

Research on the Impact of Public Management Quality on Local Economic Growth in Vietnam

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Abstract

Local economic growth is affected by many factors, including both objective and subjective factors. This study analyzes the impact of public management quality on local economic growth in Vietnam in the period 2016-2023. Based on the inheritance and development of many previous research results, the authors apply the Cobb-Douglas function to assess the impact of government capital; consider both the individual and interactive effects between local spending and public management quality on local economic growth. The model is estimated using the system theory method (SGMM) with data collected from 63 localities (provinces and cities) in Vietnam. The research results show that both local spending and public management quality have a positive impact on local economic growth. From the results of this study, the authors propose a number of policy recommendations to improve local spending efficiency and public management to promote economic growth in Vietnamese localities.

Keywords: *Public Management Quality, Local Government; Economic Growth, Vietnam.*

Introduction

In state management practice, economic growth is an important indicator reflecting the overall performance of the national economy through increased production of goods and services, improved productivity and expansion of the labor force. Productivity growth is often associated with an effective combination of labor force, infrastructure, equipment and the application of new technology.

Vietnam used to be a poor country, even among the poorest in the world. However, Vietnam has strived to rise and stand out as a dynamic country in the Southeast Asian and East Asia-Pacific regions. During the period 2002-2018, Vietnam developed impressively with more than 45 million people escaping poverty and near-poverty, reducing the poverty rate from over 70% to below 6%; GDP per capita in 2023 reached 4,285 USD and increased 1.7 times compared to 2019 . (World Bank, 2023).

Despite impressive development achievements, Vietnam still faces a number of challenges that need to be studied and evaluated promptly to find solutions for sustainable development. Some of these issues are: the effectiveness of public expenditure management is still scattered; local expenditure planning is not based on calculations close to actual output results; public administration performance indicators are still not highly accurate. This is an issue that attracts the attention of many researchers, which is also the reason why the group of authors is interested in choosing this study.

Research Overview

In the trend of promoting research and application of new public management, since the 1990s, the quality of public management has been increasingly focused on because of its impact on local economic growth. Many researchers have developed theories on the relationship between the quality of public management and economic growth (Fukuyama 1995; Mishkin, 2001; Acemoglu, et al., 2004). Empirical studies have also provided evidence of the positive impact of public management quality on economic growth, for example: Kaufmann, et al. (2004) found that good public management leads to higher per capita income; Grindle (2004) emphasized that the main goals of effective public management are poverty reduction, anti-

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corruption and addressing barriers to economic growth. Several other studies have also shown that the quality of public management has created important changes in the relationship between local government spending and economic growth (Glaeser, et al., 2004; Le, et al., 2020). Or as Siddiqui, et al. (2013) asserted, the quality of public management is seen as a catalyst to improve efficiency in estimating and using spending, thereby promoting economic development.

In the above studies, there has been no comprehensive assessment of how the elements of public management affect local economic growth; nor has there been any study focusing on the impact of public management quality on economic growth at the local level in Vietnam. Therefore, this study was conducted to fill the research gap related to the aspect of the influence of public management quality on local economic growth in Vietnam and to propose appropriate policies. With the above objectives, the task of this study is to answer the questions: Does public management quality really promote local economic growth in Vietnam?. How do the elements of public management affect local economic growth in Vietnam?. The author uses the Cobb-Douglas production function model to carry out the objectives and tasks of this research and is based on the inheritance and development of the studies of Alexiou (2009), Cooray (2009) and Siddiqui, et al. (2013). In this study, data were collected from 63 localities (provinces and cities) of Vietnam in the period of 2016-2023 and the model was estimated using the System Generalized Method of Moments (SGMM). The Vietnam Provincial Governance and Public Administration Performance Index (PAPI Index) was also included in the model to represent the quality of public management; along with data compiled from the Vietnam Union of Science and Technology Associations and the United Nations Development Program (UNDP).

