From the current global economic crisis - thinking of a development model in Vietnam

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Abstract. The current global economic crisis once again proves Karl Marx’s theoretical point. The basic contradiction of capitalism - between the highly socialized productive force and capitalist relation of production - has blew up globally, causing severe economic, politic, and social consequences. The intervention of states has softened this critical contradiction and restricted its damage remarkably. In the near future, a global centre for economic regulation will appear. However, the capability and power of states are limited. The inherent contradiction of capitalism still exists and a similar crisis is inevitable in the future.

Building a country with “wealthy people, prosperous country, democracy, justice, civilization” is a goal that Vietnam has targeted. They are also the common values of the humankind. To achieve this goal, Vietnam should learn lessons from other countries. Development of a market economy is indispensable for Vietnam. However, it is necessary to aware of advantages and disadvantages that exist in a market economy, including crisis risks. The current global economic crisis has awoken every country. In fact, it could be confirmed that Vietnam has a correct choice when choosing development model as “Socialist-oriented market economy”. In essence, socialist orientation in market economic development of Vietnam is to develop a market economy followed the shortened and sustainable development model. Thanks to this model, the impacts of global economic crisis on Vietnam are less dramatic than several countries; macroeconomic situation is relatively stable, economic growth is positive; hunger elimination and poverty reduction gains achievements and so on. Those achievements prove that Vietnamese Communist Party has successfully applied Marxist economic theory in the new situation of Vietnam.

1. Milestones of the world economic crisis

The global economic crisis derived from the real-estate credit crisis in the USA. Banks failed to proceed with housing business loans with full attention about clients’ repayment ability. The crisis showed its first symptom from the third quarter of 2007 in the U.S financial market, when mortgage accounted for 25% of the total credit in the economy and the American Home Mortgage - the largest home mortgage corporation - applied for bankrupt. Next, on 11 July 2008, the Indymac Bank with assets worthy 32 billion USD was placed under the control of the Federal Deposit Insurance Corporation (FDIC). These are like the sign for ups and downs events”. The crisis really exploded in the middle of September 2008 when two financial groups, Fannie Mae and

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Freddie Mac were nationalized. They were giant financial groups in housing mortgage loan, accounted for 50% of the U.S. market. When the Merrill Lynch went bankruptcy due to provision of substandard housing mortgage loans, the Bank of America had to buy the Merrill Lynch at $50 billion to rescue this company. Additionally, the Lehman Brothers collapsed, and applied for bankruptcy. On 17 September 2008, the U.S. Federal Reserve (FED) lent the American International Group (AIG) $85 billion to rescue this insurance group from bankruptcy.

In England, the Northern Rock suffered a huge loss when investing in stocks for the substandard housing mortgage in the U.S. and was on the edge of bankruptcy, it then was nationalized.

The crisis started to spread to Europe and Asia. In an attempt to prevent the crisis, the Central Banks in U.S., England, China, Canada, Sweeden, Switzerland and European Central Bank (ECB) decreased basic interest. Therefore, starting with the banks in U.S and after a short time, the crisis had spread its swing to a variety of economic fields, impacting negatively on many economies at different levels. Almost countries suffered dramatically economic decline, increased unemployment rate, and stagnated export due to decreased consumption; the national reserve were exhausted and budget deficits increased as the governments had to provide huge stimulus packages to save their economies.

A large number of urgent international meetings were held to seek for the crisis. The first meeting was held on 11 October 2008 among G7’s Central Banks Presidents and Financial Ministers. The following meetings were the Summit of G20’s leaders, U.N. Secretary General, IMF’s leader and WB’s leader in Washington from 15 to 16 October 2008, ASEM 7 Summit in Beijing and so on. All the meetings focused on how each country reacts and cooperates with each others to solve the world economic and financial crisis. The G20’s Summit urged the governments to cooperate to overcome the crisis, halt the recession, recover and grow the world economy. Massive emergent solutions were introduced by the governments to save the economies. In November 2008, money was pumped into the economies, specifically: US$ 1,300 by America, EUR 200 billion (approximately US $260 billion) by EU, and US$ 568 billion by China. Especially, ASEAN, China, Japan, and Korea established a common foreign reserve of US$ 80 billion in June 2009. It couldn’t denied that the powerful governmental interference did halt the crisis and prevent negative impact.(1)

