

## **THEORETICAL APPROACHES REGARDING STATE ROLE IN THE ECONOMY IN THE CONTEXT OF GLOBALISATION: VIEWPOINTS FROM VIETNAM'S PERSPECTIVE**

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**Abstract.** Despite its diversity, the market economy is inseparable from the role of the state. Differences between historical periods and between countries are in terms of the nature of the State, the extent and scope of the state's intervention in the economy, and the consequences of such intervention in the market. At present, globalization asserts and demands the promotion of the role of the state and the need to adjust it to adapt to the effects of globalization.

This article presents Vietnam's point of view is that in a market economy, and particularly, in the context of globalisation, the role of the state will not be diminished, and state management and intervention are always necessary. For Vietnam, the theory which advocates state intervention in addressing market failures is a perfect suit. This will make Vietnamese economy be adaptive with requirements of market economy in the context of globalisation in one hand, but in the other hand, this will enable the state to react promptly to deal with market failures and other problems caused by the integration to the world economy.

**Keywords:** state role, theories, market economy, socialist orientation, Vietnam

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### **1. Introduction**

The development of market economy has evidenced the emergence and application of numerous theories of economics. Basically, those theories argue on the role of the state and the relationship between the state and market with regard to operating the economy, and the question "state or market" has been subject to debates among scholars, politicians and policy makers in countries for many years. In Vietnam, a Soviet-style centrally planned economy based on the socialist theory had been operated for many years before it shifted towards a market-oriented economy in 1986. The launched of Doi Moi policy paved the way for building a market economy with socialist orientation and this model has been constantly confirmed by Vietnamese political leaders. Also, since the end of the 20th century, globalisation has become an irresistible trend, bringing huge opportunities for states and facing them with challenges. In this course, it is necessary to review theories of economics in which particular is given to the role of the state in the economy.

In in the context of globalisation era and in the process of deeper integration in the world economy, it goes without saying that the state role in the economy will be greatly affected, facing the government with greater challenges. In this regard, there are two intertwined questions for Vietnam that need to be addressed:

*First*, whether or not market socialism with socialist orientation is still the perfect choice for Vietnam? For this question, what are arguments and theoretical basis that support the political determination of Vietnamese leaders and what are the basis for this selection?

*Second*, with the pace of globalisation and the deeper integration into the world market in this context, the consideration of the state role is an important question. There is the need for a careful study on theoretical approaches to the state role, challenges of globalisation faced to Vietnamese government in the pursuit of it unchangeable determination of market economy with socialist orientation. Thus, the question is that what is the choice of an approach on state role which matches Vietnam's conditions and satisfy political determination of Vietnamese political leaders?

This article scrutinizes briefly economics theories which most influence the role of the state in the economy. Besides, this article is likely an approaching foundation which is conducted in a descriptive manner. Those approaches are discussed on three different approaches, namely: (i) those theories and related arguments supporting the free market while rejecting the state interventionist; (ii) those advocating a stronger state interference in the market and lastly, (iii) those that can be categorised as socialist influence. In this discussion, the author will analyse pros and cons of each theory and discuss how it would be suitable for Vietnam.

After that, the author will present Vietnam's points of view regarding the mentioned above two questions: (i) what is market economy with socialist orientation and how it would be interpreted in Vietnam and (ii) how globalisation affects the roles of state, how state adapts to these challenges and what mode of state intervention is suitable for Vietnam in this trend.

The author supports the viewpoint that the concept of market economy is inseparable from the role of the state. The state's intervention in the economy and the consequences of such intervention are on the basis of the basic functions of the state: ensuring efficiency ("corrects" market failures), ensuring fairness and maintaining macro stability. This means the role of the state will not be diminished, and the state management and intervention are always necessary.

### **2. Theories that support the free market and limit the government intervention**

#### **2.1. Adam Smith's invisible hand**

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In the late of the 18<sup>th</sup> century, the economics theory of classical liberalism emerged based on the classical economics theory of Adam Smith (1723-1790). He was the first to argue in a comprehensive way the case for the market<sup>1</sup> and set the foundation of a school of thought that justified the implementation of the free market in which market forces are operated without the government interference. According to this theory, such questions as what to produce, to whom and how to produce must be decided by market itself<sup>2</sup>. Market, even is left in isolation, can be capable to satisfy all needs<sup>3</sup>. Not only such system of multiple transactions can allocate resources, but it can do this efficiently<sup>4</sup>. From that argument, Adam Smith's theory even assumes that all markets would be perfective competitive which the automatic equilibrating mechanism of the competitive market can play an "invisible hand"<sup>5</sup>.

Adam Smith's school of thought does not completely reject all government intervention forms, but allows a degree of such control in terms of competition<sup>6</sup>. There are legitimate forms in which the government can intervene in the economy: the protection against external violence and invasion by other nations; the ensuring of justice administration and the provision of public utilities<sup>7</sup>. The proper role of government is to see whether the market is free and thus, governments could confine their activities to a minimum. However, as individual interest is considered the most important, aspects in classical economics, property rights, the inviolability of contracts and the economic and political liberties of individuals are such core areas that must be protected by the government<sup>8</sup>.

Following characteristics of a free-market economy are pointed out: all individuals have the right to entry market, economic decisions regarding pricing, production, consumption, and distribution of goods and services must be made based on the market signals; free competition is absolutely recognized and the state must not intervene in the market<sup>9</sup>. The responsibility of a government is to provide a legal framework for the market<sup>10</sup>, allowing private sectors to operate freely in the market and prevent private sectors from causing harms to each other or violating the rights of others.

## **2.2. Neoclassical**

The neoclassical school is based on the framework provided by the classical economists and particularly the "invisible hand" theory of Adam Smith. It began in 1870s with the pioneering contributions of Alfred Marshall<sup>11</sup> which used "equilibrium" and "marginal" constructs to develop a sophisticated version of market mechanism. According to this theory, market economy is considered as a stable system, which can be restored when its stability is shocked out of its given state by automatic forces.

According to "neoclassical" view, the state should restrain its role from intervening in the market and leave more spaces for private sector in supplying goods and services through market mechanisms but certain "public goods". The state is supplementary and regulatory role<sup>12</sup> and should limit its activities to improve the functioning of the markets and to provide those goods and services that it has comparative advantages relative to private agents<sup>13</sup>.

