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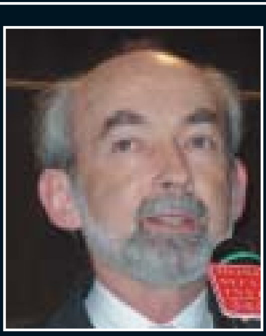
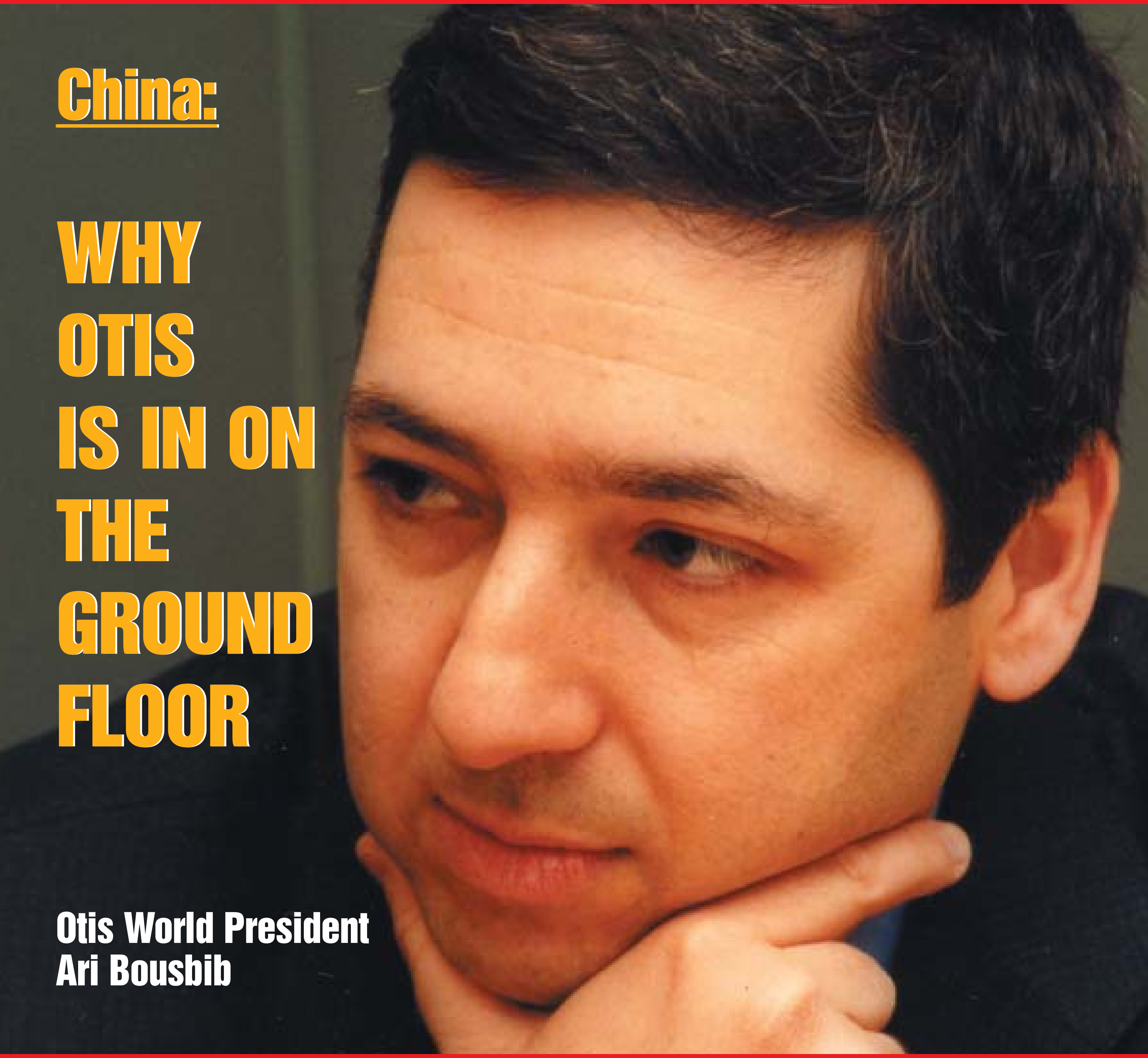


Tony Miller



China:

WHY OTIS IS IN ON THE GROUND FLOOR

Otis World President Ari Bousbib

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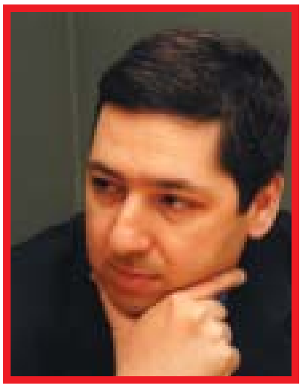

Ari Bousbib: Asia represents 35 per cent of revenue.

OTIS DOUBLES GLOBAL GROWTH IN CHINA — As China urbanises, it will need five to 15 million elevators over the next 25 years. That compares with six million installed worldwide today. Otis World President Ari Bousbib says elevators are a measure of economic development, and in China, Otis is doubling its global growth rate. "We don't set up factories in other countries," he told *ASIA TODAY INTERNATIONAL*. "No more bricks and mortar for us, except in China." **5-8**

BREAKING THE HINDU LOOP — India's new Prime Minister will give comfort to investors and overseas audiences. Manmohan Singh steered India out of economic crisis in 1991 — **Opinion** **5**

CHINA BUILDING MORE RURAL CITIES — China wants to speed urbanisation of rural areas while slowing over-investment in a number of industrial sectors. Rural urbanisation is generating jobs, output, taxes and demand **9**

SPECULATION DRIVING OIL PRICES — Merrill Lynch analyst Mike Rothman argues that government strategic reserves of oil are at historically high levels, and that speculation by hedge funds is helping drive oil prices — the hedge funds, he adds, may be about to start liquidating their positions **10**

Tony Miller: HKSE now an international exchange.

