Vietnam's Model of Market Socialism: Development Model in Crisis?

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ABSTRACT

This paper examines Vietnam's model of market socialism and aims to fill the gap in the existing literature by analysing the challenges facing this model of development. The paper argues that while Vietnam's market socialism emerged as a response to the failure of classical socialism and with its help Vietnam has achieved significant successes including high economic growth, poverty reduction, and rising living standards. However, it lacks a theoretical foundation, which threatens its sustainability. The model faces a development model crisis due to the corruption of the current governance system and the inefficiency of state-owned enterprises (SOEs), perpetuated by political institutions. The paper reviews the historical and theoretical debate on market socialism and assesses its successes and challenges in promoting economic growth and reducing poverty. By applying the approach of historical and institutional analysis, the paper provides insights for policymakers and scholars interested in understanding the strengths and weaknesses of market socialism in practice. The paper emphasizes the need for alternative models such as the social market model, to address the crisis in Vietnam's development model.

Keywords: *market socialism, development model, political crisis, and socialist economies.*

1. INTRODUCTION

After the collapse of the Soviet Union in the early 1990s, the debate on the market socialism emerged with intensity. The Austrian school believes that the fundamental flaw of socialist systems is the absence

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of private property rights, market exchanges, and prices. However, the market socialist model of Vietnam and China has proved to be more complex than this theory suggests. Vietnam's transition has been characterized by the creation of a 'parallel' economic structure of both private and state ownership. Despite this unusual system, Vietnam has achieved impressive economic growth, reduced poverty, and raised living standards alongside the one-party dictatorship of the Vietnamese Communist Party (VCP 1987; Kornai 1992, 1998). Following the implementation of the Doi Moi reforms 35 years ago, Vietnam has undergone a remarkable transformation, emerging as a thriving economy and an attractive market for the global community. The country's GDP per capita, calculated in 2015 US dollars, has experienced a significant surge from $481 in 1986 to $3,756.5 in 2021. This rapid economic growth has had a positive impact on a broad spectrum of the population, leading to significant improvements in living standards across Vietnam. According to the World Bank's lower-middle-income poverty line ($3.20 per day at 2011 purchasing power parity), the poverty rate has declined remarkably, from 60 per cent in the early 1900s to 16.8 per cent in 2010 and further down to 5.0 per cent in 2021 (World Bank 2022).

There is a theoretical debate on the feasibility of the socialist model in the 1930s, with the Austrian school of thought arguing that the model of market socialism could not sustain because of distorted and inefficient incentive and information problems of state-owned enterprises and the central planning system supported by Oscar Lange (1936).

Most of the previous studies face a lack of in-depth analysis on the effectiveness of Vietnam's model ща market socialism in promoting sustainable economic growth and development. While there may be existing studies that have examined specific aspects of the model, such as corruption and the inefficiencies of state-owned enterprises, there may be a need for a more comprehensive analysis that evaluates the overall effectiveness of the model in achieving its development goals. Furthermore, there may also be a lack of research on the future prospects and sustainability of the model in the face of globalization, technological change, and other challenges arising from theoretical debates on market socialism. Addressing these gaps in the literature can help to provide a more nuanced and comprehensive understanding of Vietnam's model of market socialism and its role in promoting economic development.

The paper aims to examine Vietnam's model of market socialism and assess its effectiveness in promoting sustainable economic growth and development, particularly in light of the challenges posed by corruption, inefficiencies in state-owned enterprises, and the need for greater market liberalization and decentralization of power.

In addition to the introduction, this paper consists of four sections. Section 2 concerns with the methodology of the study. Section 3 deals with the literature review. Section 4 examines the empirical issues of Vietnam's market socialism. Section 5 concludes the paper.

2. METHODOLOGY OF THE STUDY

The methodology of the study for this paper involves a combination of primary and secondary data analysis, historical analysis, and institutional analysis. The evolutionary economics approach is employed to understand how economic systems evolve over time. At its core, evolutionary economics is based on the idea that economic systems are complex adaptive systems, similar to living organisms, and that they evolve over time through a process of variation, selection, and adaptation (Nelson and Winter 1982). An important aspect of evolutionary economics is the concept of path dependence. Path dependence refers to the idea that the trajectory of an economic system can be influenced by its past history, and that early events or decisions can have long-lasting effects on the development of the system. This means that certain events or decisions can create 'lock-in' effects that limit the ability of the economic system to adapt to new circumstances. For example, in the context of Vietnam's market socialism, the legacy of the centrally planned economy has had a significant impact on the evolution of the system. The government has maintained a path-dependent environment in which SOEs continue to have a dominant role in the economy, despite the growth of the sector (Nguyen and Tran 2020). This is the key challenge for Vietnam to create more efficient and competitive market economy.

