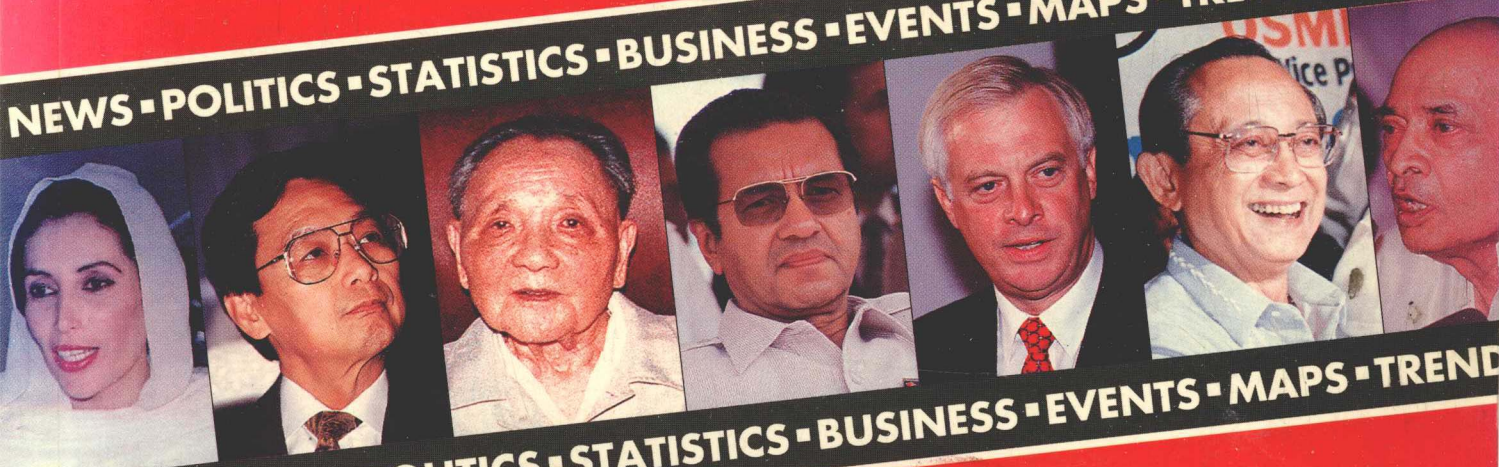


Far Eastern Economic
REVIEW

(94)

