

THE FINANCIAL CRISIS AWAITING EMERGING ECONOMIES

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Turkmenistan is one of the of the Newly Independent States (NIS) of the former Soviet Union located in Central Asia. Although small in comparison to other NIS it has the opportunity to provide well for its four million citizens in the future because of the wealth it possesses in the form of natural as well as human resources. In the past the country was a major provider of oil and gas as well as cotton to the Soviet union. It is estimated that the country may have up to eight trillion cubic meters of gas reserves (the world's third largest) and seven hundred million tons of oil reserves. By the year 2000 the country is expected to export thirty billion dollars worth of oil and gas or \$7500 per Turkman. Per Capita Income in the country in 1996 was \$156. Its cotton production is the second highest in the NIS. At present the Turkmen economy relies heavily on agriculture and produces a surplus of fruits and vegetables. Indeed Turkmenistan has immense potential for economic expansion and prosperity if it reforms and manages its economy well. If not, it may well suffer major financial problems similar to countries such as Indonesia and Korea that are now recognized as having mismanaged their economies.

Emerging Economies such as Turkmenistan understand that developing an efficient market economy requires a properly functioning domestic economy. The monetarist theory says the purpose of economic policy is to establish conditions of monetary stability that once established will allow the economy to grow and prosper. Therefore, one of the first things an emerging economy must do is establish a suitable financial system that encourages investment. A strong banking system and a stable currency are essential in order to take advantage of opportunities in global markets. Sometimes, however, the monetarist theory proves to be an unreliable guide. There must also be an agreed upon model of the economy by both the public and private sectors that can be used to forecast. Goals and policies must be transparent. The

recent economic downturn in New Zealand is an example of how concentration solely on a monetary policy not collaborated by both the public and private sectors can be disastrous. Production, investment and employment in that country have been impacted by high interest rates, an over-valued exchange rate and a lack of government support for the production sector. The over-valued dollar sparked spending on foreign goods rather than saving. Such spending yielded eight per-cent more with the over-valued dollar. Investment for production purposes became unattractive as returns on productive investment were too uncertain.

Often overlooked as a country goes through the transition to a global market economy is a thorough evaluation, by the public sector in particular, of the needs of the domestic/international consumer. The Central Bank must work at arms length with the business sector to meet and satisfy the needs of the consumer. A country must also liberalize agriculture and other sectors of the economy and open its doors to international trade, international pricing and international competition. Market forces must be allowed to operate freely. The consumer must be served by an efficient and competitive system. Indeed an economic system must be in place but it must be transparent and not affected by relationships that are too close. Inefficiencies must be addressed and corruption controlled.

The author of this paper is a global corporate strategist, not an economist, and pays due attention to economics when developing strategies. The objective of the corporate strategist is to develop a competitive advantage and ,over the long run, attain a sustained competitive advantage. To do this the strategist evaluates all resources available to the corporation and creates a strategy that adds value to these resources. Global corporations have available to them many identical resources. That is, they can source technology, capital, human resources, materials etc. from a global pool at competitive prices. Such global corporations are becoming less rooted in their

home countries and are establishing themselves close to resources that offer them a sustained competitive advantage. Oftentimes a company gains access to resources that other global companies do not have access to such as cheaper capital. This happens when a government favors its corporations with unrealistically soft lending terms. When this occurs the global playing field becomes tilted and no longer can it be said that a company obtaining such favorable terms has a competitive advantage-- what it has is an advantage. The company is now not competing but rather it is taking advantage of an opportunity available only to itself. An opportunity that cannot last over the long run. Thus, the company does not have a sustained competitive advantage. For a company to have a sustained competitive advantage it must continuously benchmark its resources against the best available and managed resources within the industry it competes in to assure itself that it is maximizing value from each of its own resources. The same, of course, holds true for countries, states, provinces, municipalities, etc. that seek a sustained competitive advantage and economic well being. Maximum value from resources such as land, minerals and human must be achieved. The challenge arises, therefore, to how best these resources can be deployed for the well being of a country, state, etc.

The end objective of the global strategist in developing a strategic plan to achieve a sustained competitive advantage is to maximize value for all the company's constituents--stockholders, employees, customers, the community etc. Each resource available to the company must be secured competitively in order to be successful in the long run. If not obtained competitively the company becomes inefficient and perhaps complacent thus making it vulnerable. The same holds true for a country, state, province, municipality etc. To achieve a sustained competitive advantage sound macroeconomics and domestic economic policies are required. Additionally, strong domestic institutions flexible enough to grow and able to plug into the world economy are essential.

