

Principles of modern market economy and international integration in Vietnam

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Abstract: *The article contributes to the interpretation of the content of the socialist-oriented market economy (the market economy) presented in the documents of the Communist Party of Vietnam through the review and analysis of the criteria of this economy.*

Keywords: Modern Market Economy, Socialist-oriented Market Economy, Criteria of the Modern Market Economy

1. Significance of building a modern market economy

The market economy has been in existence and developed through difference periods in the last 300 years. In the years of 1750-1930, the freedom of competition featured the market economy as its primary form. The development of the primary market economy had prepared the human society with essential conditions to move forward to a new level: state-managed market economy, from 1930s until recently.

Since 1990s, thanks to innovative scientific and technological applications (in both organization and management), the market economy has adopted its higher form as “modern market economy” (where “modern” indicates the relation with scientific and technological revolution, knowledge economy, globalization and sustainable development). Modern market

economy relies on advanced science and technology with a harmonious combination of the four elements of markets, state of the rule of law, civil society, and international integration.

The goal of the modern market economy is for the national prosperity, wealth, well-being, and equality for the people. Thus, after several hundred year of development, while the market economy is a product of the human civilization, it is undeniable that it has created a new face of wealth, civilization and modernization for the human society. Building the modern market economy, therefore, is an inevitable way for nations to climb up the development ladder.

2. Principles (standards) of a modern market economy

Views over modern market economy and international integration remain

debatable. Nevertheless, some basic principles or standards of modern market economy and international integration could be drawn from the development process of advanced market economies of the Organization for Economic Cooperation and Development (OECD) as follows:

1) *An economy of mixed ownerships* with the dominant share of stock ownership. Small- and medium-sized joint stock companies have advantages over other types of businesses. Thanks to the benefits and typically legal features, joint stock companies often account for a large proportion, like about 98% in Japan and 90% in the US (Chu Van Cap, 2016).

2) *A highly marketized economy*, or in other words, a pure market economy with no non-market factors and a healthily and equally competitive environment that promotes all types of businesses and the effectiveness of market mechanisms while state interventions must comply with market principles without preferential or favored policies.

3) *An economy based on science and technology, knowledge economy, and high quality human resources*. In the modern market economy, high-tech products make up a large proportion. For example, the high-tech industries in Japan, Germany, the UK, and France take more than 30% of the GDP. This proportion in the US is over 50% and the information technology industry contributes 30% of its GDP. There is also the existence of knowledge economy within those developed market economies since knowledge is the most decisive production factor in comparison with other traditional production factors

(like land, financial capital, and natural resources).

In the OECD economies, 50% of production value are from knowledge-based industries. As for the knowledge economy index (KEI), the World Bank ranked Canada 7th with 8.92 points (over a 10-point scale) and other countries with corresponding figures including Germany 8th 8.9, the US 12th 8.77, Japan 22th 8.28, and France 24th 8.21 (WB, 2012).

The modern market economies in Europe and America all have high quality human resources, typically the “intellectual workers”. In the US, a highly developed modern market economy, intellectual workers accounts for 70% of the workforce.

4) *An economy with modern economic structure*, where the GDP proportions of agriculture and industry decrease while that of the services sector increases. The services sector makes up 70% of the GDP in the OECD countries. It is 90% in Hong Kong, 80% in the US, and 74% in Japan (Chu Van Cap, 2016). The financial and banking sector (including insurance industry) and business services have become key players in generating most added value and as the driving force of economic growth.

5) *The state has different roles in the market economy*. In advanced market economies, there exists state intervention of different levels and forms depending on the adoption of economic theories, such as “greater state interventionism and less marketism” by J. M. Keynes, or “less state interventionism and greater marketism” by neo-libertarian, and the combination of “the invisible hand” (market) and the “visible hand” (state) in regulating the

economy. In any case, the state should follow the rules of market economy.

6) *A modern market economy is an open economy* dominated by economic institutions towards globalization, regionalization, liberalization, and the formation of bilateral and multilateral free trade agreements. It is to strengthen the state's regulation over the economy, not just nationally but transnationally.

3. Vietnam's approach to modern market economy and international integration

Vietnam's modern market economy, while standing by the fundamental goals and values of the market economy, must ensure also Vietnam's socialist-oriented characteristics.

The connotation of the model can be clarified by the following criteria:

a. Developing a modern production force as the first criterion for building Vietnam's modern market economy

This criterion is rooted from one of eight characteristics of Vietnam's socialism model is aimed at: "a highly developed economy based on a modern production force and suitable and progressive production relations" (Vietnam's Communist Party, 2011: 70).

Generally speaking, there should be a modern production force in the modern market economy in Vietnam. Besides modern labor materials (machines, equipment, etc.) the human resource is the key factor. Human resource as a part of the modern production force must include knowledgeable people who are full of national spirit, community awareness, independent and creative thinking. The development of the production force must bring into full play the potential of

Vietnamese people while ensuring the people's comprehensive development. It is necessary to comprehend the central position of and make best use of the human factor in the development of high-quality human resource.

