International Journal of Multidisciplinary Research and Development
Online ISSN: 2349-4182, Print ISSN: 2349-5979; Impact Factor: RJIF 5.72
Received: 09-07-2019; Accepted: 11-08-2019
www.allsubjectjournal.com
Volume 6; Issue 10; October 2019; Page No. 52-56

Managing the global financial crisis 2007 - 2009, Lessons to deal with the next crisis for Vietnam

Mai Van Luong
Thu Dau Mot University, Vietnam

Abstract
The global financial crisis and the consequences from this crisis are a hot issue for many countries in the world that do not exclude Vietnam. The financial crisis has caused strong impacts on the socio-economic development of many countries and therefore it has become the subject of many workshops and debates with the participation of many economic experts, policy makers, domestic and foreign economic organizations today. Vietnam is participating more and more deeply into the world trading system. Therefore, the consequences from this financial crisis have left the Vietnamese economy with many difficulties and challenges. First of all, these are difficulties because the export market is narrowed, the confidence of investors and consumers is declining, the domestic production and business situation stagnates, socio-economic indicators worrying levels need timely adjustment. The paper discusses the current policy of preventing economic downturns, the successes and limitations of these policies. Finally, proposals for crisis solutions include monetary easing policies, fiscal expansion policies and flexible exchange rate policies.

Keywords: financial crisis, crisis management

Introduction

Today, the trend of globalization, international economic integration and especially financial market liberalization has become popular in many countries around the world. Vietnam is also among these countries, our Party and people have been actively improving and developing economic institutions so that Vietnam can become a part of the world trading machine. In addition to the positive aspects such as easy access and take advantage of the experience, technology as well as the large sources of support from developed industrial countries, we now face the negative aspects of the trend of globalization and international economic integration. The process of globalization increases the interdependence between countries. When financial risks occur in a certain country its consequences not only affect the economy of the country, but also a series of influences on all other countries that are involved and cooperate with the country. That is true, especially when the financial crisis happened in the US, the most powerful economy on the planet.

2008 was a serious year of major financial corporations in the US. This is the cause of the strong wobble of the worldwide financial system, because in an open world today, borders are almost nonexistent in the financial industry. On the other hand, real estate security securities originating in the US are also sold to many investors around the world, not only in this country. The peak of the crisis was in September 2008 following the bankruptcy of Wall Street investment bank Lehman Brothers and the collapse of a series of major US financial corporations, including insurance company AIG. After the panic spread across the continents, the credit market froze because banks were too afraid to lend, despite efforts to inject capital into governments' financial systems. Companies run out of capital to do business, leading to massive layoffs. Consumers cannot borrow credit to spend, just lose their jobs, so they tighten their belts, making it more difficult for manufacturing industries. So, in turn, the leading economies: United States, the Eurozone, Japan and the UK have jointly declared a recession. Many export-dependent economies in Asia have witnessed a slowdown in export turnover and are also at risk of recession. The world is facing the biggest economic crisis ever.

In the context of deep integration with the world economy, Vietnam's economy is also suffering from consequences from the global financial crisis. Signs of growth decline are clearly visible when consumption plummeted, CPI was negative for 3 consecutive months, production and business stagnated, export turnover declined. Budget revenue is threatened by a sharp drop in crude oil prices. The government has mobilized all anti-recession forces and announced to spend $ 1 billion to support the economy. Plus support for preferential loans and tax reductions, total demand and investment stimulus package is expected to reach 6 billion USD. For the first time in a year, the Government twice adjusted GDP growth target, from 8 - 8.5% to 7% and lowered it to 6 - 6.5%. However, for the whole of 2008, GDP increased only 6.23%. In the first few months of 2009, Vietnam's exports continued to decline, financial markets weakened, reflected by the decline of foreign investment and domestic investment, the rate of unemployed workers increased. These signs show that macroeconomic instability and turbulence in the international financial market have been and will continue to affect the economic growth and development goals of Vietnam in the near future to have a more comprehensive and deeper view of the effects of the financial crisis on Vietnam's economy today.