2. Major causes of the world crisis and economy tendency

It can be seen from the recent global financial and economic crisis process, the major causes derivered from substandard lending bank systems, weakness, indiscipline and inopportune interfernce from governments. All of these causes are apparently appropriate, however, “subprime” and “visible”. To investigate the root cause of the crisis, it is essential to analyse the nature of developed capitalism economies, of which the US economy is a typical example.

Developed countries nowadays, more or less, support free market. This free market mechanism attains a number of advantages, playing an important role in socio-economic achievements of those countries for hundreds of years. However, the prominence of this mechanism had led to economic recessions, crises, especially the 1929-1933 Great Depression, which laid an initial foundation for the development of the Keynesian. Since 1970s, the Keynesian was excessively applied but it caused negative effects. Therefore, the Neoliberalism was

established and become predominant. Thanks to economic achievements, many developed countries became addicted to the Neoliberalism during 1980s-1990s.

The Neoliberalism in essence has market economy basis with government certain interference. Economic liberation relies on private ownership regulations, which allows an effective exploitation and use of resources and provides advantages for the rich. Indeed, this is a modern market economy of Capitalism. K. Marx mentioned the development cycle of capitalist market economy. When chasing for profits, entrepreneurs keep investing and expanding their production and business. Rapid growth of the U.S and other developed countries in the 1990s fell in the cycle development regulations. Therefore, recession comes after prosperity. Since 1999, developed countries witnessed a slow-downed rate of economic growth. At that time, some economists had predicted a huge economic crisis to happen. In this situation, the governments fixed market mechanism malfunctions. Nevertheless, they still implemented liberalisation policies, of which the financial liberalisation was the most dangerous. This symptom was appealed significantly in the American financial market, where financial institutions got a free pass for large substandard lending, banks were allowed to invest in stock market and especially housing securities while expanding their housing loans and real-estate investment insurance. In a nutshell, financial liberalisation and profit making target caused serious an unbalance between financial and real-estate markets.

The imbalance was exaggerated by low-interest policy aiming for economic growth stimulus by the Federal Reserve (FED). In 2000, the basic interest rate announced by FED was 6%. By mid 2003, the rate dropped to 1%\(^{(2)}\). Apparently, commercial banks decreased their lending interest rate. Simultaneously, housing price in 2001-2005 in the U.S. increased dramatically by 54%. Hence, the real-estate business turned out to be “super-profitable” and received a large amount of money from commercial banks and financial institutions as a result. The financial liberalisation policy distracted the U.S. government from maintaining a balanced cash flow as a necessity. On the other hand, the financial liberalisation brought about advantages for the U.S. real-estate market, and attracted investment from commercial banks of other developed countries\(^{(3)}\). The imbalance reached its peak and went out of the U.S. border.

In 2006, FED increased interest rate to restrain inflation. This action affected real-estate market immediately: price decreased, transactions were hard to conduct. At that time, commercial banks could not manage to retrieve investment capital, which led to massive bankruptcy. The U.S. government could not control the national financial system and the market failure was inevitable. Under the globalization and financial liberalisation tendency, the financial market of every country became more interdependent. As a result, the failure in the US financial market led to the failure of that market in other countries.

In consequence of giving prominence to market power, depending on self-adjusting market, governments were more like “a follower” than “a preventer” in crisis. Only after the economic-financial crisis had broken out, the government of the US and others started to design solutions. It can be seen that the failure was originated from extreme liberalization of market economy. This failure was started with “bubble” in real-estate. If the Neoliberalism kept predominant, the up-coming failures would probably come from stock market, energy market or tele-communication market... The self-adjusting market could probably lead to the macro-economic imbalance, and economic crisis was unavoidable.


