE FOUR DRAGONS, HOWEVER, ALSO DEMONSTRATED THE ABILITY TO MAKE THE LEAP FROM LEAST COST PRODUCERS TO VALUE-ADDED CREATORS.





> “ LOW-WAGE INDUSTRIAL LABOR IS LIKE A RECEDING HORIZON IN A GLOBALIZED ECONOMY: IT IS ALWAYS MOVING AWAY FROM WHEREVER YOU STAND

Today, economies from South Asia, Latin America, Southeast Asia and – sooner than you think – Africa are competing to take the low-cost mantle away from China. I will not address the issue of the challenges facing China as it attempts to follow in the footsteps of Japan and the Four Dragons.[1] Much has already been written on that subject, and in any case, I would argue that China's sheer size is so great as to make its experience and challenges *sui generis*, and therefore of limited relevance to other economies. Rather, I will explore what I believe are the basic requirements for long-term success in the globalized economy of the 21st Century that have been shaped by the Digital Revolution of the past 20 years. These requirements are different than those faced by Japan and the Four Dragons, all of whom came of age before globalization or the Digital Era had taken root.

## NEW CHALLENGES, NEW CRITERIA

As a way to examine this new set of challenges, this paper will explore the potential of Vietnam to build on its success as a low-cost manufacturing base and to move up economic value-added ladder over the next decades. This exploration will involve an examination from three different perspectives. The first will be the macroeconomic/political analyses of global financial institutions such as Citi, Goldman Sachs and Morgan Stanley. This approach, while a useful starting point has obvious limitations from a predictive point of view, since it relies heavily on linear projections. Those weaknesses are readily apparent in the current struggles of the BRICS, the nations of Brazil, Russia, India, China and (later) South Africa, so identified in 2001 by Goldman Sachs' Jim O'Neill, in the firm's publication *Building Better Global Economic BRICs*.[2]

1 In the interest of transparency, however, the author believes that China's current political system and socio-economic environment will make it very difficult for that country to move up the value-added ladder as quickly as necessary.
2 O'Neill 2001.

Investment-oriented analyses like O'Neill's, have become more sophisticated in recent years, and I will highlight one that appears to offer the sort of multi-dimensional analysis necessary to deepen our understanding of the requirements for success and a nation's likelihood of meeting those criteria. I propose two additional ways to look at Vietnam's potential for long-term economic success: Resilience and Cultural Flexibility. I am not qualified to apply either in a rigorous fashion, but I believe that both will serve to support my view that Vietnam's potential for stable, enduring economic growth over the next two decades has been underestimated.

## BRICS, CIVETS AND MINTS

As anyone who reads a newspaper will know, the performance of the BRICS has been uneven at best – in early 2014 Goldman Sachs's own BRIC fund had lost 20 percent in value over the previous three years.[3] But driven by the symmetry of economic acronyms, in 2009 the CIVETS – Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa – entered the global economic jargon. In 2010, HSBC President Michael Geoghegan, compared these countries to the civet, a carnivorous mammal that eats and partially digests coffee cherries, passing a transformed coffee bean that fetches high prices. These economies were chosen because of demographics and stable monetary policies and decent financial systems. But within a few years even HSBC stopped trying to sell investors on the potential of these countries.

Not letting the slide of the BRICS deter him, O'Neill now endorses yet another acronym, MINT – Mexico, Indonesia, Nigeria and Turkey. Meanwhile, many analysts talk of the Next 11. These designations seem to have more to do with marketing investment products than with serious analysis, but not all are created equal.

Willem Buiter and Ebrahim Rahbari, economists at CITI,[4] produced in 2011 a multidimensional analysis of countries they call Global Growth Generators. That analysis includes an effort to isolate the factors that contribute to long-term (i.e., sustainable) growth:

3 Business Insider 2014.
4 Citigroup Inc. (Editor's note – JVdB).





> "There exists a well-established and voluminous academic literature on long-term growth and its drivers based on regression analysis using historical data to try to determine which factors have been associated with high growth in the past. Many potential drivers have been put forward. But at the highest level of aggregation, the taxonomy of potential growth drivers only has three categories: (1) initial conditions and the external environment, (2) institutions and (3) policies."[5]

The authors then further define their criteria in an effort to isolate countries with the greatest growth "potential" over the next four decades:

> "As part of that effort, we construct the 3G Index, which is a weighted average of six growth drivers that we and the literature surveyed in earlier sections consider important. The six components of the index are (1) a measure of domestic saving/ investment, (2) a measure of demographic prospects, (3) a measure of health, (4) a measure of education, (5) a measure of the quality of institutions and policies, and (6) a measure of trade openness."[6]

And the country that comes out on top of the 3G Index? Vietnam.

