

# GLOBAL ECONOMIC CRISIS AND ISSUES FACING VIETNAM

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In the recent discussions, it is advisable to put the interpretation of the causes, consequences and impact of the global financial-economic crisis in the relation to contemporary changes( for the world) and the strategic orientation of the period 2011-2020's development.

With such an approach, we would like to present ideas about 3 issues

## **I. About the cause of crisis**

This crisis is viewed as one of the century, "once in a lifetime". During the past hundred years, the world has seen a lot of crises, since 1997, there have been 5-6 crises. However, it is just minor one in particular areas and mostly in regional scale. Therefore, its depth and characteristic features are not the same as the other minor ones but it is referred to as "Great Crisis". This crises has the power of changing an era.

Looking at this crisis in that way, it is impossible to say that faults of the financial system is the only cause of the crisis. The basic principle is to distinguish all the causes from superficial to root ones.

With that insightful look, several groups of causes can be identified as follows:

- The direct cause: the make-up and collapse of housing bubbles, housing mortgage debts. Deeper cause is the credit unrest as a whole (U.S housing debts only account for 23% of the total number of debts.
- The basic cause (fundamental): critical imbalance of global economy which last for a long time, break the current correlations and development situation
- The caused linked with the operation principles of the market economic system, state or market?

### *1. The direct cause: home loan crisis and credit crisis*

Due to the collapse of dot.com in 1999-2000 and the 11/9/2001 terrorist attacks, with concern that the economy might collapse, Federal Reserve System has promptly cut down the interest rates from 6.5% to 1% in July, 2003.

That interest rate last for 4 years. During that time, housing prices increased about 10% a year since middle 2001 until late

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2004. At that rate of increase, the housing prices in 2006 are twice as much as that in 2001. Low interest rates, cheap loans, and rapidly increasing prices of housing cause the housing bubble to make up. When the interest started to increase in 2005, the bubble continued to expand until the end of 2006. After the 7-year prosperous period (2000-2006), the collapse quickly take place on global scale.

The outstanding feature of housing bubble is the increase in mortgage credit.

By the beginning of the 1990s, U.S outstanding loans are only about 2.000 billion USD, but by the third quarter of 2001, they increased to over 5.500 billions USD and till the third quarter of 2007, they reached over 11.000 billion dollar. At the peak, total outstanding loans reached about 48.000 billion USD, about threefold of GDP.

Other loans apart from housing mortgage loans are also in bad shape. The reason is turning uncontrolled loans into stocks.

It is noteworthy that both in housing loan and loan market, the use of financial leverage is critical. If a company's actual capital is three times as much as the loan for business. That means it uses 3 time leverage. In the real economy, if the leverage is not over 3 times, it is considered normal. The higher the leverage is, the riskier it is: If profitable, the borrower benefits, if loss, the bank have to suffer.

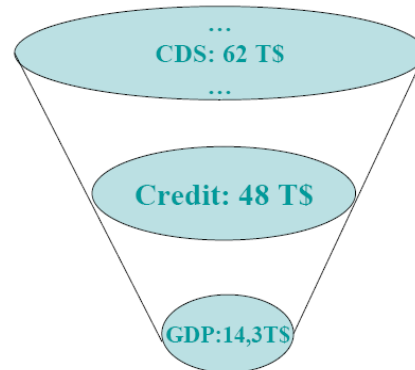
The first drawing show the amount of GDP, debt market and derivative products based on debts in the U.S. We can see that these crises are caused by

the systematic fault of finance-banking systems.

## 2. *Systematic fault of finance-banking system*

The major direct cause of crisis is the systematic faults of finance-banking systems.

***Drawing 1: GDP, debt market and debt stock in the U.S (T= thousand billion)***



If the commerce bank is under the control of authorities, the investment banks and financial companies get more freedom. They creates more advanced products, derivative ones with a view to scatter, minimize the risk. Unfortunately, it is defense risk-scattering methods which caused great risks because the managing boards and those who use it did not understand how it work, because the adjusting agencies can't act promptly in their management, because they create counterproductive encouragement, leading to an abuse (many people view it as too greedy), and harming the system itself.

In fact, even in the U.S, many perspicacious economists and investors have long pointed out these faults but the rage for profits have made business

done in a blind investment way. The result is disaster.