The primary data includes interviews with experts on Vietnam's political and economic development, which help to identify key trends and perspectives related to the obstacles to Vietnam's model of market socialism.

Secondary data of the study includes a systematic review of existing literature on Vietnam's market socialism model, state-owned enterprises and corruption, and institutional reforms of Vietnam. This involved also annual reports of World Bank and the United Nations.

The historical analysis method is employed to clarify the evolution of Vietnam's model of market socialism, including its successes and failures. Meanwhile, the institutional analysis method helps to analyse the political and economic institutional changes of Vietnam in the Vietnam's market socialism model. This analysis makes critical review of relevant laws, regulations, and policy changes with regard to state-owned enterprises, corruption, and political institutions.

The findings from the primary and secondary data analyses were integrated to provide a relevant assessment of this model of market socialism and possible directions for its change.

The study faces some limitations in term of bias in the selection of experts and the potential for missing relevant information. However, the study attempted to cover a wide range of experts who were interviewed and a comprehensive literature review.

3. LITERATURE REVIEW

3.1 The Gap of the Previous Studies

The existing literature on Vietnam's market socialism has mainly focused on the transition from a centrally planned to a market-oriented economy (Nguyen 2004: 13–16). However, there is a gap in the literature when it comes to understanding the current crisis in the development model and its impact on Vietnam's political institutions. While scholars have acknowledged the high levels of corruption in Vietnam, attributed to weak governance and accountability mechanisms, lack of transparency, and insufficient checks and balances on political power (Thanh 2015; Trinh 2024), there has been limited research on the policy choices that led to the emergence of market socialism and its relevance in addressing these challenges. Furthermore, there is a need to explore the policy relevance of alternative economic schools of thought such as the Austrian School, which advocates for economic liberalization and private sector development, in comparison to market socialism (Rothbard 1980). This paper aims to fill this gap by examining the relevance and effectiveness of Vietnamese development model, particularly the market socialism approach, in addressing the current crisis of corruption and inefficiency within state-owned enterprises. The study will also explore the policy implications of alternative economic schools of thought, such as the Austrian School, and their potential to address these challenges. By doing so, this study will contribute to the literature on Vietnam's development model and provide insights for policymakers on the way forward.

3.2 Theoretical Review

Kornai (1992) argues that the main reasons for the collapse of the socialist system are the inefficiency of state enterprises and the low productivity problems of the whole system (Table 1).

Table 1

Growth and Labour Costs, 1950–1973–1989

Countries	**GDP per capita (USD at 1985 relative price)**			**Annual Number of Working Hours per Capita**
	1950	1973	1989	1989
Socialist countries				
Hungary	2,481	5,517 (222.4)	6.722 (270.9)	839 (113.7)
Soviet Union	2,648	5,920 (223.6)	6.970 (263.3)	933 (126.4)
Czechoslovakia	3,465	6,980 (201.4)	8.538 (246.4)	936 (126.8)
Capitalist countries				
Austria	2,869	8,697 (303.1)	12.519 (436.4)	687 (93.1)
Portugal	1,608	5,598 (348.1)	7.83 (459.1)	738 (100.0)
Spain	2,405	7,518 (321.6)	10.081 (419.2)	591 (80.1)
Greece	1,456	5,781 (397.1)	7.564 (519.5)	657 (89.0)

Source: Cuong 2014 and Maddision 1995

Note: The figures inside the bracket () represent the percentage of the figures in 1973 and 1989 in comparison with the figure of the reference year 1950.

According to Table 2, socialist countries lagged behind the capitalist system in their efforts to improve productivity through technological innovation. Vladimir I. Lenin had predicted that the competition between capitalism and socialism would depend on efficiency, but classical socialism relied heavily on state-owned enterprises.

Table 2

Increase in the Lag behind Spain (Percentage: Spain's GDP per capita =100)

	1950	**1973**	**1989**
Hungary/Spain	103.2	73.4	66.7
Soviet Union/Spain	110.1	78.7	69.1
Czechoslovakia/Spain	144.1	92.8	84.7

Classical socialism faced significant economic failures. The Soviet Union's central planning system, which was the largest-scale socialist experiment in history, faced significant problems of inefficiency and shortages, especially in consumer goods (Ellman 2014). Similarly, China's Great Leap Forward in the late 1950s and early 1960s resulted in significant agricultural failures and famine (Dikötter 2010). These experiences led to a re-evaluation of the socialist approach, with some advocating a hybrid approach that incorporated market mechanisms alongside public ownership and control. One example is the concept of market socialism, as advocated by Oskar Lange, which aims to achieve efficiency and meet consumer needs through market mechanisms while still maintaining public ownership of the means of production (Lange 1936).

