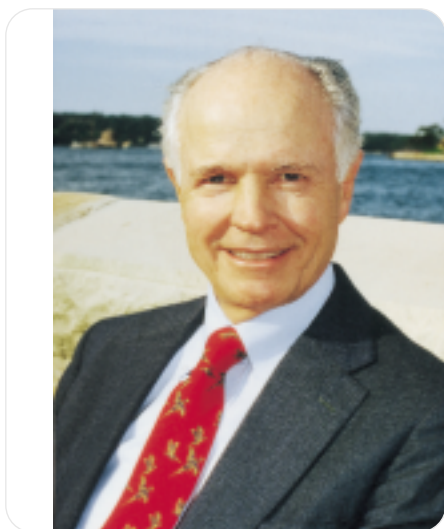


Bush Time In Asia

by David James



Editor's Note: *Although this issue of Ariba magazine won't be published until a few months into the year 2001, we thought that the convergence of a new calendar year, a new millennium, a new American administration, and a slowing U.S. economy, indicated a good time to pause and reflect on some of the events that will be driving us in the months ahead.*

Shortly after the clock struck midnight, we asked Asian expert David James to share his thoughts on what may be ahead for Asia.

Abruptly, the entire world is now dealing with an expanding economic slowdown and a new United States government administration in Washington. Will the administration of George W. Bush make things better or worse? Nowhere are the economic stakes higher or the uncertainties greater than in Asia – for individual Asian countries, for the region, and for the United States itself.

After the U.S., which has dominated the world economy for the past seven years and now produces 30 percent of the world's economic output, Asia is the largest, most sensitive and most fragile cog in the global economic system. Asian countries account for two-thirds of the world's population. Japan's economy is the second largest in the world after the U.S. China's economy is huge and rapidly expanding, forecast to grow

another eight percent this year despite slowdowns elsewhere. And the region has made good progress in emerging from its devastating 1997-98 financial crisis. Many Asian countries have recovered nicely from that crisis, recently growing between five and 10 percent a year. Their currencies have stabilized, interest rates remain low, and many have made progress in restructuring bad loans and closing down bad companies.

The growth of eCommerce

One of the more promising developments in Asia is the growth of eCommerce, especially B2B eCommerce. Portals such as Hong Kong-based Bex.com open direct buyer-seller relationships in cross-border business transactions, eliminating much of the delays and expense of intermediaries. A recent report of the Boston Consulting Group estimates that the value of B2B transactions in Asia by 2003 may be as much as \$430 billion. In addition, many Asian businesses are establishing websites that enable their customers to transact business with them more efficiently online.

The key to sustaining economic recoveries in Asia – or moderating slowdowns there – may well be the growing efficiencies of global markets. eCommerce is a significant factor in raising the productivity of international markets.

Asia may also benefit from its close ties to U.S. markets, where eCommerce is expanding rapidly.

Asia is hugely dependent upon the U.S. economy. Much of its recent economic recovery was based on exports to boom-

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ing U.S. markets, especially exports of high tech products – semiconductor chips from Taiwan, disk drives from Singapore, memory boards from Malaysia and PCs assembled in the Philippines, just to name a few. On the whole, the U.S. alone absorbs about 20 percent of Asia's exports.

Moreover, like the rest of the world, Asia is sensitive to short term financial developments in the U.S. When the Nasdaq started falling last year, tech stocks on Asian exchanges fell sharply, IPOs were put on hold, and venture capital funding started to dry up. When the U.S. Federal Reserve Bank lowered interest rates in January, stock prices picked up. But Asian markets remain volatile and investors are cautiously

awaiting developments in the U.S.

The financial markets of individual Asian countries respond differently to

Kong. Investors there and in Singapore now will probably select stocks that are sensitive to interest

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economic events in the U.S. Hong Kong markets are the most directly affected. Because its currency is pegged to the U.S. dollar, a drop in U.S. interest rates tends to equally improve the cost of capital in Hong

rates, such as bank and property stocks, although Hong Kong property is still in oversupply.

Financial markets elsewhere in Asia, while impacted by a slowdown in the U.S., will be more influenced by local

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conditions than by measures taken in the U.S. China, which is planning on spending \$24 billion on programs to stimulate its economy, is expected to weather the world economic storm, but recoveries and markets in Thailand, Indonesia and the Philippines will continue to be depressed by political turmoil. In Japan, a tentative economic recovery last year has already stalled.

Mixed expectations

Asian countries have differing takes on whether a Bush administration will be good or bad for their economies and diplomatic relationships. Bush is generally seen as pro-business and pro-trade, signaling a continuation of Clinton's policies, but

being less influenced by the demands of U.S. labor unions and environmentalists. Many Asian officials hope that Bush will foster new trade pacts and favorable trade deals. Japan expects that a renegotiation of its 1995 trade agreement covering autos and auto parts will go more smoothly under Bush than under a Democratic administration. But other Asians are concerned that Bush's disputed election victory and a divided Congress will hobble his authority and effectiveness, resulting in a weak administration.

Bush's rhetoric during the election campaign, and traditional Republican isolationism, also gives some Asians added concern. During the campaign,

Bush expressed reservations about the huge International Monetary Fund bailouts in Asia in recent years. These reservations went hand-in-glove with a stated reluctance to involve the U.S. in regional military conflicts around the world. While many Asian countries, especially China, welcome the prospect of a U.S. that is less meddlesome, others would lament a reduction in U.S. military protection, aid and trade relations.

High tech hopes

Notwithstanding the many economic and political challenges for Bush time in Asia, observers anticipate that high tech industries will help to sustain the region as it struggles to regain vitality. Increasingly, high tech products are

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manufactured and assembled in Asia, if not first developed there. Moreover, Asian domestic markets for these products are expanding rapidly.

Many Asian companies are beginning to think about eCommerce in strategic terms. Shui On Corporation, a large construction and building materials company based in Hong Kong, is expanding rapidly in China and plans to set up numerous distribution centers throughout China that will carry out transactions with business customers on their web portal. High tech is changing even the most basic of industries.

Bush himself seems taken with the potential of high tech for the U.S. and Asia. In January, at a business summit convened by him in Austin, Texas, while still president-elect, the invitees were predominantly high tech executives and included the CEOs of IBM, Hewlett-Packard, Dell Computer, Intel, Oracle and America Online, all

companies with substantial operations in Asia.

Time cures all

Bad times place heavy pressures on

inet of managers, not of ideologues. As the new administration goes to work, and Asian leaders become acquainted with their new counterparts, there is every reason to believe

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governments and businesses, fraying relationships, magnifying differences and producing failures of all types. But there is the possibility that the Bush administration, with a mix of sound management and pragmatism, will help rather than hinder resolution of Asia's economic and political ills in the months and years ahead. The cabinet Bush assembled is a cab-

inet of managers, not of ideologues. As the new administration goes to work, and Asian leaders become acquainted with their new counterparts, there is every reason to believe that Bush time in Asia might turn out to be a good time for all. ▲

David James (djames@bsicorp.net) is president of Business Strategies International (www.bsicorp.net), a San Francisco-based consulting and venture-development firm specializing in Asia-Pacific business opportunities.