\(^{(3)}\) I.b p24
The current world economic crisis has once again proven that the Marxist theory is correct. The basic conflict of the Capitalism which is between the increasing socialized nature of productive forces and Capitalist relations of production, broke out all over the World with a large number of negative impacts on the economy, politics and society. The interference of bourgeois states could only ease the seriousness of this conflict and restrain the negative effect of the crisis.

3. Thinking of development pathway of Vietnam

Vietnam’s development goals are to continuously enhance people’s material and spiritual life, aiming for “wealthy people, prosperous country, justice, democracy, civilization”. These goals originated from the Socialist model by K.Marx and F.Engels and from the reality of Vietnam through decades of Vietnam Communist Party’s leadership. The former war for national liberation and today’s Socialism development of Vietnamese both aim to realize these goals.

“Wealthy people, prosperous country, justice, democracy, civilization” are common values of human race. The development of a market economy is essential to achieve these goals, which has been proven by realities from Vietnam and the world. Nonetheless, market economy persists of not only advantages but also failures with crisis risk. Since the first transitional phase of market economy mechanism, the Vietnamese Communist Party and the Vietnamese Government focused on enhancing its advantages and simultaneously restraining its disadvantages and failure. Vietnam designed and applied the development model of “Socialist oriented market economy”

Socialist orientation in market economic development of Vietnam is organised and implemented by the State, the whole politic system, under the leadership of Vietnamese Communist Party, relying on conceiving nature, laws of market economy tendency and the initial characteristic of Socialism, in order to adjust the market economy to contribute to Socialist development and aiming for “wealthy people, prosperous country, justice, democracy, civilization”

“Wealthy people, prosperous country, justice, democracy, civilization” are our nation’s dream for a long time and also the common values of human race. With various approaches, at different paces, and with different kinds of failure, all countries and nations are yielding to this goal. To catch up with the developed countries, Vietnam has to take a short-cut. Socialism must base on intensive socialization, thus market economy is prerequisite to develop Socialism. Developing market economy takes a long orderly way. Hence, taking a short-cut is foremost to arrive in Socialism, standing as the first content of Socialism orientation in developing market economy.

The western countries have harshly experienced primary accumulation of capital for hundreds of year to develop the market economy. Developing countries have long been Imperialist colonies, being exploited and predominated over for hundreds of year. Nowadays, these countries are still kept obsolete and highly dependent. Therefore, it is not a quick and easy way to develop their market economy. Nationalist bourgeois took the lead in national and democratic revolution in some countries. After gaining the independence, these countries chose Capitalist way and experienced the duplicated process of former developed capitalist countries with extremely higher price. In the case of Vietnam, the Vietnam Communist Party’s leadership has been the utmost factor to make differences. The Vietnamese under Party’s leadership had successfully swept French and Japanese troops out off the country, winning a giant victory in the Resistance against American, and advancing to Socialism by passing the stage of Capitalism development. The leadership of Vietnam
Communist Party is the utmost political premise for Vietnam to take a short-cut development.