While the debate over the merits and flaws of different economic systems continues, the economic failures of classical socialism have contributed to the growing consensus that market mechanisms play an essential role in achieving efficiency and innovation in economic activity, while also recognizing the importance of public ownership and control in addressing broader social concerns. According to Lange, market socialism could provide the benefits of a market economy while ensuring that the means of production were publicly owned and controlled (Lange 1973).

According to Lange (1936), central planning failed to meet consumer demand and to provide relevant incentives for business innovation and productive efficiency improvement. However, Lange's argument for the model of market socialism has been widely accepted. Some argue that market socialism is not a viable alternative to capitalism, while others contend that it can offer a more equitable and efficient system than traditional socialism (Rothbard 1991). Regardless of the debates surrounding Lange's ideas, his work has had a significant impact on economic thought and continues to be studied by economists today.

There have been several criticisms of Lange's ideas on market socialism. One criticism is that his theory assumes perfect knowledge on the part of planners, which is unrealistic in practice. Another criticism is that Lange's system may not provide sufficient incentives for innovation and efficiency, which are key drivers of economic growth in market economies. Some argue that market socialism could lead to bureaucratic inefficiencies and could still result in inequality if state officials control the means of production. Mises (1920) argues that market socialism also faces incentive problems where state enterprises do not make relevant profit and loss calculations. The major flaw of market socialism is that it ignores the capital market price. The absence of capital market prices in the fully state-owned capital goods system makes rational calculation of cost-benefit analysis difficult for the central planning agency (Lavoie 1985). In market economies, entrepreneurs play key roles in innovation and development. In market socialism, it is difficult for the central planning agency to coordinate markets as effectively as entrepreneurs and consumers. The central planning agency and SOE managers have no profit incentives to improve their efficiency. The incentive problem is a significant problem for socialism, because of the weak incentive structure under state-owned enterprises. Without the striving of entrepreneurs and private ownership, the successful functioning of the whole mechanism is not possible. Therefore, the inefficiency of state ownership cannot help to solve this problem (Boettke and Candela 2016).

However, it is argued that the model of market capitalism in the United States faces some concentration of economic power in the hands of a few large corporations, which can limit competition and lead to inefficiencies (Tepper 2018). Further, special interest groups in the United States politics, such as corporations and unions, have a disproportionate influence on government policies and decision-making processes. This, in turn, can lead to inefficient functioning of the US system, as policies may not always align with the broader public interest (Olson 1989). The critics of the US market capitalist system highlight the importance of balancing individual freedoms with competition, and addressing the negative effects of concentrated economic power and the influence of special interest groups. This stance point can shed light on further development model reform in Vietnam.

4. EMPIRICAL ANALYSIS: VIETNAM'S MODEL DEVELOPMENT CRISIS

4.1 Institutional Change in response to the Failures of Vietnam's Classical Socialism

In the late 1980s, Vietnam's classic socialism fell into crisis, like that of the former Soviet Union, where most of state-owned enterprises were inefficient at controlling costs or the value of output, since profitability was not their objective. The Vietnamese economy was completely dependent on the foreign aid from the Soviet Union (Anh 1994). Vietnam's economy also faced serious problems of scarcity, vulnerability to fluctuations in foreign aid, and shortages of capital and consumer goods due to the collapse of the Soviet economy.

In the late 1980s, Vietnam's classic socialist economy faced hyperinflation, budget deficits, vulnerability to fluctuations in foreign aid, and a shortage of capital and consumer goods, with the average inflation rate (114 %), peaking at 608 % in 1986 alone (World Bank 1995: 1). The budget deficit was estimated to be around 6.7 % of GDP in 1985 (CIEM 1997: 35). In response to these economic challenges, the Vietnamese Communist Party introduced a comprehensive economic transformation from a centrally planned economy to a market-oriented economy in 1986 (*Ibid*.: 34–35). Over the years, the government implemented various policies and reforms to shape the economy, often in response to internal and external pressures. The shift towards market socialism in Vietnam may not have a strong theoretical justification, but it can be seen as a pragmatic response to the failures of classical socialism in promoting economic growth and prosperity. The institutional changes implemented through this reform allowed for greater flexibility and innovation in the economy, leading to increased competition and efficiency (Figure 1).