**Table 1. Global Growth Generators (3G) countries 2010-2050[7]**

| Country | 2010 GDP/Capita | % of US GDP/Capita | $ Av. Growth | 3G Index |
|---|---|---|---|---|
| Vietnam | $3,108 | 7 | 6.4 | 0.86 |
| China | $7,430 | 16 | **5.0** | 0.81 |
| India | $3,298 | 7 | **6.4** | 0.71 |
| Indonesia | $4,363 | 10 | 5.6 | 0.70 |
| Mongolia | $3,764 | 8 | 6.3 | 0.63 |
| Philippines | $3,684 | 8 | 5.5 | 0.60 |
| Iraq | $3,538 | 8 | 6.1 | 0.58 |
| Bangladesh | $1,735 | 4 | 6.3 | 0.39 |
| Egypt | $5,878 | 13 | 5.0 | 0.37 |
| Sri Lanka | $4,988 | 11 | 5.9 | 0.33 |
| Nigeria | $2,335 | 5 | 6.9 | 0.25 |

Note: China and India highlighted with numbers in bold as they are also BRIC countries. Bigger index means better conditions. GDP per capita measured at 2010 PPP USD. Average growth in average growth in forecast of real GDP per capita measured at 2010 PPP USD.

5 Buiter, Rahbari 2011: 37.
6 Buiter, Rahbari 2011: 61.
7 Buiter, Rahbari 2011: 62.

Buiter and Rahbari are quick to acknowledge that index scores alone are a poor indicator of future performance:

> "Although Vietnam scores well on the 3G index, with a score of 0.86, its institutional quality is low and its macroeconomic policies, including its exchange rate management, have been erratic at best and poor most of the time. Sizable external imbalances, a rising level of public debt and rather inward-looking, unrepresentative and unresponsive one-party rule impart a certain fragility in Vietnam's outlook. In our view, many of the challenges can be overcome relatively easily. Feasible improvements in institutional quality and in the efficiency of the capital accumulation process should make our projected growth rates achievable."[8]

Certainly Vietnam's recent economic performance has been promising. GDP rose 6.96 percent in the fourth quarter of 2014 from a year earlier, and 5.98 percent for the full year, ahead of the government's 5.8 percent target. Inflation eased to 1.84 percent in December from a year earlier, the slowest rise in 8 years, while retail sales rose an encouraging 10.6 percent. Services rose 10 percent and manufacturing expanded by 8.45 percent. As a sign of the country's improving situation both Fitch Ratings and Moody's Investors Service raised its credit rating this year, with the latter also moving its rating of the country's banking system to stable from negative.

As an indicator of Vietnam's growing popularity with foreign investors, much of the growth was driven by exports from overseas companies in the country, which increased 15 percent. Overall, foreign direct investment rose 7 percent. Those numbers indicate that Vietnam has already begun to muscle aside some of its regional competitors in the struggle to attract the sort of foreign investment necessary to climb the economic development ladder. For example, Samsung chose Vietnam over Thailand as the site for a $3 billion smartphone factory, bringing Samsung's investment in Vietnam to over $11 billion.[9] Part of that decision was based on the relative political stability of Vietnam as opposed to the chaos of the past few years in Thailand resulting from political struggles in 2013-14 between the mostly urban, middle class opponents of Thaksin Shinawatara and his political allies, who controlled the country since 2001, largely by relying on the loyalty of the rural poor in the north of the country. The

8 Buiter, Rahbari 2011: 69-70.

9 Bloomberg View 2015.





Thai military has once again taken control of the government, but there is a sense among foreign investors that the underlying tensions have not been resolved and may remain for years to come. Vietnam, on the other hand, continues under the steady – though often clumsy and corrupt – leadership of the Vietnamese Communist Party. As I will discuss below, this situation has both positive and negative results for Vietnam's governance, but at present it presents a more stable alternative to foreign investors than is the case in some neighboring countries.

One could argue that Vietnam is succeeding because of the problems of others, but one of the criteria the authors include in their assessment of future economic prospects is 'luck,' and it seems clear that some countries make their own luck. That is where economic resilience and cultural flexibility come in.

## ECONOMIC RESILIENCE

Rigid, inflexible entities find it far more difficult to recover from external shocks – bad luck – than do more resilient ones. In the world of business management studies, the idea of resilience has gained increasing acceptance as a key measure of corporate health. The same can be said for societies and economies. Think for instance of the post Depression recovery patterns of countries like the United States versus ones such as Argentina. Another obvious example is the performance of centrally-planned economies once their ability to marshal underproductive capital and labor was exhausted.