ASIA 1994

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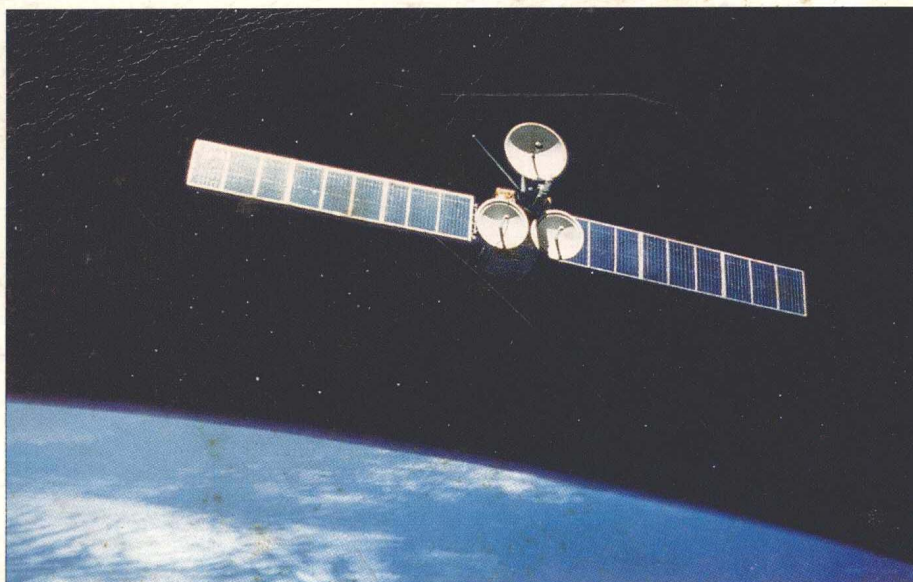
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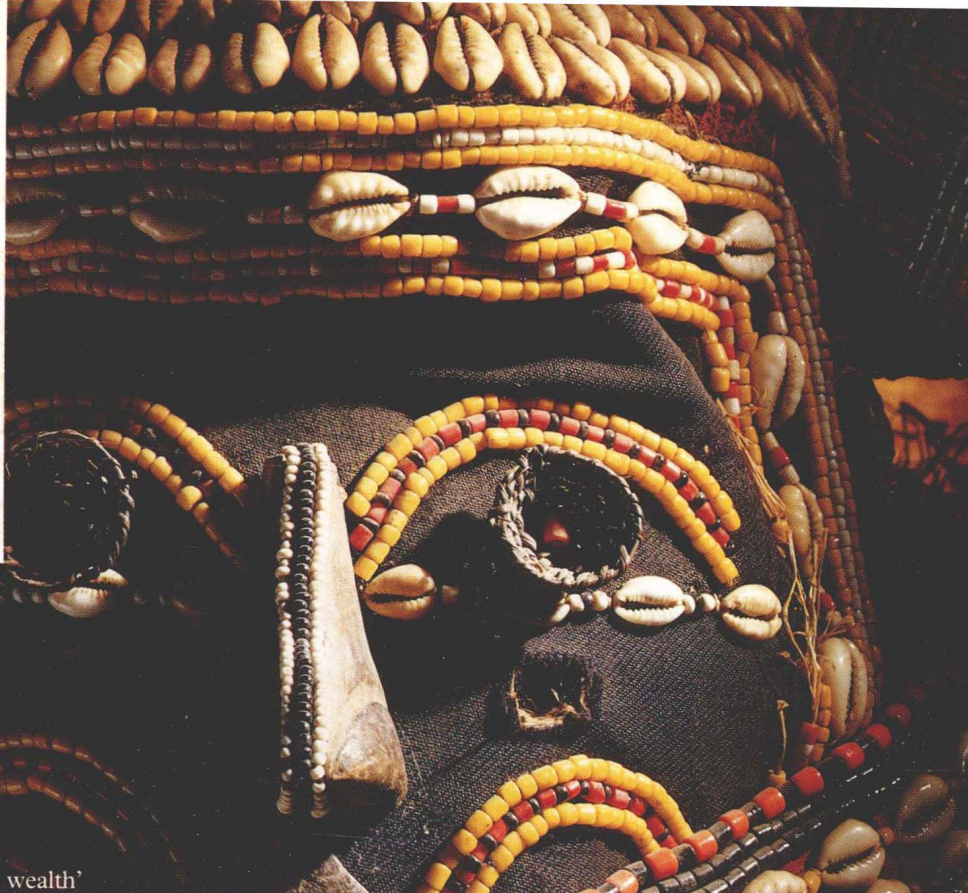


