Southeast Asia crisis: A different perspective

James P. Rooney

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 that 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; as an independent director for public companies listed on the Stock Exchange of Thailand, and as a member of the Foreign Investment Advisory Committees to two Prime Ministers of Thailand. Prior to starting his own company, Rooney was an officer of Citibank, N.A. in Hong Kong, the Philippines and Thailand, specializing in corporate finance and merchant banking.

Since the 1997 economic collapse, Southeast Asia has been struggling to recover. But it has been a "slow and painful, with not much hope for improvement in the near future," said James Rooney in his address to the Global Executive Forum. The countries in the region have been hit hard by the declining U.S. and Japanese economies, making it difficult for them to export their way out of the malaise. And the Sept. 11 terrorist attacks have worsened the outlook.

"The Thais and the other Southeast Asians are more optimistic that the U.S. economy will recover than they are about the Japanese," said Rooney. "They are slowly coming to grips with the fact that they may not see recovery until the end of next year."

What is hampering recovery, specifically in Thailand, is a lack of objectivity on the part of the people who are now responsible for restructuring the nonperforming loans, otherwise known as bad debts. "The bank managers and officers who are involved in implementing the steps of recovery are the same people that were there during the collapse," said Rooney.

The slow pace of corporate debt restructuring has been a drag on the economy. And flaws in the financial and government sectors, which were exposed in the wake of the collapse, have created an urgency for top-to-bottom reforms, from economic to political.

Most of the countries are attempting to stimulate the economy by encouraging domestic consumption to support domestic production. "To some degree, this will work," said Rooney. "But some domestic economies are simply not large enough to support the production needed to keep the country moving forward."

It's encouraging that "some export sectors are doing very well: seafood, gems, garments, and tourism."

Political reform

In Thailand, political reform has outpaced economic reform. The Thais implemented a new constitution in October 1997, aimed at creating more transparency and increasing the educational level of representatives. All members of Parliament are now required to have at least a university degree. The new constitution also calls for stronger enforcement regulations and an electoral commission to review a candidate's performance during election campaigns.

"Unfortunately, we may have taken a step back because three out of the five members on the new electoral commission are people who have been found to be in violation of electoral regulations. And the chairman himself is one of them," said Rooney.

Political will has been a casualty in Southeast Asian countries, where many legislators are encumbered with bad debts. "So they are not too eager to pass legislation which would then reduce their net worth." Industrialists, too, are able to exert influence on the legislative process.
Southeast Asia crisis: A different perspective

James P. Rooney

Rooney cited the well-publicized case of Thai Petrochemical Industry, which has debts of more than $3 billion. The company has been challenging the legal system in court, trying to avoid having to make good on the debts. After waging a three-year battle, the company finally lost, only to go back to court with another delaying tactic. The case is considered a benchmark by foreign lenders who are trying to gauge the will of the government in implementing the legislation necessary to effect and sustain recovery.

"This has led to a feeling that Thailand is not serious in terms of restructuring," said Rooney. "I think this has been damaging to the country."

One of the aspects of political reform is how peacefully a government adapts to the changing of the guard. Thailand has done better in this area than the Philippines, said Rooney. "The Philippines has experienced change, but it has been brought about more by street revolution than through the orderly political process."

Outlooks mixed

Rooney briefed the Forum on the status of economic recovery in the rest of Southeast Asia.

MALAYSIA The economy has fared better here than in Thailand and Indonesia, primarily because of short-term capital controls which were imposed after the '97 collapse. "Malaysia's financial institutions survived more intact than the neighboring countries, so they have a better basis on which to proceed," said Rooney. "Most people feel that Malaysia has the best chance of coming out of this ahead of the rest of Asia."

INDONESIA Rooney expects that the country will have a very difficult time pulling out of the economic crisis. "The financial structure suffered strongly due to the country's reluctance to accept the IMF's terms for assistance. And neither the banks nor the private sectors have restructured. Political reform is painful; a leader is needed who will be able to provide enough unity to pull the country out of crisis. Social reform is lagging."

