REGIONAL ECONOMIES

ASIAN MONEY: A NEW QUALITY

Alexander SALITSKIY

D.Sc. (Econ.), senior research associate with the Russian Academy of Sciences World Economics and International Relations Institute (Moscow, the Russian Federation)

Rephrasing Mao Zedong, we could say that Eastern money is getting the better of Western money. This refers to a rather unusual situation that has evolved in the world economic and financial system in the new millennium. To evaluate the lineup of forces in the global economy as well as the role that the Central Asian republics and Russia could play in this economy, we need to make a brief digression into the economic development period that began after World War II.

In the 1950s, world GDP growth rates sharply increased, to 5.0 percent, including to 4.1 percent in developed states and 5.2 percent in developing countries.[1] In the West, the main factors in this process were the reconstruction of national economies and the introduction of essential innovative technology (nuclear energy, petrochemistry, jet aviation, television, etc.). In addition, the normalization of international trade and the evolution of capitalism itself, whose contradictions were losing their antagonistic character, also played a role here. Formation of the welfare state reduced inequality in income distribution, which for its part expanded the domestic market, facilitating mass consumption. At the same time, Western ruling circles reviewed their approaches toward the periphery. The relative depreciation of fixed capital in developed states and the anticipated expansion of the foreign market[2] had, by the early 1960s (as industrialization gained ground), created an economic base for the provision of development aid to peripheral (economically speaking) countries, including state credits, personnel training programs, etc.

In the 1950s-1960s, however, economic growth rates in developing countries were mainly based on internal factors. Achievement of political independence, elimination of discrimination, liquidation of extra-economic coercion, reduction in the claw-back of the net product, the lifting of restrictions on external competition, and other measures implemented at the time created favorable condi-

[1] In the 1901-1950 period, the world's GDP grew at an average rate of 2.2 percent.

[2] The main impediment to development in the course of economic reconstruction was capital, while in the subsequent period it was the market.

tions for economic revival in these countries. The role of the nation-state modified. It eliminated the most archaic relations, put in place the essential elements of infrastructure and industry, and promoted domestic enterprise. In a number of small countries and territories, the state was highly instrumental in launching export orientation mechanisms.

Yet already in the 1960s, world GDP growth rates declined to 4.6 percent, plummeting to 2.6 percent in the 1990s. Furthermore, in the second half of the 1990s, this indicator shrank to almost 2 percent. Thus, over the past three decades all world economic processes have been unfolding against the backdrop of decreasing growth rates. In the developed world, this slow-down became chronic and especially pronounced in the wake of the 1970s energy crisis. The situation in the developing world was characterized by unstable and uneven development, but on the whole, annual growth rates in the second half of the 20th century averaged 4.9 percent.[3] It is noteworthy that whereas in the first half of the past century it was the developed countries that had the world's highest growth rates, in the second half the situation reversed in favor of developing countries. Asian countries (except Japan) even upped their growth rates—from 5.2 percent in the 1950 through 1973 period to 5.5 percent in the 1973 through 1999 period.[4]

[3] In the developed world, GDP growth rates were 3.4 percent.

[4] See: A. Madison, *The World Economy. A Millennial Perspective*, OECD, Paris, 2001, p. 126.

A Hypertrophied Financial Sphere

By simplifying the general picture somewhat, it could conveniently be said that as growth rates decline each capital turnover creates a relatively smaller market than a previous one. So capital accumulated during this turnover is not tapped to the full. In this event the owner of this capital has several options. For example, it can be taken to another, more successfully developing country. This, however, raises certain difficulties: foreign laws, discriminatory provisions, restrictions on the repatriation of profits, a shortage of qualified personnel, and so on. Next, this capital can be funneled into a sector producing a basically new product or providing a new service. In this event the results are unpredictable as enterprises that have just started the production of new goods (provision of new services) are oftentimes unprofitable. Finally, productive (industrial) capital can be transformed into money capital. Under certain conditions, it is easier to make a profit on loan capital than on productive capital. Such conditions emerged on the world market in the 1970s.

The swelling of the loan capital sector began during the aforementioned energy crisis. That period was marked by the disruption of the entire economic system, caused by a sharp aggravation of budgetary and balance of payment deficits as well as the apparent unprofitability of many of the traditional sectors of industry (the "smoke-stack" industry). To overcome those problems and to move some production capacities to developing countries it became necessary to increase the scale of operations with loan capital. But its flow was held back by the tight control on the part of the nation-state over capital markets, a holdover from the military past. The disintegration of the currency system based on gold parity, the appearance of "petrodollars," and the lifting of restrictions on the movement of capital in the developed world stimulated a rapid accumulation of loan capital as well as its massive outflow from national economies to the euro-dollar market, offshore zones, and so on.