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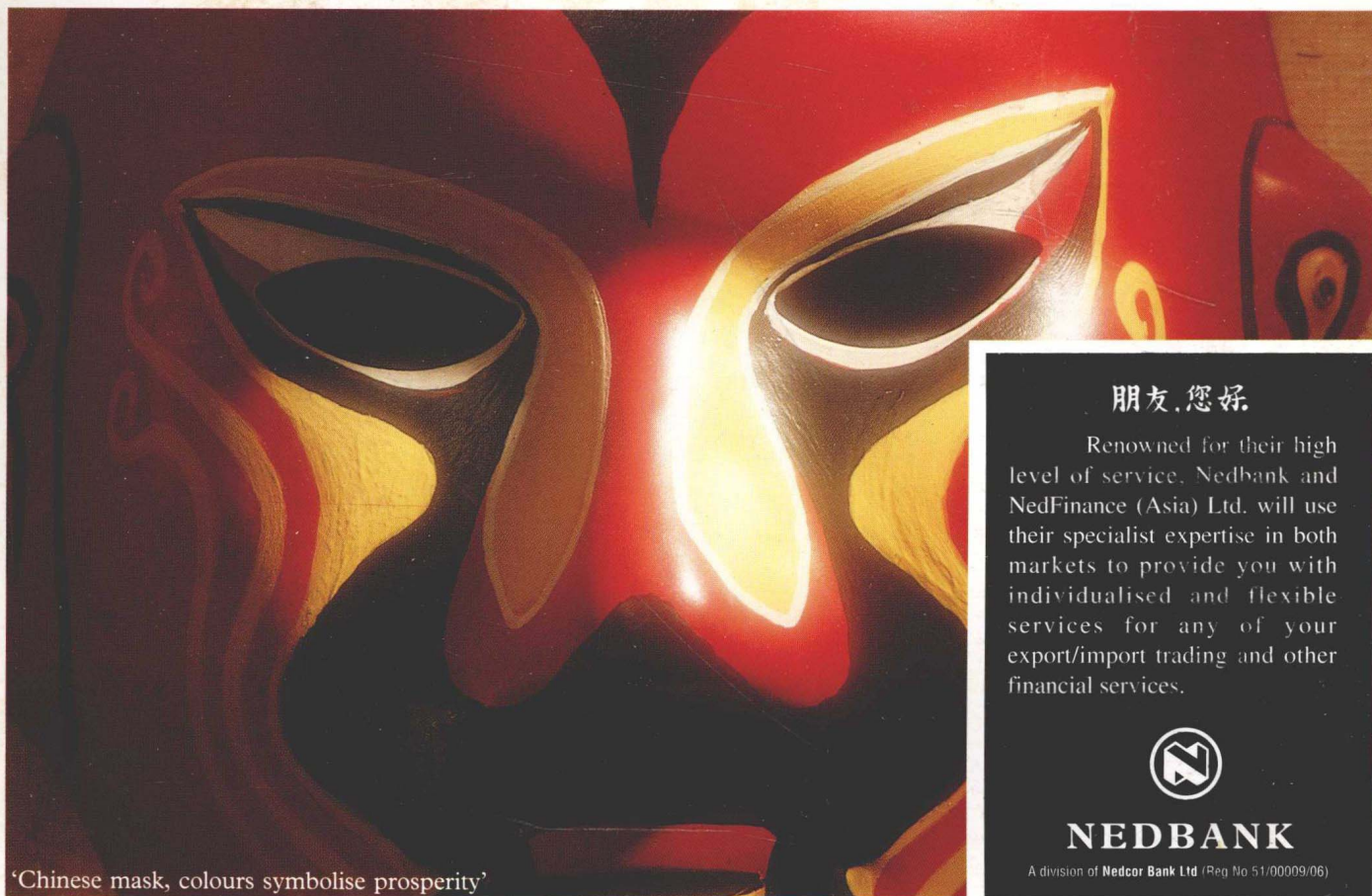
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FOREWORD

ASIA YEARBOOK, 35th EDITION

As the world moves towards the Pacific Century, the Asia Yearbook remains the indispensable guide to the politics and economics of the region. First published in 1959, the Yearbook is a basic intelligence source for businessmen, diplomats, government officials and journalists — indeed, everyone who takes Asia seriously.

The core of the Yearbook is our comprehensive in-depth coverage of the year's events in 36 countries and territories in the region, including the newly-independent Central Asian republics of the former Soviet Union and the Russian Far East. Exclusive reports of key recent developments in politics, social affairs, foreign relations and economic affairs for each country and territory are written specially for Yearbook readers by REVIEW correspondents all over the region and around the world.

In addition, there are region-wide analyses of the year's movements in currency, commodity and securities markets, as well as special reports on military affairs, population and refugees. Sectoral surveys cover energy, aviation, trade, shipping and fishing.

Also included is a detailed, up-to-date listing of military capabilities throughout the region, compiled by the authoritative International Institute for Strategic Studies in London. This year's edition also includes a new chapter reporting on the Asia-Pacific Economic Cooperation forum and a survey of regional environmental issues.