Ron Martin and Peter Sunley, among others, have begun to take a more systematic look at, "(…) the notion of *resilience,* a term invoked to describe how an entity or system responds to shocks and disturbances." They note that, "Although the concept has been used for some time in ecology and psychology, it is now invoked in diverse contexts, both as a perceived (and typically positive) attribute of an object, entity or system and, more normatively, as a desired feature that should somehow be promoted or fostered." In a paper published last year they note that this is a new area of inquiry: "There is still considerable ambiguity about what, precisely, is meant by the notion of regional economic resilience, about how it should be conceptualized and measured, what its determinants are, and how it links to patterns of long-run regional growth."[10]

10 Martin, Sunley 2015. See also: Chan, Wong 2007.

Just as Japan and Germany demonstrated resilience in their post-war economic recovery, one could argue that Vietnam is demonstrating similar reserves, although it did suffer through a decade-long, post-war hiatus resulting from a failed effort to emulate the centrally planned economies of China and Russia. Fortunately for Vietnam, the collapse of the Soviet Union and Deng Xiaoping's economic reforms forced the country to launch its own economic restructuring program, known as Doi Moi.

> RIGID, INFLEXIBLE ENTITIES FIND IT FAR MORE DIFFICULT TO RECOVER FROM EXTERNAL SHOCKS

As was the case with China, the reforms had many early successes largely due to what John Hardt, former head of the Congressional Research Service and America's leading scholar on the Soviet economy, liked to call 'a vast, untapped reservoir of inefficiency.'[11] That is, simply by ending counterproductive policies like telling peasants what to plant, where and when, the economy will grow quickly. And, as was the case with China, Vietnam has encountered numerous challenges to economic development once the easy gains were achieved.

The challenge facing Vietnam today is whether it can build on its past success – and on the attributes identified by Buiter and Rhabari – in a sustainable way. The resilience it has shown throughout its history would seem to argue that unlike many of its neighbors, it will be able to overcome many if not all of the exogenous shocks that are all too common in today's globalized economy.

Unfortunately, one key element of a resilient society and economy is missing – an open political system. The political stability that may be behind Samsung's continuing faith in Vietnam as a production center derives from a single-party government. This enables the state to make difficult decisions and imbue the system with predictability that comes from avoiding sudden changes in government. It also leads, however, to corruption and misallocation of resources – the same pathology that afflicts China.

For example, Vietnam's banking and State Owned Enterprise (SOE) sectors continue to dampen the country's outlook. According to Victoria

11 The author studied Soviet economics under Dr. Hardt's supervision at George Washington University (1970-72).





Kwakwa, World Bank Country Director for Vietnam: "Vietnam's potential for much more rapid growth can only be realized if substantial progress is made in addressing distortions such as in the state enterprise and banking sectors, that tax the economy's efficiency and productivity," she also says . She adds that: "stepping up this reform agenda and strengthening the business environment are critical for moving forward."[12] The World Bank's most recent publication on the Vietnamese economy, *Taking Stock: An Update On Vietnam's Recent Economic Developments*, pays particular attention to the country's ambitious banking, SOE and public investment reform initiatives, essentially saying that the results are promising but insufficient thus far.[13]

The report also notes that:

> "Vietnam's ranking on the Doing Business survey has fallen from 72nd position in DB2014 to 78th in DB2015 7 [places] among 189 economies. Vietnam's national competitiveness is ranked below the average among ASEAN-4 countries, with slow improvements in the institutional framework, infrastructure and business environment (…). This is highlighted by the problems with starting a business, tax payment time, protection mechanism for investors, access to electricity and dealing with business insolvency."[14]

On the other hand, the report takes note of Vietnam's efforts to deal with those issues:

> "The government has, however, taken some important measures in 2014 to improve business conditions, which do not get reflected in the latest Doing Business rankings. The Government issued Resolution 19 (March 18, 2014) which prioritizes shortening the time for processing and completion of administrative procedures, reducing administrative costs, and strengthening transparency and accountability of state administrative agencies (…). The revised Law on Bankruptcy, passed in July 2014, was another effort to improve the legal framework for businesses. The law incorporated international good practices, including the introduction of professional insolvency practitioners. Two other important laws, the Enterprise Law and the Investment Law, have been revised and are scheduled to be approved by the National Assembly in November 2014."[15]

12 World Bank 2014b.
13 World Bank 2014c: 9.
14 World Bank 2014c: 23. See also: World Bank 2014a.
15 World Bank 2014a: 24.