In theory, public management is referred to as the set of values, policies and systems through which a society manages its economic, political and social affairs; it is carried out through interactions between government, social organizations and citizens. The content of public management includes mechanisms and processes to ensure that people and social organizations can achieve benefits, resolve conflicts, and exercise their rights and legal obligations. And therefore, the quality of public management reflects the effectiveness of rules, institutions and control mechanisms, and at the same time creates incentives for individuals and social organizations to develop (Lok, et al., 1999).

There is an interrelationship between public administration and economic growth that every government agency and local government always takes into account when formulating development strategies. At the local level, local economic growth is assessed through the increase in regional gross domestic product (GRDP) in specific regions within each country. Neoclassical theory asserts that economic growth is measured by total output, whose fluctuations depend on the accumulation of capital, labor and technological progress. Over time, many studies have shown that there are many other factors that affect economic growth, such as human capital, the role of government and the size of institutions in different countries (Barro, 1990; Barro, 1991).

The process of formation and development of management science also clearly distinguishes public management with a number of theoretical schools mainly in the direction of combining with economic management, including: Traditional public management theory; New public management theory; Public choice theory and political economy theory; New economic institutional theory. In the traditional public management theory school, Smith (1755) pointed out that to build a prosperous state from an underdeveloped country, three basic factors are needed: peace, an effective tax system and a widely accepted just government. Buchanan (1987) from the perspective of economic management, emphasized that economists need to consider the constitution and institutional structure of governments to understand the rules and constraints that political actors must follow.

In terms of new public management theory, since the 1980s and 1990s, the new public management model has dominated government reforms in many countries around the world. Variations of new public management in different countries have focused on increasing competitiveness in the public sector and encouraging civil servants to adopt business-like management methods. During this period, digital technology was often overlooked, after initial IT systems were deployed to improve service quality (Dunleavy, P. et al., 2008). Since the 2000s, the bureaucratic model with digital technology at the center has become more viable;

digital governance focuses on the digitalization of all management systems and the provision of comprehensive citizen-centered services designed to serve citizens in a digital environment. Digital era governance has helped government agencies to restructure according to the new public management model and is an ideal model that governments and other agencies pursue at different levels, but it also poses great challenges to governments and local authorities in state governance.

For public choice theory and political economy theory, according to Dethier (1999), the government does not always act in the interests of society but is also influenced by complex power relationships and structures in public administration. In the analysis of political economy theory on government expenditure, Larcinese, et al. (2010) proposed three hypotheses to explain the influence of public administration quality on the relationship between government expenditure and economic growth: the swing election hypothesis, the electoral battlefield hypothesis and the party supporters hypothesis. In the new economic institutional theory school, Zhuang, et al. (2010) asserted that the role of public administration is considered as part of the theories on the determinants of economic growth and development. Previously, Totikidis, et al. (2005) also pointed out that public management programs supported by the United Nations have contributed to improving accountability and transparency in public management at both local and national levels; with effective public management, governments can prevent interest groups from abusing power for their own benefit (Buchanan, 1987; Barro, 1991).

Research Methods

The authors apply a mathematical equation based on the Cobb-Douglas production function. This method allows comparing the impact of public management quality on economic growth in Vietnam with the results recorded in other countries. The authors apply a production function of the following form:

$$GRDP_{it} = A (K_{it})^{\beta_1} (L_{it})^{\beta_2} (G_{it})^{1 - \beta_1 - \beta_2}$$

In there:

GRDP_{it} is regional gross domestic product,

A is technological progress,

G_{it} is local government spending,

K_{it} is the provincial private investment and L_{it} is the provincial labor force (with $\beta_1 + \beta_2 < 1$).

Then we take the natural logarithm of both sides of the equation and get:

$$\ln GRDP_{it} = \beta_0 + \beta_1 \ln K_{it} + \beta_2 \ln L_{it} + \beta_3 \ln G_{it} + \varepsilon_{it}$$

Where, t denotes the tth year and i denotes the ith province.