## **2.3. Mises and Hayek's arguments**

The Austrian School initiated by Carl Menger (1840 –1921)<sup>14</sup> was developed by two Austrian scholars Ludwig von Mises (1881 – 1973), and Frederick August Hayek (1899 – 1992). Their arguments did not completely agree with the neoclassical theory since they argued that the appropriate political economic action could reduce or avoid certain undesirable results of the free market system. According to Hayek, not only does the government ensure law

<sup>1</sup> Brett John Cornick, *Macroeconomics and the Development of Political Economic Theory* (Carnegie Publishing, 1994) 31

<sup>2</sup> Habibullah Khan, 'Marketing vs Planning' in Anthony T.H. Chin and Ng Hock Guan (eds), *Economic Management and Transition towards a Market Economy: An Asian Perspective* (World Scientific, 1996) 12.

<sup>3</sup> Brett John Cornick, *above n 1*.

<sup>3</sup> Tim Hayward and Judith E. Broady, 'Macroeconomic Change: Information and Knowledge' 381 *Journal of Information Science* (1994) 20 (377).

<sup>4</sup> Brett John Cornick, *above n 1*.

<sup>5</sup> M. Blaug, *Economic Theory in Retrospect* (2<sup>nd</sup> ed, Cambridge University Press, 1968) cited by Tim Hayward and Judith E. Broady, *above n 3*.

<sup>6</sup> Brett John Cornick, *above n 1*, 30-31

<sup>7</sup> Vito Tanzi, 'The Changing Role of the State in the Economy: A Historical Perspective' (Working Paper No. 97/114, 1997) 9.

<sup>8</sup> *Ibid*.

<sup>9</sup> Sujian Guo, *The Political Economy of Asian Transition from Communism* (Asgate, 2006) 99

<sup>10</sup> Tim Hayward and Judith E. Broady, *above n 3*.

<sup>11</sup> Habibullah Khan, *above n 2*, 15

<sup>12</sup> John Kenneth Galbraith, 'The Neo-Classical Model: Macro Economics and the State' in E.L. Wheelright and Frank J. B. Still Well (eds) *Readings in Political Economy* (1976) 170-171

<sup>13</sup> Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialisation* (Princeton University Press, 1990) 10.

<sup>14</sup> Michel Beaud and Gilles Dostaler, *Economic Thought Since Keynes – A History and Dictionary of Major Economists* (1995) 36.

enforcement and defence, it is able to raise funds to provide services that market cannot provide or cannot do it adequately<sup>15</sup>. Therefore, Hayek seemed to focus on the tasks of governments on providing public goods by proposing that the government must maintain monetary stability, insurance, public, subsidised housing or provision of amenities, opportunities for the recreation, preservation of natural beauty...etc<sup>16</sup>.

Although closely linking with the central viewpoint of neoclassical theory, they opposed to the development of interventionist government interaction within the free-market system<sup>17</sup> as such interventions can bring counter-productive results. The theory of the business cycle introduced by Hayek gave the theoretical basis for the rejection of interventionism<sup>18</sup>. In Hayek's view, the central role of the state should be to maintain the rule of law where arbitrary intervention by the state should be limited as much as possible. A free market brings opportunities for individuals to define and make appropriate decisions to get benefits based on the law of comparative advantage, provides incentive for social action by creating a tight producer-consumer relation that allows consumer to sway in determining the allocation of resource. Hence any coercive intervention into the market that distorts or terminates the mechanism coordinating consumer preferences and the entrepreneurial choices would *ipso facto* generate the inefficiency in allocation of resources. Therefore, every action of intervention is definitely considered as lowering social welfare<sup>19</sup>.

Both Mises and Hayek strongly criticised socialist economic system. Mises argued that a socialist government was impossible to make the economic calculations, thus could lead to the economic failure due to his argument that demand could not be calculated on the market prices. Besides, he criticized that socialist planning was impossible because human brain was not able to hold adequate knowledge to secure the optimal organization of production<sup>20</sup>.

#### **2.4. "Government failure" arguments**

In contrast to "market failure" arguments which support a strong intervention of the government in the market to reduce imperfections, "government failure" arguments originated from the theories of Austrian and Public choice school appear to oppose to the Keynesian theory. By arguing the failure of Keynesianism in explaining and solving the problem of stagflation, proponents conclude that government policy interventions are largely ineffective<sup>21</sup>.

Clifford Winston explains that when a government intervenes in the first place that it should not have intervened or when it could have solved a given problem or set of problems more efficiently, inefficiencies may occur. The inefficiency of government intervention is the reason causing "government failure"<sup>22</sup>. Another economist, Wolf termed "non-market failure" when discussing about the inefficiency of government intervention in various forms and concluded that the importance of government failure should be seen as the same as that of market failure<sup>23</sup>. Stern, an advocator of "government failure" arguments, points out some problems of the state intervention in favour of a rejection of government intervention. More rigid and inflexible government planning than private decision making, bureaucratic obstacles, poor coordination among different levels and parts of government, lacking of equilibrating signals provided by the market, interest influences by privileged and powerful groups and control by narrow interest groups are among problems that cause government intervention ineffective<sup>24</sup>.

To argue against market failures advocates, those who support market used the self-correcting nature of some market failures to explain that government intervention is unnecessary. The following reasons are given to justify the failure of government intervention: the short-sightedness, rigidity, and conflicting policies of government agencies; the influences of political forces that enable well-defined interest groups to manipulate elected and unelected officials to initiate and maintain inefficient policies that benefit them in search for their economic rents<sup>25</sup>.

In the same line, economists who argue on the public good approach believe that an orderly operation of markets allied to the 'rule of law' in which government activity and policies market contracts are constrained. The circumstances in which the government can intervene should be minimal and individual should make their own decisions within

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<sup>15</sup> Hans-Hermann Hoppe, 'F.A Hayek on Government and Social Evolution: A Critique' (1994) 68 *The Review of Austrian Economics* 7 (1).

<sup>16</sup> *Ibid.*

<sup>17</sup> Brett John Cornick, *above n 1*.

<sup>18</sup> Michel Beaud and Gilles Dostaler, *above n 14*, 37

<sup>19</sup> Joseph T. Salerno, 'Mises and Hayek Dehomogenised' in John W. Robbins and Mark Spangler (eds). *A Man of Principle: Essays in Honor of Hans F. Sennholz* (Grove City College Press, 1992).

<sup>20</sup> Michel Beaud and Gilles Dostaler, *above n 14*, 37

<sup>21</sup> Habibullah Khan, *above n 2*, 27

<sup>22</sup> Clifford Winston, *Government Failure versus Market Failure – Microeconomics Policy Research and Government Performance* (Brookings Institution, 2006) 2 – 3.

<sup>23</sup> *Ibid.*, 3.

<sup>24</sup> Ha Joon Chang and Robert Rowthorn, *The Role of the State in Economic Change* (1995) 7

31-32; Habibullah Khan, *above n 2*, 27-28.

<sup>25</sup> Clifford Winston, *above n 22*.

economic state. Besides, market failure, as compared to government failure, is less serious and market can work efficiently some of the time while governments can never work efficiently any of the time<sup>26</sup>.