Although Vietnam may succeed in reforming these key sectors before China, Vietnam's rulers share their Chinese counterparts' fear of the freedoms inherent in the Digital Era and fail to take full advantage of the new opportunities to tap into the creative potential of its people through social media. Over the past several years both countries have sought to limit dissent and civic organizing online. Reporters Without Borders has labeled Vietnam as one of nine of its "Internet Enemies" and ranks the nation 175 out of 180 in its press freedom index – above China but well below Cuba. Unlike China, Vietnam does not ban Facebook and Twitter, but in the past year the government began to smother the growing information technology sector with a series of often opaque and sometimes contradictory rules.[16]

Then again, just when it appears Vietnam's leaders will succeed in throttling innovation, they launch initiatives in the opposite direction – perhaps another indicator of resilience. Although the government has been working to keep social media under control, it appears to be taking a much more restrained approach than China, which not only bans western social media (except LinkedIn) but also employs 2 million workers to monitor the permitted, indigenous Chinese sites like Weibo and WeChat.

Earlier this year Vietnam's Prime Minister Nguyen Tan Dung reportedly told officials in his office: "We won't be able to ban social networks. The important thing is we should provide more accurate, official information there." Possibly taking her cue from that speech, in early March the Minister of Health Nguyen Thi Kim Tien, proudly announced the launch of her own Facebook page, asserting that "Any health information from other pages are not trustworthy."[17]

In other words, Vietnam's resilience will be tested by endogenous 'shocks' as well as exogenous ones. Ham-fisted economic regulation, often designed to give the upper hand to state-owned enterprises (SOEs) will continue for some time to slow the country's growth to below its optimum level. But at the same time, the entrepreneurial spirit of the Vietnamese will be strengthened by these challenges. The private sector in Vietnam, in fact, has demonstrated remarkable resilience by dealing with these challenges for almost 30 years. And Vietnam has one significant advantage over China – Chinese SOEs are a far more dominant element in its economy than is the case in Vietnam.

16 The New York Times 2015.
17 Thanh Nien News 2015





## CULTURAL FLEXIBILITY

Vietnam has one more attribute in its favor, particularly as it tries to make its way in a digitalized, global economy. Very much unlike China and more so than other East Asian societies, Vietnam's culture is syncretic, that is, it is inclined to adopt, adapt and absorb outside influences. More than any other country I have studied or covered in the past four decades, the Vietnamese seem capable of identifying useful elements of foreign culture and then making them their own.

This struck me the first time I set foot in Vietnam in 1991. At the time, the only decent coffee you could find in much of Asia was in western hotels or franchises. And while there were plenty of western restaurants in the region, the idea of combining the local cuisine with a foreign one was, well, foreign. In Vietnam, however, the coffee was strong and thick and delicious, and street vendors sold excellent baguettes slathered with passable pate. Vietnamese regional cuisines jealously guard their differences, but most chefs seemed to revel in combining regional dishes with western ingredients. Similarly, traditional architecture and couture were a wonderful mashup of influences. As one observer has written:

> "Over the last three thousand years Vietnam has been significantly influenced by China. Both China and France have tried to conquer not only the land but also the spirit of its people by attempting to impose their culture on the Vietnamese people. The Vietnamese people have not taken that has been imposed on them rather they have taken what suits with their culture and temperament. They have taken the best of other cultures and have combined them with their own culture and heritage."[18]

Perhaps this openness is the result of coupling a 3,444 km coastline with a width of just 50 km at its narrowest point. Sitting along a major sea trade route, it was for centuries highly subject to outside influences. In essence, the vast majority of Vietnamese have been living in a globalized worlds for centuries, never able to cut themselves off for long stretches of time, as happened in Japan, Korea and China. In fact, in some ways you could argue that Vietnam is China without an interior. (The most vibrant, flexible part of China, at least for the first few decades of economic reform was that very thin strip along its coast.) Vietnam has been far more vulnerable to outside invasions, but it has also made it far more open to outside influences.