To represent local economic growth, continue to subtract both sides of equation (2) from $\ln GRDP_{it-1}$, and the model obtained is as follows:

$$\ln GRDP_{it} - \ln GRDP_{it-1} = \beta_0 + (\rho - 1) \ln GRDP_{it-1} + \beta_1 \ln K_{it} + \beta_2 \ln L_{it} + \beta_3 \ln G_{it} + \varepsilon_{it}$$

Thereby, local economic growth is calculated as follows:

$$Growth_{it} = \ln GRDP_{it} - \ln GRDP_{it-1}$$

To assess the impact of public management quality on local economic growth in Vietnam, the authors adjusted the equation based on the studies of Cooray (2009) and Siddiqui, et al. (2013). Specifically, the

indicators of the Provincial Governance and Public Administration Performance Index (PAPI) are included in Equation (3) to represent public management quality.

$$Growth_{it} = \beta_0 + (\rho - 1)lnGRDP_{it-1} + \beta_1 lnK_{it} + \beta_2 lnL_{it} + \beta_3 lnG_{it} + \beta_4 PAPI_{it} + \varepsilon_{it}$$

The study was conducted in the period 2016-2023 to examine the impact of public management quality on local economic growth in Vietnam. The authors conducted statistics in 63/63 provinces and cities in Vietnam. South (100% local statistics). Table 1 below describes the variables in the model, calculation methods and data sources.

Table 1. Variables Used in the Model

TT	Variable	Symbol	Scale	Data Source
1	Economic growth	Grow _{it}	lnGRDP _{it} - lnGRDP _{it-1}	General Statistics Office of Vietnam; Statistics Offices of 63 provinces
2	GRDP at the beginning of the period	lnGRDP _{it-1}	LogGRDP _{t-1}	
3	Investment capital	lnK _{it}	Natural logarithm of private investment conscious	
4	Labor force	lnL _{it}	Natural logarithm of the provincial labor force	
5	Local budget expenditure	lnG _{it}	Natural logarithm of local government budget expenditure	
6	Quality of public administration	PAPI _{it}	PAPI index of provinces i year t	Vietnam Union of Science and Technology Associations, UNDP
6.1	Level of local participation	TG _{it}	TG component index of provinces i year t	
6.2	Transparency	CK _{it}	CK component index of provinces i year t	
6.3	Accountability of state agencies to the people	TN _{it}	TN component index of provinces i year t	
6.4	Controlling corruption in the public sector	KS _{it}	KS component index of provinces i year t	
6.5	Public administrative procedures	TT _{it}	TT component index of provinces i year t	
6.6	Providing public services	CU _{it}	CU component index of provinces i year t	

Source: Authors' Compilation, 2024

This study uses the SGMM method of Arellano, et al. (1991) to estimate model 4. SGMM estimation is often used in panel data in the case of autocorrelation and heteroscedasticity. At the same time, through this method, the endogeneity phenomenon that often occurs in macroeconomic models (Konstantakopoulou, 2022) is overcome.

There are several reasons for using the SGMM method. The panel data of the study has a small time series for each province (8 years) and a large number of provinces (63 provinces), which means a smaller time horizon but more observations. Model 4 contains the independent variable as a lagged variable of the dependent variable. The SGMM method can be estimated when the independent variables are not completely exogenous. Finally, when the model contains autocorrelation and heteroscedasticity, this method is appropriate.

In addition, we also conduct tests to ensure the reliability of the model. First, residual autocorrelation test: According to Arellano, et al. (1991), SGMM estimation requires first-order correlation and no second-order correlation of the residuals. Therefore, when testing the hypothesis H_0 : no first-order correlation, AR(1) test and no second-order correlation of the residuals, AR(2) test, we reject H_0 in the AR(1) test and accept H_0 in the AR(2) test. Second, testing the fit of the model and the representative variables: Similar to other models, the fit of the model can be tested through the F test. In addition, the Sargan/Hansen test is also used to test the hypothesis H_0 : the instrumental variables are suitable; accepting the hypothesis H_0 means that the instrumental variables used in the model are suitable.

Research Results

First, the authors present descriptive statistics of the variables in the model, which are summarized in Table 2 below.