In conclusion, these are not new theories and have been discussed by economic and law scholars. In Vietnam, they have been discussed carefully by Vietnamese scholars in the edge of opening market and moving towards market economy. However, these theories and ideologies were not seen as proper foundation for Vietnam with regard to the role of state, as the wish for a mixed between market economy and socialist ideologies is much preferable by Vietnam's political leaders.

### **3. Theories that advocate the government intervention**

#### **3.1. Keynesian Theory**

Keynesian theory is an economic theory based on the ideas of 20<sup>th</sup> century British economist John Maynard Keynes (1883 – 1946). The giving birth of the Keynesian theory was an important development to bring the state back into economics<sup>27</sup>. Contrast to laissez-faire economics theory, it sets a fundamental basis for the promotion of a mixed economy theory, where both the state and the private sector play an important role and the state should intervene directly in the market by using such macroeconomic measures. Other than market principles, market and economic activities are regulated by the state. Based on Keynesian theory, a model of market economy with the active regulation of the state evolved. Basic features of that model can be summarized as: the state participates actively in the market through intensifying state investment to public area; state ownership emerged; the state engaged in the decision-making process and the allocation of resources by the state was applied<sup>28</sup>.

Keynes argued that the market system was unable to guarantee stable full-employment and easy to aggregate demand failures leading to high levels of involuntary unemployment<sup>29</sup>. The state intervention is necessary because neither reaction in the forms of wages nor interest rates can be useful to correct shortage or surplus of purchasing power in the economy, and they can not solve stagnation<sup>30</sup>. Hence, he advocated a strong intervention of the state in the economy. Such interventions aim to manage the level of aggregate demand to achieve full-employment. And his theory played a central role in understanding the role of the state in economic management<sup>31</sup>.

In particular, government expenditure and taxation policies were mentioned as primary ones. If the government increases its public investment programs which are initial stimulus, this can increase the much-needed purchasing power of the consumers, thus can deal with the problems of lack of aggregate demand causing unemployment<sup>32</sup>. If a government issues bonds and then spend them on the proceeds, it can access the unspent savings and put them back to work in the economy<sup>33</sup>. Therefore, the state spending can monitor demand through its tax revenue policy<sup>34</sup>. Keynes argued that what the government chooses to spend the money on would not be more important than how the government spends the money, provided that it can serve to increase wealth<sup>35</sup>.

Keynes' idea had been widely advocated by many governments and the acceptance of full-employment was applied preferably, the role of the state was regarded as a crucial factor to correct market failures<sup>36</sup>, achieving a pre-eminent status in government policy making, and a predominant thought, especially after World War II<sup>37</sup>. The success in the economic development of some East Asian countries before the crisis in 1997 proved the effectiveness of the cooperation between the state and market and the intervention of the state in the economy<sup>38</sup>. However, since 1970s, the Keynesian theory experienced unsuccessful results causing the serious stagflation situation in most countries.

#### **3.2. The market-failure arguments**

Other than Keynesian theory, arguments regarding market failures are contributions to the viewpoint that supports the state intervention in the economy. Whether the allocation of resources is efficient with the government intervention

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<sup>26</sup> G. Thompson, *The Political Economy of the New Right* (Pinter, 1990); Robert Wade, *above n 26*, 9

<sup>27</sup> Ha Joon Chang and Robert Rowthorn, *above n 24*, 1.

<sup>28</sup> *Ibid.*

<sup>29</sup> *Ibid.*, 21.

<sup>30</sup> John Kenneth Galbraith, 'The Neo-Classical Model: Macro Economics and the State' in E.L. Wheelright and Frank J. B. Still Well (eds) *Readings in Political Economy* (1976) 172

<sup>31</sup> Tim Hayward and Judith E. Broady, *above n 3*.

<sup>32</sup> Habibullah Khan, *above n 3*, 22.

<sup>33</sup> James Sherk, *above n 56*.

<sup>34</sup> John Kenneth Galbraith, 'The Neo-Classical Model: Macro Economics and the State' in E.L. Wheelright and Frank J. B. Still Well (eds) *Readings in Political Economy* (1976) 172

<sup>35</sup> James Sherk, *above n 56*.

<sup>36</sup> Central Institute for Economic Management (CIEM) and Swedish International Development Agency (SIDA), *Tiep tuc Xay dung va Hoan thien The che Kinh te thi trung Dinh huong XHCN o Vietnam (Continuous Building and Perfecting Institutional Framework for Market Economy with Socialist Orientation in Vietnam)* (2006), 7

<sup>37</sup> Vito Tanzi, *above n 7*, 11; Michel Beaud and Gilles Dostaler, *above n 5*, 52.

<sup>38</sup> Central Institute for Economic Management (CIEM) and Swedish International Development Agency (SIDA), *above n 36*, 38

is a main debating topic. “Market failure” arguments are contrast to those which argue that the intervention of governments under the forms of taxes or subsidies may lead to the inefficiency in resource allocation called “[government failure](#)”.

According to Paul Krugman and Robin Wells, when the allocation of goods and services in a [free market](#) is not [efficient](#), it causes market failure condition. Market failure, therefore, can be regarded as a situation in which individuals' pursuit of self-interest leads to bad results for society as a whole.<sup>39</sup> Even though the term was first introduced by economists in 1958<sup>40</sup>, Henry Sidgwick was the pioneer who conceptualised this theory<sup>41</sup>. The foundation of such agreements is that due to various market imperfections, perfect competition cannot be achievable in the real world. For that reason, the best outcome envisaged (in the “Pareto Optimal”) sense cannot be attained. As Clifford Winston concluded, the idea of a completely efficient market is rarely, if ever, observed in practice<sup>42</sup>. The more impact of competition becomes, the more chance there is for market failure<sup>43</sup>.

Among market imperfections, “market power” as the result of monopolistic or oligopolistic behaviour in the market is the most important problem. Imperfect competition resulted when [market power](#) is gained by an agent in market can lead to inefficiency<sup>44</sup>. When market power occurs, it causes the price exceed marginal cost at the most profitable level of output, then the “invisible hand” according to Adam Smith’s theory is lost. The impact of market power is usually measured by few researchers in the terms of “deadweight welfare loss”<sup>45</sup>.

The emergence of “externalities” is another example of market imperfection. Externalities are innate to the methods of production, or other conditions important to the market<sup>46</sup>. They are argued as due to the deviation between social and private costs and benefits. When private costs and benefits diverge from those of social, the misallocation of resources emerges because the market outcome will involve too much or too little in a particular good. Externalities include unfavourable ones such as air pollution caused by smoke, dust and gases or water pollution as the result of chemical wastes and oxygen-demanding refuse, or noise generated by automobiles, aircraft and machinery in large cities...etc. Externalities can resulted from the presence of speculative activities (such as insurance and futures market), insufficient information, structural and institutional rigidities, inadequate property rights or non-market activities such as unpaid services<sup>47</sup>.