In 1979, the U.S. Federal Reserve System sharply increased the interest rate. That decision had a great impact on the formation of the loan interest rate in relations between the developed and the developing world, as a result of which the interest rate grew to such an extent that the 1980s-1990s became a period of a widespread and, it would seem, artificial exacerbation of payments problems. Developing countries were especially hard hit. In this context, S.A. Byliniak points out: "The real interest rate (adjusted for price dynamics) over a long historical period averaged 2 percent. In the second half of the 1970s, the rate was substantially lower. Yet in the early 1980s, it grew sharply, reaching approximately 10 percent by the middle of the decade (the nominal rate, deflated for industrial import prices in developing

countries). In other words, the interest rate turned out to be five times as high as the average over a long historical period."[5]

Not surprisingly, the sharp increase in credit costs was accompanied by the numerous payments crises. In Joseph E. Stiglitz' estimate, there have been approximately 100 over the past quarter of the century.[6] The most widespread, massive crisis, which at the time began in Latin America, fixed the loan interest rate at a fairly high level with all sides (factoring in the production sector) sustaining direct and indirect losses. Credit risks and the over-accumulation of capital in developed countries kept growing while its transformation into loan capital and "hot money" became quite substantial. Yet effective demand for capital with high interest rates was insufficient, while borrowers had to take rather a high risk. As a result, many developing states and some socialist countries ended up heavily in debt.[7]

There is extensive literature, including the aforementioned work by Joseph E. Stiglitz, on the origin of crises and measures to overcome them. Along with other researchers, this U.S. economist, in particular, points to the theoretical inconsistency and the practical harm of raising interest rates as the IMF's standard response to developing countries' payments problems. That policy led to higher internal and external borrowing costs, not to mention the colossal damage caused by speculative activity in the course of "stabilization" programs.[8] At the end of the day, the problem was that over the last quarter of the century, credit costs rose amid a worsening quality of monetary resources in the form of the so-called hard currencies. Furthermore, following the collapse of the Bretton Woods system, currency exchange fluctuations increasingly affected the manufacturers, compared to major financiers, with the developing countries also ending up the worse off.

The connection between high loan interest rates and the monopolization of the financial services sector in developed countries is quite obvious. It is just as important that the rapid expansion in the array of such services, the number of financial intermediaries and the so-called capital markets (excessive monopolization does not allow them to be regarded as real markets, in the direct sense of the word) certainly did not mean an improvement in credit terms. Moreover, it was often small and medium sized credit organizations, providing services directly to individuals, that were hit the most in the developed world. The collapse of the savings and loan industry in the United States, in 1987, is indicative in this respect: Industry organizations mainly dealt with mortgages. Meanwhile, the transfer of the bloated "capital markets" to developing countries oftentimes had even more serious consequences. Say, in Kenya, where the banking system was liberalized under IMF pressure, in the 1993-1994 period alone, 14 banks went bankrupt, while the interest rate (contrary to IMF forecasts) rose dramatically.

Because financial "market" capacity expands as a result of the multilateral character of crediting, reorganization of credits and their prolongation, insurance and other factors, this market at first glance appears to be broader than the productive capital sector. On the flip side of this, however, is the isolation of the monetary sphere from the real economy, "bubbles" (including on the stock exchange), and eventually the "deterioration" of money—a kind of a latent depreciation of financial capital. Moreover, amid the growing economic and political risks, there is a discernible trend toward the replacement of shareholders' equity with loan capital even in the production sphere.

---

[5] S.A. Byliniak, "Mirovoy dolgovoy krizis: obshchie zakonomernosti i osobennosti proiavlenia na Vostoke," in: *Strany ASEAN: na grani dolgovogo krizisa?* Nauka Publishers, Moscow, 1988, p. 37.

[6] See: Joseph E. Stiglitz, *Globalization and its Discontents*, W.W. Norton & Company, New York, London, 2002, pp. 98-99.

[7] In the 1980s, there was virtually no net capital inflow into developing countries: Everything was spent on debt servicing (see, e.g.: P.R. Krugman, *Pop-Internationalism,* The MIT Press, Cambridge, Massachusetts, London, 1999, p. 62).