Table 2. Descriptive Statistics of Variables

Variable	Observe	Median	Standard deviation	Min	Max
GDP	549	82,373,490	149,289,600	4073.500	1,344,743
G	549	18,309,130	20,054,680	3690.300	287,857,300
K	549	32,384,640	56,439,850	3018.261	561,437,700
L	549	59,833	3,861	50	72,994
TG	549	5,198	0.493	3,751	6,809
CK	549	5.601	0.505	4,435	7,240
TN	549	5,358	0.567	4,097	7,506
KS	549	6.117	0.658	4,054	8,190
TT	549	7,057	0.329	5,895	7,947
CU	549	6,982	0.362	5,681	8,028

Source: Statistical Results Processed By SPSS 26.0 Software

Descriptive statistics show that the average GRDP of Vietnamese localities in the period 2016-2023 reached 82,373.49 billion VND. The standard deviation of GRDP is 149,289.6 billion VND, showing that the difference in GRDP of localities in Vietnam is quite large. This large fluctuation shows that the development of localities in Vietnam is uneven.

The values of the observations in Table 2 show specific meanings. For citizen participation (TG), the mean value of this variable is 5.20 points, the standard deviation is 0.49 points, indicating that the level of TG variation is relatively low. For Publicity and transparency in decision making (CK), the mean value of this variable is 5.60 points, the standard deviation is 0.50 points, indicating that the level of CK variation is relatively low. For citizen accountability (TN), the mean value of this variable is 5.36 points, the standard deviation is 0.57 points, indicating that the level of TN variation is relatively low. For Control of corruption in the public sector (KS), the mean value of this variable is 6.12 points, the standard deviation is 0.66 points, indicating that the level of KS variation is relatively low. For Public Administrative Procedures (TT), the mean value of this variable is 7.06 points and the standard deviation is 0.33 points, indicating a relatively low level of TT fluctuation. For Public Service Delivery (CU), the mean value of this variable is 6.98 points and the standard deviation is 0.36 points, indicating a relatively low level of CU fluctuation. The annual fluctuation of the components in the quality of public management has a tendency to increase steadily over the years of the research period 2016-2023.

To measure the degree of linear relationship between two variables, the correlation coefficient is used. The correlation coefficient, which represents the correlation between a pair of variables, ranges from -1 to +1. The correlation coefficients of the pairs of independent variables are all less than 60%. Therefore, the independent variables in the model have low correlation with each other. However, the correlation

coefficients of the pairs of independent variables LNG and LLNGRDP, LNK and LLNGRDP, and LNK and LNG are all higher than 60%. Next, the authors conducted tests to ensure that there is no multicollinearity in the model. The results are presented in Table 3 below.

Table 3. Multicollinearity Test of Independent Variables

Variable	VIF	1/VIF
lnGRDP	4.50	0.222267
lnK	4.23	0.236201
LNG	2.91	0.343376
CK	2.06	0.485278
TN	1.57	0.635892
ln L	1.55	0.645772
TG	1.53	0.652205
CU	1.48	0.677167
TT	1.45	0.691525
KS	1.30	0.770655
Medium VIF	2.26	

(Source: Statistical Results Processed by SPSS 26.0 Software)

The phenomenon of multicollinearity is that the independent variables of the model are represented as functions and linearly dependent on each other. According to Kleinbaum, et al. (1988), there is a phenomenon of high multicollinearity between variables when the VIF index is greater than 5. The results of the VIF test above show that the independent variables do not show high multicollinearity. Therefore, the author uses these variables for regression analysis.

Table 3 shows that Control of Corruption in the Public Sector (KS), Public Administrative Procedures (TT) and Public Service Delivery (CU) are positively correlated with regional gross domestic product. However, Citizen Participation (TG), Publicity and Transparency in Decision Making (CK) and Accountability of State Agencies (TN) are not significantly correlated with regional gross domestic product. However, this is only a visualization result, in order to draw accurate conclusions about this relationship, the author continues to estimate the model using the SGMM method.

