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GLOBAL ECONOMIC CRISES IN THE 20TH CENTURY AND LESSONS FOR VIETNAM

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ABSTRACT

The research examines the general overview of major financial crises worldwide in the 20th century to answer the question of what creates a large-scale global economic crisis and relates to the potential risks for a crisis nowadays. The study indicates the contexts, causes, happenings/impacts, and measures had been done in three crises: (i) The Great Depression of 1929-1939; (ii) The 1973 oil crisis; (iii) The 1997 Asian financial crisis. From these, lessons and experiences for Vietnam are derived from each crisis. The lessons learned from the 1929-1933 economic crisis highlight that the interconnectedness of different sectors in the economy leads to the vulnerability of the stock market to bubbles, and the need for swift government intervention. Things we learned from the 1973 oil crisis are the importance of having reserves, energy independence, a focus on renewable energy, and a coherent regional strategy. Regarding the 1997 financial and monetary crisis, the lesson drawn is that market liberalization is dangerous, and there is a need for a reliable international financial regulatory mechanism and reducing foreign debt through foreign currency. Additionally, it is necessary to allow for more flexible exchange rates.

KEYWORDS

History, global economic crisis, the great depression, Vietnam.

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1. Introduction

An economic crisis is a state of turmoil and severe imbalance caused by numerous unresolved conflicts within the economy. It involves disruptions in production, the flow of goods, and financial and banking sectors, leading to disruptions in economic life, resulting in unemployment, income reduction, and adversely affecting the livelihoods of the workforce. It may also trigger political instability (FIA, 2014).

The research will focus on three global crises in the 20th century: The Great Depression (1929-1939) with its peak being the stock market crash (1929-1933); The OPEC oil crisis (1973); and the Asian financial and monetary crisis (1997). All of these crises will be examined concerning the following aspects: (i) Context; (ii) Causes leading to the crisis; (iii) Developments/Impacts; (iv) Measures taken to overcome the crisis; (v) Lessons learned from each crisis. From these analyses, the research team will derive valuable lessons and experiences for Vietnam.

2. Global economic crises in the 20th century

2.1. The Great Depression (1929-1939) with its peak being the stock market crash (1929-1933)

The "Great Depression" is an economic crisis that was long-lasted and resulted in the most serious consequences in world history. The great crisis started in the United States and gradually spread to capitalist countries in Europe.

Context

The severe decline in stock prices began on September 4, 1929, and became global news with the collapse of the Wall Street stock market on October 29, 1929 (Black Tuesday). Subsequently, the Great Depression started in the United States and spread to other countries. (Roger Lowenstein, 2015).

Causes

Capitalist production increases too rapidly during stable periods, but the demand and purchasing power of the people do not increase proportionally. This leads to an excess of commodities, resulting in a recession in production (An, B.T., 2022).

Credit was too easily granted, especially in the United States, leading to abuse. People primarily bought stocks for speculation, aiming to sell them quickly for a profit. As a consequence, both the government and private entities fell into debt (Nguyen Phong, 2021).

The accelerated process of mechanization also contributed to reduced demand for unskilled labor, leading to unemployment. Increasing unemployment led to a decrease in purchasing power. The government lacked appropriate policies to address unemployment and could not effectively alleviate poverty (Nguyen Phong, 2021)

Furthermore, according to Richard H. Pells and Christina D. Romer (1998), other factors contributed to the crisis. The collapse of the stock market in 1929 shattered confidence in the US stock market, leading to a loss of credibility and significant cuts in spending and investment. The Smoot-Hawley Tariff Act of 1930 imposed high tariffs (averaging 20%) on many industrial and agricultural goods due to overproduction and increased competition from Europe. This act triggered retaliatory measures from other countries, resulting in a cumulative impact that reduced production in certain countries and decreased global trade.

Happenings/Impacts

The 1929-1933 economic crisis occurred in the vast majority of the capitalist countries, but with discrepancies in scale and time in different territories:

In the United States, the Great Depression officially began on October 29, 1929 - "Black Tuesday," when the Wall Street stock market collapsed. On that day alone, investors sold 16,410,030 shares on the New York Stock Exchange, causing billions of dollars to vanish and leaving thousands of investors bankrupt. After October 29th, stock prices hit bottom and began a significant recovery in the following weeks. However, overall prices continued to decline as the United States plunged into the Great Depression, and by 1932, the stock market was only about 20% of its value compared to the summer of 1929 (Dong Thien, 2023).