[8] "What makes speculation profitable is the money coming from governments, supported by the IMF ... but speculators as a whole make an amount equal to what the government loses. In a sense, it is the IMF that keeps the speculators in business," Joseph E. Stiglitz points out, going on to say: "The billions of dollars which it [the IMF] provides are used to maintain exchange rates at unsustainable levels for a short period, during which the foreigners and the rich are able to get their money out of the country at more favorable terms... The billions too are often used to pay back foreign creditors, even when the debt was private. What had been private liabilities were in effect ... nationalized. In the Asian financial crisis, this was great for the American and European creditors (Joseph E. Stiglitz, op. cit., pp. 198-199, 209. Here and hereinafter quoted with permission from W.W. Norton & Company Publishers).

Subsequently, the financial sector continued to swell with resources of not quite legal provenance. The increased share in capital of criminal origin may have contributed to the expansion of this sphere (incomes from drug trafficking, gun running, prostitution, and so on). The laundering of such money needs time so it has to stay in the speculative sphere for quite a while. The share of loan capital and speculative money continues to grow. At present it is 4/5 of the aggregate operating capital.

Why then has there not been a major inflation explosion in the developed world? It seems that the reason for this is not so much currency policy control and the West's de facto monopoly over international credits as a massive flow of cheap, mass produced consumer goods import from developing countries. This flow ensured both a relative stability of consumption (in 1980, real wages in the United States were $7.78 an hour and $7.89 an hour in 2000[9]) and a massive expansion in the services sector in the West.

Regular financial rents substantially weakened incentives for scientific and technological progress. On the one hand, the process of technological advancement continued with even some developing countries involved in innovation activities. On the other hand, despite a general increase in the technological level, no basically new technologies have been discovered or new original products created. Yet another distinguishing feature of scientific and technological progress in the past two decades of the last century is the concentration of more than a half of all innovations in the services sector.

The extensive spread of globalization to more and more countries and territories was possible with relatively modern or somewhat upgraded technology. Meanwhile, the development and introduction of original, state of the art technology was held back by several causes. First, with the declining rates of development (and, with it, of demand) the need for creating breakthrough (commercially speaking) technologies becomes dubious since their development costs cannot be easily recouped. Second, with the breakup of the socialist camp and the Soviet Union, the West's need for cutting-edge military technology declined as its principal adversary had disappeared. Finally, demand for state of the art technology and original products even in the most advanced developing countries is limited by both their level of development and the real incomes of their populations.

In the 1980s through 1990s, spending on research programs in developed countries (excepting Japan) steadily reduced: In the United States, the reduction was a little smaller than in Germany, Great Britain, France, and Italy.[10] The expectation of growing economic efficiency in the developing world also proved ephemeral. In the 1980s through 1990s, total factor productivity (TFP) showed a pronounced trend toward decline.[11]

The Market Problem

Apparently there was a good outlook for increasing sales in developing countries: In the 1950s-1960s, the newly liberated states had a larger population and a greater share in the world's GDP than in worldwide investment and international trade. Later on, however, expansion of sales in these countries proved insufficient because of their low effective demand. One factor here was the increased cost of import owing to the frequent devaluation of national currencies, under IMF pressure.

Beginning in the 1970s, developed states focused on forcing their way into peripheral markets. Regulation and protectionism weakened and budget spending declined with balance of payments and liberalization of foreign trade taking priority in development facilitation. It was, essentially, an extensive

[9] See: V.S. Vassiliev, "Globaliziruiushchaiasia ekonomika: razvitie po vtoromu nachalu termodinamiki?" *Ekonomicheskie strategii*, No. 1, 2004, p. 16.

[10] See: V.S. Vassiliev, "Globaliziruiushchaiasia ekonomika: razvitie po vtoromu nachalu termodinamiki?" *Ekonomicheskie strategii*, No. 2, 2004, p. 23.

[11] See: V.S. Vassiliev, op. cit., No. 1, p. 14; No. 2, p. 25.

approach. By contrast, developing countries strove to combine the advantages of international specialization with regulation, protection, and consolidation of the domestic market, increasing the rate of accumulation, developing infrastructure and a more equal income distribution as a key to boosting demand. In countries of East and Southeast Asia, this policy before long produced quite impressive results.[12] Over time, positive results were also achieved in the mega-economies of China and India. The specifics of the latter were that they did not have an opportunity to resolve the fundamental problems of economic development even with very heavy external borrowing; moreover, the leadership of these countries was well aware of that.[13]

The results of the "servicization" and "informatization" of the economy thus far appear to be rather moot. In developed countries, a groundwork for these processes was laid by preceding economic evolution as well as super profits in the financial sphere. Other factors included the slow (compared to production sectors) growth of labor efficiency in the services sphere, a glut of consumer goods, changes in the consumption pattern as nominal monetary incomes increased, and the transfer of a considerable number of labor-, material- and energy-intensive and environmentally hazardous sectors to other countries. As growth rates declined and the consumer market was saturated, replacement of commodity production by provision of services often became an imperative for an effective tapping of capital.