Discussion of Research Results

The research results show the estimated results of the models assessing the impact of public management quality on local economic growth in Vietnam. The research results also show that the AR(1) test has a p-value less than the 10% significance level and the AR(2) test has a p-value greater than the 10% significance level. Therefore, the model has first-order autocorrelation but no second-order autocorrelation with the residuals. At the same time, the model has a p-value of the Hansen test greater than the 10% significance level, which means that there is a good fit for the instrumental variables used in the model. In addition, the F-test shows that the model is suitable when the p-value is less than the 1% significance level; the research results satisfy that the number of instrumental variables should not exceed the number of observation groups. Therefore, the model has ensured reliability for us to continue analyzing.

The results of the study also show that there is a consensus with the impact of convergence when the regression coefficient of lnGRDP is significant at the 1% level and has a negative value. Specifically, localities with small economic scale (small GRDP) have higher growth rates than provinces with large economic scale (large GRDP) because the coefficient of lnGRDP has a negative value. This result is consistent with neoclassical theory and the findings in previous studies by Alexiou (2009), Cooray (2009) and Siddiqui, et al. (2013).

Table 4. Estimated Results of SGMM Method

Target	(1)	(2)	(3)	(4)	(5)	(6)
lnGRDP	- 0.383 ***	- 0.501 ***	- 0.467 ***	- 0.567 ***	- 0.725 ***	- 0.494 ***
lnG	0.149 ***	0.177 ***	0.168 **	0.242 ***	0.094 *	0.173 **
lnK	0.223 **	0.364 ***	0.284 **	0.377 **	0.636 ***	0.333 **
lnL x	- 0.788	- 0.947	- 2,053 *	- 1,956	- 1,009	
TT	0.073 **					
TG		0.005				
KS			0.079 ***			
CK				- 0.017		
TN					- 0.021	
CU						0.176 *
_CONS	3,273	4,041	8,588 *	8,223	4,909 *	0.583
AR (1) p-value	0.084	0.091	0.085	0.091	0.004	0.088
AR (2) p-value	0.188	0.381	0.346	0.307	0.291	0.520
Hansen p -value	0.846	0.183	0.571	0.117	0.469	0.522
Quantity local	63	63	63	63	63	63
Number of tools	12	11	13	13	12	12
Second stage F-test p-value	0.000	0.000	0.000	0.000	0.000	0.000

(Source: Statistical results processed by SPSS 26.0 software)

For local expenditure, the regression coefficients of lnG are mostly significant at the 10% level and are positive. Therefore, it can be seen that increasing local expenditure will promote local economic growth. Specifically, the regression coefficients of lnG in the models in Table 4 range from 0.094 to 0.242. Thus, a 1% increase in local expenditure can increase local economic growth from 0.094% to 0.242%. In addition, the regression coefficients of lnK are all positive and significant at the 10% level. This result shows that increasing local private investment will promote local economic growth and is consistent with the endogenous growth theory. These results are also consistent with the neoclassical theory and the findings in previous studies by Alexiou (2009), Cooray (2009) and Siddiqui, et al. (2013).

Regarding the impact of public management quality on local economic growth, Table 4 shows that the regression coefficients of the variables, including Control of Corruption in the Public Sector (KS), Public Administrative Procedures (TT) and Public Service Delivery (CU), are all positive and significant. Thus, it can be seen that improving the quality of public management will have a positive impact on local economic growth in Vietnam. These results support the theory of public management, the theory of public choice, the theory of political economy and the theory of new economic institutions.

Conclusion and policy implications

After nearly 40 years of national renovation, the Vietnamese government has recently begun to focus on administrative reform in many aspects. These reform efforts aim to eliminate bureaucratic, cumbersome and inconvenient administrative procedures for the people. Public administrative procedures (PPP) measure the efficiency of a number of administrative services and procedures based on people's actual experiences when performing a number of procedures that can be considered important and common in people's lives. Table 4 shows that the coefficient corresponding to PPP has a value of 0.073 and is significant at the 5% level. Thus, when the quality of public management as measured by PPP increases by 1 unit, the local economic growth rate can increase by 7.3%. Next, Controlling corruption in the public sector (PS) is perhaps one of the biggest challenges in public management today. The regression coefficient corresponding to KS has a value of 0.079 and is significant at the 1% level. Thus, when the quality of public management measured by Control of Corruption in the Public Sector (KS) increases by 1 unit, the local economic growth rate can increase by 7.9%.