Market economy has become popular worldwide recently. In pioneer countries, market economy has reached advanced development stage. In regards with globalization and economic integration, there is a chance for Vietnam to approach and inherit the achievements gained by former developed countries. It is an exterior factor, supporting Vietnam to take a short-cut development. Despite a short time of market economy development, Vietnam has obtained notable results. The premise for market economy development have been established, including variation of possessions, democraticization in politics, society, acceleration of resource accumulation, synchronization of economy structure. In mid February, EU has approved the assessment of market economy recognition in Vietnam. EC’s assessment says Vietnam has gained important milestones in transition to market economy\(^{(4)}\). Vietnam has fully met the first criterion and made advancement in the second criterion. In the last three criteria, the assessment shows that Vietnam has some certain advancement; however, there is still room for improvement. Vietnam is striving for full regconition of market economy in 2018, which is absolutely possible. Hence, it will take Vietnam 33 years to develop market economy from 1986 (the starting point) and Vietnam is capable to take a short-cut development. The mankind history has experienced vicissitudes. All countries strived to be prosperous and perpetual. However, their attempt did not receive what they deserved: many empires collapsed, many civilizations were destroyed and a number of nations and ethnics decayed. Not until later decades of modern history, certain physical conditions for formation of various ideas, concepts on sustainable development did turn up and become more profound and complete. The development of former industrialised countries concentrated mainly on production. It is a fact that developed production and inequal income distribution are responsible for social conflict and cause development negative results. Therefore, at the begining of the 1970s, research and development activities brought improving income distribution into focus. Thereupon, the idea of development was changed into economic growth interdependent with social equality and poverty reduction. Nevertheless, since rapidly devastated environment challenged the development in the beginning of 1980s, environment protection has appeared to be the third goal of development. And during that time, the term “sustainable development“ came into view.

Thenceforth, a great deal of definitions and concepts on sustainable development have been introduced in international conferences and seminars. In 1987, WB’s definition stated “sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs“. This definition is simple but it has laid initial foundation for later researches which are increasingly serious. The concept of sustainable development was further clarified at the 2002 Johannesburg Earth Summit on Sustainable Development in South Africa. Sustainable development is a process with interdependent and mutually reinforcing pillars as economic development, social development, and environmental protection. Thus, sustainable development have received a

\(^{(4)}\) The 5 criteria which EC use to assess market economy are:
- Degree of State influence over the allocation of resources and decisions of enterprises.
- Absence of State-induces distortions in the operation of enterprises linked to equitizations and absence of use of non-market trading or compensation systems.
- Existence of an adequate system of corporate governance.
- Respect of property laws (including intellectual property laws) and existence of a functioning bankruptcy regime.
- Existence of a genuine financial sector which operates independently from the State subject to sufficient guarantee provisions and adequate supervision.
great deal of attention and become national development goal.

Vietnam cannot stand apart from the world development tendency. The development of market economy in Vietnam is to benefit our people, to fulfill the requirements for human development process, targeting at “wealthy people, prosperous country, justice, democracy, civilisation”. The development would simultaneously solve the three issues of i) achieving stable and high economic growth rate and gradually enhancing economic growth quality ii) restraining and minimizing social issues such as rich and poor gap, social evils, etc. iii) protecting natural resources and environment, preserving ecological balance. In that event, sustainable development is the second content of Socialist orientation in market economy development in Vietnam.

Using Socialist orientation in market economy development during recent years, Vietnam has gained valuable outcomes towards sustainable development.

* Government - Market relationship: The government has played a substantial role in developing market economy in Vietnam. With the assistance of developing multi-element economy, opening the door for integration, developing new economic structures and institution and adjusting economy regulating mode and tool, the government has established foundsations for the formation and development of market economy in Vietnam.

The government has played a substantial role in forming market economy institutions. Legal system, mechanism, policy, regulations to regulate economics activities are being developed and completed. Vietnamese economy today comprises of variety of possessions, economic elements and each element has to compete with each others, creating a driving force for eco-social development; distribution institution has been constituted and evenly implemented with distribution principle of market economy and Socialism. Performing distribution based on market principle has created motivation for eco-social activities. In the mean time, distribution policy of the government has helped to perform social equality. Business environment has become more transparent and convenient. Market elements and market types are getting more developed and comprehensive.

In the past few years, the manner of government intervention has been changed positively. The use of indirect tools becomes more popular. Market rules have taken effective. Price, interest rate, wage,... are determined in the market. Vietnam market has merged with the world. Vietnam has participated in many organisations in the area and worldwide.

Vietnam has successfully managed the 2008 inflation and economic recession in 2009. In the global downturn context, Vietnam is one of a few countries having positive economic growth rate. Politic and social situation remains stable. Vietnam has been considered to be one of the active developing economies in the world.

