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IMPRESSIONS AND OBSERVATIONS **SOUTHEAST ASIA: FEBRUARY 1999**

The initial impression, during the flight from Atlanta to Singapore, could not have been more striking. Flying Business Class, with current technology and superb service, simply cannot be compared to flying in a US Air Force C-135 troop transport aircraft to Vietnam in 1966. My last visit to Southeast Asia was the beginning of a yearlong tour of duty as a USAF pilot in Saigon. Now, I was returning as a businessman, looking for opportunities – especially in the area of the Internet and technology.

Our group of 24 executives, members of the Society of International Business Fellows, was pursuing an ambitious itinerary. We began in Singapore, attending seminars and meeting local executives and government officials at each of our stops. We traveled to Bangkok, Siem Reap, and Hanoi, spending three days at each destination. From Hong Kong, we extended the itinerary to Beijing and Xian, before returning to Atlanta.

OVERVIEW

The currency crisis in Southeast Asia, which began in July 1997, has haunted the world for nearly two years. Many economists and business forecasters expected the crisis to lead to problems in all the world economies. In fact, the world economic troubles did spread to Russia, and threaten South America today. Yet, the strength of the United States economy has largely mitigated the effects of the “Asian Contagion.” The crisis is very real, however, in the economies of the affected countries. This brief note will summarize a few impressions and observations.

The economies of the countries in Southeast Asia grew phenomenally in the past two decades. The GDP of the “Asian Tigers” grew at a rate of 8% – 9% annually, until the economies crumbled 20 months ago. This rate of growth was fueled principally by exports to Japan, Europe and the U.S. Economic growth was an objective in itself. With growing inflation and increasing current account deficits within Southeast Asia countries, the currencies and the economies became increasingly unstable. Then, on July 2, 1997 the Bank of Thailand was no longer able to support the baht, and it abandoned the peg, which immediately depreciated the baht 18% relative to the U.S. dollar. Thus began the currency crisis, leading to the economic situation in Southeast Asia today.¹

SINGAPORE

Singapore has been a leading city-state within Southeast Asia for over two decades. What is remarkable about Singapore is that it has “built an economy from nothing.” Singapore has no natural resources. It has built its economy with a high respect for knowledge and “Asian Values” – a neo-Confucius approach to capitalism. It is a managed democracy. Even “fun” should be meaningful and educational.²

¹ Henderson, Callum, *Asia Falling*, McGraw-Hill, 1998.

² Oxnam, Robert, Presentations to the Society of International Business Fellows, Jan 31 – Feb 11, 1999.

Although impacted negatively by the Asian currency crisis, Singapore is the strongest Southeast Asian country today. Its success over the past year has been overshadowed by the problems of its immediate neighbors, Malaysia and Indonesia. Singapore regained some of its competitiveness, with the decline of the Singapore dollar in 1997 (17% versus the U.S. dollar). It has been negatively impacted by low oil prices, since refining oil is a major export industry. Yet, Singapore has political and policy stability. There are strict regulatory standards. And Singapore still has its people and “Asian values” – a continuing source of strength and confidence.

THAILAND

Our visit to Bangkok affirmed that Thailand is still a “basket case.” The extent of the inflated real estate values of the early 1990s is evident by the many incomplete and abandoned commercial buildings throughout the city. The city streets are clogged with traffic. The infrastructure, both physical and regulatory, is inadequate to support the economic growth of the past decade. Thailand has experienced both political and policy instability over the past 25 years. Since its overnight transformation from an absolute to constitutional monarchy in 1932, Thailand has had 15 Constitutions, and resultant policy variations. In October 1997, Thailand again changed its Constitution in the wake of a new government precipitated by the currency crisis.

Thailand has built its economy on agricultural exports (mainly rice) and manufacturing. Manufacturing (electronics, textiles and footwear) has been based on the notion of cheap labor. The educational infrastructure is inadequate. Corruption in government, both military and civilian has been rampant. And, of course, the political situation has been very unstable, with new governments formed quite frequently. With a sharp reduction in exports in the early 1990s and domestic inflation, Thailand became economically unstable. Devaluation of the baht in July 1997 precipitated the current economic crisis.

Thailand is unlikely to recover quickly. Thailand needs regulatory reform in its financial sector, including effective bankruptcy laws, and rationalization of its real estate sector. The IMF loan package has forced a program of severe fiscal austerity. This has led to recession in the domestic economy, which is especially severe in the retail sector. On a positive note, the devaluation of the baht has led to an improved competitive position internationally, and the baht seems stable today. Prognostications are that 2 – 4 years will be required to implement the necessary reforms.

CAMBODIA

Cambodia has not experienced economic crisis in the past two years, because it did not participate in the Southeast Asia growth phenomenon of the past two decades. Cambodia today is still struggling to recover from the rule of the Khmer Rouge of the past two decades. The policies of the Khmer Rouge led to the extermination of millions of citizens, and especially the older and educated people. It is a very primitive society today, and the safety of foreigners is suspect in some parts of the country.