THE PHILIPPINES "Although the Philippines was the least affected by the economic collapse, the country is still plagued by recurrent political problems and weak social reforms. Economically, the country is likely to maintain the middle ground at the bottom of the structure."

SINGAPORE "Political stability and good policies helped the country implement corrections to economic problems quickly, and it has survived fairly well until recently. Now, the final assembly operations that were attracted to Singapore by its skilled labor are defecting to China, where costs are lower. So Singapore is looking to find other areas in which it can compete attractively."

VIETNAM "The collapse had little effect on the country as it was never part of the boom. It's still very difficult to do business in Vietnam. Many companies have left and are waiting until the investment climate improves before they return. The agricultural sector, however, has done quite well. Four or five years ago, they were importing rice from Thailand; now they are one of the leading rice exporters and are taking the market away from Thailand at the lower end of the rice market."

BRUNEI "Wealthy, but not an economic player."

MYANMAR "The current military junta, which is quite backward, dominates political and economic activity. Myanmar's economic base is similar to Thailand's, but it has never been able to benefit from
Southeast Asia crisis: A different perspective

James P. Rooney

exports and remains a poor country. We feel that if the U.S. sanctions were removed, economic development would take place, followed by greater liberalization."

LAOS Little or no economic activity.

Country risks

Rooney ranked the top five countries in terms of political and economic risk, starting with the highest risk country in the No. 1 spot and the others in descending order of risk.

**Political risk:** 1-Indonesia, 2-Philippines, 3-Malaysia, 4-Thailand, 5-Singapore.

**Economic risk:** 1-Indonesia, 2-Philippines, 3-Thailand, 4-Malaysia, 5-Singapore.

"Indonesia represents the highest risk, both economically and politically, and Singapore the lowest. All the countries in Southeast Asia are seeking direct foreign investment to stimulate recovery, but it's a competitive arena and China and India are formidable competitors," said Rooney. "Many companies feel that everything they are doing in Thailand can be done in China or in India more efficiently and at less cost. The consensus is that it's just a matter of time before most operations move out of Southeast Asia and probably into China."

Clients have told Rooney that China is outsourcing low-cost manufacturing to Myanmar along the China-Myanmar border. "If you get to the point where China is using another country for lower cost manufacturing, that does not bode well for the rest of Southeast Asia," Rooney said.

"The question is, how do you cope with China's economic emergence? And what is your China policy? Because if you don't have a policy, it's going to be a problem."

Impact of terrorist attacks

The day after the terrorist attacks on the New York World Trade Center and the Pentagon, the Thai Prime Minister said that Thailand, which is 95 percent Buddhist, would remain neutral, James Rooney recalled. "The next day he reversed himself and stated that Thailand would be supportive." Why did he take that neutral position in the first place? The prime minister was reflecting general Thai opinion, which is not sympathetic to the United States, according to a Thai friend of Rooney's.

"The Thais feel that the U.S. has been arrogant in its implementation of economic, military and political influence. Added to this is their strong objection to U.S. Middle East policy, and the fact that a number of Thais still blame the U.S. for their economic problems," Rooney pointed out.

"On the lower edge of Southeast Asia, there is a large Muslim band that stretches across southern Thailand, Malaysia, Indonesia, and into the southern Philippines. Thai Muslims have called for a boycott of U.S. products and services, and they are protesting the use of a Thai airbase by Americans."
Southeast Asia crisis: A different perspective

James P. Rooney

“T.V. news showing anti-U.S. demonstrations in Thailand makes you think the whole city is in flames, but in reality it's just a very small part of the city that's affected.

“Malaysia seems relatively calm; they've never had much extremist activity. There could be a sense for greater caution in Indonesia. If I were an American in Indonesia, I'm not sure I would want to remain there.

"In general, with the exception of Indonesia, I don't think that people are terribly worried about the threat of terrorist attacks in their own country, other than to visible targets such as the American, British and Israeli embassies.

"I think the greater concern of almost all these countries is how the war on terrorism is going to impact their economies and their attempts at recovery. So we don't expect too much of an extension of terrorist activities there."