2. Current state analysis

The global financial and economic crisis has become a hot issue of the world economy recently and has not shown signs of ending. The impact of the global economic crisis has caused a series of weaknesses and shortcomings of the world economy to be exposed at national, regional and world levels. Countries that are affected by a crisis like the United States and the European community are unable to fold their arms to "self-regulating market" but at the same time implement many different response measures to prevent and limit bad impacts of crisis. However, the reality shows that the crisis situation has occurred on a wider scale, the greater impact and the transition from the crisis of mortgage lending to the economic and financial crisis. The effects and impacts of the crisis are getting wider and larger. The international economic integration has made Vietnam's economy increasingly linked to the world economy. Along with the advantages that have been achieved through expanding the commodity market, strengthening economic exchanges, improving national competitiveness, there are many inevitable adverse effecst from the world market for Vietnam. However, it must be acknowledged that the Vietnam economy’s openness is limited, so the impact of the global financial crisis on Vietnam is not great. However, due to the objective weaknesses of the subsidized economy in the past, it has partly affected the current economic development of Vietnam and contributed to increasing risks for the Vietnamese economy.

Trade issues

The crisis has directly affected Vietnamese exports to the US, Japan and Europe markets. These are important export markets of Vietnam. From the first months of 2008, there has been a trend of slowing down the rate of exports to the US, Vietnam's largest export market. Because consumer demand in the US is on the decline due to the impact of the financial crisis, in the first 9 months, the growth rate of export turnover to the US only reached 16.7%, much lower than the level 26.7% of 2007. The share of the US market in total export turnover of Vietnam has decreased, from 20.7% in 2007 to 17.7% in the first 9 months of this year. Vietnam's most affected exports are apparel, leather shoes, rice, basa fish and coffee. The crisis also affected Vietnam's export growth to the EU and Japan - two important export markets of Vietnam. Analysis of economic experts shows that, due to the strong impact from the crisis, consumers of these markets also have to cut spending, so the demand for imports of Vietnamese exports will also tend to decrease. The share of the EU market in Vietnam's total export turnover has also decreased, to 16.5%, while in 2007 it was 18%. Exports for the whole year 2008 are expected to reach only USD 64 billion, up 31.8% compared to 2007, lower than the Government's forecast in early October 2008 both in turnover and growth rate (respectively US $ 65 billion and 33.9%) because exports decreased not only in the number of orders, but also on the selling price of exported goods. In 2009, it is expected that the export turnover will be USD 64 billion, reducing both turnover and turnover growth rate compared to the figure submitted to the National Assembly in early October 2008 (the number submitted to the National Assembly in October 2008 respectively is 67.7 billion USD and 18%).

The banking and money markets

Although the crisis has not had a serious impact on the banking system, some indirect impacts are significant. First of all, it is the evolution of the exchange rate and USD interest rate. The exchange rate of USD with Vietnam dong in the market has been volatile due to people's psychology. In this situation, the Government and the State Bank of Vietnam have taken measures and policies to regulate, stabilize the exchange rate, lower the basic interest rate, help businesses access capital for production and business, especially import-export enterprises, reviewing and controlling bad debts of commercial banks. Regarding the stock market, the flow of indirect investment into Vietnam declined and there was a phenomenon of foreign investors withdrawing capital from the market. Although Vietnam's macroeconomic situation in recent months has seen positive changes, Vietnam's stock market continues to decline. VN-Index dropped continuously and set a new bottom below 350 points. The fact that foreign investors expressed their withdrawal from the Vietnamese stock market has caused confusion among domestic investors.

