THE WORLD ECONOMY IN 1998 AND ITS PROSPECTIVE DEVELOPMENT IN 1999

by Dr. LÊ KHOA

I.ON CAUSES OF THE ASIAN FINANCIAL CRISIS

This crisis has become a focus of attention for a long time but nobody mentioned the fact that all Southeast Asian countries had had to sell raw materials at low prices and buy manufactured goods at high ones, and most exports from Southeast Asia, even some manufactured ones, were products from labor-intensive industries and their prices on international markets were low and changeable.

Developed countries always dominate the world market. They can buy raw materials at low prices from many developing countries that always compete against one another for a sale contract. Certain developed countries, such as Japan, has raised trade barriers against foreign products: Vietnam could sell rice for US$240 – 260 for a tonne while Japanese farmers, protected by their government, could sell rice at US$1,500 per tonne in their domestic market. Labor-intensive products from developing countries also met with a lot of difficulties in entering American or European markets.

This situation helps us understand why most Southeast Asian economies suffered trade gaps while developed countries enjoy trade surplus year after year. To keep developing economies alive and help them reduce the trade gap, developed countries have supplied short- and medium- term loans or investments to developing countries. As a result, all developing countries rolled out the red carpet to attract foreign investors: high interest rates, low taxes and simple investment procedures are offered and "fast development" took place in Southeast Asian countries with enormous investments from Japan, South Korea, Taiwan, Hong Kong and Singapore. To a certain extent, existing resources (cheap labor and raw materials, and big domestic markets) of these countries were put in better use by foreign investors.

In the APEC meeting held in late 1998, all members spoke with one voice on the joint effort to overcome disastrous consequences of the financial crisis. A lot of attention was paid to opinions presented by Vietnamese PM Phan Văn Khải and his deputy Nguyễn Mạnh Cầm: "Vietnamese companies, when their competitiveness and business performance are poor and the economy is still at its first stages of development, will have to compete against well-developed foreign rivals. If they fail to work out appropriate strategies with great care, they will suffer great losses", and "When short-term foreign capital in large quantity -even hundred billions of dollars- is withdrawn as quickly as it came, the economy will certainly fall into total disorder"

Foreign capital was supplied in large quantity but only a small part of it was put in infrastructure and heavy industry which could help Southeast Asian countries make high-quality and high- price goods. Top priority is usually given to tourism, restaurants, hotels, real estate or production of consumer goods. As a result, trade gaps and foreign debts in developing countries increase year after year. This situation hasn't been brought to light on time and foreign capital kept on flowing into Southeast Asia until one day in July 1997 when all bubbles burst: Thai central bank decided to let the exchange rates float when it found many local companies were insolvent (the foreign debt owed by the private sector amounted to US$90 billion). The crisis broke out.

At that time, if Japan and IMF had provided Thailand with US$30 or 40 billion immediately and unconditionally, they could have saved the situation and the crisis wouldn't have spread to other countries. The money was released by degrees and too slowly to prevent the investing public from withdrawing their capital while the Thai government hesitated to receive aid from IMF because it was accompanied by certain conditions. And as a result, "the economy fell into total disorder when short-term foreign capital was withdrawn as quickly as it came."

Because Thailand received a lot of short-term loans, when they became due and at the same time, foreign investors started to withdraw their capital, Thailand quickly ran short of foreign exchange. To devalue the baht then became an inevitable solution. At that time, if Malaysia, Indonesia and Singapore had been calm enough to maintain their exchange rates, they could have saved the day. Later on, a Malaysian high- ranking officer agreed that if Malaysia hadn't devalued the domestic currency, the situation wouldn't have been so bad. It's worth noting that the exchange rate, as a two-edged sword, should be used carefully and opportunely, otherwise it could lead to disastrous effects. This was what happened to Southeast Asian economies. Devaluation of Southeast Asian currencies caused great fluctuations in stock prices in Japan, Hong Kong and South Korea which were leading investors in Southeast Asia, and thus the crisis spread to these countries. Now we can see the plain truth is that the wealth of those countries was partly based on their investments (or loans) in Southeast Asia.

In a meeting held in Hà Nội in December 1998 by ADB and Vietnam State Bank, some well-known experts from Southeast Asian countries came to the conclusion that besides certain differences, all Southeast Asian economies had many similar features: greatly unfavorable balance of payments, less flexible exchange rate system, heavy foreign debts (especially short-term ones), bad employment of foreign loans, heavy concentration of bank credit in the service industry, violation of banking and stock market regulations, low spending power, uneven distribution of income, etc. These features made Southeast Asian economies more vulnerable to external impacts. Even a small change could lead to great consequences which were difficult to deal with and easy to spread. Foreign investor, by withdrawing their investments, have made the situation go from bad to worse because they lacked information about each Southeast Asian economy.

When a crisis breaks out it can spread widely and last for a long time. In Vietnam and China for example, the crisis made the growth rate decrease (from 9% in 1997 to 6% in 1998 regarding Vietnam) because the foreign markets for Vietnamese and Chinese exports narrowed, prices of their exports fell, flows of foreign tourists and investment decreased. All of these external impacts, not internal causes, have hindered the economic development in China and Vietnam. Many other countries such as India, Russia, Australia and Arab bloc, also experienced a similar economic slump.

All countries affected by the crisis have tried to promote export and reduce import with the result that prices of raw materials and labor-intensive products from these countries fell drastically and prospects of repaying foreign debts and overcoming consequences of the crisis for Southeast Asian countries looked gloomier.

Price of crude oil fell from US$17 per barrel in 1997 to US$11 in 1998 although all OPEC countries had reduced their output. Meanwhile, non-OPEC countries, such as England, Malaysia and Vietnam, are trying to increase their oil output and reduce import of oil. The lower the price, the bigger the quantity of oil exported by OPEC countries, and when supply exceeds demand, the price becomes much lower.