IS CAPITALISM DEAD — Thai Prime Minister Thaksin Shinawatra says it is time Asia stopped subsidising Western living standards — and warns that corporate growth, specifically the trend towards offshoring jobs to lower-cost countries, will see unemployment rise in the West. Western principles of free trade may need to be reversed, he adds. **13-14**

CHINA SWELLING THE HONG KONG BOURSE — Already, 40 per cent of daily transactions on the main board of the Hong Kong Stock Exchange come from China-related and Chinese stocks. Tony Miller, Hong Kong's Permanent Secretary responsible for Financial Services and Treasury, tells of the opportunity for Hong Kong as Chinese companies look to the global market **19**

Breaking out of the Hindu loop

OUT OF A turbulent election in India has emerged a new Prime Minister who will give comfort — at least to overseas audiences — as a familiar name. Manmohan Singh leads a government formed by a coalition of political parties known as the United Progressive Alliance.

When the financial markets got whiff of Singh's appointment, they immediately reversed the downturn push of Indian stockmarkets.

Investors sold off Indian stocks when Sonia Gandhi's Congress Party won the election. But as news leaked that the Italian-born Gandhi would decline the top job — and that Singh would be appointed — the Bombay Stock Exchange 30-share Sensex benchmark index surged 371.86 points to 4,877.03.

It was a resounding endorsement of Singh, whose reputation was firmly established when he steered India out of a financial crisis in 1991.

Then-Prime Minister Narasimha Rao apparently summonsed Singh to the job because the country was close to bankruptcy. India's Reserve Bank was forced to sell gold from its reserves to maintain its foreign exchange obligations.

Singh, an Oxbridge-educated academic, engineered bold reforms — including slashing red tape, simplifying the tax system and removing rigid controls and regulations — to try to create a business-friendly environment.

FLORENCE CHONG

Under Singh's stewardship, the economy grew at a steady seven per cent annually, breaking out of what has often been termed India's curse — a nation trapped in the 'Hindu loop' — meaning growth of five per cent or less a year.

Singh comes to office facing a different scenario today. The Hindu-nationalist Bharatiya Janata Party-led government of Atal Behari Vajpayee has left as its legacy an economy set to grow eight per cent this year.

The BJP campaigned on the strength of growth and its economic management. But its pro-business and anti-poor policy was roundly rejected by an angry India populace living in abject poverty.

Singh must steer a middle course, balancing the needs of business and the rural poor. It is a path fraught with danger. Singh is a political novice, who will have to negotiate the treacherous

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Why Otis is pampering China IN ON THE GROUND FLOOR

AS CHINA urbanises, it will need five to 15 million elevators over the next 25 years. That compares with six million installed worldwide today. Otis World President Ari Bousbib says elevators are a measure of economic development, and in China, Otis is doubling it's global growth rate . .

Ari Bousbib: China already the best growth market

By **FLORENCE CHONG**
Editor ASIA TODAY INTERNATIONAL

OTIS LAST YEAR went out of its way to develop a touchless elevator for China, its fastest-growing market, to help it combat the spread of SARS (Severe Acute Respiratory Syndrome), which spreads by touch. Rather than passengers having to press buttons to get to the right floor, Otis came up with a hand-held device that did the job.

If Otis seems to be pampering China, it is totally understandable. The China market alone will propel the company's next phase of growth for at least a generation to come.

Youthful hands-on Otis World President Ari Bousbib makes five or six trips to China each year, visiting the interior provinces. Last month, he visited Xian and Sichuan provinces in the west to see for himself the progress of Beijing's "Go West" strategy.

"It is amazing," he enthused, during his first visit to Australia in almost a decade. "The growth rate (there) is higher than in the coastal region. When people talk about China's growth, they think of the corridor of Shanghai and Beijing or the Pearl River Delta." He says visitors should go to the interior to witness the massive growth that is taking place there.

He agrees with analysts who say that China has embarked on an urbanisation programme (see report page 9) to move its rural population to urban cities. Sichuan, he says - home to 250 million people — as an example, has a "very well organised master urbanisation plan".

"Today, the urbanisation rate of China is about 38 per cent, compared with 28 per cent 10 years ago. Every year, one per cent of the population has moved from the rural areas to cities. A United Nations study projects that, by 2030, 60 per cent of the Chinese population will live in an urban environment. By comparison, 85 per cent of the population in Europe and 75 per cent in the US live in urban areas. In Europe, World War 2 triggered a massive move of people from the countryside to the city."

Translated into business opportunities for a firm like Otis, the prospects are mind-boggling.

"The fact is that we know what is required to house these people," says Bousbib. "We also know what the plans are in China in terms of the kind of dwellings that are being built or will be built. Based on density per capita in other markets like Korea, Japan and Hong Kong, we estimate that, over the next 25 years, China will need five to 15 million elevators.

> "China is the only country where we invest. We may well do other joint ventures, but we don't set up factories in other countries. No more bricks and mortar for us, except in China"

"Even if you take the lower end, say, five million, that still means 200,000 elevators a year. After 150 years of existence, the total number of

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politics of a Coalition with Left leanings.

Indian commentators also question whether Singh will be given free rein to run the show as he sees fit. They point out darkly that Singh will not be his own man. He stays on the job only as long as Gandhi approves of him. They claim Gandhi remains the effective power centre. One commentator, Ashok Mitra, writing for the *Telegraph*, in Calcutta, said: "It is an absurd situation. The Prime Minister of such a great nation as India has to look back in every instance and take his cue from someone else. No efficient administration can be run on such a basis."

Singh has unveiled what he calls the Common Minimum Programme — a policy which has received mixed reaction. The programme lays out six principles of governance:

- To preserve, protect and promote social harmony;
- To ensure that the economy grows at 7-8 per cent annually in a sustained manner over a decade and more;
- To enhance the welfare and well-being of farmers and farm worker welfare;
- To fully empower women;
- To provide for full equality of opportunity to backward classes and minorities; and
- To unleash the creative energies of businessmen and professionals.