In Europe, France experienced a prolonged crisis from 1930 to 1936, which had lasting impacts and consequences. The industrial sector saw a 30% decline, while agriculture suffered a 40% decrease, leading to a 30% reduction in the national income. Similarly, in England, commercial and industrial activities faced difficulties. Steel production in 1931 dropped by 50%, iron by nearly 50%, and overall trade suffered a severe decline of 60%. Additionally, countries such as Poland, Italy, Romania, Japan, and others that were economically linked to the United States also experienced evident economic crises. Various industries in these countries suffered significant losses in different sectors (Duong Gia law firm, 2023).

In Germany, industrial production had decreased by 58% compared to 1928. The real wages of workers dropped by up to 50%. The number of unemployed individuals (fully and partially) reached 9 million, with only about 20% receiving meager unemployment benefits. Income in the agricultural sector declined by one-third, while debts rose to 12 billion marks. Several major banks went bankrupt during this time (Quang, L.V, 2001).

In Vietnam, France shifted the burden of the economic crisis onto its colonies, including Vietnam. In 1930, Vietnam's economy entered a period of recession, starting with agriculture. The price of rice dropped, leading to the abandonment of land. In 1930, 200,000 hectares of land were left uncultivated, and by 1933, the figure increased to 500,000 hectares (Lien, P.N, et.al, 2014).

The French colonialists withdrew capital from Indochina to their country and utilized the Indochina budget to support French capitalism, leading to a stagnation of industrial production in Vietnam due to a lack of capital. Small entrepreneurs faced dire straits: small traders closed down their businesses, civil servants were laid off, and unemployed graduates and students struggled to find work. A large portion of the indigenous bourgeoisie also faced difficulties as they were unable to engage in trade and production (An, B.T, 2022).

Measures taken

In the United States, the "New Deal," implemented vigorously by President Franklin D. Roosevelt after his election in 1932, aimed to promote and encourage the most courageous banks that were still operating or just reopening, to sustain the vitality of the U.S. financial system (Dong Thien, 2023)

The policy had the following contents: *(i) Banking and Finance:* Closing down insolvent national banks and allowing moderate inflation to increase asset values, thereby easing the burden of debts. Scholarships were reinstated with federal support. *(ii) Social Welfare*: Organizing the unemployed into groups to develop government projects, reducing the unemployment rate, and providing wage subsidies and unemployment benefits to the people. *(iii) Agriculture*: Removing

agricultural products from the market to help increase crop prices. Farmers who voluntarily reduced production would be compensated by agricultural credit companies. *(iv) Industry and Commerce*: Passing the National Labor Relations Act, establishing the National Labor Relations Board (NLRB) to oversee collective bargaining. This ensured that workers could choose a representative organization for negotiations with employers, granting them more than just the right to work (Trinh, N.T.N, 2023).

In Europe, the capitalist countries faced two options to overcome the crisis: either implement progressive reforms or adopt authoritarian regimes and engage in conflicts with other nations. Experienced capitalist countries like England and France had the means, tools, and capability to promote economic recovery. On the other hand, the Soviet Union's planned economy and self-reliant spirit, despite being isolated, helped them avoid the severe consequences of the Great Depression (Dong Thien, 2023).

To escape the crisis, the capitalist countries resorted to the division of colonies. Some countries pursued fascist policies to invade the territories of others, leading to one of the most brutal conflicts in world history to redraw the global map (Phuong Vo, 2023).

In Vietnam, in the context of France intensifying its exploitation in Vietnam to compensate for the damages caused by the economic crisis, the struggle of the Vietnamese people erupted strongly. The resistance during this period included strikes, protests, and various forms of resistance. One notable example was the strike of the workers at the Phu Rieng rubber plantation (February 1930). The strike lasted for three weeks and involved 4,000 workers from the Nam Dinh textile factory, as well as strikes by workers from the Di An, Ben Thuy, and Ba Son factories (Tung, T.Đ, 2019).