Finally, Public Service Delivery (CU) directly measures the actual “product” of good governance. Public Service Delivery (CU) looks at four components, revealing the four most important public services for citizens: Public health (health insurance and quality of local hospitals); Public primary education (with indicators such as the overall quality of public primary schools and distance from home to school); Basic infrastructure (electricity, quality of roads near home, waste collection services and quality of water); Public order and security (public order and security in residential areas and the severity of certain types of crimes occurring in residential areas). The regression coefficient corresponding to CU is 0.176 and is significant at the 10% level. Thus, when the quality of public management as measured by Public Service Delivery (CU) increases by 1 unit, the local economic growth rate can increase by 17.6%.

The research results show that improving the quality of public management will have a positive impact on local economic growth in Vietnam through component indicators, including Control of Corruption in the Public Sector (KS), Public Administrative Procedures (TT) and Public Service Delivery (CU). Thereby, to improve local economic growth in Vietnam, attention should be paid to some of the following solutions:

Firstly, it is necessary to make public management activities at the local level transparent; it is very necessary to be open and transparent in planning and implementing mechanisms and policies at the local level: People can discuss and debate openly and democratically; mechanisms and policies are supplemented and perfected. Thanks to that, mechanisms and policies will be closer to reality, meeting the development requirements of the country. In addition, transparency also helps the implementation of laws at the local level to be smooth, overcoming the situation where the same regulation is interpreted differently by state agencies. Transparency in public management helps businesses access information, increasing equality in business opportunities for businesses of all economic sectors. Open and transparent administrative procedures will contribute to overcoming corruption, creating favorable conditions for people and business production activities of businesses. At the same time, transparency in public management is also the basis for people and businesses to monitor the activities of civil servants, overcoming corruption. To manage the public transparently, local authorities need to develop and implement a mechanism to ensure people's right to access information about the activities of agencies, organizations and units. Local authorities also need to complete and strictly implement regulations on spokespersons of state agencies. In addition, local authorities also need to develop and promulgate laws on access to information, with sanctions for violators.

Second, fighting corruption in the public sector is necessary. Fighting against the corruption of power or the abuse of power by those in power has been a problem throughout the development of human history. This fight can be carried out “from outside” the power apparatus, through the people's reaction to violations of the law, the use of power not for the benefit of the people. This creates continuous and widespread control in many different forms. Control can also be carried out “from within” the power apparatus, through institutions established by the state, but first of all, it is to organize the division of power in the most reasonable way. That is the core of the theory of decentralization, the core is the division and regulation, mutual control between the branches of state power. Some recommendations include strengthening the dissemination and popularization of the Party's viewpoints, guidelines, and policies and the State's anti-corruption laws, and enhancing effective handling and prevention of corruption. It is important to ensure that 100% of cadres, civil servants, public employees, and workers have a firm grasp of anti-corruption laws; at the same time, strengthen and widely disseminate anti-corruption laws among the people.

Third, it is necessary to simplify administrative procedures. Streamlining public administrative procedures helps improve the efficiency of public management. This further improves the efficiency of public service management, and increases people's satisfaction with the operation of the government apparatus. People's opinions and recommendations will be answered specifically, which is a condition for local authorities to rectify and overcome limitations to serve people better and better. For issues that have not been answered directly at public meetings, local authorities will organize regular consultations and respond in writing to people. Continue to promote reform of administrative procedures under local management authority, build simple and transparent administrative procedures. In addition, local authorities need to increase the rate of online administrative procedure settlement over the total number of administrative procedures, and promote electronic payments. In addition, implementing essential online public services as assessed by the United Nations, integrating and providing them on the National Public Service Portal will be beneficial.

Localities also need to promote the pilot implementation of the interconnection model in handling a number of administrative procedures under the authority of ministries and central branches, and enhance the application of information technology in handling administrative procedures.

Although the research model based on the production function and related studies have been developed, local economic growth may still be affected by other variables. This is the limitation pointed out in this study. And therefore, further studies may add new variables to seek new results.

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