Figure 1 indicates that Vietnam, like China, has obtained higher economic growth than the other countries in Eastern Europe, Russia, the US and Germany over the period 2011–2022. The growth rate of an economy tends to slow down as it becomes more developed, as it becomes more difficult to achieve high growth rates due to various factors such as declining labor force growth, diminishing returns to capital, and structural changes in the economy.

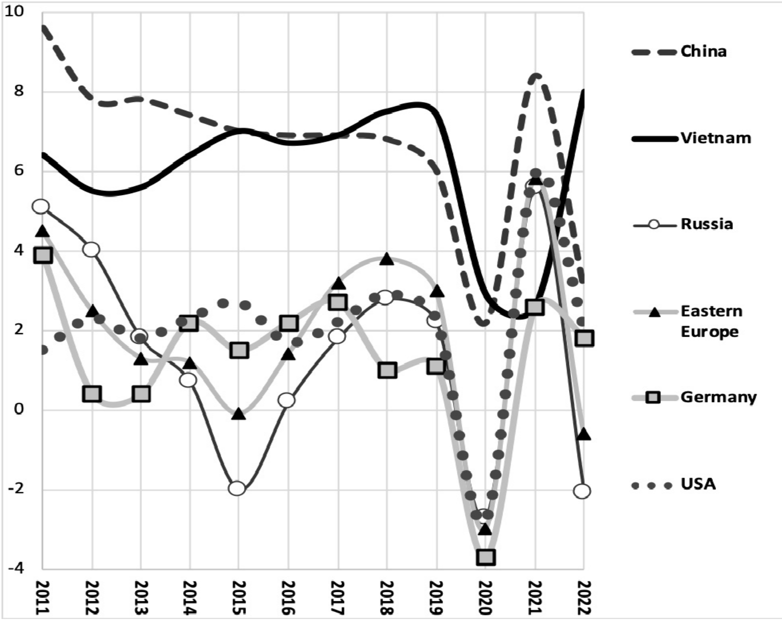

Fig. 1. Annual GDP Growth Rate of Vietnam and Selected Countries and Areas, % (2011–2022)

Source: IMF 2023.

The transformation of this model is to create profit-based accounting, eliminate compulsory central planning, reduce government subsidies, and liberalize the market mechanism to improve the performance of state enterprises as private enterprises (World Bank 1995). Vietnam's institutional reforms also aim to promote private sector development (World Bank 2019). The private sector has played an increasingly important role in Vietnam's GDP in recent years. According to data from the General Statistics Office of Vietnam, the private sector accounted for 43.9 % of the country's GDP in 2020, up from 41.3 % in 2016 (GSO 2021). As the government has streamlined business registration procedures, reduced administrative burdens, and improved access to credit and other financial services, private enterprises have been able to grow and expand, contributing more to the country's overall economic output (ADB 2018). In addition, the private sector has been a major driver of innovation and technological advancement in Vietnam, helping to further boost economic growth. Overall, the private sector's contribution to Vietnam's GDP is expected to continue to grow in the coming years as the government continues to implement institutional reforms aimed at creating a more supportive environment for private enterprise.

The emergence and growth of the private sector in Vietnam does represent a departure from the socialist ideology that was espoused by the VCP in the early 1980s. At that time, the VCP pursued the state socialism model where they emphasized the role of the state sector, while excluding the private sector gradually. However, since then, Vietnam has faced the serious political and economic crisis. Thus, Vietnam must gradually change from state socialism to market socialism model by promoting the role of private sector development. The VCP must ensure its political leadership, thus VCP attempts to maintain the balance between state-led development and private-sector growth.

Therefore, the evolution of Vietnam's reform is multifaceted and it may not be explained by a single theoretical argument. VCP has conducted institutional reforms due to both internal and external pressures, especially the failures of state socialism model. The institutional reform in Vietnam creates some flexibility and economic growth with more competitive and efficient economy.

4.2 The Crisis of State-Owned Enterprises as the Model Development Crisis of Vietnam's Market Socialism

The SOE (State-Owned Enterprises) crisis in Vietnam refers to the financial difficulties faced by the country's state-owned enterprises, which are government-owned businesses that are responsible for a significant portion of the country's economy (World Bank 2021). According to the World Bank, SOEs in Vietnam account for around 30 per cent of the country's GDP and employ approximately 12 per cent of its workforce. The crisis was largely caused by inefficiencies in the management of these enterprises, including poor governance, corruption, and a lack of transparency (Vietnam Institute for Economic and Policy Research 2018). Many of these enterprises were also burdened by high levels of debt, making it difficult for them to remain competitive in the global market. Among the three categories of businesses (private, state and foreign enterprises), SOEs had the highest debt load from 2007 to 2016. Despite notable decreases in the quantity of SOEs leading to the introduction of equitization in 2016, the debt ratio was at 2.9 (Takeyama 2018).