The new Government intends to continue to attract foreign investment in areas such as infrastructure, high technology, exports — and where local assets and employment are created.

India's *Business Standard* describes the programmes as less appealing than optimists might have hoped for. The negatives clearly outweighed the positives, and reflected the Government's dependence on Left support, the newspaper said, adding that whether it was electricity law, labour policy, disinvestment/privatisation, subsidies or user charges, there was little to enthuse about.

Still, those who seem to know Singh better than casual observers, like Indian commentator T Thomas (who writes for the *Business Standard*) are more hopeful. According to Thomas, Singh will do his job without compromising on his principles. "He is quite capable of giving up the post rather than compromising on his ethics," Thomas wrote. "He is not a rich man and leads a simple life. When he was at a loose end after the Rao government fell, he went back to teaching at the university to earn a living.

"Having an honourable alternative career is his strength. He can afford to be bolder than run-of-the-mill politicians."

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elevators installed in the world today is six million, and the worldwide market for new installations is 320,000 elevators a year. China already represents 80,000, or a quarter of the global rate."

Bousbib says elevators are a measure of economic development. Switzerland, which has the highest standard of living in the world, has one elevator for every 47 people. At the other end of the spectrum, developing Vietnam has a lift for every 28,000 people. "As economies grow, there is more urbanisation, more supermarkets, malls and the usual infrastructure projects. All require elevators, escalators and travellators."

In fact, Bousbib says, global growth of the elevator industry over the long-term (25 to 50 years) tracks global economic growth, which averages three per cent.

Despite talk of a slow-down and overheating in China, he sees nothing but unstoppable growth for any type of product — "and certainly for our products — we fully intend to participate in that growth". Of course, there will be some periods of slowdown in China over the next 20 years, but Bousnib remains convinced of Beijing's development strategy.

China is already the best growth market for Otis, at 20 per cent a year — more than double its annual global growth rate — but it still represents less than 10 per cent of Otis' total revenue. "China is the only country where we invest. We are in growth mode. We may well do other joint ventures and start other factories — but we don't set up factories in other countries. No more bricks and mortar for us, except in China."

In the past three years, Otis has formed three joint ventures with Chinese partners. Otis went to China 20 years ago in joint venture with a Chinese partner in Tianjin. Currently, it runs seven factories in China — all of which produce for the Chinese market.

Last year, Bousbib completed a restructuring of its Chinese businesses, forming a single holding company, Otis China. "We own 80 per cent of the business, while all our partners hold the remaining 20 per cent," he says. "Our partners in the various joint ventures exchanged their equity in those projects for a stake in the holding company. We are very pleased with our partners in China. Not everyone can claim success with local business. We have local management, local Chinese and executives from Taiwan, Hong Kong and other Asian countries, who are helping us grow these businesses."

China is not the only growth market for Otis. Other Asian countries, including Korea and India, are also fast-growing or strong emerging markets. While he was Vice President at United Technologies Corporation — the parent company of Otis — Bousbib in 2000 acquired LG Elevators, part of the large Korean diversified industrial conglomerate, the LG Group, for US$500 million. He told *ASIA TODAY INTERNATIONAL* that, at the time, Otis had a one per cent share of the growing Korean market. LG Elevators delivered it a 50 per cent share.

Ari Bousbib:
Asia represents 35 per cent of revenue.

Australia is another growth market for Otis, which it first tapped some 120 years ago. Today, it maintains around 45,000 lifts, and continues to dominate the market. The Australian market has more than doubled in the past three years, turning over AUD350 million in revenue last year.

Asia, including Australia and Japan, represents 35 per cent of Otis revenue, which last year totalled US$7.9 billion - 40 per cent higher than in 2000. North America contributes 25 per cent. Europe and the rest of the world make up the remaining 40 per cent. "We grew at nine per cent annually in the past three years," says Bousbib. "Globally, over the long term, this industry grows at three per cent — essentially, in line with the long-term global GDP growth rate.

"We are very well positioned in the faster-growing markets — China, Korea and Australia. As a result, we have gained marketshare on a global level. We are number one in China and Korea, for example.

"We also have better products, better processes and better customer services. We are the largest company. We have a set of product innovation strategies that have focussed on benefits to the customer — architects, developers and users."

Elisha Otis invented the first elevator in 1878, but it was not until 2000, jolted by its competitors, that Otis totally revamped the conventional mechanism of hoisting a lift. In that year, it launched in Europe what are known as the Gen2 (second generation) elevators. The technological breakthrough

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involves replacement of the traditional steel cable and gear system with a flat belt and a gearless system. The belt replaces the ropes, a permanent magnet replaces the gear. As well, refinement in the making of machinery made it possible to produce much smaller machines, eliminating the need for a machine room. The machines are small enough to be placed inside the lift shaft.

The machine roomless Gen2 elevator addresses a number of customer issues. "One of the aspects of elevators which bothers architects and developers is the machine room on top of a building to house both heavy machines required to lift the elevator and other components like system controls," says Bousbib. "Aesthetically, these machine rooms are not pleasing. If you have the rights to build a 15-storey building, you lose one level to these machine rooms.

"Secondly, elevators require a lot of maintenance. The traditional way of lifting elevators is by using a rope, which needs to be lubricated regularly. There are issues with lubrication, which is not environmentally friendly, not a perfect science. Most of the machines are geared, (and) any geared machine requires lubrication. It is a problem for the operator of the buildings as the elevators have to be shut down for servicing.

> "We are very well positioned in the faster-growing markets — China, Korea and Australia. We are number one in China and Korea"

"We foresee that, by the end of the decade, at least two-thirds of the world market for elevators will be machine roomless elevators. Our competitors have also come up with machine roomless technology, but we are the only ones with the belt system." Otis hopes that its Gen2 range will represent 95 per cent of new sales in 10 years' time. Currently, Gen2 lifts are fitted only to buildings of less than 30-storeys, but the technology is being expanded to higher rise buildings of up to 60-70 storeys.