### **3.3. The “developmental state” ideology and its features**

The developmental state is not a new concept and has been developed in numerous countries in the past. The notion “developmental state” was introduced in 1980s and Chalmer Johnson was one of the scholars who developed the concept of the “developmental state” in 1982. Using the term “developmental state” to explain the economic growth of Japan between 1955 and 1985, C. Johnson defines the “developmental state” as a state in which the political elites aim at rapid economic development and the bureaucracy is given power and authority to plan and implement efficient policies. According to Johnson, a close co-operation between the government and private enterprises, the development and implementation state-driven industrial policies can also be features of this model<sup>48</sup>. Similarly, Amiya Kumar Bagchi stresses on the economic development objective as the top priority of this state and the methods of the state to achieve this goal<sup>49</sup>.

Focused on the mean and pattern of the “developmental state” to attain this economic development target, Pietro Masina describes such state is a state which set out to promote national development by means of an institutionalised pattern of policy intervention guided by some kind of ‘plan’ or strategic conception, and plays a central role in that process<sup>50</sup>. Castells, another scholar, when describes the development mode of Eastern Asian countries, termed the “developmental state” “...when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural

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<sup>39</sup> Paul Krugman and Robin Wells, *Economics* (2006)

<sup>40</sup> Francis M. Bator, ‘*The Anatomy of Market Failure*’ (1958) *The Quarterly Journal of Economics* 72(3) 351–379.

<sup>41</sup> Steven G. Medema, ‘[Mill, Sidgwick, and the Evolution of the Theory of Market Failure](#)’.

<sup>42</sup> Clifford Winston, *above n 22*; Tim Hayward and Judith E. Broady, *above n 3*.

<sup>43</sup> Tim Hayward and Judith E. Broady, *above n 3*.

<sup>44</sup> Paul Krugman and Robin Wells, *above n 39*.

<sup>45</sup> Habibullah Khan, *above n 2.*, 24.

<sup>46</sup> Paul Krugman and Robin Wells, *above n 39*.

<sup>47</sup> Habibullah Khan, *above n 2*.

<sup>48</sup> Chalmer Johnson, *MITI and The Japanese Miracle: The Growth of Industrial Policy, 1925- 1975* (Stanford University Press, 1982)

<sup>49</sup> Amiya Kumar Bagchi, ‘The Past and the Future of the Developmental State, (2000) *Journal of World System Research* 6 (2).

<sup>50</sup> Pietro P. Masina, *Vietnam’s Strategies for Development* (Routledge, 2006) 27

change in the productive system, both domestically and in its relationship to the international economy”<sup>51</sup> Carstells also points out that the role of the developmental state is vital in fostering, guiding, and ensuring economic growth and technological modernization. Taking seriously on the economic development, “developmental states” consider economic development is not only a goal but a means since engaging in the world competitive economy is the way to survive as a state<sup>52</sup>.

Nikolaos Karagiannis and Zagros Madjd-Sadjadi, conclude that the “developmental state” is different from such schools which argue that the state should have lesser role and act as a “night watchman” or preclude the state involvement in the market. The developmental state is the one in which the state plays as an entrepreneur role; promotes private firms or influences on its own industrial operations and creates opportunities for encouraging the industrial development actively. They advocate that an active involvement of the state is needed to guide the market, thus the state plays a positive enabling role in the market<sup>53</sup>. Another important aspect of the developmental state, as they analysed, is the state strategic planning which is significant to its existence. The state employs thorough long-term strategic plans for its developmental intervention, which can be focused on the development and the attraction of investment of selected industrial sectors and regions, including state investment to accelerate or direct the industrial development. Finally, a well-operated “developmental state” is based on the tightly organised bureaucratic structures and a strong autonomy of its bureaucracy<sup>54</sup>.

Robert Wade is probably the one who identifies the “developmental state” more clearly and goes further by dividing the “developmental state” theory into three types, which depends on how active that the state plays in each type or to what extent that the state lead the economy. According to Robert Wade<sup>55</sup>, the first one is the “*Free Market (FM) Theory*” in which a suitable environment for the enterprises to perform their functions is provided while the State uses its intervention to direct the resources to desired channels; rather than it relies on central planning, the state relies extensively on private market and the state lessens its interference<sup>56</sup>.

The second one is the “*Simulated Free Market (SM) Theory*”, in which the state goes further than just liberalizing markets and lowering distortions. Besides, the state intervention is taken more positively in order to counteract distortions caused by other policies (e.g., import controls) or the government failures to change distortion-inducing institutions directly (e.g., segmented financial markets...); to apply moderate incentives which are close to relative prices in free trade; and some “great value” interventions are conducted by the state regarding export promotion and trade liberalization<sup>57</sup>. The last one is termed as the “*Governed Market (GM) Theory*” which is equivalent to C. Johnson’s concept of developmental State. In this type, the role of the state is very active when it participates and influences in the market. A highly centralized government guides the operation of private enterprises and the state makes use of its incentive and disincentive measures in order to influence activities of private firms<sup>58</sup>.

Although approaches to the concept of “developmental state” are somewhat different, the features of a “developmental state” can make it be positioned between the free-market capitalist economic system and central planning system. Hence, it is not capitalist or socialist model<sup>59</sup>. As called by Woo-Cummings, it is a plan-rational capitalist system which conjoin private ownership with state guidance<sup>60</sup> and as observed by Amiya Kumar Bagchi, this model combines both market and state direction in a synergistic manner which is able to switch gears from market-directed to state- directed growth<sup>61</sup>. The “developmental state” is also different from both traditional liberal *laissez-fair* and the Keynesian managerial state<sup>62</sup>. Pietro Masina argues that from the basic characteristics, “developmental state” can be divided into two types, or “breed” as he called. One is the “developmental state” which refers to “capitalism state”

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<sup>51</sup> Manuel Castells, ‘Four Asian Tigers with a Dragon Head: A Comparative Analysis of the State, Economy, and Society in the Asian Pacific Rim’ in R. Appelbaum and J. Henderson (eds), *States and Development in the Asia Pacific Rim* (1992) 56

<sup>52</sup> Manuel Castells, *End of Millennium* (2<sup>nd</sup> Edition, 2000) 284

<sup>53</sup> *Ibid*, 235-236

<sup>54</sup> *Ibid*, 243-248

<sup>55</sup> Robert Wade, *above n 13*, -29

<sup>56</sup> *Ibid*, 22

<sup>57</sup> *Ibid*, 23-24

<sup>58</sup> *Ibid*, 25 - 29

<sup>59</sup> Andrzej Bolesta, ‘China as a developmental state’ 5 *Montenegrin Journal of Economics*.