In Nghệ An and Hà Tĩnh, the Soviet Nghe Tinh governments were established, implementing the people's ownership and control over labor. They took several measures to improve the economy, such as implementing land redistribution, providing communal rice for poor farmers, and abolishing personal taxes, market taxes, ferry taxes, and salt taxes. They also canceled debts for the poor, focused on embankment construction, repaired bridges and culverts, improved transportation routes, and established organizations to support farmers in production (Tung, T.Đ, 2019).

2.2. The 1973 OPEC oil crisis

OPEC

OPEC (Organization of the Petroleum Exporting Countries) was initially created as an initiative of the Prime Minister of the Republic of Iraq, Abd al-Karim Qasim. The situation arose when Qasim demanded that British oil companies operating in Iraq, particularly the Iraq Petroleum Company (IPC), must share 55% of their profits with the Iraqi government. The US and UK governments fiercely protected the interests of the IPC and opposed Qasim's administration (Long Vu, 2022).

At the same time, Venezuela, an oil-exporting country in South America, also found itself struggling with the manipulation of oil prices by the United States. In collaboration with Saudi Arabia, the largest oil-producing nation in the Middle East, in a conference held in Baghdad, Iraq in 1960 under the proposal of Prime Minister Abd al-Karim Qasim, five oil-exporting countries, including Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela, established the Organization of the Petroleum Exporting Countries (OPEC). Their goal was to coordinate production, seek optimal oil pricing adjustments, and most importantly, break free from price manipulation by the United States. OPEC's establishment became a nightmare for the US government and received high praise from the Soviet Union (Long Vu, 2022).

However, by 1963, the Communist regime in Iraq was overthrown by the Baath Party. Subsequently, many other oil-producing nations joined OPEC, most of which were not friendly to the Soviet Union. From then on, OPEC became antagonistic toward the Soviet Union, which had a significant economic dependence on oil exports. From the post-Cold War period onwards, OPEC is believed to have collaborated with the United States to keep oil prices low, in order to weaken the Soviet economy, and this effort succeeded. After the fall of the Soviet Union, OPEC continued its confrontation with the US and Russia, often seen as a key player in the ongoing oil price war (Long Vu, 2022).

Context

In 1948, the Allied powers partitioned land from the British-controlled territory of Palestine to establish the state of Israel, which would serve as a homeland for Jews who had been displaced from around the world. However, the majority of the Arab population in the region refused to recognize the state of Israel, and in the ensuing decades, sporadic attacks escalated into full-fledged conflicts. Members of the Organization of Arab Petroleum Exporting Countries (OAPEC) reduced their oil production and declared an oil embargo on the United States and the Netherlands, which were major supporters of Israel. This embargo and production cutbacks led to an international energy crisis. (History.com editors: Amanda Onion, Missy Sullivan, and Matt Mullen, 2022).

Causes

The end of the Bretton Woods currency agreement

On August 15, 1971, the United States unilaterally withdrew from the Bretton Woods currency agreement. The US also abandoned the Gold Exchange Standard, while the value of the dollar had been stabilized against the price of gold, and the prices of other currencies were influenced by the US dollar - the value of the dollar fluctuated continuously depending on market demand. (Masouros, Pavlos E., 2013)

Due to oil prices being denominated in dollars, the income of oil-producing nations decreased. In September 1971, OPEC mentioned a proposal at a conference that from this point forward, they would price oil based on the gold standard. (Taghizadegan, Rahim; Stöferle, Ronald; Stöferle, Mark, 2014)

Until the oil crisis occurred, the value of the US dollar remained relatively stable compared to other currencies. The price increase during the period 1973-1974 brought oil prices back to the convention of being priced based on the gold standard, as mentioned in Bretton Woods. (Hammes, David, and Douglas Wills, 2005)

Contentions between Arab countries and Israel

During the early days of the Cold War, Egypt and Israel were two adversaries ready to ignite the region with potentially eruptive conflicts at any moment. The Camp David Accords of 1973 were signed, ushering in a period of peace between the two nations. The Yom Kippur War was a source of hope for Arab countries. However, the subsequent peace agreements were "unacceptable." Led by Saudi Arabia, Middle Eastern nations collectively imposed an oil embargo on any country supporting Israel, especially the United States. (Long Vu, 2022).