18 Farid 2011.

This syncretic culture makes Vietnam a particularly attractive investment site for knowledge and information industries – that and the fact that it abandoned its Chinese character based writing system for a one based on Latin letters over a century ago. As the New York Time reported recently:

> "Vietnam's tech businesses are a bright spot in the country's economy compared with its other industries, many of which are dominated by state-run companies. In one measure of growth, online sales by businesses to consumers in Vietnam totaled an estimated $2.2 billion in 2013, and the number is expected to reach up to $4 billion in 2015, according to a 2013 report by the Ministry of Industry and Trade. The technology boom is built on strong Internet infrastructure, brisk smartphone sales, an explosion in online shopping and legions of skilled coders and designers who are willing to work for lower wages than others in the region."[19]

Technology firms such as Samsung, Intel and Microsoft are also attracted to Vietnam because, unlike China, it does not demand that foreign firms share their latest technology with home-grown SOEs as a price of entry. Perhaps the mindset behind that difference will be Vietnam's greatest competitive advantage against China, at least, in the long run. Vietnam does not consider itself to be the Middle Kingdom, the center of the universe. The Vietnamese are proud of their country and its achievements, but they are open to and even anxious for the kind of international cross-fertilization that a digitalized global economy demands. And best of all, the Vietnamese do not hold grudges and nourish a sense of wounded pride.

After a year of traveling as a journalist for TIME Magazine to all parts of Vietnam in 1991, I realized that as an American journalist I never encountered any antipathy towards America, even in remote areas that had been severely damaged by what the Vietnamese call 'The American War.' I asked numerous Vietnamese about this, but the best answer I got was from a trade official in Ho Chi Minh City: "First, you Americans were only here for 20 years. We fought the French for 100 and the Chinese for centuries. Second, we are poor country that cannot afford to have rich, powerful enemies." He paused for a second and smiled and said, "And third, you gave us great face. After all, Vietnam is the only country ever to have defeated America in a war."

19 The New York Times 2015.





> "A NATIONAL MENTALITY MIGHT WELL BE THE BEST PREDICTOR OF FUTURE SUCCES IN THE 21ST CENTURY

Many foreigners have encountered that pragmatic and yet somehow droll worldview. It is part of Vietnam's appeal as a place to visit. It also might turn out that beyond all the quantitative analyses, a national mentality like that might well be the best predictor of future success in the 21st Century. Such a worldview may, in fact, be an important element in both a nation's economic resilience and its cultural flexibility. Unfortunately, you cannot quantitatively measure a national state of mind. And without quantifying these elements we are left with much the same level of uncertainty as before. As Wong and Chan put it in their study, "However, expert opinions are given in the form of incomplete or ad hoc reasoning, and except in extreme situations, one would not be able to determine the resilience level of an economy on such reasoning."[20]

Wong and Chan go on to propose a solution to this by mining data and then applying the data post hoc to historical performance with results that were interesting but unconvincing. Perhaps the entire effort to quantify such things is a fool's errand, little better than the alphabet soup of acronyms invented by investment analysts as a way to give some credibility in the financial markets to their 'ad hoc reasoning.' Perhaps first-hand, holistic observation by well-grounded experts, even if ad hoc, would prove to have greater predictive powers. A literature search turned up no rigorous efforts to determine the predictive success rate of individual observer/analysts over the post-war years, but that might be an interesting avenue of research – a sort of pundit accountability table.

In the meantime, the pursuit of applicable analytic tools is as unlikely to stop as it is to prove useful for predicting future outcomes. The problem is in isolating the exogenous factors that can play a role. For example, the Korean War helped to jumpstart a Japanese economy that had been shattered by World War II.[21] Likewise, the American war in Vietnam helped launch both South Korea and Taiwan on the path of rapid economic growth.[22] And the exogenous factors that led to the size of China's boom are too numerous to mention.

20 Chan Ngai Hang, Wong Hoi Ying 2007: 618.
21 Blackburn.
22 Woo-Cummings 2002: 327-29.

As a long-time, ad hoc observer of Vietnam in particular and its neighbors in general, it seems clear that as a nation it has developed both the cultural openness and resilience necessary for success in the 21st century. Whether it succeeds will depend both on exogenous factors as well as on elements that are within its control. Rather than trying to quantify its chances of becoming the V in some current or future alphabet soup, perhaps the best we can do is to look for milestones of economic progress. For Vietnam, some of those would include:

- avoiding armed conflict with its neighbors (well, China);
- continuing to make necessary structural economic reforms, particularly to its financial and SOE sectors;
- modulation of the political leadership's efforts to control Social Media;
- sufficient investment in education and physical infrastructure.

Indicators of that progress will be found in the trend lines of FDI, trade and current account balances, GDP growth, inflation rates, as well as health and education measures. And if it succeeds over the next 20 years, there will be many people who will say that they knew it all along, but there will be as many or more countries that will fail even though ad hoc and quantitative analyses predicted success.





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SCHOOLGIRLS WAITING FOR A BUS (NEW DELHI, MARCH 2015