Apparently there were several contributory factors in this substitution. First, the deepening socialization of production and the growing personal incomes of the population made for the introduction of entirely new, original services. In this respect, entrepreneurs were faced with a vast and virtually untapped market. Second, a number of services in this sphere (satellite and fiber optics communication lines, cellular phone networks, etc.) featured high capital intensity as well as considerable complexity and scope of operations. So, unlike industry, where developing countries offered strong competition and had considerable freedom of action, in the services sector, developed states temporarily had an advantage over them.

Yet, judging by the crisis affecting the "new economy" at the beginning of the new millennium, the funneling of capital into this sphere proved excessive. On the one hand, the share of services, especially financial services, in the commodity price structure began to increase too rapidly, which, among other things, points to the low efficiency of this sphere. On the other hand, 67 percent of companies sustain losses as a result of information surplus, while only one-third of companies can use it to good effect. The declining capitalization of companies engaged in the "new economy" shows that money is beginning to move into some new sphere, or quite the contrary, ending up in "old" sectors.

The economic and employment structure of the majority of developing countries as well as of the CIS states can hardly match the aforementioned change in the general direction of scientific and technological progress in the West and the rapid advance of research programs in the services sector. The fact is that the "servicization" of the economy in developed countries is a result of their extensive preceding development, formation of a viable industrial sector, socialization of production, deepening of the international division of labor, urbanization, the relative surplus of capital in the financial sector, and so on. Meanwhile, to many developing countries, "servicization" of the economy is, rather, a remote prospect so they are not always interested in pursuing innovations in this sphere.

At the same time, the slowing of scientific and technological progress has the following implications. First, for a number of developing countries, the task of catching up with the developed world in the technological sphere is apparently simplified because with its far from dynamic level of technological development this is much easier for them to accomplish (which is, in fact, what happened in South Korea, Taiwan, and Singapore). Second, because the gap (in the technological level) between the developed and

---

[12] One distinguishing feature of Japan, which stands somewhat apart from Western countries, is that its corporations were, as a general rule, managed by engineers, as compared to accountants and lawyers in the United States. In the late 1980s, top executives in Japan made 10 times as much as factory workers, as compared to 500 times in the United States (see: J. Risen, "Why Can't America Catch Up?" *Los Angeles Times*, 14 January, 1990).

[13] It is noteworthy that in 1985, the PRC (following an open discussion in the mass media) rejected a $200 billion loan from the World Bank, offered under the "Borrow and Prosper!" slogan.

the developing world can be rapidly closed, the possibilities of the former influencing the latter are fast shrinking. Differences in the specialization of developing countries increasingly prove sufficient both for full-fledged cooperation within the "Third World," thus strengthening the trend toward regionalization, and for effective joint operations on developed markets. Third, the slowing of scientific and technological progress reduces opportunities for the transfer of obsolescent sectors of industry to less developed countries. The "goose flock" formation mechanism ceases to work. As a result, on the one hand, progress of various groups of countries down the path of rapid "catching-up-with-the-leader" development slows down; on the other hand, there is growing competition between countries at different levels of development as they have to work the same sectors.

The swelling of over-liberalized financial markets in the present situation may not be recognized as the best possible method of accelerating the investment process either. The fact that the world's average capitalization of stock markets is 90 percent of GDP, as compared to 20 percent on "emerging" markets,[14] points to the focus of future world economic problems, including possible sharp fluctuations, rather than to the "immaturity" of Eastern financial markets which hardly needs adjusting as a matter of urgency. It will be recalled that shortly before the outbreak of Asian crises in 1997-1998, stock market capitalization in some countries of Southeast Asia was as high as 150 percent to 200 percent of GDP.

By and large, however, the opportunities for developed states to expand sales of goods and services in developing countries are shrinking. This also applies to the export of capital, the provision of loans, and so on. "Hot" and speculative money is becoming surplus with regard to the emerging division of labor between the main groups of countries.