Happenings

On October 17, 1973, Arab oil producers cut production by 5% and imposed an oil embargo on Israel's allies, including the United States, Canada, Japan, the UK, the Netherlands, Rhodesia, South Africa, and Portugal. By December, production had been reduced to 25% of the September level (Le Ngoc, 2022).

On October 19, 1973, President Nixon requested urgent Congressional support of $2.2 billion for Israel. This decision angered OPEC countries and led to embargoes and reduced oil exports to the US. Meanwhile, US oil production had been decreasing since 1970, exacerbating the impact of the embargo. By the end of this embargo period (March 1974), world oil prices had risen from $3 per barrel to nearly $12 per barrel (State Bank of Vietnam, 2015).

Saudi Arabia only agreed to the embargo after Nixon promised $2.2 billion in military aid to Israel (MERIP reports, 1974). This contributed to a global economic recession and increased tensions between the US and some European allies, who blamed the US for instigating the embargo by unconditionally supporting Israel (Hughes, Geraint, 2008).

After the oil shock of 1973-1974, another oil price spike occurred in 1979, driven by recession and inflation in the US and other developed industrial countries, leading to a further decline in the USD. This price increase ended in 1986, following efforts by the US and the Soviet Union to increase oil production, particularly in Alaska, the North Sea, the Persian Gulf, and Siberia. By the late 1980s, the Soviet Union had become the world's largest oil producer. Additionally, other energy sources were explored, contributing to increased supply and gradually cooling global oil prices (State Bank of Việtnam, 2015).

Impacts

The oil embargo, cutting off oil exports, had an immediate and widespread impact. OPEC urged oil companies to drastically raise oil prices. This led to a global oil price increase from $3 per barrel to nearly 4 times that, at $12 per barrel (CBC News, 2007).

The escalation had heavy consequences, causing industrialized nations heavily reliant on oil energy for business and production to stagnate, falter, or face significant losses. Meanwhile, oil-exporting nations became extremely wealthy as a result of driving up oil prices. The profits gained from developing, industrialized nations contributed to the wealth of oil-exporting countries. In response, developing nations sought to reduce their dependence, actively cutting back on oil supply and demand. Furthermore, Western countries armed themselves to exert political pressure, increasing the pressure on Middle Eastern nations. Arab countries spent over $100 billion propagating their Islamic ideologies instead of investing in oil, which seemed harmless until the emergence of Al-Qaeda and the Taliban (Butt, Yousaf, 2015).

The country most affected by this crisis was Japan. Due to oil shortages, Japanese industries were severely hampered, leading to unprecedented price hikes (Long Vu, 2022).

Conversely, the Soviet Union benefited the most. Utilizing OPEC's production cuts, the USSR ramped up oil production to compensate. Consequently, the Soviet Union garnered significant profits during the crisis. This prompted OPEC to reconsider and lift the oil embargo in 1974 to prevent the USSR from gaining dominance. However, in the long run, this made the Soviet Union more dependent on oil, causing its economy to collapse later as other industries were neglected (Long Vu, 2022).

Countries like the UK and Italy experienced an annual inflation rate of 20%. Developed industrialized nations such as the UK, Germany, Japan, and others faced difficulties due to high oil prices, leading to the implementation of austerity policies. France's "Plan Barre," initiated in October 1976, appeared effective. Germany, the US, and Japan successfully implemented harsh policies to maintain an inflation rate of 6% (Elected Deputies Training Center, 2017).

*Impact on Vietnam (South):*The oil shock destroyed the economy of South Vietnam, primarily due to the inflation caused by the oil shock (Cooper, Andrew Scott, 2011).

Inflation eroded the value of the South Vietnamese currency (Karnow, Stanley, 1983).

Measures taken

After a period of passivity in terms of strategy and policy, the United States and the West gradually adapted and launched a "counterattack": (i) They promoted technological and scientific revolutions to enhance energy efficiency, produce more units of products/energy, and utilize resources more effectively. (ii) They utilized tactics to push inflation and devalue their currency, aiming to reduce the real value of oil prices (this strategy was discovered by Arab nations years later). (iii) They aimed to create divisions and polarization within OPEC, weakening the organization from within. This made it difficult for OPEC to achieve unified and beneficial decisions for themselves, which in turn harmed the economies within the G7 and the global economy (Elected Deputies Training Center, 2017).