Otis is a wholly-owned subsidiary of UTC, a Fortune 500 company listed on the New York Stock Exchange. Of UTC's US$32 billion turnover last year, Otis contributed a quarter. "We are the most profitable. Our operating profit was US$1.4 billion," says Bousbib. Otis itself has outlived many competitors in the US, including Westinghouse, Dover and Montgomery. In coming years, the task of maintaining global dominance will fall on Bousbib, Otis' youngest-ever World President. The US business press has suggested that Bousbib may one day return to the parent company, UTC, to replace George David, its current Chairman and Chief Executive.

China accelerating rural urbanisation

CHINA wants to speed urbanisation in rural areas while slowing over-investment in a number of industrial sectors. Rural urbanisation is generating jobs, output, taxes and demand . . .

HONG KONG: When Beijing moved to stop new steel, aluminium and cement projects in May, regional stock exchanges went into a downward spin.

Investors were spooked by what they saw as a slowing of China's growth — and the flow-on impact to regional economies. But the point missed is that a credit squeeze has been in place in China for the past two to three years for projects in sectors which have experienced over-investment.

"The Government has said that lending to the car and steel sectors must slow down — but lending to oil, petrochemical, transport and other sectors is speeding up," says Jim Walker, a well-respected China analyst.

Walker, Chief Asia Economist at brokerage CLSA, believes China will continue to grow at a high rate — out of the sheer imperative of creating jobs. He told *ASIA TODAY INTERNATIONAL:* "China needs to create 14 million new jobs every year — basically most of the Australian population. That is a big ask of any country. The true story of China is that the Government wants fast growth. It doesn't want growth that is too fast. It is not quite sure what the right rate is."

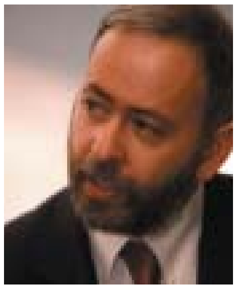
Walker believes the Chinese leadership will be concerned if the economy cools too much. "Of course, we believe that things are cyclical, and that at some point they will cool off for various reasons. But over the next three to four years, growth will be very strong. This year's growth will exceed last year. The official number is 9.1 per cent and the unofficial number 12 per cent. Forecast range is between nine and 11 per cent. And it will be at the upper end of that."

Walker believes such high growth is sustainable. "If you look at Japan's growth between 1946 and 1973, it was on average eight per cent." In China's case, Walker says high growth began from 1996, when the Chinese economy finally opened up.

"We could be surprised at how sustainable growth is in China for quite a number of years to come — but not without its ups and downs. It will be going from high to not quite as high. There will still be demand for supplies and commodities."

To understand the basis of Chinese economic growth policy, Walker says the question that has been least asked is why growth has exploded so much in the last 10 years. "The common wisdom is that it is because exports have picked up from direct investment flow," he says, but Walker adds that two key policies — the introduction of private property rights and entry to the WTO and implementation of its rules — are the drivers of growth. "These two have combined to make the Chinese economic environment more friendly. What we are seeing is a huge upsurge of domestic investment. The next question is: At what stage is the Chinese investment surge? The answer is: It is in the very early stages. It is only a couple of years into it. It usually takes longer than that for an economy to turn around and come down again."

Last year, Beijing introduced its Rural Land Contracting Law, which will allow Chinese farmers the right to a 30-year leasehold. Till now, Chinese farmers have not had security of tenure, and depending on how corrupt the local authorities are, farmers could be moved off a plot of land after a year. At the same time, Chinese authorities have been cutting taxes and fees in rural areas. Another policy shift is to encourage rural people to move to urban areas, but not to the main cities — Shanghai, Beijing and Guangzhou.



Jim Walker: China needs 14 million new jobs every year.

"This reversal of Chinese policy is very much associated with (President) Hu Jintao and (Premier) Wen Jiabo. The process of urbanisation has been going quite strongly. They want to speed it up. They see urbanisation as one of the answers to their rural problems. If workers go to a city and earn, say, US$500 a year, compared with US$100 a year, they are able to remit US$200-US$300 of their income to their villages. We are talking about 400 million moving around."

"They are building hundreds of new cities," Walker says. "It is amazing the kind of momentum that this can generate. When the cities start to generate jobs and output, they start generating taxes and a lot of demand."

Those demands are helping fuel growth in neighbouring Asia. Says Walker: "The best example is Korea. China has also generated recovery in Japan over the last 12 months. Japan is selling capital equipment to China, and China has a big appetite." Demand for commodities has boosted exports from Malaysia, Indonesia and Thailand.

Stock-building, speculation driving price

CONFLICTING views are emerging on high world oil prices, with many pointing the finger at China. Merrill Lynch analyst Mike Rothman argues that government strategic reserves are at historically high levels, and that speculation by hedge funds is not helping. He adds that these funds may be about to start liquidating their positions . . .

asia today **WITH OIL PRICES** now expected to stay above US$30 per barrel, global, and certainly Asian economies are facing another crunch.

Some observers, including Morgan Stanley's chief Asia economist Andy Xie, say high oil prices combined with the prospect of rising interest rates in the United States and a slowdown in China have placed East Asia in a highly vulnerable position.

In a recent note to clients, Xie told investors to 'hunker down', saying the region faces a situation as serious as the 1997 financial crisis.

There is little doubt that high oil prices will rob the global economy of almost one per cent in output next year — and the loss will be greater for Asia, which is more oil-dependent than some other regions.

In a recent analysis of the impact on the global economy, the Paris-based International Energy Agency (IEA) said a rise in oil prices from US$25 to US$35 would result in world GDP losing at least 0.5 per cent in growth — equivalent to US$255 billion — in the year following a US$10 oil price increase. Asia as a whole, which imports the bulk of its oil, would experience a 0.8 per cent fall in economic output and a one per cent reduction in its trade balance.