ROBERT DELFS

Editor

Hongkong, December 1993.

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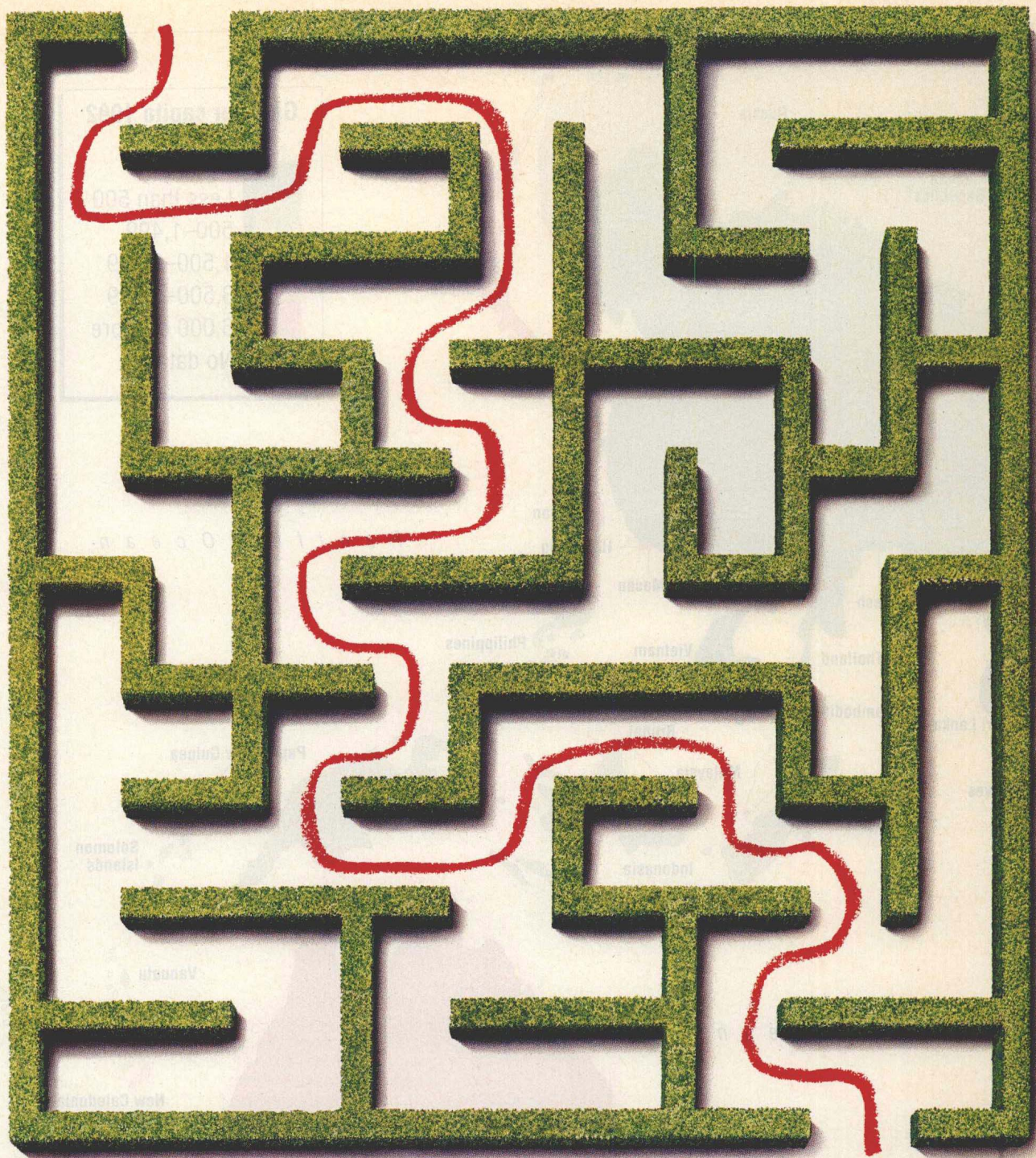
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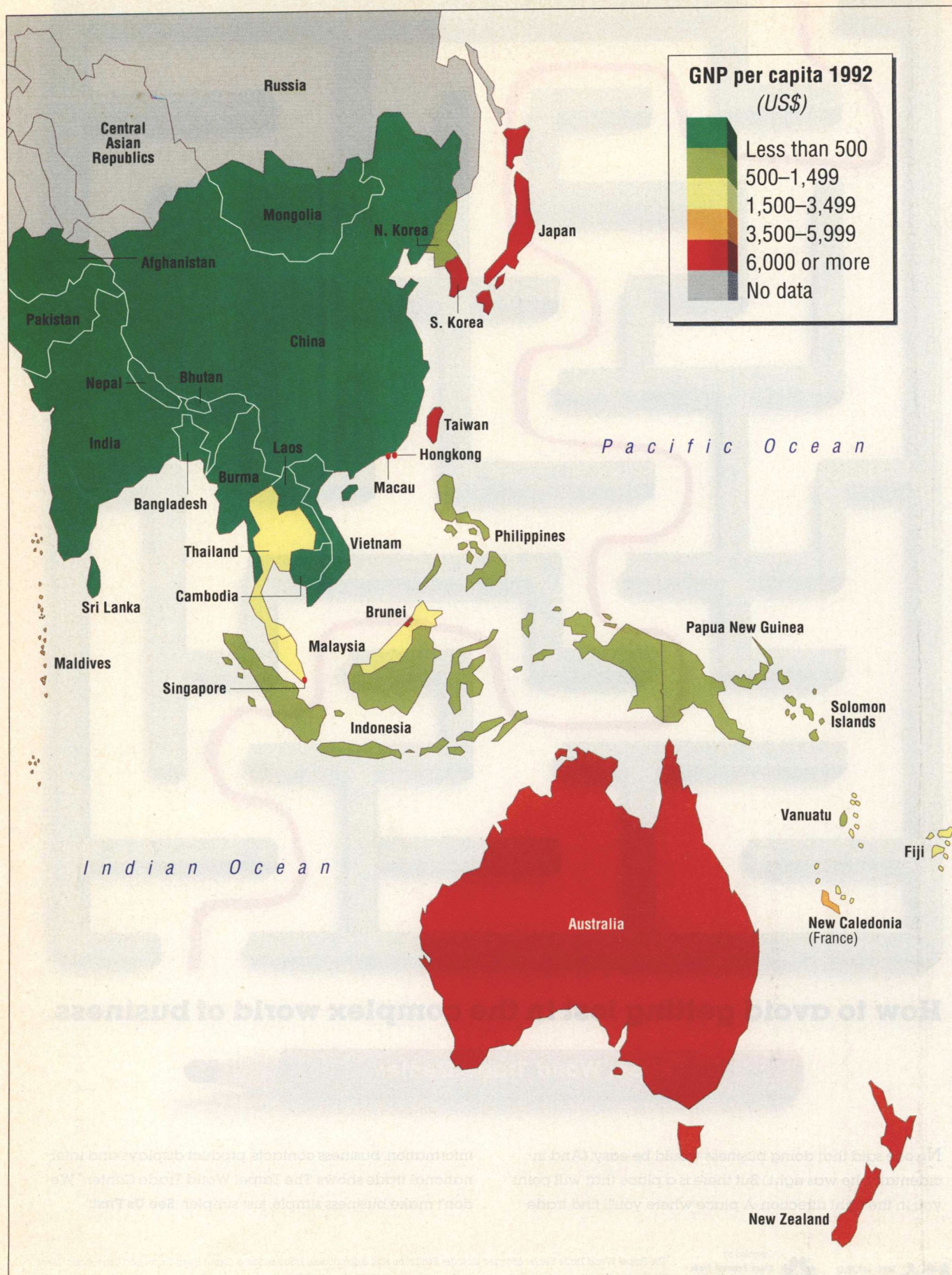


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OVERVIEW

The Pacific Century is scheduled to begin only after several more years have passed, but it is typical that progress in this part of the world moves at its own quickened pace. No one could have predicted a few years ago that China would be the world's hottest investment prospect, that reformers would suddenly shove the ruling party in Japan from power or that the most dynamic trade group in the world would be called the Asia-Pacific Economic Cooperation (Apec) forum. Yet by the end of 1993, these were the big stories in the region, part of larger trends that appear likely to continue.

