Panel discussion: Asia and its new super tiger

Three experts on China and Southeast Asia joined in a discussion for the purpose of generating greater understanding and insights into conditions that impact the Asian economies as well as world markets. The panel included: Dick Drobnick, University of Southern California; Chen Ji, College of Business, University of Colorado at Denver; and James Rooney, J.P. Rooney & Associates Ltd., Bangkok, who earlier offered his perspective on the status of economic recovery in Southeast Asia.

Richard Drobnick is the vice provost for International Affairs at the University of Southern California; executive director of the International Business Education and Research program, and research professor of Management and Organization at the Marshall School of Business. Dr. Drobnick is the founding director of USC’s Center for International Business Education and Research. Drobnick is a vice chair and a director of the U.S. National Committee of the Pacific Economic Cooperation Council; a member of the board of directors and the executive committee of the Los Angeles County Economic Development Corp.; a member of the Council on Foreign Relations and the Pacific Council on International Policy; a director of the Japan-America Society of Southern California, a member of the Advisory Council of the Southern California Center of the Asia Society, and secretary of the Association of Pacific Rim Universities (APRU).

Chen Ji is an instructor of finance at the College of Business CU Denver. His area of expertise is China's banking and financial systems. He has authored numerous articles on the subject, together with Prof. Steve Thomas, most recently: "Reforming China's Financial Markets" for the publication Current History. He and Thomas participated in an invitation-only conference at Harvard to discuss "The Role of Foreign Insurance Companies in China's Emerging Insurance Industry. As an independent business consultant, his clients rank among the top corporations of the world. Chen Ji holds an MS in finance from CU Boulder, an MBA in finance from the University of Denver, an MA in economics from Liaoning University (PRC), and a BS in Engineering from Dalian Institute of Technology (PRC).

James P. Rooney is chairman of J.P. Rooney & Associates Ltd., Bangkok, Manila, and Singapore, a business advisory firm offering corporate and financial advisory services throughout Asia; and Taxplan Ltd., a subsidiary which provides U.S. tax services in the same region. He has served as a member of the Investment Advisory Committee of The Thai Fund and the Thailand Business Council for Sustainable Development; as a director of Bangkok Airways; and as an independent director for public companies listed on the Stock Exchange of Thailand. Previous appointments include the Foreign Investment Advisory Committee to two Prime Ministers of Thailand. Prior to starting his own company, Rooney was an officer.

Challenges for the global economy

Richard Drobnick

Sept. 11 marked a change in the economic fortunes of the world, said Richard Drobnick. "It's either going to be a short-term blip on how people do business or it's going to be a long-term change."

Drobnick believes the change will be long-term, "because I think the American-led war on terrorism is going to last for years and years." What this means, he said, is that it will be necessary to rethink the way that goods, services, people and capital move across international borders.

"We're going to make it much more difficult for foreigners to get visas into the United States. This will affect not just those from the Middle East, but from all over. We're going to make it much more difficult to bring goods into the country. Security precautions have been causing container shipments to pile up in Long Beach Harbor."
Panel discussion: Asia and its new super tiger

Capital also will get a slower ride, due to new regulations designed to ferret out possible links to terrorist organizations. "And we're going to penalize banks that don't open their books to us, and this process is going to go on and on, in my view."

Economic growth will still occur, but it will be more locally organized, Drobnick said. "The exception is extractive industries, which will go where the geology dictates, whether it's gold in Indonesia or oil in the North Sea." But the cost of moving people and goods across borders may cause a shift in a U.S. company's choice of manufacturing locations, from Asia to Mexico and other relatively low-cost places that are closer to home. This could thwart economic growth in Asia, which, prior to the terrorist attacks and up until the fourth quarter of 2000, was on an upswing.

Referring to the Asian Financial Crisis, Drobnick was critical of the International Monetary Fund (IMF) for policies that, in the case of Indonesia, made a bad situation worse. "The IMF agreed to give them a credit line if they agreed to contract their economy; hike interest rates, devalue the currency, cut government spending, and eliminate government subsidies for rice and oil. Eliminating subsidies is an incredibly stupid policy when you're contracting the economy, because you're giving up subsidies to a lot of poor people. Not a good idea."

For Indonesia the IMF bailout was not a quick fix; there were too many political uncertainties and too many "domestic capitalists who took their money out of the system. But last year Indonesia was growing at 4 or 5 percent and is expected to grow 3.5 percent this year. If there's a new set of political unrest, then it won't grow."