<sup>60</sup> Meredith Woo-Cummings (ed.) *The Developmental State* (1999) 2 cited by Andrzej Bolesta, ‘China as a developmental state’ 5 *Montenegrin Journal of Economics*, 105.

<sup>61</sup> Amiya Kumar Bagchi, ‘The Past and the Future of the Developmental State, (2000) *Journal of World System Research* 6 (2), 399.

<sup>62</sup> White, Gordon, *Riding the Tiger: The Politics of Reform in Post-Mao China* (1<sup>st</sup>, Stanford University Press, 1993) 5 cited by Pietro Masina, ‘Vietnam after the Regional Economic Crisis: Reflections on Development Strategies’ (PhD Dissertation, Department of Social Sciences, Roskilde University, 2003) 27; Nikolaos Karagiannis and Zagros Madjd-Sadjadi, *Modern State Intervention in the Era of Globalisation* (2007) 238

were popular in capitalist system, the other refers to “socialism state” which once existed in socialist system which Vietnam, China and North Korea were examples. However, two of those share the common characteristic: the role of the state in promoting economic growth through planning and government intervention<sup>63</sup>.

Against the theories that in favour of free market and thus limiting the state roles in the economy, such theories that advocate the government intervention are relatively welcomed. It can be argued from the observation of the capitalist countries dealing with market failure in the past and the study of impacts of globalisation in the many aspects that need a stronger interference of state. In addition, as market economy with socialist orientation is a combination of two approaches, the core nature of such market economy is the support of the state roles in the economy, in which some characteristics of a “developmental state” ideology and its features will be useful for Vietnam.

#### **4. Socialist theories**

##### **4.1. Neo-Stalinism**

The debates among the leaders of the Communist Party of the Soviet Union about whether the New Economic Policy (NEP) laid down by V.I Lenin should continue and which model the Soviet Union should follow emerged after Lenin passed away in 1924<sup>64</sup>. Stalin (1879 – 1953) was the one who supported a turn away from the market system thinking and advocated the establishment of state central planning system based on the viewpoint that a state plan reflected the government’s will as an objective economic rule. As a result, a centrally planned economic system was launched in 1929 and also called Stalinist economic model<sup>65</sup>. Socialist economy according to Stalinism’s equation is a combination between dominant state ownership and planned economy. State ownership and economic plans formulated and executed by state organs were regarded as the basic economic characteristics of socialism<sup>66</sup>.

Stalin’s economic model was implemented through the general use of coercion aiming to achieve a high proportion of investment in the national income and high rates of growth; industrialisation and development of strategic industries in a short term<sup>67</sup>. A statist model of socialism was subsequently created in which the state ownership of the means of production replaced the private ownership, and the whole national economy was treated as a giant firm<sup>68</sup> and each economic entity was like a “wheel in the clock’s mechanics”<sup>69</sup>. The economic development of the nation was assigned by planning which can be divided into annual, five-year long-term plans<sup>70</sup>. For those reasons, Stalinist model can be termed as “centrally planned economy” or different terms but share the same nature such as “central planning economy” or “command economy”. For a long time, Stalin’s viewpoints were regarded as the standard theory, and the Stalin model was imitated by many socialist countries<sup>71</sup>.

A command economy, or planned economy, is an economy where crucial economic processes are not determined to a large extent by market forces, but by an economic planning body which implements society’s major economic goals. In such a system the greater part of production activity is determined by obligatory input and output targets and generated by vertical signals from an administrative hierarchical body<sup>72</sup>. Similarly, the term “command-directed-economy” to characterize such kind of economy in which the three key economic problems – what goods will be produced, they will be produced and who will receive them once they have been produced – are solved by the central government or ruler<sup>73</sup>.

The best summarisation may be that of Sujian Guo. A central planning economy possesses four basic characteristics: (1) the state owns the means of production and therefore controls factors of production; (2) the state determines what to produce and who will receive what products at what levels according to detailed state plans; (3) the state sets official values for the exchanges of goods and services; and (4) the state owns, dominates, plans controls, and regulates economic activities<sup>74</sup>. This feature was manifested in the article 16 of the Soviet Constitution of 1977 where the economy was referred as “a single economic complex”, embracing all the units and excluding private sectors<sup>75</sup>. As

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<sup>63</sup> Pietro P. Masina, *above n 83*.

<sup>64</sup> Jianglian Wu, *Understanding and Interpreting Chinese Economic Reform* (Thomson South-Western, 2005) 8.

<sup>65</sup> *Ibid*, 9,

<sup>66</sup> *Ibid*.

<sup>67</sup> John Eatwell, Murray Milgate and Peter Newman (eds), *The New Palgrave A Dictionary of Economics* (1997) (Vol.4) 475

<sup>68</sup> *Ibid*.

<sup>69</sup> Dang Duc Dam, ‘Administrative Reform – Changes to Meet the Requirements of the Market-Oriented Economy’ in John Stanley (ed), *Commercial Legal Developments in Vietnam: Vietnamese and Foreign Commentaries* (Butterworths Asia, 1997) 477

<sup>70</sup> John Eatwell, Murray Milgate and Peter Newman (eds), *above n 67*.

<sup>71</sup> *Ibid*. 10

<sup>72</sup> David W Pearce (ed), *Dictionary of Modern Economics* (revised edition, 1983) 340

<sup>73</sup> ‘*The Mc Graw Hill Dictionary of Modern Economics*’ (2<sup>nd</sup> Edition, 1973) 104

<sup>74</sup> Sujian Guo, *above n 9*, 35

<sup>75</sup> Hubert Izdebski, ‘Legal Aspects in Economic Reforms in Socialist Countries’ (1989) 37 *American Journal of Comparative Law* 704.

the basic economic unit, state economic sector was only an executive element of economic hierarchy, destitute of any administrative law protection.

In short, key features of such a central planning economy, which showed the strong responsibilities of the state, can be summarised as the state ownership and the only state-run sector exists; the dominant role of the state; the prevailing of state planning; the large-scale intervention of the state in the economy and the close connection with Party's lines. The model showed serious flaws and its failure seemed to be an evitable consequence which can be demonstrated through the complete abolishment of this model in the former socialist countries in the late 1980<sup>76</sup>. The collapse of command economy model also shows the serious mistake of the idea that strongly supports the interventional role of the state which was characterized by the high degree of concentration of state power in allocating of resources. This model, therefore, was not a suitable choice for Vietnam.