This document establishes strategies for Turkmenistan, in particular, and for newly emerging economies of the Central Asian states in general so that these new states will achieve a sustained competitive advantage and not run into difficulties similar to those that have occurred with the NICs and LDCs of SE Asia. These strategic directions will assure the economic well being of these states in a fiercely competitive global market. Certainly there are environmental forces such as political, economic, societal and technical that can impact their strategies but these are often predictable. For example, political forces can seriously jeopardize the economic well being of a country but an alertness to the nature of such forces can help offset them. Often, today, it is global corporations rather than politics that are driving the economies of the world. Therefore, corporate forces must also be carefully watched. Whether politics, corporate or other forces a better fix needs to be taken on the thrust of such forces so that a nation's resources can be more fully utilized and the economic well being of a country maximized.

Korea is an example of a nation that did not compete for resources on a level playing field. That is, the Chaebol (business conglomerates) were not, in the past, requested by banks to prepare a consolidated financial statement to assess their financial standing. Chaebols have been able to obtain bank credits for large scale investments without difficulty. Risk analysis has been confined solely to small to medium sized companies in Korea. Chaebols were not playing on a level ball field in the global corporate game. They over invested and diversified--excessively driven by a desire to build empires rather than generate profits. Excessive amounts of capacity and debt resulted. The financial resources of Korea were not fully and efficiently used because of this lax management on the part of the financial institutions. A sustained competitive advantage was unachievable under these circumstances. The weakness of Korea's financial system was eventually exposed upon the opening of its market for

financial services in the early 1990's in response to the call for globalization. Today the Korean government's role must now be one of carefully balancing a somewhat "hands off the economy" while providing supervisory and regulatory guidance.

Indonesia is a further example where nothing was sustainable. The author speaks from personal experiences having first conducted business in Indonesia in 1970 with timber concession owners who had rights to huge tracts of timber with which they could do with as they wished. These owners were mostly retired military and the concessions were their pensions. The concessions were often mismanaged and certainly did not yield their worth to the country. Wages have also been kept low over the years in Indonesia so the country could take advantage of low labor costs. Corruption remains a continuing hindrance to long term competitiveness.

The author now observes many similarities in the NIS of Central and Eastern Asia to those that were occurring in Southeast Asia in the late 60's and early 70's. These NIS have a great deal to learn from the newly industrialized countries of Southeast Asia.

Turkmenistan has the leadership and environmental conditions to develop a sustained competitive advantage if its resources are managed well. The Turkmen government is presently emphasizing development of its textile and food processing industries as well as continued development of its energy and cotton sectors. It is improving the country's transportation and communications. For a small country it possesses formidable natural resources. The country is counting on large, energy multinationals but it is uncertain how much control the government is prepared to relinquish to them. Currently the Turkmen economy is tightly controlled with the president making all key decisions. In fact, the president has added Turkmenbashi to his name meaning 'Chieftan of the Turkmen'. He runs without opposition. The

country is neutral. At present Turkmenistan lacks legal framework and has limited access to export markets. It has ambitious plans to privatize but does not plan to privatize the energy or cotton sectors. Constantly changing regulations and tax laws have held back entrepreneurial expansion.

Prior to establishing a set of strategies for a sustained competitive advantage Turkmenistan must first direct its attention toward sustainable development. That is, it must realistically place a value on the resources that multinationals are removing as well as a value on the effects to the country that result from the removal of such resources. It must assure that a similar value is being returned to the country not only in dollar terms but also in the form of infrastructure, health and wages. The cost of pollution, social pressures etc. must be factored in. All resources including human and natural must be priced correctly for a country to realize a sustained competitive advantage. Net Present Value (NPV) which has, in the past, been used to evaluate projects is wrong because it does not take into consideration important items that are difficult to quantify such as pollution and social pressures. . A country must provide a social net as corporations often do not. Everyone in the country must benefit. To this end many developing countries allow only joint ventures, set rules for local training, impose limits on profit remission, set environmental standards and establish other regulations underwhich multinationals must operate. Today such countries and NIS must go even further so as to not deprive and sometimes worsen the lives of their citizens. The large impoverished segment of the population of Indonesia is an example of such deprivation and the result of the mismanagement of resources that benefited only a small minority. Present indications in Turkmenistan is that the oil and gas revenues will go into a state fund controlled by the Turkmanbashi and his advisors. He has indicated the necessity of all earnings being concentrated in one place.