### *3. The fundamental cause of systematic principle*

Facing the ongoing global finance crisis, people discuss more about the “right” and “wrong” of the free market school as opposed to the state intervention school. In fact,

Technically, it is not the matter what school is right or wrong, it is not the conflict between the two. The two schools do not oppose but modify each other. The main matter is that people have made them opposing for the past hundred of years.

Free trade bring wonders to the development of mankind, but it created disaster when it is pushed to the extreme. Conversely, the states interfering so much has made a large part of mankind lag behind during many decades.

The scale between state and market often fluctuate and constantly changes. If the free market is too powerful, the economy will crumble and the role of states will be leveled up. Conversely, if the state take so much control, the economy will be inefficient, then it will also crumble. They will have to start inflate free trade. It is the logical and periodical story.

But this crisis is not that case, not simple like that. In term of view, we need to put this crisis in a more insightful contexts and explain it in that context in order to fully understand its nature.

So what is that context? Maybe it stem from the imbalance of world economy's

development. This imbalance accumulated during the past 20-30 years. This imbalance is identified by two big trends:

First, the emerging of some humongous developing economy. These developing economies has a very large number of population and areas on the global scale. China and India alone, not to mention BRIC, those numbers are big enough to change development situations.

So what exactly is the imbalance? It is the market, and resources. Therefore, we need to identify this imbalance, stemming from the strong rise of some enormous developing economies, pushing the world in a totally different states. The previous situation created by America and Soviet Union have profoundly changed: The fight increase in the frequency and speed of the market. It is much tougher than what German, Italy and Japan have done in the last two World War.

This time, the war of market to re-divide the world market between BRIC “dragons” with G7 wolves will probably be a lot more severe.

Secondly, developing countries has been rapidly moving to high technology. This is the trend of developing the high tech based economy, in other words, knowledge economy. This trend together with the above process is stick to globalization trend whose nature is liberalization.

The two trends process parallel in the context of globalization and interpose with each other, plus the collapse of socialism has contributed an unique

character to the economy today. The three factors resonate creating a developing mood, a global fight. There should be such all sided vision to explain the collapse of the global economy – that is: The collapse results from the world and the state governments, powerful countries' governments included, can not administrate their development in globalization environment which is always changing with high speed. Therefore, if there is a weak phase, the whole system will be holed, crisis will certainly happen.

The different character of the crisis is that it was broke out in developed countries such as the US, Western Europe and Japan, then expanded to others making big corporations and significant faces of world finance collapsed. The principle of replacing big trademarks happens every a hundred of years. It is summarized that after a hundred of years, 80 to 90 in 100 big trademarks like General Motor or Ford will be vanished. high tech has been a trend for only a couple of decades, but it has made the whole finance system and the biggest corporations collapsed.

So what do the two characteristics mean? It is a big change of structure in the global economy. The change occurred because of accumulating conflicts into some important points and explosion, collapses the whole structure, not only destroys financial structure. If we only consider that the causes of this crisis are error of administration, policy or fault in operation, greed of some groups, it is not enough. I think that we

should consider crisis in overall shifting of era, in strategic reach and shift with high speed which lead to the fact that the world can not manage a system to identify, consider the way people react and overcome the crisis, then we can change and stably restart. At that time, we can predict how long to be back to normal. The issue is not the increasing of output in 1- 2 years; it is the time to create a new structure.

## **II. Crisis Consequences: Are there any differences in the time of “after-crisis”?**

Why do we should emphasize “the time”? It is clear that we have to reconsider the time – in the frame of crisis and after-crisis. After crisis, will the world shift to a new era? Certainly there will be huge changes, especially after implementing “re-structure of global economy” – one of the main subjects to discuss and the action axis being deployed by the whole world. However, what the specific result of the world 10 15 years after crisis may need further discussion and more time.

But there is a clear thing: to evaluate this crisis, even with its front direction as causes and behind direction as results, we must place it on the time level.

The core of crisis is restructure and redistribution of power. We all know that money does not disappear, it only changes its owner. Therefore, change of power in the world is rapidly happening. That does not mention resonance of other trends, such as globalization and quick transference to high technology time. Before the crisis, this process was strong, crisis make the speed increase

more and more. It is this point that places the world in front of big but also risky chances. This is the reasons why Davos Conference in Swiss, in the late of 2008, had the topic of “locate the world in the future” with the main content “Restructure global economy”. It is clear that the world has realized the nature of the problem – it is relocating the world and restructures power.