#### **4.2. Market Socialism**

Market socialism is a term used to define a economic system in which means of production (capital) are publicly owned or collectively owned, and the allocation of resources follows the rules of the markets (product-, labour-, capital-markets)<sup>77</sup>. According to Sujian Guo, the term "market socialism" refers to an economic model and an economic system that combines the basic socialist principle of public ownership with the basic principle of market; with the predominant public ownership in those areas that are deemed critical to the implementation of socialist principles and social policy<sup>78</sup>. The ideology of such type of economy was developed in the late 1960s and early 1970s primarily by socialist economies in Eastern European in an attempt to address the inefficiencies of socialism<sup>79</sup>. This model is based on the assumption that it would make it possible for the state to allocate resources to the society equally through the state ownership of the means of production while utilising the positive aspects of capitalism as mobilising market forces, encouraging competition and maximizing profits. There are some models of market socialism, but the earliest one was developed by the Polish economist Oskar R. Lange (1904 – 1965) who was the best known among authors who attempted to refute the criticisms of L. Mises and Hayek<sup>80</sup>.

One of the insights of Lange is the role of planners. Lange proposed a "trial and error" procedure in which the market functions would be performed by the Central Planning Board (CPB) by fixing the prices, adjusting prices whenever shortages or surpluses occurred rather than relying on a free price mechanism<sup>81</sup> to balance supply and demand. This body can instruct the managers of socialist enterprises in minimising the average cost of their production and determining the scale of output. The body is responsible for performing market simulation with respect to the functions of the market for production goods while actual markets are limited to consumer goods and labour<sup>82</sup>.

According to Sujian Guo, there are 4 models of market socialism: Langian market socialism which is considered the oldest and most basic model of market socialism; service market socialism; cooperative market socialism; and pragmatic market socialism<sup>83</sup>. Despite some different factors, in general, a market socialism possesses some of the basic characteristics: 1- the state holds a dominant role in the economy, maintaining state ownership to the means of production; state sector seizes such commanding heights of the economy as heavy industry, energy and infrastructure, while introducing decentralized decision making and giving local managers more freedom to make decisions and respond to market demands<sup>84</sup>; 2- private ownership and private enterprises can be allowed in the service and other secondary economic sectors; 3- the state gives more autonomy to the enterprises in terms of maximizing their profits in accordance with market condition and competition.

However, this model received many criticisms from scholars who opposed socialism such as F. A. Hayek and the application of this model in some socialist countries such as Yugoslavia and Hungary was not successful enough to justify for its effectiveness. As a result, this theory was criticized and then abandoned<sup>85</sup>. Although the mindset "socialism" appeared in this model, these theories are unrealistic and far from what Vietnamese government may expect.

#### **4.3. Market economy with socialist orientation**

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<sup>76</sup> Central Institute for Economic Management (CIEM) and Swedish International Development Agency (SIDA), *above n 36*, 39

<sup>77</sup> John Eatwell, *above 107*, 337

<sup>78</sup> Sujian Guo, *above n 18*, 172; Central Institute for Economic Management (CIEM) and Swedish International Development Agency (SIDA), *above n 36*, 52.

<sup>79</sup> *Ibid*, 172

<sup>80</sup> John Eatwell, Murray Milgate and Peter Newman (eds), *above n 67*, 338.

<sup>81</sup> Mark Skousen, *Making Modern Economics* (Blackstone Audio, 2001), s 414-415

<sup>82</sup> John Eatwell, Murray Milgate and Peter Newman (eds), *above n 67*, 337.

<sup>83</sup> *Ibid*, 173.

<sup>84</sup> Wikipedia, Free Encyclopedia, [http://en.wikipedia.org/wiki/Market\\_socialism](http://en.wikipedia.org/wiki/Market_socialism)

<sup>85</sup> Central Institute for Economic Management (CIEM) and Swedish International Development Agency (SIDA), *above n 36*, 54-55

Together with the economic reform, the concept of market economy with socialist orientation has been introduced in Vietnam. The term “market economy with socialist orientation” was formally adopted at the IX Congress of the CPV in April 2001 and building a market economy with socialist orientation is the consistent strategy of Vietnam in the transitional period<sup>86</sup>. For that result, the resource of this section is mostly based on Vietnamese authors.

Until now, “market economy with socialist orientation” has been asserted as the selection of the role and model of Vietnam in the context of globalisation to meet the demand of the “shortcut to front” strategy which has become an imperative factor<sup>87</sup>. There have been numerous discussions regarding what the “market economy with socialist orientation” is, its nature and characteristics and how to develop the institutions of such economy in Vietnam. From the studies of prominent scholars in Vietnam, basically, three approaches can be summarised as: the necessity of developing of market economy with socialist orientation in Vietnam; the fundamental characteristics of the market economy with socialist orientation and the characteristics of a market economy with socialist orientation.

Firstly, the development of market economy with socialist orientation in Vietnam is fully determined as inevitability by Vietnamese political leaders, and are commonly discussed by its scholars. This trend is explained as below:

(i) It is argued by most authors that socialist economic model characterised by a centralised planning system has exposed many flaws, the lack of economic vitality and self-development after decades of existence<sup>88</sup>. The subjective, voluntaristic and impatient thinking, the disregard of subjective principles and the lack of proper understanding of Vietnam’s conditions are reasons leading to the unsuccessful application of this economic model in Vietnam<sup>89</sup>.

(ii) It is agreed that the capitalism has made use of the strengths of market economy and utilized the active role of the state in controlling, intervening in the market, and minimising market failures<sup>90</sup> and capitalism has achieved a high development and prosperous period in capitalist countries<sup>91</sup>. Thus, authors conclude that market economy is a production mechanism that has proved its usefulness for effective resource use and allocation<sup>92</sup>, an achievement and an economic system that reflects a certain level of development of human civilisation<sup>93</sup>. They conclude that market economy is not the only asset of capitalism, but of mankind<sup>94</sup>. Market economy, if appropriately directed and implemented, can bring economic benefits to people and society even in non-capitalist economies<sup>95</sup>.

However, many scholars argue that capitalism is generally considered as entailing many limitations. They are the instability of the society, the inequity and conflicts with traditional values, the expanding gap between the rich and the poor<sup>96</sup>.

(iii) The existence of market economy is a subjective demand. Therefore, it can exist in both socialist and capitalist countries. Thus, they assert that it is reasonable that a market economy model can be applied in a socialist country. However, market economy in capitalism is based on capitalist private ownership which is established to serve the bourgeoisie’s interests, while market economy in the socialism is based on the entire people and collective ownerships under the Party leadership. The aims of this market economy are to serve interests of the working class and to eliminate exploitation and to develop productive forces<sup>97</sup>. Market economy in Vietnam does not originate from a forced conjunction between “market economy” and “socialism” but from the careful study of inevitable principles, the experiences of development of market economy in the world and the summarisation of decades of building socialism and economic reform in Vietnam<sup>98</sup>.