France attempted to find a compromise solution between industrialized nations and developing countries by proposing the use of "oil dollars" to fund third-world development, under the supervision of the World Bank. However, this proposal was met with opposition from the United States and did not succeed. As global agreements were not reached and oil prices surged significantly higher than their previous levels, the economies of the world were greatly impacted (Elected Deputies Training Center, 2017).

2.3. The Asian financial and monetary crisis (1997)

The 1997 Asian financial crisis was a widespread financial crisis that affected much of East and Southeast Asia in the late 1990s. The crisis began in Thailand in July 1997 before spreading to several other countries in a chain reaction, raising concerns about a global economic crisis due to the contagion of financial turmoil. However, recovery in 1998-1999 occurred swiftly, and fears of an immediate global crisis subsided (World Bank, 2023).

South Korea, Indonesia, and Thailand were the countries most severely affected by the crisis. Hong Kong, Laos, Malaysia, and the Philippines also experienced significant declines. Brunei, mainland China, Japan, Singapore, Taiwan, and Vietnam were less affected, although all experienced decreased demand and overall confidence in the region. While Japan was slow to respond to the requests of affected countries, China improved its regional reputation by contributing $4 billion in aid and making the crucial decision not to devalue its currency. While most Asian governments had seemingly sound fiscal policies, the International Monetary Fund (IMF) intervened to initiate a $40 billion program to stabilize the currencies of South Korea, Thailand, and Indonesia, the economies most heavily impacted by the crisis (World Bank, 2023).

Context

Before the crisis, many Southeast Asian countries experienced annual GDP growth rates ranging from 6 to 9%, largely driven by the export-led economic boom fueled by increasing global trade liberalization. With a cheap yet efficient labor force, and in some cases, rapid foreign direct

investment (FDI) influx from multinational corporations and large investors, this continued to boost the production of these export-oriented economies. During this period, the nature of their exports also significantly evolved, shifting from basic commodities like textiles to more innovative products such as consumer electronics, automobiles, and semiconductors. The success of the export-driven surge became known as the "Asian economic miracle," attracting a significant influx of global capital into the region. It also triggered a wave of wealth creation, particularly in real estate and infrastructure. Land and housing prices in major urban areas like Bangkok and Hong Kong began to soar, leading to a construction boom in the region. Such conditions also prompted commercial banks to expand their lending activities, particularly short-term loans to local businesses. The demand for loans remained high during the first half of the 1990s, driven by higher interest rates from regional banks compared to other global markets. For example, both the US and Japan had significantly lower interest rates during this period, as both countries engaged in monetary expansion to stimulate growth following major recessions in their respective economies. As a result, the higher interest rates in Southeast Asia not only provided an attractive investment destination but also appealed to short-term vehicles seeking to capitalize on the positive interest rate differentials compared to other regions around the world (International Banker, 2021).

However, fundamental weaknesses existed as their currencies were pegged to the US dollar to attract FDI along with increasing interest rates. Exchange rates were also fixed at levels favorable for export industries. When the US began raising its interest rates and attracting global funds to its shores from around 1995 onward, the value of the US dollar started to rise. As a result, Asian currencies linked to the greenback also began to appreciate, causing damage to their export industries (International Banker, 2021).

The Thai baht became a target of intense speculative attacks just before its collapse in July 1997. For a time, the Thai government managed to defend the currency, which was pegged to the US dollar (USD). However, on July 2, 1997, it announced that it would no longer intervene and would allow the baht to float freely. The baht devalued significantly against the USD starting on the same day (Ministry of Finance, 1997).

This immediately led to investor panic, and other currencies in the region, such as the Philippine peso, Indonesian rupiah, and Malaysian ringgit, also came under selling pressure. Soon enough, foreign investors not only lost confidence in the currencies but also in the economies they believed had weak fundamental factors (Ministry of Finance, 1997).

Causes

Short-term capital inflows from abroad: During this period, Thailand's interest rates were significantly higher than those in advanced economies. Under these conditions, the dollar peg regime created favorable conditions for a massive influx of short-term capital from abroad. A portion of this capital found its way to financial companies and was invested in real estate and other assets. This led to the phenomenon of asset bubbles, causing financial institutions to face serious issues of inefficient assets that eventually collapsed. It is known that some short-term funds established in 1993 for the Bangkok International Banking Facility (BIBF) were also used to finance asset investments (Ministry of Finance, Japan, 1998).