South Korea is one of the most oil-dependent economies in the region. The Korean International Trade Association (KITA) said recently that Korea will see a drain of US$5.5 billion in its trade account. Korea imported US$20.3 billion worth of oil last year.

The Korean economy is expected to contract 0.3 per cent, and the IEA says the Philippines will lose 1.6 per cent of GDP, India one per cent and China 0.8 per cent, Asia will also experience a large increase in inflation in the first year, on the assumption

Oil-Importing developing Country Macro-economic Indicators in Sustained Higher Oil Price case after One Year by Region/Country

	Real GDP	Inflation	Trade Balance % of GDP
Asia	-0.8	1.4	-1.0
China	-0.8	0.8	-0.6
India	-1.0	2.6	-1.2
Malaysia	-0.4	2.0	0.0
Philippines	-1.6	1.6	-2.0
Thailand	-1.8	0.8	-3.0
*Latin America**	-0.2	1.2	0.0
Argentina	-0.4	0.2	0.2
Brazil	-0.4	2.0	-0.4
Chile	-0.4	2.0	-1.4
Highly indebted poor developing countries	-1.6	n.a.	n.a.

* Includes Mexico
Source: IEA based on IMF Analysis
(Deviation from base case, in percentage points, unless otherwise stated.)

that the increase in international oil price is quickly passed through into domestic prices.

The inflation rate in China and Thailand would increase by almost one per cent in 2004. Xie says China's net oil imports are running at about 3.5 million barrels per day. The current oil price is equivalent to a tax of 1.2 per cent of GDP on the Chinese economy. The same figure for Korea is about 1.5 per cent of GDP.

Overall, world inflation is expected to rise 0.5 per cent. Unemployment could also increase. The IEA says contraction in economic activity in Japan would exacerbate the budget deficit, which now stands at seven per cent of GDP.

Oil prices soared to a 21-year high in May to US$41.85 a barrel. They have since eased off. Many analysts believe the rise is driven by speculation more than actual growth in demand.

The good news is that the price hike may be temporary — when compared to 2002, when oil prices also reached US$40 per barrel, according to Mike Rothman, First Vice President and Senior Energy Market Specialist with Merrill Lynch in New York.

Other analysts blame the China factor for the price spiral. These analysts say China was responsible for one-third of the rise in daily global oil consumption in 2003, and is expected to account for another third of this year's projected two million barrel a day increase in daily world oil demand.

> "This is the worst speculation I have seen in the last 20 years. A typical net long or short position by a hedge fund is 60 million barrels, very high historically"

Xie says that, in 2003, the region probably consumed 13 million barrels a day but produced only 5.7 million barrels a day. However, with China's fixed investment decelerating sharply in the second half of this year, Xie says this could see oil prices reverting to a mean of about US$25 a barrel towards the end of 2004, and falling below the mean in 2005.

Based on long-term trends, Xie says China's oil consumption could double from seven million barrels a day now to 14 million a day by 2014. China became a net importer in 1993.

Merrill Lynch's Mike Rothman argues that China is part of the equation but not the sole cause. Other factors driving oil prices are speculation by hedge funds, low commercial inventories and a strong and steady build-up in country reserves, particularly by the United States.

"This is the worst speculation that I have seen in the last 20 years. A typical net long or short position by a hedge fund is 60 million barrels," Rothman told *ASIA TODAY INTERNATIONAL*. "This is very high historically.

"In the last 10 months, hedge funds has generally been holding a range of commodities from copper, gold, aluminium and zinc. They are playing on China's demand for commodities and an anticipated upswing in the global economy. The flow of funds into energy funds has been the highest in a decade.

"From my perspective, this is a short-term problem, although the oil market is facing structural capacity problems which are more serious than in 2002," says Rothman. Hedge funds are feeling the pressure, and are expected to start to liquidate their positions any time now, he says.

Another reason for demand is a rapid build-up of strategic reserves in many countries. Rothman says the policy on reserves is the result of the shock of September 11 and related concerns about instability in the Middle East. Despite rising oil prices, the US has continued to build up its stockpile to 635 million barrels, and plans to take it to 700 million barrels by next year.

Of the 13 OECD countries, Rothman says, combined reserves are 1.3 billion barrels, including the US stockpile. Japan and Germany, he says, hold the bulk of the remaining 700 million-plus barrels. It is reported that China, India, South Korea and Taiwan also plan to build government-owned emergency stockpiles. Investment banker Barclay Capital estimates that these four countries could boost global strategic stocks by 215 million barrels over the next two years.