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<sup>86</sup> Communist Party of Vietnam, ‘Document of the IX Congress of the Communist Party of Vietnam’ (2001) 132.

<sup>87</sup> To Xuan Dan and Hoang Xuan Nghia, ‘Vietnam’s Market Economy with Socialist Orientation’ (2007) 1 (122) *Communist Review*.

<sup>88</sup> To Xuan Dan and Hoang Xuan Nghia, *above n 87*; Dinh Van An, *below n 92*.

<sup>89</sup> Nguyen Phu Trong, ‘Kinh te Thi truong Dinh huong XHCN o Vietnam: Quan niem va giai phap (Market Economy with Socialist Orientation in Vietnam: Concepts and Solutions)’ (2007) 1 (122) *Communist Review*.

<sup>90</sup> *Ibid.*; To Xuan Dan and Hoang Xuan Nghia, *above n 92*.

<sup>91</sup> Nguyen Phu Trong, *above n 89*.

<sup>92</sup> Dinh Van An, ‘Building up and Improvement of the Institution of the Socialist Oriented Market Economy in Vietnam’ (2006) <<http://www.ciem.org.vn/home/en/home/InfoDetail.jsp?area=1&cat=19&ID=1139>>

<sup>93</sup> To Xuan Dan and Hoang Xuan Nghia, *above n 87*; Nguyen Phu Trong, *above n 130*.

<sup>94</sup> Dinh Van An, *above n 92.*; Ha Dang, ‘Kinh te Thi truong qua Cac buoc Doi moi Tu duy (The Progression of the Ideas of Market Economy)’ (2007) 7 (127) *Communist Review*.

<sup>95</sup> Central Institute for Economic Management (CIEM) and Swedish International Development Agency (SIDA), *above n 36*, 74.

<sup>96</sup> To Xuan Dan and Hoang Xuan Nghia, *above n 87.*

<sup>97</sup> Hoang Thi Bich Loan, ‘Giu vung Dinh huong Xa hoi Chu Nghia trong Phat trien Kinh te Thi truong o Nuoc ta Hien nay (Firmly Ensure the Socialist Orientation in Developing of Market Economy in our Country)’ (2007) *Communist Review* 7 (127).

<sup>98</sup> To Xuan Dan and Hoang Xuan Nghia, *above n 87*.

(iv) Globalisation is now being an unavoidable trend<sup>99</sup>. In a globalisation trend, there has been the potential risk for lesser developed countries because they would be bound in the trajectory controlled by developed countries<sup>100</sup>. The selection of market economy is imperative in this context to meet the demand of shortening the gap with the others and deeper integrating into the world economy<sup>101</sup>.

(v) The experience of China in building a market economy with Chinese characteristic is also a motivation for Vietnam in choosing its market economic with socialist orientation matching Vietnam's conditions<sup>102</sup>.

Secondly, two common features are commonly agreed when discussing about the nature of market economy with socialist orientation in Vietnam. In particular:

(i) this is a transitional economic model for Vietnam in transitional period<sup>103</sup>. Market economy with socialist orientation is not understood as a socialism which has been fully reached<sup>104</sup>.

There is also another term called as "socialist market economy". However, some authors argue that it is not the same. The term "market economy with socialist orientation", can not be used equivalent to "socialist market economy", because "market economy with socialist orientation" and "socialist market economy" are two concepts having the same nature but different levels. It is the model of economic structure which is both based on the principles and rules of a market economy and the principles and the nature of the socialism<sup>105</sup>. However, Vietnam's socialist-oriented market economy has just initially established, with low-level development, and lacking institutions needed for a comprehensive market economy<sup>106</sup>.

(ii) Market economy with socialist orientation is a model in which two factors "market" and "socialist" are joined together. Since the ultimate goal of socialism is the development, including human development, market is an effective mean to this goal, so that market and socialist orientation can go together. Market and the state are two decisively powerful elements for the development of market economy with socialist which the former refers to "invisible hand" and the latter refers to "visible hand"<sup>107</sup>. It is a special economic style characterised by two elements: operated by market principles and rules, and guaranteed by socialist orientation. This nature influences and decides the means, methods and motivation of the economy and to achieve this aim, the state will make use of market economy, strengthen the effectiveness in regulating the economy, develop science technology and human resources, open up and integration in the global economy for the industrialisation goal<sup>108</sup>. In this regard, market economy is explained as the mean and method that Vietnam needs to achieve the target "*wealthy people, strong country and equal, democratic and civilized society*".

Hence, market economy with socialist economy is a model of economic structure which is based on both the principles and rules of a market economy and the principles and the nature of the socialism<sup>109</sup> in which production; distribution, exchange and consumption are closely connected with the market under the management and regulation of the state. In this market, two core standpoints are commonly regarded throughout documents of CPV are: the Party leads the economy and the state exercises its management<sup>110</sup>.

In globalisation era, the state role in the economy will be greatly affected. This is explained as below:

First of all, in Vietnam's viewpoints, globalization is a phenomenon associated with the increase in the number and intensity of mechanisms, processes and activities that promote increased interdependence between states around the world, as well as economic and political integration at global level. Globalization obscures national borders, narrowing

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<sup>99</sup> Communist Party of Vietnam, 'The 7<sup>th</sup> Resolution NQ/TW on the International Economic Integration on 27 November 2001

<sup>100</sup> To Xuan Dan and Hoang Xuan Nghia, *above n 87*.

<sup>101</sup> *Ibid*.

<sup>102</sup> Nguyen Phu Trong, *above n 89*.

<sup>103</sup> To Xuan Dan and Hoang Xuan Nghia, *above n 128*.

<sup>104</sup> *Ibid*.

<sup>105</sup> Communist Party of Vietnam, 'Documents of the 9<sup>th</sup> National Congress of Vietnamese Communist Party' (2001), 86 - 90

<sup>106</sup> Le Huu Nghia, *below n 110*; To Xuan Dan and Hoang Xuan Nghia, *above n 87*.

<sup>107</sup> Tran Dinh Thien, 'Co so Ly luan va Dieu kien thuc hien Kinh te Thi truong Dinh huong Xa hoi Chu nghia (Rational Basis and Groundwork for the Implementation of Market Economy with Socialist Orientation)' (2007) *Communist Review* 17 (137).

<sup>108</sup> Nguyen Phu Trong, *above n 89*.

<sup>109</sup> Communist Party of Vietnam, *Documents of the 9<sup>th</sup> National Congress of Vietnamese Communist Party* (2001) *above n 105*.