At the 1998 Academy of Business Administrative Sciences International Conference held in Budapest, Hungary there was considerable debate over defining an emerging economy. Since Turkmenistan is considered an emerging economy and since strategies for a sustained competitive advantage will differ for each stage of development of a country that is, from underdeveloped to early development to emerging economy to well developed to advanced--it is important to satisfactorily define an emerging economy. For this purpose the author refers to a paper by Irvin Summer titled, "Strategic Process Applications to Emerging Economies" in which he defines an emerging economy as:

1. An economy in which organizations are relatively less able to compete with organizations in well-developed, advanced economies. In emerging economies, however, that ability to compete is being enhanced.
2. It can also be defined as an economy in which organizations are just becoming prepared to effectively compete with organizations in advanced economies.
3. A hallmark of an emerging economy can be the extent to which the nation's natural resources are processed as finished goods. A nation with an undeveloped economy might have its natural resources removed for processing into finished goods elsewhere. An advanced economy, by contrast, might either import raw materials for processing or, process its own raw materials into finished goods.
4. It can also be defined as an economy that is in transition from a centrally controlled economy to one in which market (or customer forces) will exert a strong influence, if either 1, 2 or 3 also applies.

It would appear that Turkmenistan is about to follow similar footsteps to countries such as Indonesia and will eventually have to weather a financial crisis unless it establishes strategies for a sustained competitive advantage and a set of controls that respond to changing forces such as political, economic, societal and technological. The Turkmenbashi has absolute control similar to that which former

President Suharto had in Indonesia. Perhaps, on the positive side, Western governments and multinationals view this as stability in a very fragile region--a similar scenario that one found in Indonesia when Suharto came into power. On the negative side, however, Turkmenbashi and his government do not offer the West and the multinationals operating in the country the flexibility to respond to changing forces and the ability to adjust to signals identifying such changes.

The basis upon which Turkmenistan and other emerging economies must develop a solid strategy is good forecasting. An integral part of forecasting is the task of predicting and, therefore, preventing crisis. For example, once a strategy is placed into action what social impact will it have on the country? Controls are necessary to keep a strategy on track. Therefore, forces such as economic and societal must be channeled so that growth is sustainable and the country is competitive. It is imperative that the private sector be involved in forecasting as well as with the establishment of controls and the prevention or resolution of financial crisis.

A further basis upon which a solid strategy must be placed into action is a sound macroeconomic policy and a strong financial sector. Surveillance of both as well as signals to indicate when they are off course are essential. According to Michel Camdessus, Managing Director of the International Monetary Fund (IMF), "The IMF must (now) step up its efforts on surveillance of the financial sector, capital flows, and the risks posed by the reversal of capital flows." He points out that for this to occur an emerging economy "must provide timely, accurate and comprehensive data." Turkmenistan must, therefore, establish and support a transparent monetary policy. By doing so it offers the best opportunity for the country to attract long-term capital necessary for a sustained competitive advantage. A reliance on short-term capital limits the ability of a country to withstand changes in market sentiment. Monetary transparency allows the central bank a certain flexibility to manage budget deficits as

well as credit expansion and certainly, in a democracy, it is an appropriate response to political pressure.

Turkmenistan must develop its commercial code in order to more fully liberalize trade. At present the Turkmenbashi issues a continuing stream of presidential decrees regulating commercial activity that are often contradictory. Sustained competitive growth is a function of progressive trade liberalization. The government must minimize legislative acts and administrative rules that presently stifle commercial activity.

Turkmenistan's new wealth presents it with the opportunity to provide its citizens with a satisfactory standard of living. Will the country rise to the challenge? Will the money be spent wisely or will it be mismanaged and wasted? Is a financial crisis inevitable? Of even greater concern, will the money be directed toward an arms race since politics and oil are often a volatile mixture. Turkmenistan has voluntarily initiated a number of economic reforms recommended by the IMF. A continued implementation of such reforms and adherence to the recommended strategies in this paper will pave the way to a sustained competitive advantage for the country and the economic well being of its people.

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