* On the relationship between economic growth and social equality advancement and environment protection: Fast economic growth is a pressing matter for Vietnam. Thanks to the government’s proper policies, mechanisms, and management, Vietnam’s GDP growth rate was reasonably high at 8.2% during 1991-1995, 7.5% during 1996-2000, approximately 7.5% during 2001-2005. Despite being affected by the world financial crisis, GDP of 2008 still increased by 6.18% compared to the number of 2007. And the growth rate in 2009 reached 5.32%. Owing to high economic growth rate through years, Vietnam’s economic potential and position have been improved considerably. From being one of the poorest countries in the world, income per capita in Vietnam has increased to USD 1024 in 2008\(5\). Vietnam has joined the group of countries with low average income.

In conjunction with rapid economic growth, Vietnamese Communist Party and Vietnamese government have paid high attention to social

issues. The majority of population in Vietnam shares the benefit of economic growth. According to Ministry of Labor, Invalids and Social Affair, the proportion of poor households in Vietnam has dropped from 58% in 1993 to 16% in 2006 and 14.8% in 2007. There is a decrease of 300,000 poor households every year on average. If the economy keeps growing at the above mentioned rate and social policies are well implemented, Vietnam will achieve the committed Millenium Goal to halve the number of poor population by 2015\(^{(6)}\).

During 2006 and 2007, approximately 3,172,000 jobs were created, of which 75% was from socio-economic development programs. In 2 years, there were 160,000 people, working overseas under definite contracts, increasing the total number of workers overseas to 460,000\(^{(7)}\).

Vietnamese Communist Party and Government are concerned to develop culture, healthcare, and education. Thus, systems of education, healthcare, culture, communication, sports have been improved remarkably in the recent years. Current intellecture rate in Vietnam is 94%. Primary school education in Vietnam has been universalized in 2005 and secondary school education is going under the process. Social welfare was diversified. Social insurance, health insurance system is experiencing great development, heading to universal health insurance. Health care system has been improved to be unbiased and effective, assuring people’s health is cared and protected. The Government continues to put investment into upgrading health care and precaution facilities, designing and improving policy for allowance, health insurance for social-policy beneficiaries and the poor. High-tech and private health care services have been flourished\(^{(8)}\). Therefore, Vietnamese life expectancy has increased from 67.8 to 71.3 years.

Generally, Vietnamese Communist Party and Government have paid fully and comprehensively attention to Socialism orientation in working with social issues. Equality is viewed from both angles: equality of opportunity and equality of results. Thanks to correct direction and appropriate policies, Vietnam has achieved notable outcomes in social issues. Vietnam’s HDI has risen from 0.539 in 1995 to 0.709 in 2006 and 0.733 in 2007 and 2008, ranking respectively 102/174 in 1995, 179/177 in 2006 and 105/177 in 2007 and 2008\(^{(9)}\).

In spite of being a developing country, Vietnam is concerned to preserve natural resources and environment. Vietnam has attempted to preserve, restore and replant forests in order to perform The Millenium Development Goals. The proportion of coverage has increase to 33.2% in 2000 and 39% in 2008. Hence, there is 0.6% of added forest coverage area annually. Vietnam has been enforcing the project of “5 milion hectares newly planted forest”. Local authorities have been focusing on planting new watershed, protective forest; preserving, restoring and enriching existing forests; implementing solutions for counter-deforestation. Meanwhile, Vietnam has conducted considerable attempts in soil preservation to maintain biological origin and diversity. After 10 years of implementing The Convention on Biological Diversity, Vietnam has 126 natural reservoirs of 2.5 million ha, increasing by 28% compared to pre-entering period. Reservoirs, national forests have been preserved and maintained with biological diversity. Vietnam strives for increasing proportion of preserved soil to 11.6% in 2010. Investment in biological diversity, which currently accounted for 20-30% of total investment into environment, is to increase evenly. Vietnam has attached much importance to sewage, exhaust fumes processing, issued and implemented many related policies.