Science and technology have a decisive role to play in the modern production force. The level of science and technology development is an important criterion to distinguish development periods in the history of development and social progress of the humankind. The emergence of a new product or industry these days relies on scientific and technological research and development. Economic growth is thus much associated with innovation and technological development. Renovation and improvement of technology in production and the development of science and technology have been proven to be the short and sustainable pathway for socioeconomic development. The theories and practices of the human society development all share the principle that K. Marx once pointed out: "People get freedom when it is not based on their thinking but the production force at the time allows" (*K. Marx and F. Engels, Full volumes*, vol. 3, 1986: 593-594). It is science and technology that are the core and decisive factors in the production force.

The revolution of modern science and technology, started in the late 20th century, has facilitated the transition into the knowledge economy with profound changes in how to run production and do business, the way to organize and manage economic structure, labor structure, and the role of human in production. The knowledge economy is built on the

basis of industrial development with knowledge and modern science and technology. It helps bring more wealth and popular knowledge to the society. Developing a knowledge economy has become the focus of the socioeconomic development strategy in many countries. Thus, the Communist Party of Vietnam has determined that “industrialization and modernization in the coming period means continuing the model of industrialization and modernization in the context of developing socialist-oriented market economy and international integration in association with knowledge economy development, taking science, technology, knowledge and high-quality human resource as the main driving forces” (Vietnam’s Communist Party, 2016: 90).

Vietnam’s modern market economy could be developed relying on a modern production force, which is featured by the development of the knowledge economy.

b. Vietnam’s modern market economy is built on different forms of ownership, economic entities, and types of enterprises

The state-owned businesses take the leading role while the private sector, where stock ownership is the dominant, would be fundamental driving force.

How many forms of ownership exist in the market economy?

In the development history of the human society, despite the presence of various production methods from low to high level, there have been only two principal ownership regimes, private or public ownership of production materials. They are the two poles apart of a system with a clear boundary between them (private or individual ownership versus public or

collective ownership) over the subjects owned. Often the public ownership has a broader scope and more complex structure than the private regime. This is even more obvious in the market economy.

The universality of ownership relations in a market economy shows that there exist only two types of ownership, private or public, in a country. The development history of the mankind has confirmed that under any regimes there was no single type of ownership but various forms of ownership (except the commune ownership in the primitive society). The development path of the mankind and social production do not come to a unification but rather a diversification in ownership forms.

In Vietnam, there is no clear definition yet of public or community ownership in official documents by the state and the Party. Rather, the people’s ownership is determined as an ownership regime (see Platforms 1991 and 2011; Constitution 1992; and Documents of the 10th National Congress of the Communist Party of Vietnam). Meanwhile, the documents of the 9th National Congress of the Communist Party of Vietnam (2001) and the Constitution 2013 adopted the “basic forms of ownership including the people’s ownership, collective ownership, and private ownership”.

Since Vietnam is in its transition period, the market economy also includes private ownership of production materials (individual private ownership, small private ownership, and large private ownership) and socialist public ownership (the people’s ownership, the state ownership, and collective ownership).

The debates, however, continue over the people's ownership and the state ownership. Arguments are made that these two types of ownership might be distinguished by their names, but their connotation is unified and concurrent, implying that the socialist state is the owner of the people's production materials. However, it is counter-argued that those forms of ownership are completely different since the people and the state are the two concepts of dissimilar substances with their own connotations and expressions. They might be unified but not concurrent.

Indeed:

(1) Every country has common properties which are identified as the subjects owned by the whole community. The people's ownership, from a broader perspective, is observed in various socio-political regimes as well, not only in socialist countries.

The people's possessions are regulated by law within different scopes, depending on specific conditions and perceptions in each country. However, regardless the scopes and socio-political institutions, the people's possessions must reflect independence, sovereignty, and territorial integrity of the country.

For example, Article 53, Chapter III, Constitution of the Socialist Republic of Vietnam states that "land, water resource, mineral resource, resources in the sea and airspace, other natural resources, and assets invested and managed by the state are considered public property, possessed by the people and represented and managed by the state".

(2) According to the Law on Management and Use of Public Assets (No. 15/2017/

QH14) promulgated by the National Assembly on June 21, 2017, "public assets are possessions of the people, and represented and managed by the state. Public assets include assets for public service provision and management, for national defense and security at public agencies, organizations and units; infrastructure assets for national and community interests; assets being identified under the people's ownership; public assets at enterprises; money from the state budget, non-state financial funds, state foreign exchange reserves, land and other resources".

* Regarding the state economic sector or public sector, its presence is observed in the all market economies and based on the state ownership and SOEs. The number, scale, and role of SOEs, however, vary by country.

In Vietnam, the public sector is a compilation of its economic powers over critical industries and areas ranging from legal and financial institutions to business efficiency of the 'core force' - i.e. SOEs. The economic power over SOEs is not just limited to registered assets of SOEs but also other assets under the people's ownership and represented and managed by the state.