The same thing also happened to prices of rubber and clothing from Southeast Asia.

Thinking through, we see that increasing export earnings is the main solution to the problem of foreign debt, but international efforts to solve the crisis didn't follow this direction. In the past, USSR was ready to buy raw materials from developing countries (sugar from Cuba for example) at high prices, provided them with loans of low interest rates, bought products from factories built by USSR in developing countries, and even wrote off debts owed by developing countries. If developed countries and international financial institutions had taken above measures, bad effects caused by the crisis could have been limited.

In short, because of lack of appropriate measures, the crisis has kept on existing and spreading, from Southeast Asia to the whole Asia, and then, to South America and Europe. In 1999, there is still no light at the end of the tunnel.

II. FORECAST OF DEVELOPMENTS IN 1999

An optimistic view presented by ADB and IMF was that many countries would experience economic slump in 1999 but the world economy has passed the worst period of the crisis and had chances to avoid a global depression. The year 1999 would witness a slow recovery in certain economies.

The growth rate of Asian economy decreased from 6.5% in 1997 to 1.8% in 1998 and it will rise to some 3.5% in 1999. This will be a growth rate gained by 21 Asian developing countries, not including Japan.

The growth rate of China will rise from 6.5% in 1998 to 8% in 1999; of Indonesia: from -16% to -3%; of South Korea: from -6.5% to -2%; of Thailand: from -7% to 0.5%; India and Taiwan: from 5% to 5.2%.

Effects of the crisis in Japan were severe. The unemployment rate reached 4.3% in Octorber 1998, a high level in comparison with previous years. A JPY16,600-billion program was launched in April to stimulate economic activities. By November, the government planned to spend some JPY24,000 more on this program, but investors have demanded stronger measures to recover the economy.

According to forecast presented by the *Nippon Keizai* based on results of researches carried out by five institutes in Japan and the U.S., Hong Kong, South Korea, Thailand, Indonesia and Singapore will experience negative growth rates while the Philippines enjoy a positive one. China and Taiwan will stay where they were in 1998 becauses of falls in export and shortcomings in the monetary system. Southeast Asian economies couldn't recover before 2000.

As for the global crisis, in our opinion, it could have been curbed in July 1997 if Southeast Asian governments had stayed calm, and Japan and IMF had sent enough money aid opportunely to these countries. To repair damage caused by the crisis, Southeast Asian countries had better rely on their own strength, instead of on foreign aid or investment, because however big it is, foreign investment couldn't play the decisive role in the economic development. At the same time, Southeast Asian should take measures to struggle against hunger and poverty, develop the agriculture and heavy industries with a view to becoming more economically independent.

To help countries affected by the crisis, developed countries had better do as the USSR did in the past: buying raw materials and labor-intensive products from developing countries at reasonable prices, removing tariff barriers against these products from developing countries. Foreign investment could be oriented towards infrastructure and heavy industries, instead of towards real estate, tourism industry and production of consumer goods for export. Foreign investors help host countries to expand markets by exporting products made by their factories in host countries to their home countries. This practice will be of benefit to both host countries and investors.

Until recently, Japan, West European countries and the U.S. have taken the said measures to help Vietnam develop its economy. For example, Japan has supplied soft loans to projects to develop infrastructure (Phú Mỹ Power plant, some dams on Đồng Nai River, some highways and sea ports, etc.) however, ODA capital allocated to many projects has been released slowly. Many European countries have also agreed to give more quotas to labor-intensive products from Vietnam. We hope that the U.S. will give Vietnam more preferential treatment.

Developed countries had better help developing countries solved some urgent problems such as pollution, AIDS, etc. Up to now, many developed countries have contributed to this struggle, however, their efforts, like what IMF and Japan did to help Southeast Asian economies fight against the crisis, weren't strong and opportune enough to produce intended results. The development of many developing countries will affect the world economy, so developed countries had better take responsibility for facilitating this development. For example, FAO has forecast that the world would suffer huge shortage of rice in the coming years while many Southeast Asian countries, including Vietnam, could increase their rice output. But Vietnamese and Southeast Asian farmers can't do it if prices of rice aren't high enough and necessary measures aren't taken to reduce the greenhouse effect that can cause natural disasters and great damage to the agricultural production, and as everybody knows, this effect is caused by the increase of gases in the air in most developed countries, especially in the U.S., Japan and European countries.

To solve these global urgent problems, developed countries should cooperate with developing ones because any crisis in a country can easily spread to others and become a world crisis when economies become more depend on one another. Low prices of raw materials and labor-intensive products have once been of benefit to developed countries and now start to cause harm to them beause the crisis in Thailand can affect greatly NICs in Asia and then, West Europe and the U.S. That is why an international cooperation program is needed to solve global problems. In this spirit, we support the U.S. President's opinion given by the end of 1998 in which he maintained that the U.S. should be responsible for preventing the world from falling into the financial crisis and should introduce measures to struggle against it. Half the world economies are experiencing recession or low growth rates, if necessary measures aren't taken in time, these economies will fail to fight against the international depression. Economic experts have forecast that the world economy could gain a growth rate of 2%, in comparison with 4.1% gained in 1998, by:

+ Reforming the mechanism for supplying investment to developing countries.

+ Supplying capital in order to help developing countries reform their monetary systems.

+ Encouraging the private sector to increase investment and export to developing countries.

In our opinion, the following measures are also necessary:

+ Encouraging import of labor-intensive products to developed countries.

+ Writing off part of foreign debts owed by developing countries.

+ Supplying more ODA to developing countries.

+ Offering high buying prices to raw materials (crude oil, rubber, etc.) and food from developing countries with a view to helping them industrializing their economies■