A New Situation for Asia

On the whole, the growing self-sufficiency of developing countries in capital and money (except for the least developed states) manifests itself in the stabilization of the rate of accumulation[15] as well as in the rapid increase in currency reserves. The aggregate foreign debt of China and India (which account for half of the population living in the developing world) has grown from $240 billion in 1998 to $283 billion in 2003. Meanwhile, their currency reserves during this period have grown from $120 billion to $510 billion. In the past few years, the currency situation of the republics of Central Asia has also improved somewhat (see Table 1).

In the 1999-2003 period, inflation in both developed countries and states of East, South, and Southeast Asia stabilized at approximately the same level as the situation in the Central Asian republics also visibly improved (see Table 2). National currency exchange rates in the majority of these countries also remained virtually stable in relation to the U.S. dollar (see Table 3). In other words, the gap between domestic prices in Asia, on the one hand, and in North America and Western Europe, on the other, remained unchanged. This disparity is a major prerequisite to the stability of current commodity flows. It can also be seen as a sign of the greater competitiveness of Asian countries as well as of a lack of effective integration into the world economy.

The words "convertibility" and "competitiveness," which have become quite trendy in recent years, unfortunately, are often interpreted in isolation from what is by far the most important market factor—

[14] H. Blommestein, "Major Policy Changes in Developing Exchanges in Emerging Economies," *Financial Market Trends,* OECD, No. 85, 2003, pp. 125-126.

[15] The capital accumulation rate in Eastern countries grew from 14.2 percent of GDP in 1950 to 26.5 percent in 1980. In 1995, it was 27.6 percent and in 2000, 24.6 percent (see: A.I. Dinkevich, "Ekonomicheskaia modernizatsia tretyego mira: itogi, protivorechia, perspektivy," in: *Materialy konferentsii "Genom" Vostoka: opyty i mezhdistsiplinarnye vozmozhnosti*, Gumanitariy Publishers, Moscow, 2004, p. 6). In CIS countries (except for Kazakhstan, Turkmenistan, and Azerbaijan) said indicator is substantially lower.

Table 1

Currency Reserves of Asian Countries
(*in millions of dollars)*

Countries /years	1999	2000	2001	2002	2003
Vietnam	2,947	2,831	3,540	3,815	4,661
India	35,058	39,554	51,049	71,890	107,448
PRC	154,675	165,574	212,165	286,400	403,250
Malaysia	30,859	29,886	30,848	34,583	44,862
Indonesia	27,054	29,394	28,016	32,037	36,246
Kazakhstan	2,003	2,096	2,508	3,141	4,959
Kyrgyzstan	249	261	285	317	389
Tajikistan	58	87	96	96	135
Turkmenistan	1,607	1,854	1,935	—	—
Uzbekistan	—	—	—	—	—
Azerbaijan*	697	951	1,218	1,414	1,620

* In the classification of the Asian Development Bank, it is a country of Central Asia.

Source: *Asian Development Outlook 2004*, ADB, Manila, 2004, p. 296.

the price. Meanwhile, one of the keys to India's and China's current success stories is, in fact, their high price competitiveness. It is to a very large extent the result of their uncompromising and apparently effective fight against inflation in the 1990s. The purchasing power of the national currency remains a clear-cut priority in both countries,[16] also serving, to a considerable degree, as a basic guideline and reference point in currency regulation. All the indications are that the ongoing upturn in India's and China's foreign trade also means a substantial expansion in the sphere of price competition on world markets. It is equally important that Beijing and Delhi were able to dramatically improve their positions in the world economy while maintaining tough currency restrictions that proved their worth as an instrument of financial stabilization in Chile, in 1993, and then in Malaysia, in the course of the 1997-1998 crisis.

So the full convertibility of national currencies on capital accounts is emerging as yet another dividing line between the developed and the developing world. This, therefore, calls into question the viability of a single world currency market as well as the sheer possibility of combining the functions of pricing, purchasing power, and a universal international instrument of payment within just one monetary unit. What this means in practical terms is the high probability of the formation of regional currencies or the establishment of currency units of large countries in this capacity as well as the emergence of new payments and stabilization agreements (by 2004, East Asian countries alone concluded $36 billion worth of the last mentioned). This highlights the growing polycentrism of the world economy.

It so happens that the "nonconvertible" Eastern money proves to be more conducive to economic development than Western money does. Indicatively, the former recalls the European national currencies

[16] The law on the National Bank of China, adopted in 1995, stresses that its principal objective is to maintain the purchasing power of the national currency in the interest of ensuring rapid economic growth.