The Vietnamese government has taken steps to address the SOE crisis, including restructuring these enterprises, divesting non-core assets, and improving governance and transparency. Despite making up only 0.4 per cent of all businesses, state-owned companies (SOEs) account for 28.8 per cent of the nation's capital and 20 per cent of GDP. Each SOE has an average capital of VND 3,821 billion, which is more than 100 times more than non-SOE sectors and ten times higher than FDI, respectively. This suggests that compared to other companies, SOEs have a far bigger average size. Based on workforce size, the majority of state-owned enterprises (SOEs) have more than 50 workers, with the majority classified as medium-sized and big businesses, while the majority of non-state enterprises have less than ten workers, with 97 per cent of them being micro and small businesses (Dang, Nguyen and Taghizadeh-Hesary 2021).

However, progress has been slow, and many SOEs continue to struggle with financial difficulties and loss-making problems. The SOE crisis is a major challenge for Vietnam's economy, as these enterprises account for a significant portion of the country's GDP and provide employment for millions of people (Hai and O'Donnell 2017). If left unchecked, the SOE crisis could have a significant impact on the country's economic growth and stability. Agency theory can be applied to the SOE crisis in Vietnam to help explain some of the issues related to governance and management. There is a potential conflict of interest between the principals (in this case, the government and the citizens of Vietnam) and the agents (the managers of the SOEs) who act on behalf of the principals (Eisenhardt 1989).

In the context of Vietnam's SOEs, the government is the principal that owns and controls these enterprises, while the managers of these enterprises are the agents who are responsible for their day-to-day operations. The goal of the principals is the profit maximization (here SOEs for the benefit of the citizens of Vietnam), while the agents (managers) may maximize their personal objectives at the expense of the company profit (Jensen and Meckling 1976).

The agency theory can be applied to explain the SOE crisis, where the conflict of interest between the government and the managers of these enterprises are the main causes of the inefficiency and lack of innovation in their management. For instance, some managers may prioritize their own interests over the interests of the government and Vietnamese citizens, leading to problems such as corruption, mismanagement, and poor financial performance. To mitigate these problems, the Vietnamese government has taken steps to improve governance and transparency in the management of SOEs. For example, the government has implemented regulations requiring SOEs to disclose their financial information and to establish independent boards of directors to oversee their operations (Vietnam Law and Legal Forum 2021). These measures aim to align the interests of the agents with those of the principals, thereby reducing the potential for conflicts of interest. The current crisis in Vietnam presents challenges to the country's market socialism model (Le 2021). State-owned enterprises play a significant role in Vietnam's market socialism model, with the government owning and controlling these enterprises. However, the inefficiencies and lack of transparency in the management of these SOEs have led to problems such as corruption, mismanagement, and poor financial performance, which in turn affect the broader economy (Do and Nguyen 2019). The SOE crisis for Vietnam's market socialism model erodes public confidence in VCP to manage these enterprises effectively. The public perception is also that the government has not controlled public resources effectively and efficiently (Nhu and Nguyen 2020).

Further, the SOE crisis reduces the overall competitiveness of the Vietnamese economy. This, in turn, leads to the government's inability to obtain Vietnam sustainable development goals and the social welfare objectives as the cornerstones of the market socialism model (World Bank 2018).

To deal with the SOE crisis, the government gradually improves governance and transparency such as establishing independent boards of directors to oversee the operations of SOEs, and encouraged the private investors in the equitization of SOEs (Nhu and Nguyen 2020).

The SOE crisis in Vietnam is considered as the direct threat to the leadership of VCP and also challenges the model of Vietnam's. Vietnam's market socialism model seeks to achieve economic growth and social welfare through the state ownership and control of key sectors of the economy, including SOEs (Fforde 2016).

However, the poor performance and mismanagement of SOEs have led to problems such as corruption, inefficiency, and a lack of transparency, which in turn affect the wider economy and undermine public confidence in the model. The SOE crisis threatens the sustainability of Vietnam's market socialism model, as it slows down the ability of Vietnam to obtain high economic growth and social welfare (Nguyen and Do 2020). The conflict between the SOE crisis and the goals of Vietnam's market socialism model becomes a critical problem for the institutional reform of the VCP. VCP is requested to deal with inefficiency and corruption problems of SOEs to ensure the long-term development of Vietnam as well as sustaining the leadership of VCP (Fforde 2016).