The public sector, with its resources, tools and policies, has accordingly a fundamental role to play in the process of socio-economic development, setting a basic foundation for developing other industries, sectors, and all types of businesses. Thus, the public sector must be built and developed as an intervention mechanism in order to lead and regulate the national economy, contributing

to overcoming the market disabilities and failures, and ensuring successful implementation of socio-economic development goals.

SOEs as ‘the core force’ of the public sector should be the pioneer in capital- and technology-intensive industries as well as in venture investment activities to pave the way for the development of high-tech and high value-added industries.

Determining the leading role of the public sector with a new connotation is in line with the Platform for National Development in the Transition Period to Socialism (amended in 2011) and the Constitution of the Socialist Republic of Vietnam (amended in 2013).

Vietnam’s Communist Party has appreciated more the role of the private sector, considering “the private sector as one among the driving forces of the economy”. It is affirmed further in the 12th Congress of Vietnam’s Communist Party that “the private sector is an important driving force of the economy.”

c. Socialist-oriented market economy as the mechanism for operating the economy

This is a mixed mechanism - a combination of market mechanism and the state management, or in other words, a combined application of the visible and invisible hands.

This mechanism would ensure the goals of the market economy towards “well-being for the people and a strong nation of democracy, equality, and civilization” with the motto that the state is for macroeconomic regulation and the market is for guiding businesses.

The operating mechanism must be clearly defined: “The market and its mechanisms

play the key role in mobilizing and allocating effectively development resources; being the main driving force in liberalizing production. The public resources are allocated in line with the market mechanism based on strategies, planning and plans. The state shares its part in directing, building, and perfecting economic institutions for fair competition, transparency, and effectiveness; applying tools, policies, and resources to orient and regulate the economy, to promote production and business, and to protect the environment; implement social justice step by step through development policies. The people’s mastery should be promoted in the socioeconomic development” (Vietnam’s Communist Party, 2016: 103). The operating mechanism of the market economy reflects fundamental viewpoints: the market mechanism is the “central” factor of the economy, acting as an “intermediary” between the state and enterprises. The socialist state is the key factor with its part as a “central actor” for macroeconomic regulation.

The state, on the one hand, should exercise minimum administrative power in macroeconomic regulation and management to allow market activities to take place following the rules of market economy in order to ensure the market principle of self-regulation in operating the economy. On the other, there must be the state intervention and management since the socialist-oriented market economy could not completely self-regulate towards the country’s socioeconomic goals in each period.

d. Vietnam’s modern market economy is an open and integrated economy

An open economy allows its transactions with other economies. It is opposite to a closed economy of no export and import activities and neither capital flows.

In an open economy, besides the same macroeconomic variables as in a closed economy, such as output, inflation rate, unemployment rate, there are also other important variables like net exports (current account), net capital flows (capital account), and exchange rates.

The openness of the economy is indicated through several indicators (in percentage) such as export-import/GDP, export/GDP, import/GDP, FDI/total GDP, FDI/total investment, and FDI export/total export. Thus, not only the openness of the economy is observed through how much export and import industries contribute to the country's GDP, but how foreign investment becomes an important part of the economy also.

Opening the economy for regional and international integration means the involvement of Vietnam in international economic institutions and bilateral and multilateral trade agreements. Integration is not only a factor contributing to economic growth and economic development in a certain period of time but within the long-term process of Vietnam's economic development.

Taking initiative in international economic integration is closely associated with building an independent economy. This is the shortest pathway to enhance economic, scientific and technological potentials and enrich management experiences on the basis of making best of the country's comparative advantages on human and natural resources. At the same time, it is

necessary to develop relationships with other economies to gain the foothold in the region and the world.

e. Typical criterion: the socialist orientation

In today's era, the presence and adoption of market economy in any country should not rest on whether there exists capitalism or not. It is the requirement of how to develop production with limited and scarce resources.

Vietnam from an under-developed economy has also admitted the market economy since 1986 as a necessity for its development towards the people's well-being and a strong nation of democracy, equality, and civilization.

Vietnam's market economy, however, is distinguished from others by its socialist orientation, which implies the 'endogenous' factors during the process of the modern market economy as follows:

- The fundamental values of Vietnam's modern market economy include continuous creation and development for people, taking people as the center of development, involving and benefiting all people. Those values reflect the humanity of the unique socialist-oriented market economy in Vietnam.

- The modern market economy in Vietnam is managed by the socialist rule-of-law state - the Communist Party-led state of the people, for the people, and by the people. There is no conflict between the superstructure and infrastructure in this particular political regime since the goals of modern market economy are also in line with the Party's motto towards the people's well-being and a strong nation of democracy, equality, and civilization.

This political institution, moreover, is a determinant of a necessary stability for effective and sustainable economic development and for overcoming market disabilities. The existing political institution also promotes the national pride as the great motivation in building the competitiveness of Vietnam's economy in the context of globalization □

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Such a structural status is not a favorable external factor to Vietnam-Japan relations. However, its negative aspects are not as profound as in previous periods. At the same time, it may also become an impulse that boosts Vietnam - Japan relationship. Finally, an appropriate foreign policy will help Vietnam-Japan relations stand firm and continue to grow against the current movement of the Asia-Pacific region structure □

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