So what is restructure?

First, it is to change the development trend, rebalance the development trends at a different level.

Second, to transfer to the system of high technology, knowledge economy will be at a high speed, regulation structure will change.

We all know that G8 is not enough to solve the problem, so G20 appears. It is a new regulation structure. But when global economic exploded, the definition of G-2 (Us and China) appeared. G-2 is mentioned as an idea which reflects the fact that now, the world does not have the only super power of The US but there also new power, although it's long before it can overcome US, but its power is surpass the big names behind. As well as the other “G”, G-2 is not a union but a forum, a forum for the world to arrange, agree the games with one another before the discussion to reach the agreement whether G8 or G20. In such meaning, US and China is the two names who play the main role of arranging the international games. The world “after the crisis” has to be mentioned with this fact of this “restructure”.

G-20 structure discusses the change in global management regulation, for example IMF, WB. It is said that in 2010, we must try to finish the adjustment of original regulation (whether it can be adjusted or not is another thing). Clearly, the trend to change the global development management regulation structure is the global mission. The first restructure we are interested in is the big trends, among them, the special attention is paid to trend of regulation restructure

Here there is a remarkable point which is the rise of Chinese currency. BRIC gives the discussion of review the role of US dollar in the global financial and monetary system; dignify the role of SDR (special drawing rights). At the same time, Chinese agrees with Argentina, Brazil, Russia, India, and it is about to discuss with ASEAN about the use of Chinese currency to direct payment in the bilateral sale relationship. This is the effective and clever way to bring the Chinese currency to the world. In this way, although the role of Chinese currency must take time to be equivalent to US dollar, it shows the new trend of equivalent power, which is rising in the world's economy. The world could not help to pay attention to this action.

The second group of restructure is the global labor assignment. Clearly, there is a big move in global economic structure. In several decades, China becomes the great workshop for the entire world. It specializes in manufacture of cookware, refrigerator, clothes, essential tools for

the entire human beings. And the other assigned task belongs to the developed countries with high technology industry.

However, there is one contrast, China, India and the following nation as Vietnam also want to develop high technology, not only hand-working. This is also the chance to leap up for the following nations, but this chance is risky.

Global restructure has some points related to Vietnam, we need to pay special attention.

First, the role of China is increasing. Foreign currency reserve of China is currently 2.300 billion USD. Each day, China increase 1- 2 billion USD in reservation, a year can store 400 – 500 billion USD. Economically, it is a waste, but on the other side, big foreign currency reserve is an influence to help China to get advantages, especially when the entire crisis world is thirty for money. It is the effectiveness of wasting reservation.

Second, the rise of Chinese Economy goes with the time of “great workshop”. Chinese great workshop manufacture spreads and takes the world market with the terrible speed and violence. When the world erased MFA, open the fabric market, the developing nations fear that Chinese products will clear the global fabric market. That trend is necessary, with the nature of market competition. As for the developing countries, it is fearful. For strategy, we must seriously study this problem.

One other remarkable point is that when playing the role of great workshop of the

world, China will buy resources all over the world and they has the strategy of buying resources from Africa, South America, Australia. Exploitation of coal and Bauxite of Vietnam is also in the strategy of China. China also defines ocean as a strategically important resources. With the slogan of “sea is near, ocean is far”, China builds and carries out a sea strategy with the action of sea exploration, exploitation, and also build and buy a series of submarine, patrol ship, aircraft carrier, strengthen power on the sea with unhidden ambition.

Third, when the price of Chinese currency rises, surely the wave of Chinese foreign investment doesn't stop at buying natural resources but they will invest money into foreign countries.

Main point in investment will be remove used technology to the foreign country. In one direction, Chinese spends money to buy the world's leading technology, high technology. Recently, China carries out the strategy of strong investment to developing countries, ASEAN and Vietnam are there fist location. This is an essential trends of removing technology process (and surely it is not only so). The trend will be speeded up in the future, and give a big question to Vietnam and ASEAN.

It is essential to note that in the explanation of current global misbalance, with the main pole is the misbalance in the economic relationship US-China, many people think that it is because US reserves less, spends more, but China reserves more, spends less.

But this is only partly not totally right. My is removing manufacture to the world, play the global game, so it is not that US restricts domestic manufacture but it wants to spread America manufacture to the world. One of the locations for US to spread is China. Say China sells product to US is only one part. US move its capital, strength to the world and reserves by the entire world. What is it for if it's not for earning and strengthens power of US?