Up until the collapse of 1997, "Indonesia had enjoyed 30 years of more or less uninterrupted growth, on average of about 5 percent a year. Growth was primarily led by extractive industries, and then in the 1980s by a lower cost manufacturing base as the government deregulated a lot of the economy."

Today, the new government is trying to curtail widespread corruption and put the country on a more solid course. President Megawati Sukarnoputri, whose father, Sukarno, ruled Indonesia from the end of World War II till 1965, has been seasoned over the past four or five years as vice president, said Drobnick. "At first, she didn't want to take the vice presidency, but she was persuaded to take it. Then she didn't want to take over the presidency, but she was persuaded to do it. She has put together a good team, and that's the most important thing."

Drobnick said the appointment of Dorojatun Kuntjoro-Jakti as minister of the economy was a very good choice. For the past three-and-a-half years, Dorojatun served as Indonesia's ambassador to the United States. "He's an economist and a political scientist, a Ph.D. from Berkeley. He will listen to business people and try to create an environment that will increase confidence and induce investment."

China and the WTO
Chen Ji

The bar for China's entry into the World Trade Organization was set very high, said Chen Ji, requiring the country to meet stringent conditions demanded of no other WTO member.

Why has the country, which has racked up five consecutive years of impressive economic performance, been willing to run such an obstacle course? What's in it for them?

Part of the answer lies in the reciprocal opening of markets which will allow China to substantially increase its exports, said Chen Ji. "Also, they will play the game according to the rules of the WTO. This
will help attract foreign investors who will be more confident that, in the event of a conflict, China will adhere to those rules."

More importantly, said Chen Ji, "China will be able to use its WTO membership to further stimulate the domestic economy. Foreign direct investment will create a competitive environment and improve their domestic firms' compatibility in international markets."

China will not be a passive member of the WTO, obeying the rules and nothing more. Rather, said Chen Ji, they want to be active participants, with a voice in the organization, its policies and regulations.

There are several issues in the domestic economy that concern the Chinese.

- A weak banking system. "It is estimated that there are about $4 trillion of non-performing loans in four state owned banks, which dominate most of the banking business. Only 7 percent of the non-performing loans have been recovered. From a financial point of view, if you have 25 percent of your assets in non-performing loans, literally speaking, you are bankrupt. But the savings rate is high, and because these are government owned banks, people are still pouring money into them. When foreign-owned banks enter the market, there will be competition for these savings."

- A young and growing insurance industry. "There are only 12 Chinese-owned insurance companies; foreign-owned companies are about twice this number. AIG is the No. 1 company in the country because they were funded in China in 1924, then moved back to the United States to become the largest insurance company in the U.S., perhaps in the world."

- Foreign direct investment. "From my point of view, China doesn't need any money at all. They have enough money domestically. Individual savings last month reached $7 trillion. So they have plenty of money in the bank."

China does not have the liquidity problems that other countries have, Chen Ji continued. "After 20 years of reform, there is a healthy cash flow. China can finance about 95 percent of its investments, so maybe 5 percent is needed from the outside."

Why, then, do they want foreign investment? Said Chen Ji: "They want the technology and expertise that come with it."

Last year, the Chinese capital market ranked No. 1 in the world, but it is rife with manipulations and illegal tradings, which the government is taking steps to correct. "The stock market, after seeing a rise for the first time, is now about 15 percent in decline. The people are hesitating to put money into this market, which is why they have $7 trillion of deposits. So there is a definite need for financial intermediation to channel these huge savings into long-term investments." Within the next five years, China will benefit from the foreign expertise that will arrive.

Another issue of concern for the Chinese is the agriculture sector. "Some agriculture will be wiped out because it is not very competitive." It was only in about 1980 that China solved the food problem, explained Chen Ji. For most of its 5000-year history, China never had sufficient food to feed the people. In the rural areas, people were constantly starving.

But China has time to anticipate and adapt to the changes that will occur after entry into the WTO. "It won't be like a switch is turned and everything changes immediately," Chen Ji said. "Changes will be gradual, over a five-year period, giving Chinese companies sufficient lead time to prepare for the competition from foreign companies."

A bright spot is the availability of low-cost manufacturing, expected to boom with China's membership in the WTO.
Panel discussion: Asia and its new super tiger

There were two other issues that Chen Ji addressed: the change of leadership on the horizon and China's reaction to the Sept. 11 terrorist attacks.