More predictable, given the growth rates in much of Asia, was that this region as a whole would attract unprecedented attention over the course of the year. Asia was on the mind of everyone from brokers pitching mutual funds to makers of Swiss watches to auctioneers of Western fine art.

The great hope — and one that is backed by solid economic performance — is that the swelling numbers of middle-class consumers in the last great marketing frontiers of China and India will keep the Asian tigers themselves roaring with exports while also compensating for lingering recession in Europe and America. It was a sign of the times that real-estate surveys showed that in the foreseeable future, the priciest office space in the world after Tokyo will likely be in Shanghai and Hongkong, rather than Paris or New York.

Underlying these phenomena is a new political-economic dynamic that has taken root in Asia. The liberalisation of economics and politics is moving along parallel tracks, even if not in precise lockstep, and old ideological distinctions no longer apply. China pursues a "socialist market economy," while Japanese trade negotiators take the high ground of free trade to criticise the US for insisting on "managed trade." The communications and information revolutions now under way are creating a truly global village. Asian MTV is creating linkages among a new younger generation of music fans in ways that their elders probably will never quite understand.

Meanwhile, Asia remains largely peaceful. Traditional ruling parties' monopoly grasp on political power is already broken in South Korea and Japan, and seems likely to pass in Taiwan as well. Even Hongkong, in its twilight years as a British colony, has developed a new interest in politics as the debate over democratic reform remained in the headlines throughout a year when the only absolute certainty was the 1997 takeover by China.

Events in China during 1993 showed that even the best-laid plans by Peking can sometimes go awry. This was supposed to be the year that China's runaway economy would finally be brought under control following the selection of Vice-Premier Zhu Rongji as economic tsar by paramount leader Deng Xiaoping. GDP growth of more than 12.5% during 1992 led to general anxiety about the central authorities' inability to maintain sound fiscal or monetary policies as loose bank lending and uncontrolled growth of money supply prompted a resumption of

high inflation, especially in the booming cities.

Zhu's 16-point austerity programme did manage to exert some limits on overproduction of unwanted goods by state-sector industries, and he also managed to halt the depreciation of the renminbi on the swap markets. But the banking system proved far harder to control. Zhu set a deadline for banks to call in Rmb 90 billion (US\$15.6 billion) worth of property loans that he termed speculative. Officially, one third of the loans

were repaid, but this estimate is probably too high, given evidence that banks shifted funds among each other in an effort to make their books look clean to auditors. Banks tried to accelerate repayment of loans by industrial borrowers when illiquidity in the property market became clear, but this created a credit crunch among firms that warned of more serious problems ahead if they were denied access to capital.

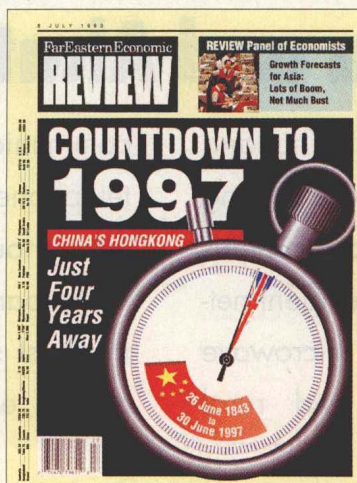
Deng set off China's economic boom in the 1980s when he declared that "To get rich is glorious." Another turn of phrase by Deng put an end to Zhu's austerity programme. In October, the 89-year-old leader proclaimed that "Slow growth is not socialism." The country ended the year with GDP growth projected at 13.5% and forecasts for continuing high growth in 1994.