In contrast, China is attracting the entire world to itself to strengthen power and through that way to positively take part in the globalization, to conquer the whole world. Japan, 3 decades ago, also did that but didn't truly succeed.

Profit relationship between the US and China must be considered on such level so the basic matter and hope in US-China relationship can be viewed.

This is to see that, the current behavior in relationship between Vietnam and the world is not easy at all. With the rapid changing speed, strategic behavior must also be specially considered, not in a logic, rigid way which bases on some viewpoint because of some traditional benefit which is changing and moving.

### **III. Vietnam in the scene of the world after crisis**

There will be many major changes in the world in the next period, among them are two important moving trends:

Firstly, it is necessary to transfer technology to developing countries. This is a noticeable point that Vietnam has to be highly conscious of the situation that without clear vision, we will be easily

“seduced” by the “unpaid price” because behind the low price may be unmodern technology together with low quality human resource, which may cause long-lasting consequences for the nation as well as the people.

One of the most important requests of the 10-year strategy is how Vietnamese economy will not be trapped with the average income. Some Asia Eastern economies such as Korea, Taiwan have done their best to well develop by approaching high technology basing on the basic of improving the quality of human resource in order to avoid falling into the trap. And once not falling, there are countless ways to have further development. China is currently purchasing and applying this way of development and has gained positive results. Southeast Asia countries, however, have been praised for the “pre-step” with amazing achievements in 1970s – 1980s, the real situation was not really like that. There is no country even including some top ones like Malaysia, Thailand or some lower developed level, for example Indonesia and Philippines, have not had the signs of really overcoming the trap easily.

Overcoming the “Average income trap” is a developing sum that is quite hard to deal with so it is necessary to concentrate on this problem to make it clear is one the points that influences the strategy building thoughts of ours in the next period, which is the most serious challenge for the strategy and for the reconstruct the economy.

Secondly, it is about the trend of transferring high technology. Poor and developing countries also want to be involved and they do have opportunities. That is a really great chance but what are conditions for it? The most important one is that the way of thinking needs changing because in many cases of developing countries, the traditional ways of thinking has caused so much prevention. The important second one is to build a strategy to partners and competitors in the strongly competitive world in a special area that is effervescent and unpredictable like the Pacific Asian area. In the near future, there will be two points that China will work drastically on, they are (1) high technology, (2) sea and the ocean. They are both very close to Vietnam.

The question raised is that whether Vietnam is “inside” or just “is influenced” by the crisis. When Vietnam has joined the world development so it definitely was “inside” the crisis and had to follow the common trend. Secondly, one being an element of the world, Vietnam must be influenced by many other elements and it has to consider these two ones in a great level in which the arising problems are stated as follow: what is the great trend that human beings has to follow? And, as being an influenced element, what will make the better influence and what will make it worse?

In general, there are three groups influencing Vietnamese economy. First is the short-term crisis that causes so many difficulties to the economy and the

society together with big difficulties after two years of being a member of WTO when the economy has not overcome the great world economic crisis.

Why Vietnam encounter such a lot of difficulties after two years joining WTO? What is the resonant of those two years? After the crisis, we will breathe out of it, however, the related weaknesses of the inefficient development structure have still remained, even more serious. This is the important issue to be seriously reviewed and evaluated.

Secondly, what is restructuring in such conditions as an opportunity? What to do and how to do? This is a really important to discuss, like the restructure strategy under the pressure of global movement and competition. For example, it is harder for domestic products to occupy the upcountry market than to take up the foreign markets. Vietnam domestic market has to face the technology movement, especially from the neighbors. So, how will we restructure? Will we succeed? And is there any tip for us to use?

Thirdly, after the crisis, it is a must for us to re-think about the current time and the outlook on Karl Marx’s development principles, because the producing forces in such knowledge economy is a lot different form the past. Working class has the historic mission at a certain time, with a certain producing modality, in certain conditions. But what is that mission defined in the environment of globalizing and developing knowledge



economy? What should be done to complete the mission? It is clear that if we are stick to the old conceptions, we could not grow. Besides, there have been huge changes in the social structure and the state structures; therefore, when doing research, we have to consider these issues.

The crisis is right the chance for us to reconsider about the new time and the thorough renew of thinking.

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