

**T**he record-breaking devaluation of the US dollar is an important event in the world foreign-exchange market and arouses a lot of interest today. It has strong influences on economies all over the world, especially the Japanese one. Thailand, our neighboring country, could also find no way of getting round this disaster. Does this devaluation influence our economy and how does it influence?

First of all, let's have an overview of the devaluation of the US dollar.

From 1994, the US dollar experienced many fluctuations, especially in relation to the JPY and DEM. Until recently, the US dollar has moved down uncontrollably. According to the Vietnam News Agency, the US dollar had a record fall in Tokyo and London foreign-exchange markets on March 6, 1995: JPY93.40 to the US dollar. This record was broken on April 7, 1995 when the exchange rate was JPY 84.15 to the

US dollar. According to many financial analysts, the main causes of the devaluation are as follows:

- The deficit in the US-Japan trade balance and the US budget is the distant cause which makes the US dollar become less trustworthy to the international business circle in general, and Japanese and European investors to be precise.

- The direct cause is the collapse of the Mexican monetary system which forced the US Government to take strong measures to rescue the Mexican peso. At the beginning of 1995, the interest rate was kept high and a lot of measures were taken to improve the economy, many people bought the US dollar with a hope of making profit in the future but when the Mexican economic crisis broke out and the US Government had to make vain attempts to rescue it, the US dollar kept on going down.

- The third cause came from Japan. Japanese exporters sold the US dollar in large quantities and bought the Japanese yen at the end of the fiscal year. This deed has made the weak US dollar become weaker. After

that, the Japan Central Bank has put the yen in large quantity in the market and taken the US dollar out of it with a view to keeping the yen from going up, but all its work was in vain.

The devaluation of the US dollar, regardless its causes, certainly has bad effects on the economic activities. The seriousness of these effects depends on how extroverted an economy is. As for Japan, the devaluation of the US dollar has scared Japanese business circle and threatened the recovery process of the Japanese

contract.

As for foreign direct investment in Vietnam, it seems to be in smooth waters these days with the devaluation of the US dollar, because the weak US dollar forces Japanese investors to pay attention to Asian economies instead of investing in the US. In the future, if there is no change in the exchange rate, Vietnam can receive more investment from Japan. Just because of this, a lot of Japanese businesspersons have come to Vietnam recently. What we have to do

now is to try our best to attract Japanese investment.

In short, after the Second World War the US dollar was considered as the international currency, so the effects of its fall spare no country, including Vietnam. However, Vietnam suffers much smaller losses in comparison with Japan, but these effects could be seen in foreign trade and investment businesses in Vietnam.

- As for ex-

portation, Vietnamese exports are usually priced in the dollar. Our export turnover will decrease because of the dollar devaluation, especially when we export products to Japan. If a company imports raw materials from Japan to make goods for exportation, it certainly suffers huge losses when it receives the devaluated dollar.

- As for importation, Vietnamese importers usually use the US dollar as the trading currency. The US dollar devaluation make imports dearer whereas the US\$-VND exchange rate sees no change and the gold price goes high nowadays with the result that, the spending power of the people decreases drastically.

This situation makes products imported from Japan much dearer for Vietnamese buyers. Both Vietnamese importers and Japanese exporters face a lot of difficulties, but Vietnamese parties will do business with greater difficulty because we are badly in need of Japanese products while Japanese exporters hesitate to sell their goods for the devaluated US dollar ■

# DEVALUATION OF THE US DOLLAR AND ITS EFFECTS

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economy, because a strong Japanese yen makes Japanese products dearer for foreign buyers and less competitive; its export turnover will decrease and many companies of small and medium size are menaced by depression.

As for Thailand, analysts and business people are afraid that the US dollar devaluation will do a lot of damage to Thai economy, because most of Thai exports are priced in the US dollar and the US is the biggest buyer of Thai products (21% of Thai exports are sold to the US).

In view of Japan-Vietnam trade, goods imported from Japan are priced in the yen, but Vietnamese importers usually use the US dollar as the trading currency. When the exchange rate was JPY 91 to the US dollar, Vietnamese importer could pay US\$54,945 for a contract of purchase worth of JPY 5,000,000 but he (or she) has to pay US\$59,524 now because the exchange rate today is JPY84 to the US dollar. The Vietnamese importers could only be rescued from suffering great losses by agreed-upon conditions for settlement the