The foreign investment

The crisis has initially affected foreign direct investment (FDI) and official development assistance (ODA). The number of newly registered FDI projects tended to slow down, in October 2008, the total number of new registered projects was 68 projects with a total registered capital of 2.02 billion USD, much lower than the first months of the year (in the first 9 months, there were 885 registered projects with a total registered capital of 56.27 billion USD). The ability to disburse FDI and ODA in 2008 is also affected by the crisis. Total realized FDI in 10 months of 2008 compared with total newly registered and added capital was only about 15%. The amount of ODA disbursed in 2008 may not be as predictable as USD 2.3 billion. In the coming years, the world financial crisis may cause foreign investment flows both directly and indirectly into Vietnam to decline due to concerns about economic instability and the global economic recession. The biggest impact of this crisis is the profound and profound change in the US financial industry and the global financial system. In the coming years, foreign direct and indirect investment flows into Vietnam will decline, due to economic instability and global economic recession will decline, because of economic instability and global economic recession. In the short term, the crisis in the US has not had a big impact on Vietnam because the capital inflows into Vietnam mostly originate from countries and territories in the region such as Singapore, South Korea, Japan and Taiwan. The United States ranks 11th in more than 80 countries and territories with direct investment activities in Vietnam with 419 valid projects, total registered capital of 4.1 billion USD. However, the financial crisis has not stopped in the US but has spread to other developed countries, including Japan, South Korea and countries with foreign direct investment in Vietnam. Asian countries, which account for 80% of the flow of investment in Vietnam, are also under great impact of the crisis. The mobilization of capital in the world will face many difficulties due to the higher cost of capital. Consequently, investors will limit the increase of new investments and implement committed projects. There has been a tendency for some parent companies in the country to require branches in Vietnam to reduce investment to withdraw capital to solve difficulties for parent companies. Therefore, in the long term, if the financial crisis and world economic recession are not blocked, it will certainly affect foreign direct investment in Vietnam. FDI disbursement may also be reduced, when in the current difficult situation, investment companies in Vietnam will be more cautious in financial planning and investment. In addition, most of the investment projects in general, FDI projects in particular, the debt portion usually accounts for a very large proportion of the total investment, so when financial institutions are in trouble will make many loan contracts not to be be disbursed. Even ongoing FDI projects may be stalled, because it is likely that companies will have to balance their capital sources and ensure financial security in the crisis. Particularly for newly licensed projects, if the investor is greatly hurt from this crisis, it may be suspended or even withdrawn. Therefore, in 2009 - 2010, the FDI disbursement rate is expected to slow down. Initial forecasts show that the committed and disbursed ODA in Vietnam in the coming years will tend to decrease due to the investment capital of international financial and monetary institutions and the lending reserve of developed countries are rebalanced to stabilize the financial market. In 2010 and the following years, the world economy in general and the Asian economy in particular are forecasted to be more positive, this will positively impact Vietnam's economic growth.

Mobilizing capital indirectly into the Vietnamese stock market in the coming time will be very difficult because investors will move towards safe investment channels. It is possible to sell off securities from the Vietnamese market, although the probability is not high, due to the liquidity and market size. This will directly affect the stock market and the equitization process of large SOEs in the coming years. The mobilization of capital through the capital market is difficult while the tight credit market will block capital flows and push up the financial costs of businesses. Another aspect of indirect investment is the interest rate difference transactions to enjoy the interest rate difference between the two currencies while the exchange rate is stable. These transactions are often highly speculative. With declining global interest rates and VND pegs policy in Vietnam while VND interest rates are still high, it is possible that this capital inflow will flow into certain periods to exploit the odds and deviation. In the case of divestments, this capital inflow may create exchange rate pressure for VND. The issuance of securities to mobilize capital in the international market will also be difficult and the cost will increase. The Government of Vietnam has a plan to issue 1 billion USD and Vinashin plans to mobilize 400 million USD in the international market in 2009. However, in the context of the financial crisis, the implementation of the plan stated. They will face significant obstacles in the coming time. The remittance line is still a relatively stable flow of foreign currency, even in times of global economic difficulties. In the past few years, remittance flows to Vietnam have increased sharply, with sales of 8 billion - 10 billion USD / year. In addition to the purpose of supporting relatives and investing in business, a large part of this remittance flow is invested in securities and real estate - the current areas are no longer "hot" as before. Moreover, a large part of overseas remittances comes from the United States, where economic growth is declining and unemployment is rising. This makes overseas remittance flows in the coming years possibly decline. Although foreign investment is expected to be more difficult in the coming years, Vietnam may have certain opportunities through the world financial crisis. Capital flows around the world will focus on places with stable political and business environment, but Vietnam has advantages in these two factors.