Yet, Cambodia has long term potential. The population is very young. The land is fertile, and people are friendly and work hard. Schools have re-opened again. With a stable and effective government, Cambodia could emerge as a tourist destination. The 11th and 12th Century ruins at Angkor Wat are sparking a building boom for hotels in Siem Reap. Yet, it seems unlikely that this will be an area for foreign direct investment or portfolio investment within the next 10 years.

VIETNAM

Vietnam, with 78 million people, is the 12th most populous country in the world. To most U. S. citizens, however, it is remembered for the war fought there by Americans for nearly two decades. Many now agree with Vietnamese government officials who insist that the Vietnam/American war was a serious policy error by the U.S.

Today, there is a realization that America can bring stabilization through economics that could not be accomplished through war. Our first Ambassador to Vietnam, Pete Peterson, is a former Congressman (FL) and former F-4 pilot and POW (6 years) in Hanoi. He is leading the U.S. policy toward improving the relationship between our countries.

The Asian currency crisis has impacted Vietnam, but perhaps less than the market economies. The major obstacle to growth in Vietnam continues to be the bureaucracy and the Communist government's inability to make decisions. The infrastructure, physical (roads, communication) and regulatory (banking system, private ownership of real estate) cannot support a market economy. Yet, with the privatization of agriculture under the *doi moi* reform program, national food security has been insured. The Asian crisis has led to a large negative impact on exports to Japan. With a per capita GDP of US \$360, Vietnam is 50% better than Cambodia but less than 50% of Thailand.

Vietnam's focus today is to conclude a trade agreement with the U.S. The Vietnamese are working to reach agreement on issues such as human rights, intellectual property rights, and opening the service sector to U.S. firms. Negotiations are complicated by existing relationships with Japan and the European Union.

It's clear that eventually Vietnam will be a fertile area for U.S. business. The people like Americans. They are friendly and work hard. The country is large, with mineral resources and a strategic geographic location. However, it is unlikely to reform itself quickly enough to be a major investment area for American business within the next 5 years.

HONG KONG

Hong Kong is now a Special Administrative Region of the People's Republic of China. The slogan is "One Country, Two Systems," and it seems to be working. Hong Kong still has a strong market economy, but there does seem to be a "mood change" by the citizens of Hong Kong.

The Hong Kong dollar was not devalued during the Asian currency crisis. As a result, the economy has been stable, but the competitiveness of Hong Kong has been hurt. Retail sales, especially, have been hit hard. The Chinese (in Beijing) are working hard to insure that the success of Hong Kong continues, and that it spreads further into China itself. Complicating the equation, China is working to expand Shanghai as a less expensive alternative to Hong Kong.

Hong Kong, like Singapore, will be quick to recover from the Asian crisis. The infrastructure is in place, but they will endure and recover from recession within 2 years. The Chinese are the biggest investors in Hong Kong today, and this will likely continue.

CHINA

Beijing, China's Capital City, has a strong government presence, as well as a strong merchant and manufacturing base. With its market economy and its Communist government, China is quickly becoming the dominant economy in Asia. Travel within China is very primitive, with the bicycle still the primary vehicle throughout the country. Yet the people seem to be more affluent than the Vietnamese or Cambodians. And many Chinese are beginning to aspire to owning an automobile.

It's clear that President Clinton's visit to China in 1998 impressed the Chinese. The people speak openly and warmly about the visit, and President Clinton's photograph is widely displayed in Beijing and Xian. Over 400 million Chinese listened to the "town meeting" – more than any previous or subsequent event in China. They seek an even more open relationship with the U.S. today.

China continues to be a place for foreign direct investment and portfolio investments. It recognizes the need to maintain the RMB (Yuan) peg to the U.S. dollar. The official rate is still U.S. \$1 = 8.3 RMB. However, the black market rate sometimes exceeds U.S. \$1 = 9.0 RMB. The stress this places on competitiveness within Asia is important, and it appears that the Chinese government recognizes that this situation is preferable to wholesale devaluation of the Yuan that would occur with a freely floating currency. China will ride out the Asia crisis with little damage to its economy.

SUMMARY

Asia continues to be a part of the world that is warm toward America. The people seem to want our presence and support. Southeast Asia is very wary of the Chinese. Asia still harbors a dislike (sometimes hatred) of the Japanese from the occupation during World War II. Their economies are dependent on exports, and the U.S. market economy is a big attraction to each country.

Our policies in China and Asia have improved relationships with the countries visited, even while many Americans damn these policies over the issue of Human Rights. It seems clear that we need policies that will engage each country positively. The population of Asia exceeds 1/3 of the world's people. This population is growing faster than that of the economically developed nations.

There is often criticism of congressional travel, and this has had a negative impact on our Asia policy. A recent study revealed that only 4% of the members of Congress have been to Asia. In fact, only 40% - 50% of our Congress have current passports! We should encourage more international travel by our legislators, which will lead to more enlightened policies toward these emerging and important economies.

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The Innovative Strategies Group is a collection of talented and experienced professionals who focus on helping companies develop and implement growth plans, including expansion into the global marketplace. We welcome the opportunity to review these issues and observations with you.