4.3 Corruption as a Crisis of Vietnam's Market Socialism

Vietnam's model market socialism faces serious corruption problems which becomes the institutional constraints on Vietnam's sustainable development and good governance. Indeed, the Transparency International's Corruption Perceptions Index 2021 indicates that Vietnam is ranked at very high level, ranked 102 out of 180 countries (Transparency International 2021). Corruption becomes widespread in all sectors such as politics, business, and public services. Although anti-corruption laws have been issued and anti-corruption agencies are set up by VCP, corruption remains ineffective and a significant obstacle to Vietnam`s model of market socialism (Bowie 2019). The crony connection between business and politics is closely created by the special interest groups under this model. The lack of transparency and accountability in the management of SOEs are also the key drivers for corrupt practices (Kang 2020). Corruption makes the rule of law ineffective, erodes public confidence in government, and slowing down economic development (Bowie 2019). Therefore, VCP faces the pressure to improve good governance, transparency, and accountability of the political system, including strengthening legal and institutional frameworks, promoting civil society engagement (Kang 2020).

The lack of political will to implement anti-corruption measures is the key factors of corruption failures (Kang 2020). Furthermore, without check and balance system, the CPV's monopoly puts constraints on participation of media and civil society to supervise the corrupt practices of the government officials (Bowie 2019).

According to The Global Economy (2021), Vietnam's corruption index has risen over time, indicating a worsening of corruption in the country. In 2012, Vietnam scored 31 on the Corruption Perceptions Index (CPI), which measures the perceived level of public sector corruption in countries around the world. However, in 2020, Vietnam's score had only improved marginally to 36, suggesting that corruption remains a significant challenge for the country (Figure 2).

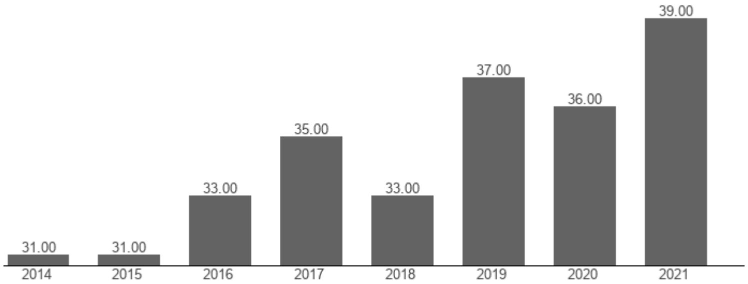

Fig. 2. Corruption Index of Vietnam over time

Source: The Global Economy (2021).

The consequences of corruption are serious, affecting the country's economic development, social justice, and political stability. Corruption undermines public trust in government, discourages foreign investment, and impedes economic growth. It also exacerbates income inequality, hampers poverty reduction efforts, and undermines social welfare programs (Kang 2020). Corruption has become a systemic crisis for Vietnam's market socialism model. The state ownership and control of key economic sectors, including SOEs, have provided opportunities for corrupt practices, particularly in the form of cronyism and nepotism. The lack of transparency and accountability in the management of SOEs has also facilitated corruption (Kang 2020). The principles of market socialism, such as fairness and equality are undermined, which causes inefficiencies of the allocation of resources. The legitimacy and public trust in the VCP are gradually declining due to the corruption (Bowie 2019).

Therefore, the ongoing crisis of SOEs and corruption in Vietnam has put doubts on the feasibility of Vietnam's model of market socialism. The failure of the Communist Party of Vietnam to effectively address these problems are considered as the inability the model of market socialism in promoting sustainable economic development (Nguyen 2019). This reality leads to a growing rethinking on new model of development by comprehensive political institutional reforms. It is widely accepted that authoritarian systems, such as the Soviet model, did not create check and balance system, thus they can facilitate the corruption and inefficiencies of government officials and business sector. This, in turn, facilitated rent-seeking behaviors among powerful interest groups and government officials, as they sought to extract economic gains from the system without contributing to its overall growth and development. Additionally, the lack of transparency and accountability in the system allowed for the development and spread of corrupt practices, as government officials were able to exploit their positions for personal gain. The legacy of the Soviet model continues to affect many countries today, as they struggle to transition to more open and democratic systems. In some cases, the lack of institutional capacity and the prevalence of corrupt practices can make it difficult to implement reforms and promote sustainable economic growth. Furthermore, the legacy of centralized planning and state control can create path-dependent systems that are resistant to change, even in the face of growing social and economic challenges. Thus, the lack of institutional quality, including the rule of law and control of corruption, was a key factor in hindering economic growth and development in many countries that were formerly part of the Soviet Union.