Although some analysts predict that oil prices could go to US$50 a barrel, Rothman, who has close to 20 years experience in the energy sector, says this is unlikely. It is simply people extrapolating that if oil can can move from US$30 to US$40 a barrel, then the next jump is to USD$50, he says. Both consumers and producers are comfortable with a price of US$30 per barrel, which both consider would be high enough, he adds.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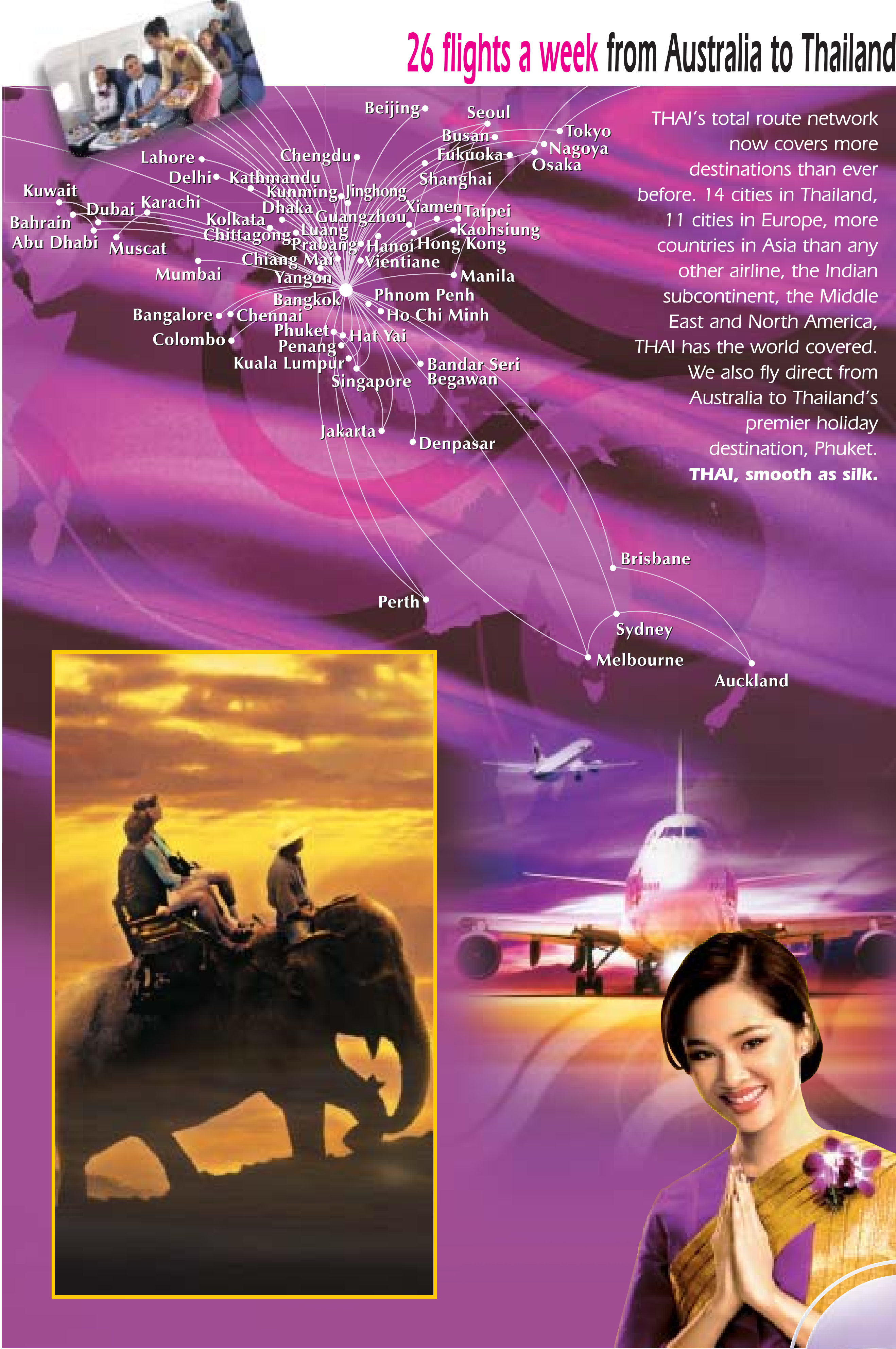

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IS CAPITALISM DEAD?

Thaland's richest man says the West needs to rethink its priorities

Thaksin Shinawatra:
The West should start paying real money for real products from Asia.

THAKSIN SHINAWATRA has certainly lifted his international profile since becoming Prime Minister of Thailand three years ago, partly because of what his admirers (and he) term 'Thaksinomics', which assumes in part a belief that economic growth based on capitalism may no longer be sustainable. In written answers to a series of questions from *ASIA TODAY INTERNATIONAL*, Thaksin seems to be taking up some of the mantle of recently-departed Malaysian Prime Minister Mahathir in declaring it is time Asia stopped subsidising the high living standards of the West — but he also warns Western nations that corporate growth, specifically the trend towards offshoring jobs to lower-cost countries, will see unemployment rising at home. Western principles of free trade, he says, may need to be reversed, and this would alter the dynamics of East-West economic relations . . .

By **FLORENCE CHONG**
Editor ASIA TODAY INTERNATIONAL

THAILAND'S PRIME MINISTER and richest individual, Thaksin Shinawatra, believes Asia has been subsidising the high living standards of the West.

Ideally, he says, the West should start paying real money for real products from Asia, as opposed to farming out products for cheap production to Asia, intended for consumption in the West.

And Asians should themselves consume more of their own production, he adds. Thaksin says that, as consumption in Asia expands, costs will likely rise, easing pressure on employment in the West. Consumption in Asia has been suppressed to encourage more exports and more savings.

Consumption is core to what Thaksin admirers term "Thakinomics" — a policy he has practised since coming to power three years ago. Under his brand of economic paradigm, Thaksin believes he is preparing Thailand for a globalised world which will have increasing stresses and differences.

Thaksin believes the time has come for the West to come up with an economic model that will hold employment in Western countries for their own citizens — because economic growth based on capitalism, as the world now knows it, may no longer be sustainable today.

Speaking in front of Bangladeshi Prime Minister Khaleda Zia and before an international conference on global economic governance and challenges of multilaterism in Dakka early this year, Thaksin said: "We have kept costs low to attract foreign direct investment and to increase our cheap exports to developed country markets. So, to some extent, Asia has, in effect, been subsiding the high living standards of the West.

"To compound matters, when Asia makes money from such exports, we pour our savings, which account for more than half of the world's reserves, into US treasury bonds and other foreign assets. This has contributed toward a golden age of growth and consumption in the US and some parts of the West, while much of Asia remains mired in poverty."

> "When Asia makes money from exports, we pour our savings into US Treasury bonds and other foreign assets. This has contributed to a golden age of growth in the US and some parts of the world, while much of Asia remains mired in poverty"

Thaksin questions the continuing role of capitalism in today's environment.

He says that, for decades, developing countries have been grateful for foreign investment, offering the best conditions under which foreign corporations can boost corporate profits. "Companies have to be competitive to survive. In a globalised economy, they invest where returns are highest, regardless of national boundaries," he says. "They cut costs by outsourcing and using global supply chains to take advantage of cost differentials in labor and raw materials."