Large current account deficits: Thailand had registered significant current account deficits since 1995 (the current account deficit/GNP ratio increased from 5.6% in 1994 to 8.0% in 1995 and 7.9% in 1996). The issue was that Thailand had limited prospects to address this imbalance because

the country's industrial structure was not adjusted quickly enough to absorb the rising labor costs caused by rapid economic growth, and domestic production of input materials remained underdeveloped. Furthermore, Thailand's exports were increasingly threatened by competition from China and other less developed countries. Economic growth began to slow down in 1996, leading to a growingly pessimistic outlook (Ministry of Finance, Japan, 1998).

Excessive exuberance of the countries: The booming economy and the booming real estate market encouraged companies to borrow more. It also encouraged international investors to shift capital to these rapidly developing economies. There was an element of irrational exuberance - the idea that Asian economies were undergoing an economic miracle where high profits were guaranteed (Tejvan Pettinger, 2023).

Weak crisis handling capacity: During this phase, the IMF intervened to try to stabilize the crisis. However, their intervention sparked a lot of controversy, with many opinions suggesting that their intervention made things worse. Higher interest rates in Indonesia and the Philippines did not prevent the devaluation of their currencies - indicating that investors did not believe such high-interest rates were sustainable. The IMF emphasized financial constraints - reducing spending, higher taxes, and privatization. This tight fiscal policy made the economic recession worse and the economy fell into a recession. Bankruptcies increased, and capital flight occurred (Tejvan Pettinger, 2023).

*Spread:*On July 2, 1997, due to speculative attacks, Thailand was forced to allow its Thai baht to float. This quickly led to devaluation, causing a loss of confidence across Asian economies. Immediately after, other countries were forced to devalue as investors wanted to withdraw from Asian currencies. Investors realized that the previous optimism had been misplaced (Tejvan Pettinger, 2023).

Happenings/Impacts

Thailand

From 1985 to 1996, the Thai economy experienced an average annual growth rate of over 9%, which was the highest economic growth rate compared to any other country during that period. Inflation was kept at a reasonable level, ranging from 3.4% to 5.7% (Laplamwanit, Narisa, 1999).

On May 14 and 15, 1997, the Thai Baht came under attack from significant speculative attacks. On June 30, 1997, Prime Minister Chavalit Yongchaiyudh stated that he would not devalue the Baht. However, Thailand lacked foreign exchange reserves to support the USD-Baht exchange rate, and the Thai government eventually had to allow the Baht to float on July 2, 1997, allowing its value to be determined by the foreign exchange market. This triggered a chain reaction of events, ultimately leading to a regional crisis (Haider A. Khan, University of Denver, 2004).

The currency devaluation further intensified the capital outflow. Companies that had borrowed in USD quickly went bankrupt as their debt burden surged. Thailand's largest financial company, Finance One, went bankrupt, and the stock market lost 72% of its value. Many financial, real estate and construction companies ceased operations and laid off workers. Over 600,000 foreign employees working for Thai companies also lost their jobs and had to return to their home countries (Longvd, 2021).

The IMF swiftly approved a $17 billion rescue package with various conditions for the Thai government, including allowing bankruptcies, restructuring, and foreign ownership limits for Thai banks and financial companies (Longvd, 2021).

It wasn't until 2001 that Thailand fully recovered from the crisis. The government raised taxes to repay the IMF debt by 2003, and the Baht: USD exchange rate returned to 29 in October 2010 (Longvd, 2021).

Other countries

The countries most severely affected by the Asian financial crisis, apart from Thailand, included Indonesia, Malaysia, South Korea, and the Philippines. They witnessed significant depreciation in exchange rates, stock markets, and prices of various assets. The GDP of these affected countries even contracted by double digits (Corporate Finance Institute, 2023).

In the first six months of the crisis, the value of Indonesia's Rupiah plummeted by 80%, Thailand's Baht dropped by over 50%, South Korea's Won decreased by nearly 50%, and Malaysia's Ringgit increased by 45%. Overall, the hardest-hit economies experienced capital outflows of over $100 billion in the first year of the crisis. Notably in terms of magnitude and scope, the Asian financial crisis turned into a global crisis as it spread to economies like Russia and Brazil (Alice D. Ba, 2013).