However, there are common factors that contribute to corruption, such as weak governance structures, lack of transparency, and the presence of rent-seeking behavior. For example, India, the Russian Federation, and Ukraine all have relatively market-oriented economies, but they also rank poorly on corruption indices (Transparency International 2021). Similarly, China has a strong state regulatory system but also struggles with corruption. According to Transparency International's Corruption Perceptions Index (CPI) 2021, India ranks 80th out of 180 countries, the Russian Federation ranks 135th, and Ukraine ranks 117th. China ranks 78th on the same index, indicating that corruption remains a significant problem in these countries, regardless of the type of economic system in place (Transparency International 2021). The current market socialism of Vietnam and China faces institutional structures with high corruption index problems. Institutional reforms that promote good governance, the rule of law, and democratic accountability have been shown to be effective in reducing corruption (Jain 2001). By strengthening institutions and promoting transparency, such reforms can help mitigate the risk of corruption and improve the overall integrity of governance systems. Similarly, in countries like Botswana and Singapore, strong institutions and good governance have contributed to relatively low levels of corruption (World Bank 2017). Therefore, it is important for governments to prioritize institutional reforms as a means of combating corruption and promoting sustainable development.

Inefficiency and corruption within SOEs have undermined the principles of market socialism, and there is growing recognition of the need for greater market liberalization and decentralization of power to promote greater competition and efficiency (Ghosh and Whalley 2008). The ongoing crisis of SOEs and corruption in Vietnam has highlighted the need for comprehensive political, institutional and economic reforms. Such reforms could involve strengthening governance and accountability mechanisms, enhancing the independence of the judiciary, promoting greater transparency and access to information, and greater market liberalization and decentralization of power. Without such reforms, the sustainability of Vietnam's development model and political institutions may be called into question.

4.4 Vietnam's Reform towards Alternative Development Models

There are three alternative choices for Vietnam's reform model.

First, Vietnam can continue to adopt the current market socialism model like China, where both countries adopted a more gradual approach to economic reforms compared to China. Vietnam's transition to market socialism began in the late 1980s and early 1990s, while China's economic reforms started in the late 1970s. As a result, Vietnam's economic reforms have been more recent and slower than China's (World Bank 2019). However, Vietnam has put more emphasis on SOEs than China. Vietnam has a large number of SOEs in key sectors such as oil, gas, and telecommunications, and these SOEs play a significant role in the country's economy. In contrast, China has placed more emphasis on the private sector and has privatized many SOEs over the years (Asian Development Bank 2021). Both the Vietnamese and Chinese economic models face challenges related to SOEs. In both countries, SOEs are considered as the key players in the economy, accounting for a significant share of total output, employment, and government revenue, but they face the problems of inefficiency, which cause the resource misallocation and reduce the innovation, potential of the economic development (World Bank 2019; OECD 2020). Further, the SOEs of the both countries are the environment for wide-spreading corruption and rent-seeking behavior, leading to a loss of public trust on the government (Transparency International 2021; The Diplomat 2021). However, the current institutional structures have failed to resolve these persistent problems while maintaining the authoritarian leadership of the communist parties.

Second, Vietnam can adopt the US model of market capitalism. However, there are several different key aspects, including their underlying ideologies, economic systems, and policy approaches. Market capitalism is based on the principles of private property, competition, and free markets. In a capitalist system, businesses operate with minimal government intervention, and market forces determine prices, production, and distribution. The role of the state is primarily to protect property rights and enforce contracts. In contrast, Vietnam's market socialism is based on the Marxist-Leninist ideology and combines market-oriented reforms with state ownership of key industries and strategic planning. Under this system, the state plays a more active role in the economy, particularly in managing and supervising state-owned enterprises and implementing industrial policies aimed at promoting strategic sectors and regional development. The aim of market socialism is to promote economic growth and development while ensuring social welfare and equality. The key difference between market socialism and market capitalism is the degree of government intervention in the economy. While market socialism advocates a more active role for the state in economic planning and management, market capitalism emphasizes the importance of free markets and minimal government intervention. Private ownership is central to a market capitalist system, whereas market socialism emphasizes state ownership and control of key industries and resources. The key differences between Vietnam's market socialism and market capitalism are clarified by different ideological and political structures in promoting economic development. As a result, VCP is unclearly to adopt the US market capitalism.