<sup>110</sup> Le Huu Nghia, 'Vai tro Lanh dao cua Dang Cong san va Quan ly cua Nha nuoc trong Qua trinh Phat trien Kinh te Thi Truong Dinh huong Xa hoi Chu nghia o Vietnam - The Leading Role of the Vietnamese Communist Party and the Management of the State in the Course of Developing a Socialist-Oriented Market Economy in Vietnam' *Communist Review* 1 (122).

the spaces on the economic, political, social and cultural aspects of the world.<sup>111</sup> In this context, economic globalization is the rapid increase in economic activities across all national and regional boundaries, creating interdependence among economies in the movement to develop towards an economy international unification<sup>112</sup>.

*Secondly*, for Vietnam's scholarship, core characteristics of globalisation can be described as follows: the appearance and replication of a wide range of affiliate networks at a global level which challenge traditional geographic, cultural, economic, and political boundaries. Capital flows, commodities, technology and the workforce can move much easily around the world due to advances in communications, transportation, and manufacturing technology. The degree of interdependence between states as well as people around the world will dramatically increase. And finally, cultural differences will be gradually reduced. Those undermine the role of states as the authorities of domestic domain and the main actors of international relations.

All states face common problems in national economic development, including: ecological issues, environmental pollution and resource depletion, population and health issues. public health, the gap between rich and poor, social evils and international crimes. Globalization also creates a challenge to national sovereignty. Increasing economic integration will lead to political integration, leading to the weakening capacity of the national model. Globalization entails the interdependence of nation states rather than referring to their complete independence. However, there is no and cannot have an independent state to stand completely separate from the outside world in the context of globalization.<sup>113</sup> From Vietnam's points of view, the adaptation of state role in the market economy in the context of globalisation can be approached as below:

(i) new economic conditions, market conditions and new technologies have been changing the nature of market failures, posing new problems in the scope and extent of home intervention of states in addressing market failures.

(ii) globalization is dramatically increasing the openness, intertwining and interdependence between economies. This process is leading to a review of the concept and role of the state which traditionally based on three constituent principles: sovereignty, territory and security.

*Thirdly*, there are many problems that the process of globalization itself with the market economy's self-regulation mechanism, and the "participation" of international organizations cannot be solved, unless with the intervention of the state. It is creating a fair competitive environment for market participants, supplying facilities that the market is not able to provide, implementing social redistribution, building a guarantee system, social, macroeconomic regulation in the country, implementation of monetary policy, adjustment of industry structure and foreign trade policy.

*Fourthly*, in the era of globalization, the role of the state is still very large and important. Globalization does not negate or diminish the role of the state, rather it asserts and demands the promotion of the role of the state and adjusts them to suit the effects of globalization. Firstly, the state of Vietnam must build and perfect a system of market economy institutions, promoting the formation and development of market relations. Second, the state intervening in the market in the current context needs to take into account the new properties of market failures.

*Finally*, while the wish for a market economy with socialist orientation has been constantly consolidated, it is the need for Vietnamese government to adjust the contents and methods of regulation as to the role of state in the context of globalisation. It is also noted that, the concept of economy with socialist orientation was formed and built up during the mixed period when market theories had been introduced in Vietnam and matters of market economy in the context of globalisation (including its challenges and impacts) had not been properly studied. Therefore, such a need for studying market economy with respect to state role in the context of globalisation has become significant. In this regard, the author supports the study of theories that advocate the government intervention which advocate the state intervention in addressing market failures. This will make Vietnamese economy be adaptive with requirements of market economy in the context of globalisation in one hand, but in the other hand, this will enable the state to react promptly to deal with market failures and other problems caused by the integration to the world economy.

## **5. Conclusion**

To sum up, these theories all deal with the role of the state in the economy. In other words, there is a relationship between the state and market. It is arguable that the too rigid application of one theory, which is giving prominence either to the market or to the state, can lead to failures. It can be seen through the failure of "invisible hand" theory in the early of the 20<sup>th</sup> century in European countries or the failure of the application Stalinist Model in most of the former socialist countries before the collapse of the Soviet Union bloc in 1990s. From evidences showing the evident "failures" of market as well as the "flaws" of the state during the development of market economy, it can also be arguable that the

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<sup>111</sup> Le Hong Hiep, Toàn cầu hóa (Globalization), <http://nghiencuuquocte.org/2016/07/09/toan-cau-hoa-globalization/> accessed on 17/6/2020.

<sup>112</sup> VOER, Khái niệm về toàn cầu hoá kinh tế và hội nhập kinh tế quốc tế <https://voer.edu.vn/m/khai-niem-ve-toan-cau-hoa-kinh-te-va-hoi-nhap-kinh-te-quoc-te/8bf603e9>

<sup>113</sup> Bui Thanh Quat, "Toàn cầu hóa – một cách tiếp cận mới" (Globalisation – A New Approach), *Tạp chí Cộng sản (Communist Review)*, 2003, No. 27.

state and market should be understood as two factors that support, but substitute each other<sup>114</sup>. In a market economy, the role of the state will not be diminished, and the state management and intervention are always necessary. Therefore, how to reach a balance between two factors, the state and market, is an important task of every state.

From the study of approaches of some major economic schools on the role of the state, it can be seen that, although all major schools are concerned with the relationship between market and state and the role of the state in a market economy, the approaches and views of the schools are different. This difference is due to the specific historical conditions of the market economy in each period. Therefore, it can be also argued that there is no universal theoretical model that can fully solve all specific situations related to the conflict between the market and the state. It is because the relationship between the state and the market today has changed basically as compared to a few decades ago when the market economy has become an inevitable trend with the appearance of new factors. Also, from the study of the history of development of the market economy, it can be seen that, despite its diversity, market economy is inseparable from the role of the state. Differences between historical periods and between countries are in terms of the nature of the State, the extent and scope of the state's intervention in the economy and the consequences of such intervention on the basis of the basic functions of the state: ensuring efficiency (“corrects” market failures), ensuring fairness and maintaining macro stability.

For Vietnam, it is necessary to study and evaluate the advantages and challenges for the role of Vietnam’s state in all aspects which match Vietnam’s practical conditions and be suitable to Vietnam’s socio-economic conditions and characteristics. Comprehensive researches and evaluation on the state role in globalization era need to be placed in the context that Vietnam is a developing country with a transition economy and in the context of building a market-oriented economy with socialist direction. On the one hand, Vietnam needs to refer to and learn from the experiences of other states with similar conditions and circumstances. On the other hand, it must be linked to Vietnam’s real circumstances and conditions so that it can have the appropriate policies to take full advantage of, maximize advantages and overcome challenges posed in the process of integration and participation in international economic institutions. That the state economy plays a key role, is an important physical force, is a macro tool for the state to guide and regulate the economy.

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