There is a third generation of leaders getting ready to step up to the plate, he said, replacing five of the seven government heads who will retire next year.

"It has pretty much been decided that Hu Jin Tao will be the next president. He is a graduate of Shanghai University and also has a background as a communist youth leader. He is low profile and a lot of people don't know him. I met him a couple of times and he's a pretty reasonable and open minded person," said Chen Ji.

He expects that Wen Jiabao, who is now a vice premier, will become premier. Wen is hard-working and experienced in dealing with the tough issues. "So he will be very good."

Chen Ji believes that the new crop of leaders will continue to function in the group leadership style already established. "The big challenge for them is how to hold China together."

Both the hardliners and reformers agree on the need for reform; the only argument is the speed of those reforms. "Do we want to drastically reform like Russia, overnight? Or do we want to take it step by step? This is a big argument. I think China will slow down the reforms a little bit."

Turning his attention to the Sept. 11 attacks, Chen Ji said that while the general reaction in China was one of sympathy, "a lot of the intellectuals, particularly the college students, said the United States should readjust its foreign policy, particularly about Taiwan. Congress' decision to sell more advanced weapons to Taiwan hurt the Chinese people." In the Middle East, China's position is neutral.

Regarding the current security measures in the United States, Chen Ji cautioned: You can do everything 99 percent right, but only 1 percent wrong will create a catastrophic disaster."

China's impact

James P. Rooney

With Japan still failing to make necessary economic reforms, China is shaping up to be the super tiger in Asia, said Rooney. "How the countries in Southeast Asia position their own economies in relation to China's is going to be more important in the future because they can no longer depend on Japan for economic assistance or economic leadership." The region's export economies are threatened by the emergence of China as a very strong super power, and this became evident right after the currency devaluations of 1997-98, said Rooney.

"After the crisis, there was a trend to devaluation throughout Southeast Asia, which helped to maintain a competitive balance in the region," said Rooney. "But during that time, there was a rumor that China, too, would devalue. Although it didn't make economic sense for China to devalue, everybody was worried that they would. It would have taken just a minor shift in China's policies to literally wipe the other countries off the export map. Such a move would have threatened the survival of the restructuring economies of Southeast Asia."

But Southeast Asia has a built-in insurance policy that is likely to provide protection against a worst-case scenario. "The business leadership in all of the countries is primarily an outgrowth of the overseas Chinese who immigrated to the area from Southern China. And you see the overseas Chinese groups in every part of Southeast Asia; in a hostile environment in Indonesia, in what was a hostile environment at
Panel discussion: Asia and its new super tiger

one point in Malaysia, and perhaps a little less hostile now in Thailand, where they've assimilated very well into the fabric of the country." According to Rooney, the existence of these overseas Chinese groups will probably foster policies of cooperation with China, rather than competition, "because it is futile to try to compete with such a huge economy."

China will start to attract much more foreign direct investment, which will reduce the amount of investment that historically went to Southeast Asia, said Rooney. "There will be a period of readjustment as the smaller economies figure out how to survive. They will have to evaluate their export markets to see where they are secure, or where they have to do more to retain the business. One obvious solution is to develop China as a potential market for their products."

Although there are no changes on the immediate horizon, developing good working relationships with the Chinese will be crucial in the years to come. "I think most of the Southeast Asian governments, Thailand in particular, have tried to get on very good, very friendly terms with China. And that extends from economic to military to political relations with the Chinese," said Rooney.

"The current Thai Minister of Defense, before he locks in any decision, will try to take a trip to China to find out how the decision would play there. And I think that's indicative of Thailand's awareness that it's important to keep China informed about what they're going to be doing."

Rooney is concerned about devaluations and currency balances. "I think this will continue to be a problem that one needs to look at throughout Southeast Asia," he said, adding that rumors are always floating around. "About three months ago, there was another rumor that China might devalue and it just scared people to death at that point."

The Chinese behaved responsibly, said Rooney, "because they said they wouldn't devalue, at least for a year. And there's no indication at this point that the Chinese are considering devaluation. But the perceived importance of the Chinese economy in Southeast Asia is such that once these rumors start to circulate, people listen to them and take them into account. "I think this shows the power that China will be able to exert over Southeast Asia on an economic basis."