Third, the social market model has been developed by Germany after the Second World War and has gradually been adopted by the Scandinavian countries. Schmidt (2017) argues that the social market economy model can create better balance between economic efficiency and social welfare. On the one hand, this model is based on the efficiency and innovation of private sector, while the active state intervention in the economy can ensure social equity and economic stability. Germany has a strong tradition of social welfare system such as universal healthcare, generous pensions, and strong protections for workers (OECD 2019). Hemerijck (2019) also supports for this model that the Nordic countries has obtained high economic development achievement and high levels of social welfare in education and health care system. Critics of the social market capitalist model argue that it can lead to high taxes and stifling regulation that hinders economic growth and innovation. However, proponents argue that the model promotes social equity and stability, which can be beneficial for long-term economic development. According to Goldschmidt and Wohlgemuth (2008), social market capitalism is an alternative approach to organizing economic activity that seeks to balance market-oriented policies with social welfare and environmental protection. In contrast, market capitalist systems tend to prioritize the pursuit of profit and individual freedoms over social welfare and environmental sustainability.

Vietnam could consider adopting a social market economy for several reasons. First, a social market economy can promote democratic governance and help to combat corruption. According to research, democratic systems are associated with lower levels of corruption and higher levels of transparency and accountability (Bardhan 1997). By promoting democratic governance, Vietnam can reduce corruption and increase public confidence in government institutions. Second, a social market economy can help to address social welfare and income distribution issues in Vietnam. With a focus on reducing poverty and inequality, social market economies prioritize social welfare policies aimed at promoting social cohesion and stability. Finally, a social market economy can help to address environmental sustainability and healthcare issues, which are important goals for Vietnam's development and government. However, the critical point for Vietnam's model transformation is the promotion of democratic reform. This reform can improve government accountability by allowing citizens to hold their leaders accountable through political freedom to prevent corruption and promote transparency, leading to increased trust in the government and the market system. Furthermore, the democratic reform could help to deal with corruption problems, and to encourage innovation and entrepreneurship of the private sector. Building the rule of law is to create a more stable and predictable institutional framework for security of the private property rights. However, democratic reform is a complex and gradual political process that includes institutional capacity building, and critical mass, participation of civil society. Thus, no one-size-fits-all approach to democratization is relevant. Each democratization approach should be adaptive to their unique history, culture, and socio-economic context. Vietnam's institutional change requires the VCP to take a transformational leadership which accepts checks and balances within a democratic framework and ensure the accountability and efficacy in governance in transition from market socialism to social market model to deal with institutional weaknesses such as corruption and inefficiencies of SOEs effectively in the digitalization age (Cuong, Balaganesh and Mutai 2023).

5. CONCLUDING REMARKS

In summary, Vietnam's adoption of market socialism was a response to the failures of classical socialism and a recognition of the need for economic reforms to address the country's economic challenges. The government's pragmatic approach was based on what would work best for Vietnam's economic development, rather than on any particular ideology or theoretical justification. The adoption of market socialism in Vietnam was not based on a theoretical or ideological commitment to socialism, but rather on pragmatic considerations of what would work best for the country's economic development. Recognizing that classical socialism had failed to deliver the economic growth and prosperity that the country needed, Vietnam's leaders were open to experimenting with new approaches to economic development.

Indeed, the case of Vietnam does reflect the policy relevance of the Austrian school of thought in promoting economic liberalization and private sector development. While Vietnam initially adopted a model of market socialism, the government has gradually shifted towards a more market-oriented approach in recent years, rather than following the theoretical justification of market socialism.

Inefficiency and corruption within SOEs have undermined the principles of market socialism, a key component of Vietnam's development model. As a result, there is a growing recognition of the need for greater market liberalization and decentralization of power.

The sustainability of Vietnam's model of market socialism must be reconsidered for Vietnam's prosperity. VCP must deal with the inefficiency of SOEs and serious corruption index. Adopting a social market model might be a relevant choice for Vietnam. First, this model can help Vietnam to balance the high economic growth with social welfare development to achieve sustainable development. Second, the social market model also needs to have check and balance system to ensure better governance and stronger public institutions, such as the judiciary, regulatory agencies, and civil society organizations. A more robust democratic system is needed in this model to fight against corruption effectively. Third, the social welfare such as healthcare, education, and housing can be provided to all citizens, including the poor people as well as the disadvantaged people. Fourth, the social market model focuses on innovation and entrepreneurship by providing incentives for private sector in new technologies and digitalization process. But the multiparty system poses challenges for political reform in Vietnam, although Vietnam may become more competitive in the global economy with the adoption of this model.

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