The result is that consumers are happy with cheaper products, MNCs are happy with the fatter bottom lines, and developing countries are happy with the increased tax revenue and technology transfer.

Thaksin says the world is now entering an age where corporate growth may not contribute to employment, but may actually come at the expense of employment. He specifically refers to the trend of offshoring, where jobs are exported to lower-cost nations such as China and India. While the shift in jobs is good for the recipient nations, Thaksin says unemployment is rising in the home countries of these multinational companies.

He says: "There is a rising tide of economic rationalism in the West in response to a perceived industrial hollowing out, as manufacturing bases and jobs flow to Asia. There is also talk in Western power circles that the very principles of free trade may need to be revised in light of the adverse impact on employment, just as Asia is beginning to enjoy the full benefits of free trade. Such a reversal will certainly alter the dynamics of East-West economic relations."

Asia has been preoccupied with the old economic model of exporting and saving. Asian firms would take any price they could get for products that could be mass replicated anywhere, he says.

Thaksin believes large Asian countries like China and India may be able to continue to stick to the old economic model, but smaller Asian nations such as Thailand need to carve out their own unique niches in the global economy. "For the past three years, I have been trying to prepare Thailand for the coming change. As long as we are dependent on the charity of distant countries, we are unlikely to have much of a say in global economic governance," he says.

Thaksin told *ASIA TODAY INTERNATIONAL:* "I was determined that I must play some part in reversing the state of the country's economy. I was determined to bring changes to Thailand once and for all, without waiting to be forced to do so. I had three primary principles as the pillars of my government's policy — creating income, lowering expenses, and expanding opportunities."

Thaksin said he sent out research teams

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to all parts of the country to find out the real needs of the people and how to fulfil those needs in what he quaintly terms an "outside-in, people-centred approach".

"With relative political stability, we pressed on with our citizen-centred and people-focussed economic and social policies. In doing so, I was fully aware that we have two constituencies in our society — the poor and rural grassroots and the urban and business sectors. "The result is a Dual Track Policy to address the problems of both constituencies. We need to strengthen the grassroots and to ensure that capital is available to stimulate the economy effectively. With one bullet, we must hit two targets simultaneously, firstly, successful stimulation of the domestic economy and, secondly, ensure that opportunities are generated at grassroot levels."

Thaksin says the Government aims for balanced growth. To do this it has moved capital "closer to the people" and, at a rural level, funds have been made available through micro-credit agencies which, in turn, make funds available directly to rural people.

Like Thailand, South Korea has maintained strong growth through easy credit to encourage domestic consumption. The upshot is an unprecedented level of household debt and credit card defaults.

Thaksin says: "Despite the South Korean government's measures to reduce credit spending and household debt, and to curb property speculation, the rising unemployment rate is a salient factor that has constrained the country's growth. Although exports seem to have picked up the pace, the world still has no new engine of growth which countries can truly rely on. It is important for us to fix the domestic economies so as to be able to stand on our own feet."

> "The Thai Government and business sector alike do not perceive the emerging of China and India as a threat. Instead, we welcome a great opportunity to combine our strong points in synergy"

He says the emergence of China and India is a reality that has long been anticipated — that it is not at all a surprise.

"Rather than see this as a threat, I prefer to look at the brighter side. As a member of the region, sharing a continent with two prosperous economic giants could be both a challenge and an opportunity. The Thai Government and business sector alike do not perceive the emerging of China and India as a threat. Instead, we welcome this phenomenon as a great opportunity to combine our strong points in synergy. These two giants can also serve as an important market for goods of other Asian countries."

Thaksin says the concept of regional production chains is Thailand's policy approach to the situation. Firstly, he says, Thailand will form strategic partnerships with China and India by means of bilateral and regional trade agreements (Thailand is negotiating trade agreements with its neighbours, including Australia).

Thaksin wants Thai companies to form joint ventures with Chinese or Indian companies. The Government is working on restructuring of small to medium manufacturing enterprises in Thailand to strengthen their capabilities in producing products outside sectors such as electronics, shoes and toys — for which smaller countries find it harder to compete with India or China. Instead, Thaksin says, Thailand should concentrate on further developing industries in which it has a comparative advantage, such as agro-industry products, food processing, herbal products and jewellery.

Thailand wants to promote better trade linkages and is promoting development of the East-West and North-South Corridors which link Vietnam to India and Southern China to Singapore. He expects to see increased business activity in India and China through these transport linkages, and believes this would, in turn, benefit Thailand.

Linking Thailand as hub for the Mekong

By **SUCHART LIENGSAENGTHONG**,
Deputy Consul General,
Royal Thai Consulate General, Sydney.

asia today **THAILAND AND AUSTRALIA** are each other's 11th largest trading partners, with bilateral trade in 2003 standing at about AUD5 billion, a 65 per cent increase over five years.

Thailand imports aluminum, cotton, crude petroleum, agricultural produce, wine and dairy products from Australia, which is an important destination for Thai seafood, pet food, jewellery, electronic appliances, computers, TV, telephones and cars.

The car industry and food sector are obvious trade areas of a complementary nature between Thailand and Australia, which also have complementary trade patterns in the tourism and education industries. Of more than 10 million tourists visiting Thailand during 2003, around 360,000 were Australians. In the same period around 73,000 Thais visited Australia. Clearly there is a lot more room and potential for growth and co-operation between our two countries in tourism.

Australian education is renowned for its high standards. The number of Thai students in Australia now stands at around 10,000. For its part, Thailand looks forward to becoming the education centre for the Sub-Region. Thai-Australian joint co-operation in establishing twin universities with joint courses or collaborative degrees would be attractive not only to Thai students but to those from Laos, Cambodia, Myanmar and Vietnam. Establishing joint English-language centres is another attractive venture where co-operation would be welcome.

Because of its strategic location, Thailand is at the forefront in promoting regional integration as well as transportation and economic linkages with countries in the region and beyond.