Impact on economic growth

According to the World Economic Outlook report published on October 8, 2008 of IMF, the world GDP growth rate will decrease from 5% in 2007 to 3.9% in 2008, and only 3 % in 2009. In Vietnam, growth will also slow down and unemployment will increase. It is expected that GDP growth rate in 2008 will be about 6.7%, lower than the target approved by the National Assembly of 7%. However, in fact, in 2008, this speed was only 6.23%, the lowest level in the last 9 years. Crisis affects all strata of Vietnam, in which the working class is directly affected. Production is narrowed, the number of unemployed people will increase and the income will decrease.

First: The global economic crisis makes the world economy decline. The world economic recession in the coming time plus the policy of trade protection in the countries that are on the rise will make demand for Vietnam's export goods decrease.

Second: Change the flow of financial investment into Vietnam. Increasing the level of impact on foreign investment in Vietnam and directly affecting the flow of capital flows between markets, especially indirect investment flows. This threat is most evident when the global financial crisis arises; Accordingly, starting from the second quarter of 2008: (1) Indirect capital flows are transferred by financial institutions - branches or subsidiaries operating in Vietnam to return to the country to save or ensure safe for parent companies; (2) Indirect investment inflows will be reduced due to credit tightening policies in most countries over the past time; (3) Overseas remittances from the United States and from other countries are directly affected by this crisis due to the decline in income of the Vietnamese community in the US and those countries; (4) Registered and realized FDI capital will decrease significantly in the coming time, as foreign investors face financial and market difficulties and they are more cautious when making investment decisionsor when it must continue to disburse, expand the investments that are being made.

Thirdly: The happenings of the world economic situation make the demand for domestic investment decrease. The GDP decline and increasing unemployment create more difficulties for people and increase the concern for the Government on social security in next time.

3. Results Analysis and Discussions

The global financial crisis and economic recession is a disaster for humanity, the world economy and the economy of each nation. Its consequences affect all aspects of life: economy, politics, society and security and defense. There have been many financial crises and global economic recession that has collapsed not only the economies of some countries but also changed political institutions, regimes and authorities. Under the impact of the global financial crisis and economic recession, each nation's trade, investment, and consumption activities have plummeted, leading to the risk of economic recession in each country. Even many countries fall into national bankruptcy. The manifestation of the global financial crisis and economic recession often causes serious macro effects, broken macro balances, devalued currencies, sudden exchange rates in the direction devaluation, high inflation and galloping appearances, the burden of public debt increases rapidly, the stock market collapses, assets in countries with strong devaluation, many businesses, banks and financial institutions go bankrupt, job losses and unemployment rise, millions of people fall into poverty, disorder and social conflicts arise, riots and war appear. It can be seen that the global financial crisis and economic recession have caused extremely horrifying consequences, not only in the country but also in Vietnam. The financial crisis and global economic recession in the period of 2007 - 2009 had a complex impact on security, national defense and national defense. Can list some effects like:

First, economic resources are reduced, security and defense potential of many countries is narrowed