Table 2

Annual Consumer Price Growth in Asian Countries *(the figures are in percentages)*

Countries/years	1999	2000	2001	2002	2003	2004*
Vietnam	4.1	–1.7	–0.4	3.8	4.0	4.5
India	3.3	7.2	3.6	3.4	5.3	5.0
PRC	–1.4	0.4	0.7	–0.8	1.3	3.0
Malaysia	2.8	1.6	1.4	1.8	1.2	1.5
Indonesia	20.5	3.7	11.5	11.9	6.6	6.5
Kazakhstan	8.3	13.2	8.4	5.9	6.6	5.4
Kyrgyzstan	35.9	18.7	6.9	2.0	3.0	3.8
Tajikistan	27.5	32.9	38.6	12.2	16.4	8.5
Turkmenistan	23.5	8.0	11.6	8.8	5.5	5.0
Uzbekistan	26.0	28.0	27.4	27.0	10.0	20.0
Azerbaijan	–8.5	1.8	1.5	2.8	2.2	4.0

* Forecast.

Sources: *Key Indicators of Developing Asian and Pacific Countries 2002*, ADB, Manila, 2002; *Asian Development Outlook 2004*, p. 284.

Table 3

The Average Annual National Exchange Rate to the U.S. Dollar

Countries/years	1999	2000	2001	2002	2003
Vietnam	13,943.2	14,167.7	14,725.2	15,279.5	15,732.0
India	43.3	45.7	47.7	48.4	46.1
PRC	8.3	8.3	8.3	8.3	8.3
Malaysia	3.8	3.8	3.8	3.8	3.8
Indonesia	7,855.1	8,421.8	10,260.8	9,311.2	8,577.1
Kazakhstan	120.1	142.3	146.9	153.5	149.5
Kyrgyzstan	39.0	47.7	48.4	46.9	43.7
Tajikistan	1.2	1.8	2.4	2.8	3.1
Turkmenistan	5,200.0	5,200.0	5,200.0	5,200.0	5,200.0
Uzbekistan	124.6	236.6	423.0	769.0	971.3
Azerbaijan	4,120.2	4,474.2	4,656.0	4,860.8	4,910.7

Source: *Asian Development Outlook 2004*, p. 295.

of the 1950s-1960s. This also evokes more far-going associations with that period: It is noteworthy that the concept of "people's capital" (*minzi*) has lately gained currency in the PRC.[17] Finally, it is also interesting that the movement of Chinese and Indian currency exchange rates throughout the postwar period has on the whole been in sync with changes in their internal purchasing power.[18]

Table 4

The Structure of GDP in Asian Countries
(the figures are in percentages)

Countries/years	Agriculture			Industry			Services		
	1980	1990	2002	1980	1990	2002	1980	1990	2002
PRC	30.1	27.0	14.5	48.5	41.6	51.7	21.4	31.3	33.7
India	38.1	31.0	25.0	25.9	29.3	25.9	36.0	39.7	49.2
South Korea	14.9	8.5	4.0	41.3	43.1	40.9	43.7	48.4	55.1
Malaysia	—	15.2	9.1	—	42.2	48.3	—	44.2	46.4
Indonesia	24.8	19.4	17.5	43.4	39.1	44.5	31.8	41.5	38.1
Pakistan	29.6	26.0	24.2	25.0	25.2	22.4	45.5	48.8	53.4
Philippines	25.1	21.9	14.7	38.8	34.5	32.5	36.1	43.6	52.8
Kazakhstan	26.0	41.8	7.9	47.4	37.0	35.5	26.6	21.2	56.6
Kyrgyzstan	—	33.6	38.6	—	35.0	24.9	—	31.4	36.5
Turkmenistan	—	18.0	22.5	—	57.0	42.4	—	25.0	35.1
Uzbekistan	—	33.1	34.6	—	33.0	21.6	—	34.0	43.8
Azerbaijan	—	30.8	15.2	—	30.8	49.5	—	38.5	35.3

Source: *Key Indicators of Developing Asian and Pacific Countries 2003*, p. 104.

The economic structure that evolved in the West in the course of the downward phase of the long-term (Kondratyev) wave, which began in the 1970s, does not respond to the interests of the majority of the developing countries (the level of "servicization" in a number of Central Asian states appears to be excessive—Table 4). So the prolonged uncertainty in the transition to an upward phase of economic development in the West can and should prod developing countries as well as CIS states toward a more proactive behavior in the world economy.