From 1996 to 1997, the nominal GDP per capita dropped by 43.2% in Indonesia, 19% in Malaysia, 18.5% in South Korea, and 12.5% in the Philippines. Hong Kong, Mainland China, Singapore, and Japan were also affected but to a lesser extent (Corporate Finance Institute, 2023).

The impact of the Asian financial crisis was not confined to Asia. International investors became less willing to invest and lend to developing countries, not only in Asia but also in other regions worldwide. Oil prices also declined due to the crisis. As a result, several major mergers and acquisitions took place in the oil industry to achieve economic efficiency through scale (Corporate Finance Institute, 2023).

Vietnam

The Vietnamese economy experienced a slowdown in its growth rate to around 4.5% per year due to the financial crisis, primarily affecting the export and foreign direct investment (FDI) sectors. As the crisis-affected countries were trading partners of Vietnam, the sudden depreciation of Asian currencies led to an increase in the real value of the exchange rate in Vietnam. According to United Nations data (Statistical Yearbook for Asia and the Pacific 1997), Vietnam's exports and imports from ASEAN countries accounted for 13% and 29% of the country's total trade in 1994 (the most recent available year). As a result, in 1997, the real exchange rate increased by approximately 8%, calculated according to the geographical trade pattern. This increase was not significant. Moreover, it was a highly distorted indicator of the impact of the Asian currency devaluation on Vietnam's competitiveness. The trade damage between Vietnam and crisis-affected Asian countries enhanced Vietnam's export competitiveness (To Em Vilaysouk, 2022).

The depreciation of Asian currencies led to a decrease in the value of imports from and exports to Asian countries in terms of Vietnamese Dong. However, since exports were lower than imports, the overall value of Vietnam's exports was not significantly affected more than the value of imports. In other words, the trade deficit with Asian countries tended to improve Vietnam's trade conditions. In Vietnam and other Asian countries, as well as globally, fierce competition between Asian products and Vietnamese products is anticipated. Due to the expected global economic slowdown caused by the "Asian crisis," competition for third markets will be even more intense. However, there might be genuine competition from India and China, countries that have managed to escape the significant depreciation. The fact is that the degree of development and export structure of these countries is quite similar to Vietnam's. The decline in export growth coincided with a much

more significant slowdown in import growth (6% in 1997 compared to 38.9% in 1996). This time, the difference decreased due to the drop in the dollar value, which is still noteworthy despite the absence of a significant decline in the investment rate. This might be due to the limited trade barriers rather than increased competition from Vietnam's exports (To Em Vilaysouk, 2022).

Foreign Direct Investment (FDI): Although ASEAN countries started investing in Vietnam much later than many other countries, they made significant progress. From initial exploration projects by Singapore, Thailand, and Indonesia in the early 1990s, the flow of capital was consolidated by 1995, with a total of 230 projects in Vietnam with registered capital of over $3 billion. After Vietnam joined the ASEAN Free Trade Area (AFTA) in January 1996, the attractiveness of FDI exceeded $7.8 billion by mid-1997. At that time, FDI from ASEAN accounted for about 30% of total FDI in Vietnam. Singapore, Malaysia, and Thailand were the top three foreign investors in Vietnam. However, the Asian financial crisis in 1997 led to a sharp decline in this inflow of capital. Few new projects were licensed, and ongoing projects proceeded at a slow pace. Only Singapore maintained its growth rate (Institute of Strategy and Financial Policy, 2007).

Measures taken

To address the structural weaknesses exposed by the crisis, aid relied heavily on significant domestic policy reforms. The combination of different policies varied among countries but generally included measures to reduce debt, clean up and strengthen weak financial systems while improving the competitiveness and flexibility of their economies. At the macroeconomic level, countries raised interest rates to help stabilize their currencies and tightened fiscal policies to accelerate external adjustment and cover the costs of banking cleanup. However, over time, as markets began to stabilize, the mix of macroeconomic policies evolved to include the relaxation of some fiscal and interest rate policies to support growth (Federal Reserve, 2013).

The IMF intervened to contain the crisis by providing loans to stabilize the affected economies. The IMF and other organizations lent around $118 billion to Thailand, Indonesia, and South Korea through short-term loans. However, the bailout packages came with conditions: Governments had to raise taxes, cut expenditures, and eliminate various subsidies. By 1999, many affected countries began to show signs of recovery (Investopedia, 2022).