When the financial crisis and global economic recession took place, it was inevitable for countries to be affected by its impacts. Many countries were in crisis and suffered heavy losses. When falling into crisis, countries often face the situation of capital transfer to the outside, investment plummeted and the economy is almost paralyzed. Economic organizations do not have the ability and conditions to borrow capital for production and business development. Market confidence is lost, property values of individuals and organizations, including the state, are severely reduced. As a result of it, financial institutions and businesses collapsed, bankruptcy, the state had to spend a financial amount to intervene in the economy. Many complex social problems appear to be resolved, debts suddenly rise, while the economy does not grow or low growth has caused the economic potential of these countries to be exhausted. When economic resources are depleted, resources for national defense and security also decrease. The demand for equipment and equipment will not be met, the resources for raising troops will be reduced; the defense and security activities will be narrowed. In addition to the above consequences, many countries still have to bear the burden of public debt, so all resources only focus on debt repayment and solve arising problems, no longer able to take care of national defense security. From here, the combat capability to ensure security - defense and protect the country is clearly and in a difficult way. When financial resources and security and defense resources are reduced, the risk of threatening territorial integrity will exist if there is an aggression from outside. Moreover, the global financial crisis and economic recession will make countries with economies that depend on foreign countries and low economic power be affected when they must accept the binding conditions of their economies set by stronger countries and international financial institutions. For example, to support the global financial system, the International Monetary Fund or the World Bank has established operations and emergency multi-billion dollar loan programs. Stronger countries and international financial institutions often offer complex binding conditions for loans, including allowing countries and international organizations to intervene not only in the process of making macro policies, including national defense and security issues and national defense of dependent economies. Besides, some large countries want to take the opportunity of financial crisis and economic recession of small countries to bind smaller countries to depend on themselves more in economic, political and social aspects and also in front of diplomacy and sometimes territory.

Secondly, society changes complicatedly, making the security and defense power decrease

Due to the fact that the impact of the financial crisis and the global economic recession has led to the bankruptcy of businesses and banks, people's living standards have been reduced. When prices rise, people's salaries and incomes do not guarantee their lives and many people without income fall into extreme situations, inevitably born to turmoil. The society of turmoil will lead to protests, strikes, appearances, disturbances that will develop, threatening the peace of society. Faced with this situation, many of the leading politicians in the state must resign, governments must leave and, in the case of a polity, the ruling apparatus is changed. When the regime is in power to collapse, the defense and security forces are also disturbed from that, the fighting power is thus greatly reduced, the ability to ensure security, defense and protect the country is significantly weakened. At the same time, when the country is confused and vengeful in appearance, the enemy will have the opportunity to peek so the territorial integrity is easily violated, the national sovereignty is shaken. In fact, the big country will be very easy to invade the territory of smaller countries when it suffers severe consequences from the financial crisis and economic recession that has taken place in the world. The threat of territorial sovereignty for small countries is always present.

Thirdly, global turmoil, conflicts occur in many places that will strongly affect national security - defense and national defense.

The fact that the global financial crisis and economic recession shows that, during and after each crisis, political instability in many countries and armed conflicts took place in many parts of the world. The spread of armed conflicts in the regions entails the decline and collapse of the world economy. As the global economy declines, countries are affected (because nowadays globalization is very high, no economy can be isolated but developed, and there is no economy. can avoid the impact when there are fluctuations in the world economy). This has a great impact on countries on security and defense and national defense.

Fourth, terrorism and population movement make national defense and security of many countries threatened

Increasingly, terrorism and the influx of refugees from Syria seem to be a disaster for Europe and have a negative impact on the world. When the financial crisis and economic recession are high, the criminal acts become more extreme, terrorist organizations will operate more brutally and the wave of refugees will increase stronger to make the situation of the nations. Households with refugees and rampant terrorist activities become more complicated. For that reason, the costs for security and defense of the countries that have to spike are expected to ensure order.

4. Conclusions and recommendations

Thus, the financial crisis can be considered an inevitable in an economic cycle. The echo of the global financial crisis in 2007 – 2009 is still there where the crisis has negatively impacted all areas of life and shook the whole Vietnamese economy. The first lesson to be learned is that the economy of each country must ensure macroeconomic stability, which is a prerequisite to mitigate the impact of the crisis. In addition, countries need to have strict financial institutions and it cannot be violated for any reason. From the above analysis, we can draw some management lessons as well as propose some solutions to deal with the next crisis:

Firstly, it is necessary to determine the economic structure in a reasonable manner, in accordance with the strengths and potentials of each locality and region, in order to have an effective economic restructuring. It is time to focus on labor restructuring and the relationship between industry structure and labor structure. If more than half of the labor force is still an agricultural laborer, living in rural areas, the economic restructuring cannot be achieved in the direction of industrialization and modernization.