Thailand is bringing to realisation a project known as the 'East-West Corridor'. Thailand has signed an agreement with Laos on construction of a second bridge over the Mekong River, a vital link to this. The bridge will connect Thailand and Laos onto Highway Route 9, which leads to Vietnam and the deep sea port of Danang on the South China coast. At the same time, Thailand, Myanmar and India are forging tri-lateral co-operation aimed at opening up business opportunities in trade, investment, and the financial sector. The project centres around a co-operative initiative on road linkages and infrastructure development between the western coast of Thailand, the southern coast of Myanmar, and the eastern coast of India.

The 'East-West Corridor' will be complemented by the 'North-South Corridor', which links Southern China, Laos and Northern Thailand. In addition, Thailand and Cambodia will be further linked by the Siem Reap route in Cambodia. When all these linkages are completed, the transportation route network will be intertwined, with Thailand standing as a hub for the Mekong sub-region and a gateway for regional economic activities.

MILESTONES

From the pages of ASIA TODAY INTERNATIONAL

JUNE 1984: Indonesia confirms plans to invite foreign participation in development of its fishing grounds. South Korea confirms that it will free 1,181 items from its import embargo list over the next five years. A third devaluation of the Philippine peso appears imminent.

JUNE 1989: To stimulate foreign investment, Indonesia reduces to nine the number of business fields closed to foreign investors. Korea moves to build commercial and trade ties with China, the Soviet Union and East European nations and North Korea. Major Chinese banks gear to issue bonds in overseas markets.

JUNE 1994: Hong Kong helping build a framework for stock exchanges in China. Thailand to remove investment restrictions on its car assembly industry. Indonesia establishing industrial estates around Jakarta, Surabaya and Batam to attract foreign investors.

JUNE 1999: Megawati Soekaroputri tipped to head up a coalition government in Indonesia. European hypermarts find ready customers in Thailand. The World Bank offers risk cover on financial restructuring of Asia's banking and corporate sectors.

Investment lag in Vietnam

VIETNAM needs to move more quickly on power, transport and water infrastructure — and that means overturning policy to use foreign loans as a last resort . . .

By **ANDREW SYMON**
ASIA TODAY INTERNATIONAL Correspondent.

SINGAPORE — Vietnam's dynamic economic growth may be arrested unless there is increased investment in infrastructure. Lags in investment in power, transport and water supply especially threaten to constrain development.

Domestic consumption, exports, and local and foreign investment in manufacturing and property are propelling Vietnam, which has the highest GDP growth rates in East Asia outside of China. The ADB forecasts 7.5 per cent and 7.6 per cent growth in 2004 and 2005 after average annual GDP growth of six per cent over the previous five years.

But investment in infrastructure is not keeping pace. For business, power and transport infrastructure are most important. In terms of overall social welfare, more investment in clean water and sewage is also a most pressing need. One obstacle to accelerating infrastructure investment may be continuing suspicion within the Vietnamese Government and ministries towards foreign companies operating in what are seen as strategic sectors of the economy.

Nationalist sentiment remains strong in Vietnam. While communist ideology these days has little force in economic planning, nationalism does still appear to affect decision-making. As a result, the Vietnamese Government remains cautious about allowing foreign companies to invest in infrastructure projects under build-own-operate (BOO) or build-own-transfer (BOT) conditions where the foreign companies will have operating control.

> "There are no real legislative barriers to FDI (in infrastructure). It is more a matter of an unwritten policy not to involve foreigners unless absolutely necessary"

Despite established legislation for BOO/BOT projects, only two large foreign invested projects, both in the power sector, have advanced to construction and operation. These are the 715 MW Phu My 2.2 and 720MW Phu My 3 power plant, near Ho Chi Minh City, taking natural gas from the BP-operated offshore Nam Con Son gas fields. Phu My 2.2's partners include Electricte de France, Tokyo Electric Power and Sumitomo Corp of Japan; Phu My 3's partners are BP, Sembcorp Utilities of Singapore, and Japan's Kyushu Electric Power and Nissho Iwai.

Many future power plants, which Vietnam desperately needs — given plans to nearly double power supply from 2005 to 2010 — are designated in government planning to be built by either the State utility, Electricity Vietnam, or other State-owned enterprises such as coal miner Vinacoal, or oil and gas company PetroVietnam.

In transport, test cases for foreign direct investment may be the proposed mass transit projects for Ho Chi Minh City and Hanoi. Both cities badly need to establish good public transport systems. Otherwise, they will become badly congested in coming years as increasing numbers of motor vehicles enter their mostly narrow roads.

Tim Reinold, the Hanoi-based Managing Partner of the Australian law firm Freehills, says the Government's preference is to rely for investment capital on Official Development Assistance (ODA) from bilateral government and multilateral government agencies, such as the Japanese Bank for International Co-operation, the World Bank and the Asian Development Bank, and funding from domestic sources such as the State budget, State banks, State-owned companies and bond issues. In 2003, the Government raised US$578 million for infrastructure projects through bond issues.

"The Government is encouraging as much as possible to be raised internally, with the use of foreign loans as a last resort," Reinold says. "In the case of foreign-involvement by foreign invested enterprises in infrastructure projects, the tendency recently has been to allocate projects (particularly power projects) to local (domestic) contractors using the Engineering Procurement and Construction (EPC) method of investment, and merely to have foreign involvement by way of sub-consultancies and equipment loans." (In an EPC or turn-key contract, a company provides engineering design, secures parts and constructs and commissions the project)

"The problem as I see it is that there is a gap in the total funding required for infrastructure say over the next five years that cannot be covered by ODA, State budget funds, the raising of money from infrastructure bonds and through equitisation (that is, privatisation of parts of State-owned companies)," says Reinhold.

"This gap could be as much as US$1 billion to US$1.5 billion per year for the next five years." Reinold says that while the Government ostensibly encourages FDI in infrastructure, official letters and decisions

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