* Economic integration and independence protection. Market economy requires non-stop

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\(^{(6)}\) Figures and Events, No 2 - 2009, P26.
\(^{(7)}\) Communist Review, No 2 - 2008, P35


\(^{(9)}\) Figures and Events, No 3 - 2009.
expanding economic zone. In the context of globalization, it is essential to integrate and open the economy. Vietnam has actively and initiatives integrated into the world economy. Vietnam has become member of important international organizations such as ASEAN, APEC, WTO. Vietnam has opportunity to develop market relationship rapidly more than ever before. At the same time, Vietnamese economy is able to overcome the disadvantages such as capital shortage, obsolete technology and making use of advantages.

Vietnam is still able to be independent of designing development strategies, economic policies and managing macro-economy. Vietnam has succeeded in restraining impact of global down-turn. Being independent in economic issue is the premise for protecting independence in politics, culture and society.

Although Vietnam still has to face with series of issues: economic growth is low-quality, certain population group are likely to be reimpoverished, quality of education and health care services have not met the demand, resources and environment preservation has many problems, state management has been still powerless... However, achievements in economy development, solving social issues, environment protection, world economic integration are very important factors, which allow to affirm that Vietnam has “firm steps” on the way to achieve "wealthy people, prosperity, justice, democracy and civilization”.

Consequently, thanks to the socialism orientation in taking a short-cut and sustainable market economy development, the global economic crisis’s impacts on Vietnam was fairly light, macro-economy is relatively stability, economic growth is high and stable, the solutions for social and environmental issues gain many achievements.... All of the results mentioned above prove that the model “Socialist oriented market economy” is entirely consistent with Vietnam.

References

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[5] Figure and Events Review. No 2, 3, 2009
trí và xã hội. Sự can thiệp của các nước đã góp phần làm dịu bớt mâu thuẫn này và hạn chế được tổ chức không hoằng đang gây nên. Trong tương lai không xa, một trung tâm điều tiết kinh tế toàn cầu có thể xuất hiện. Tuy nhiên, khả năng và quyền lực của các nước này là có hạn. Mấu thuẫn có hiệu quả của chủ nghĩa tư bản sẽ vẫn tồn tại và một cuộc không hoằng tưởng tượng tự là điều hoàn toàn có thể xảy ra trong tương lai. Việt Nam đã mục tiêu xây dựng và trở thành một đất nước “giàu mạnh, dân chủ, công bằng, và văn minh.” Đây cũng là giá trị chung của toàn nhân loại. Để thực hiện mục tiêu này, Việt Nam cần học tập kinh nghiệm của các nước đi trước. Phát triển nền kinh tế thị trường là lựa chọn tất yếu của Việt Nam. Tuy nhiên, Việt Nam cần biết rằng nền kinh tế thị trường và trung tâm này có cấu trúc và hạn chế, trong đó chứa đựng cả những nguy cơ khủng hoảng. Cuộc khủng hoảng kinh tế hiện nay đã làm thay đổi tình thế của quốc gia. Trên thực tế, có thể khẳng định Việt Nam đã đúng khi lựa chọn mô hình phát triển “Nền kinh tế thị trường định hướng xã hội chủ nghĩa.” Định hướng xã hội chủ nghĩa trong phát triển kinh tế thị trường của Việt Nam là phát triển nền kinh tế thị trường theo từng giai đoạn rút ngắn và bền vững. Nhờ mô hình này, ảnh hưởng của cuộc khủng hoảng kinh tế toàn cầu mà Việt Nam phải hứng chịu là nhẹ hơn so với nhiều nước; tình hình kinh tế vẫn ổn định hơn, duy trì tăng trưởng kinh tế dương; công cuộc xóa đói giảm nghèo đạt được nhiều thành tích lớn,... Những thành công này chứng minh rằng Đảng Cộng sản Việt Nam đã áp dụng thành công lý thuyết kinh tế theo chủ nghĩa Marx trong điều kiện của Việt Nam.