THE CURE FOR ASIA

Neighbors share the economic symptoms, but nowhere is the illness as bad as in Bangkok

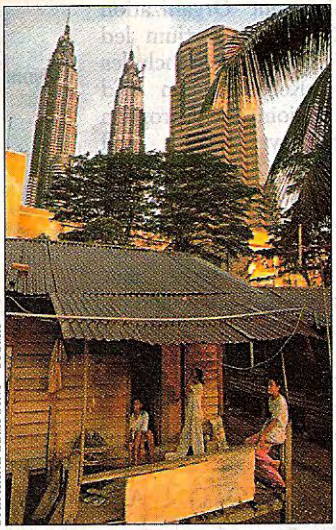
BY SIN-MING SHAW

THE FINANCIAL WOES OF THAILAND have recently spilled over to the rest of the Southeast Asian financial markets, including, briefly, even Hong Kong, which has the world's fifth largest foreign reserves. In the process, problems unique to Thailand have been erroneously generalized to neighboring countries, particularly Malaysia and Indonesia. True, these countries share Thailand's trouble with current account deficits, rapid credit expansions and overvalued currencies. But each faces different challenges, rendering facile comparisons misleading.

Thailand confronts the toughest problems. Last week Bangkok made the shocking disclosure that its foreign reserves were only U.S. $6.6 billion, barely sufficient to cover six weeks of imports. At the end of last year, the Thai reserve was more than $32 billion. The drastic diminution was the wasteful result of currency rescue operations by a government that, in a matter of weeks, blew away years of hard-won savings by Thai citizens.

The main culprit is politics. The current administration is one of about 12 Thai governments in as many years. The previously nonpartisan civil service has been politicized by revolving-door prime ministers, who used public institutions for private agendas. The collusion between big business and politics is so complete that the parliamentary process is hardly relevant to sound national policies. Some financial institutions have become private printing presses for politicians. Growth has been concentrated around Bangkok, while politicians engrossed in staging or battling the next coup neglect development in the countryside. More pain awaits that unfortunate country as the $16 billion IMF aid program begins to bite, and the baht is likely to fall further.

By contrast, Malaysia has been governed by responsible, stable leadership for close to 30 years. Prime Minister Mahathir Mohamad and his deputy Anwar Ibrahim are experienced public servants with a sense of national mission and a vision. They have transformed an idyllic tropical country into a high-tech power, joining hands with Silicon Valley to build a brain factory in central Malaysia called the Multimedia Supercorridor (MSC). At the same time, much of the country is visibly prosperous, and the envy of Asia. Malaysian economic problems are mostly temporary in nature, nothing that a lower exchange rate, tighter budget and less credit expansion will not eventually cure.


STEPHANE COMPOINT—SYGMA

Transformed: *Malaysia*

Malaysia has two challenges: first, it is rushing to meet the prime minister's grand and ambitious vision without adequate consideration of prudent financing. His enviable success in nation building seems to have given him confidence to speak on every economic issue, from the level at which the ringgit should trade to whether the current account is too large. Such issues are normally handled by ministers, not micromanaged by a head of state.

The second challenge is more serious: can Malaysia ever abandon its hugely successful "affirmative action" policy, instituted in 1971 to redress historical inequities against the Bumiputras, or native Malays? The original rationale was sound. But much time has passed and Malays already control all the key sectors of the economy. One cause of the current stock-market and currency busts was too much money printed to finance too many projects to ensure prosperity among Bumiputras, many of whom are now world-class entrepreneurs. Surely, at some point it must become embarrassing to the Bumiputras themselves to remain recipients of state favoritism. Mahathir has announced that ownership and employment quotas favoring them will not apply in the MSC, acknowledging that brainpower is not based on race. One day he should apply the same logic to the entire country.

Among the three large ASEAN countries, Malaysia is in the best position to enter the 21st century as a confident country with a largely content and prosperous population. In Indonesia, where per capita income is only about $1,000, wealth is concentrated in few hands, including the First Family, one of the richest in the world. President Suharto's children are well-known *guanxi* investors who can access monopolistic public-sector projects. Often private-sector deals are also offered to them to ensure easy government approval or largesse. Going forward, the economy needs a great deal of deregulation to ensure competitiveness and to reduce widespread poverty. Whether Suharto, in his sunset years, can rein in nepotism and downsize the state sector will determine how history judges his legacy.

Singapore has the fewest problems. Unlike Hong Kong, it has not pegged its currency to the dollar and is not hostage to U.S. interest rates. However, the government should watch to ensure the real-estate sector does not price itself out of the global market, like the property in Hong Kong. Too often, Asian countries confuse asset inflation with wealth creation. Bill Gates and Intel create wealth. Property companies merely put together five walls, offering an ephemeral sense of well-being. Singapore seems to have understood this and has formed a top-level panel to address the long-term importance of competitiveness.

One critical issue is education, an area sadly lacking Asian leadership. At least $15 billion was spent recently by various Asian governments in foreign-exchange markets, all for naught. That amount was sufficient to endow several world-class universities, which do not yet exist in Asia. Without this intellectual capital Asia will remain a cheap-labor, low-margin production base for Western companies while importing higher-cost, knowledge-intensive capital goods and services from the West. Now, that is a problem worth Mahathir's attention.