First, measures can be implemented to protect the national (regional) markets of services and capital against unfettered competition that is caused by globalization. Of course, this is not about the return to protectionism, especially considering that once they have become aware of their growing competitive-

[17] It ought to be pointed out in this context that at the height of the latest inflation explosion in the PRC in the 1993-1995, the bank loan rate at state controlled banks (approximately 10 percent) was below the level of inflation (about 17 percent). Meanwhile, banks paid yields on term deposits at an annual rate of around 9 percent, thus attaining the main objective—preserving public trust. Not surprisingly, bad debt built up within such a system. True, the acuteness of the problem should not be overstated: It is alleviated somewhat by, among other things, dynamic economic growth.

[18] For more detail, see: I.M. Sofiannikov, *Valiutnoe regulirovanie v Kitayskoy Narodnoy Respublike*, Cand. Sc. Thesis, Moscow, 2003; A.V. Shakhmatov, *Evoliutsia valiutno-finansovoy politiki v Indii v gody nezavisimosti*, Institute of Oriental Studies, Moscow, 2004.

ness, China and India already oftentimes advocate free trade, which, for its part, stimulates isolationist trends in the West. It is more likely that the functions of regional integration groups, where developing countries will be able to find relatively protected space, will be expanded. Neither should some rather serious changes in the policy of international financial institutions, including the WTO, be ruled out, such as, e.g., a review, under pressure from developing countries, of some of the accords of the GATT Uruguay round. Second, services are currently turning into a major instrument of emerging markets development. The fact is that services (as a sector) are easier and cheaper to develop than industry: A good case in point is the experience of Singapore, India and other Asian states. So the West's dominant position on the services, including financial services, market could be undermined rather quickly. In other words, there is a certain likelihood today that some of the processes that occurred over the last quarter of the past century could be reversed. Economic growth rates in Asia also provide cause for optimism (see Table 5).

Table 5

GDP Growth Rates in Asian Countries
(*the figures are in percentages*)

Countries/years	1999	2000	2001	2002	2003	2004*
Vietnam	4.7	6.1	5.8	6.4	7.1	7.5
India	6.1	4.4	5.8	4.0	7.3	7.4
PRC	7.1	8.0	7.3	8.0	9.1	8.3
Malaysia	6.1	8.5	0.3	4.1	5.2	5.8
Indonesia	0.8	4.9	3.5	3.7	4.1	4.5
Kazakhstan	2.7	9.8	13.5	9.8	9.2	9.5
Kyrgyzstan	3.7	5.4	5.3	0.0	6.7	4.1
Tajikistan	3.7	8.3	10.2	9.1	10.2	8.0
Turkmenistan	16.0	17.6	20.5	8.6	10.0	10.0
Uzbekistan	4.4	3.3	4.1	4.0	4.4	4.5
Azerbaijan	7.3	11.0	9.9	10.6	11.2	9.0

* Forecast.

Source: *Asian Development Outlook 2004*, p. 277.

* * *

Thus, since the 1970s cooperation between developed and developing states has evolved against the background of declining economic growth rates. The model of world market expansion, which in the 1950s-1960s included accelerated development of infrastructure and a more equal distribution of income, began to give way to an extensive model. This transformation was based on the movement toward monopoly, quick profit and rent, including in the credit sector. "Short" settlements and "short" money gradually (but not everywhere) began to supersede strategic approaches toward development. Before long, developed countries were faced with an erosion of economic fundamentals (including capital and the

market) as well as a gap between theory and practice, linked to the increasing inadequacy of the basic categories of analysis and neo-liberal regulation methods.

By the beginning of this century, the successes of the Chinese and Indian mega-economies confronted the developed world with an unaccustomed division of the world economy into productive and consumer sectors. The threat of the burst of the "financial bubble," which to a very large extent resulted from the monopoly on "convertible" money—and now also the threat of its loss—compels revisiting the theory of employment, interest rates, and money as well as a corresponding policy. The fight against poverty is gradually entering the agenda of leading international institutions as a high priority, thus reflecting, among other things, the pressing need to boost demand. Concepts similar to the ideas of the new world economic order that were put forward by developing countries in the 1970s are once again beginning to take center stage.