Second, reconsider the role of agriculture and key agricultural exports. In fact, in the past few decades, when the economy is in a difficult situation, agriculture has emerged as a significant aid. In the first months of 2009, the price of oil dropped to a record, many export products plunged, the export market narrowed, the rice export was bustling, contributing significantly to limit the reduction of exports. Economists said that despite the global economic decline, the demand for food and agricultural products has not been reduced as for luxury and luxury consumer goods. This phenomenon shows that we need to have a new perspective on the role of agriculture in order to have a proper and satisfactory investment, especially in the context of a rapidly increasing proportion of people in the world due to the economic crisis and, many countries have fallen into food crisis, leading to conflicts, violence, political and social instability.

Third, the role of the domestic market is very important. Vietname economy is still opening, which means that the economy depends heavily on the world market, while the volatility of this market is very complicated and unpredictable. If the domestic market with more than 80 million people is not exploited, competing to dominate, we will lose the safe buoy when the global economy is at risk. What needs to be emphasized is that the home ground that we overlook is an advantage that attracts foreign investors.

References

1. Documents of the 12th National Congress, the Party Central Committee Office, Hanoi, 2016,102 - 103
2. Documents of the 12th National Congress of delegates, ibid. 147, 149.
3. Ketels Christian, Nguyen Dinh Cung, Nguyen Thi Tue Anh, and Do Hong
4. Le Van Anh. Financial crisis - theoretical model, 2008.
5. Science Hanoi National University, Economics – Law. 2008; 24:13.
6. Meier GM. Ideas for Development, Meier, G. M and Stigliz, J. E, 2001.
7. Nguyen Thi Tue Anh and colleagues. Impact of foreign direct investment on Vietnam's economic growth, 2006, 12 -18.
8. Nguyen Xuan Thang. World and Vietnam Economy in, 2011, 131-147.
9. Prospects for Vietnam Academy of Social Sciences, 2012.
10. Pham The Anh. Surveying the relationship between government spending and enterprises, 2008, 156.
11. http://vneconomy.vn/viet-nam-5-nam-sau-khung-hoang-tai-chinh-toan-cau-e111.htm
12. http://nghiencuuquocte. org 03/03/2015/tai-sao-khung-hoang-2008-no-ra/
13. https://vnexpress.net/longform/cuoc-khung-hoang-kinh-te-toan-cau-dat-do-nam-2008-3809531.html
14. https://kinhdoanh.vnexpress.net/tin-tuc/quoc-te/moi-nguoi-my-mat-70-000-usd-vi-khung-hoang-tai-chinh-2008-3791986.html
15. General Statistics Office, http://www.gso.gov.vn
16. International Institute of Legal and Business Sciences, http://www.ibla.org.vn
17. Center for Economic and Policy Research, http://www.cepr.org.vn
18. http://tapchitaichinh.vn/tai-chinh-kinh-doanh/tai-chinh-doanh-nghiep/bai-hoc-kinh-nghiem-cho-doanh-nghiep-viet-nam-sau-khung-hoang- tai-chinh- toan-cau-84829.html
19. Risks for Vietnam in the current integration process, Economic Journal
20. VCCI, Vietnam Business Annual Report 2013.
21. Development, Cambridge Economic Journal, No. 24, 2000.
22. Economic growth, Journal of Economic Research, October 2008.
23. Prasad E. International Trade and Economic Cycle, Journal of Economics, 1999.
24. Solow RM. Contributing to economic growth theory, Journal, 1956.
25. The New York Times. A United Image, Battered by Reality. Accessed, 2008.
26. The Sydney Morning Herald: "EU estimates of eurozone recession slump. Accessed, 2008.
27. LatIntelligence. Latin America and the Financial Crisis. Accessed, 2008.
28. Kuwait Times. Financial crisis feeding volatility in oil prices. Accessed, 2008.
29. Economic & Urban Newspaper. The US stock market - a 6-year rise in performance" broke into smoke, 2008.
30. Tran Van Tho, Tran Le Anh. How did the crisis come about? Thanh Nien Magazine, 2008.
31. Dombrow J, Lee G, Shilling JD. Moral Hazard and Adverse Selection for Subprime Lending and Securitization - Priced or not Priced, 2008.