The Federal Reserve played an active role in communicating and supporting policy responses in the US and globally. Behind the scenes, the Federal Reserve provided timely analysis of fundamental adjustment challenges and closely monitored the risks that the crisis posed to US banks, conditions, and capital allocation profiles of Asian banks' offices in the US, and coordinated policy with other bank regulatory agencies in the US and internationally. The Fed also acted as an agent for the US Department of the Treasury, including assisting in arranging the North Bridge financing for Thailand during the early stages of the crisis (Federal Reserve, 2013).

Perhaps most prominently, the Federal Reserve acted as a catalyst in the official sector's efforts to encourage banks to act in their collective interest in helping South Korea avoid a disorderly default. Following a meeting on December 24, 1997, organized by the Federal Reserve Bank of New York, US banks with the greatest exposure to South Korean banks voluntarily committed to extending their short-term loans and cooperating with the South Korean government to restructure them into longer-term lending. Similar meetings and forms of community approaches took place in other G-10 countries. In the following months, the Federal Reserve and other central banks monitored the banks' cooperation with their reinvestment commitments, while awaiting the completion of the restructuring by April 1998. The combination of strong policy measures by affected countries and external support

from the international community ultimately contained the crisis and set the stage for a robust recovery thereafter (Federal Reserve, 2013).

3. Lessons for Vietnam

3.1. From The Great Depression (1929-1939) with its peak being the stock market crash (1929-1933)

The first lesson is that Vietnam's financial market, banking sector, and economy are closely interconnected, so existing issues in this field will affect many other sectors (Ngoc Diep, 2008).

The second lesson is that the Vietnamese government should intervene quickly and proactively during economic crises. The slow and passive intervention by the US government and central banks in the 1930s worsened the crisis (Ngoc Diep, 2008).

The third lesson is that a rapid and continuous surge in the stock market without any positive conditions or influences can potentially create a bubble that is likely to burst soon (Trinh, N.T.N, 2023).

3.2. From the 1973 oil crisis

Energy and oil are sensitive sectors with significant impacts on the overall development of the world, serving as the foundation for the operation and stability of commodity prices. Vietnam needs to establish a reserve fund and the capacity to store energy. There should be funds and departments to stabilize domestic energy prices, adjust and set the most reasonable price levels, and, above all, government subsidies to quickly and effectively stabilize prices (Trinh, N.T.N, 2023)

Focusing on investing in new alternative energy sources such as nuclear, electricity, wind, and solar energy should not solely concentrate on oil as an energy source. Vietnam needs to be self-reliant in energy, avoiding passive situations during disputes and conflicts. This perspective is also reflected in the foreign policies of countries regarding international disputes (Trinh, N.T.N, 2023).

Without a coherent regional strategy, the dual demands of greening the economy and ensuring energy security might not be enough to counter the allure of cheap fossil fuels (Stephen G. Gross, 2022).

3.3. From the 1997 Asian Financial crisis

Market liberalization is a risky endeavor. It is not coincidental that two major countries, China and India, were not affected by the 1997 crisis. Both of these countries opposed market liberalization at that time (Kieu Oanh, 2007).

In a highly integrated world like today, there is a need for a reliable international financial system to maintain global stability and promote economic growth in developing countries. Due to the significant influence of the US and Europe on the IMF, this institution has long been seen as representing the interests of international creditors (Kieu Oanh, 2007).

Reducing external debt in foreign currencies. At the end of the 20th century and the beginning of the 21st century, most foreign debt was denominated in USD, so when the Baht depreciated, the burden of debt quickly ballooned. The Thai government, for instance, limited borrowing in foreign currencies as much as possible. Thai businesses mostly borrowed in foreign currencies only when funds were needed for projects abroad (Vietnam Television, 2017).

Allowing for more flexible exchange rates, avoiding constraints imposed by the USD. After the crisis, about 20 years later, when the Baht's value was about 12% lower compared to its peg against the USD, Thailand became an attractive destination for foreign investment. At this point, domestic political upheavals did not hinder the gradual recovery of the Baht, which had touched a low of around 55 Baht to 1 USD during the crisis (Vietnam Television, 2017).

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