Contrary to the expectations of a harmonious blending of capital and labor on the global scale as the future of the world economy (underlying the concept of neoliberalism), by the beginning of this century, the picture on the ground was entirely different. In approaching the phase of self-sufficiency in capital, the largest developing nations displayed a trend toward a selective use of foreign capital, effectively knocking down monopoly loan prices. This may be a factor in the reduction of interest rates that has been observed on the world market in the past few years. "Hard currencies" may yet lose some of their relative value. Therefore, the return to former dollar prices of fuel and raw materials is unlikely: Their current level reflects, among other things, the latent depreciation of "hard currencies."

With this view of the present situation, some recommendations for CIS economic strategies would be appropriate. First, the increase in the rate of accumulation is fairly topical for many of them. One essential ingredient of financial stabilization and adjustment of the hypertrophied services sector (including financial services) is bringing the real loan interest rate to a level of 2 percent to 3 percent with the maximum level of inflation at 3 percent to 5 percent. There is also a pressing need to stabilize the relative level of domestic prices (factoring in the currency exchange rate) at a point close to the Asian average. Otherwise capital formation in the real sector and preservation of its competitiveness are impossible, while all talk about the need to regulate small and medium sized businesses will remain just wishful thinking. In further streamlining the banking system, it is useful to remember that "society's morality and intellectual abilities are inversely proportion to the loan interest rate."[19] Neither do there appear to be any viable alternatives to the expansion of the domestic market through a more even distribution of incomes and infrastructure development facilitation.

Second, there is a need for tightening control over foreign capital (antimonopoly legislation should be reviewed in favor of transparent local corporations because most of them are not multinationals, essentially differing from major Western investors), let alone over "hot" money. The "full" convertibility of the ruble and other national currencies had better be postponed.[20] In the meantime, an in-depth discussion about the nature, types, and prospects of contemporary money should be conducted. The fact is that money from the developed world (with the same conditions for making it available) proves superfluous in the ongoing globalization which is increasingly shifting to the East, while some properties and characteristics of "fully convertible" currencies are far from unquestionable (in terms of their monetary functions).[21] External borrowing and loan interest rates need to be minimized, including through regulatory measures. There are sufficient prerequisites for this on the world financial market in so far as the West's currency and credit monopoly has already to a very large degree been undermined by China, India, and other developing countries. Cooperation between them in the financial, including currency, sphere (with the ac-

---

[19] E. Bem-Baverk, *Kapital i pribyl: Istoria i kritika teoriy protsenta na capital*, St. Petersburg, 1909.

[20] We cannot but agree with Joseph E. Stiglitz's conclusion about the cause of the 1997-1998 Asian monetary and financial crisis: "capital account liberalization was *the single most important factor leading to the crisis*" (Joseph E. Stiglitz, op. cit., p. 99).

[21] Not surprisingly, convertible currencies were dubbed "mad money" (see: S. Strange, *Mad Money. When Markets Outgrow Governments*, Ann Arbor, New York, 1998). Suzan Strange is the author of a controversial book, *Casino Capitalism* (1984). It is worth noting that markets did not overgrow governments, while multinationals did only in some places (for more detail, see: G.K. Shirokov, A.I. Salitskiy, "Rynok, monopolii, gosudarstvo: zapadnaia i kitayskaia modeli ," *Vostok*, No. 1, 2004).

tive participation of CIS countries) could further strengthen both their general and individual positions in the world economy.

Third, there is no need to rush accession to the WTO, while the strategy of conduct in this organization needs to be carefully thought through. Here it is important to give greater consideration to the position of developing countries with regard to foreign capital circulation (a selective approach), on the one hand, and take into account the high (and in relation to a number of CIS countries, especially Russia, rising[22]) price competitiveness of Asian states, on the other.

For the short and medium term, closer cooperation with Asian partners with a special emphasis on bilateral and multilateral relations is preferable (including in the interest of achieving a balanced relationship with the West). It is useful to tap the Asian experience in various forms of cooperation in the financial sphere. For example, stabilization agreements could help to reduce "hard currency" reserve requirements, using surplus currency for the needs of the real economy and anti-inflation schemes (e.g., early repayment of foreign debt). Next, energy and transport programs (as well as land and forest resource development programs) should be built on the recognition of a more stable character of demand in Asia and the existence of a dynamic entrepreneurial stratum linked to the real economy here. Finally, in the long term, the reliability of national currencies in a number of states in this part of the world and therefore the future value of Asia's financial assets appear to be fairly high.

[22] In 2003 alone, appreciation of the ruble's real exchange rate against the backdrop of its declining purchasing power on the domestic market brought down Russia's price competitiveness at least 25 percent.