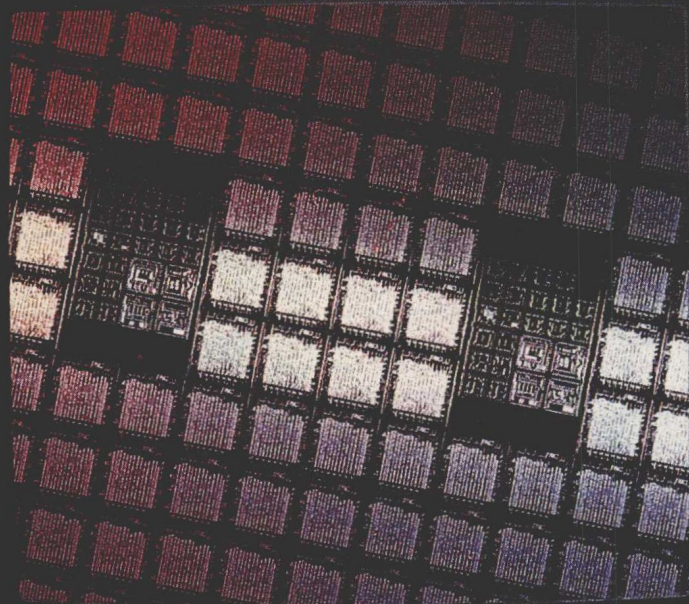
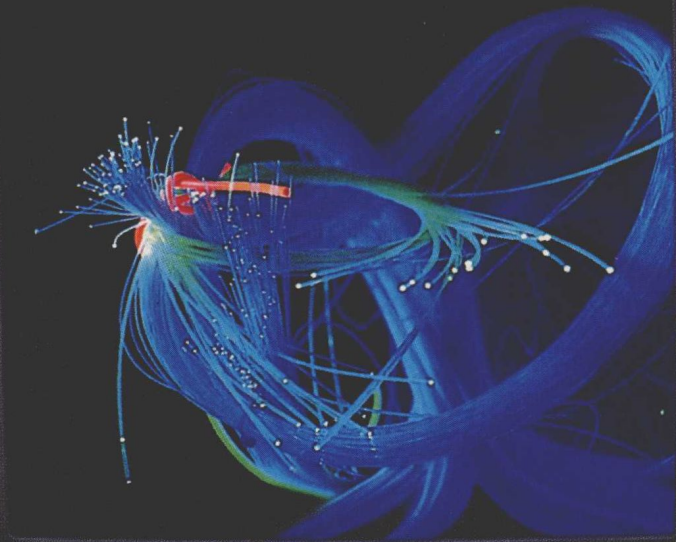
There are still dark clouds on China's horizon, however. Inflation remained stuck at over 20% for most of the year in urban areas. There was also evidence of massive capital flight, as much as US\$25 billion in 1993 according to some estimates. Washington's long standing threat to withdraw China's Most-Favoured Nation trading status will be an issue again in 1994, as it has been annually for several years.

The stitched-together nature of China and Hongkong was illustrated by a comment from Barton Biggs, a New York-based analyst for Morgan Stanley. After a visit to China, he declared himself "maximum bullish" on the country. American mutual funds quickly moved into the Hongkong market for "China plays," boosting the Hang Seng Index by 24% to a series of record highs built on more than US\$3 billion of institutional investing. In November, Biggs again made headlines when he announced his decision to decrease his portfolio's weighting in Hongkong by more than a third. "Love means never having to say you're sorry," Biggs explained.

Hongkong endured similar gyrations on the political front. Governor Chris Patten's proposed reforms to secure more democracy and enhance the authority of the legislature before the 1997 handover to China gave way to laborious negotiations with Peking. China, which vehemently opposed the reforms, spent the year making its opposition known through its appointed advisers. The Sino-British negotiations had gone through 17 unproductive rounds by the end of 1993, at one point becoming the self-caricature of "talks on talks."

Britain hoped the negotiations would result in legislation in time for the 1994 District Board and 1995 Legislative Council elections, but Peking seemed aware that time was on its side. Patten revealed that Britain had





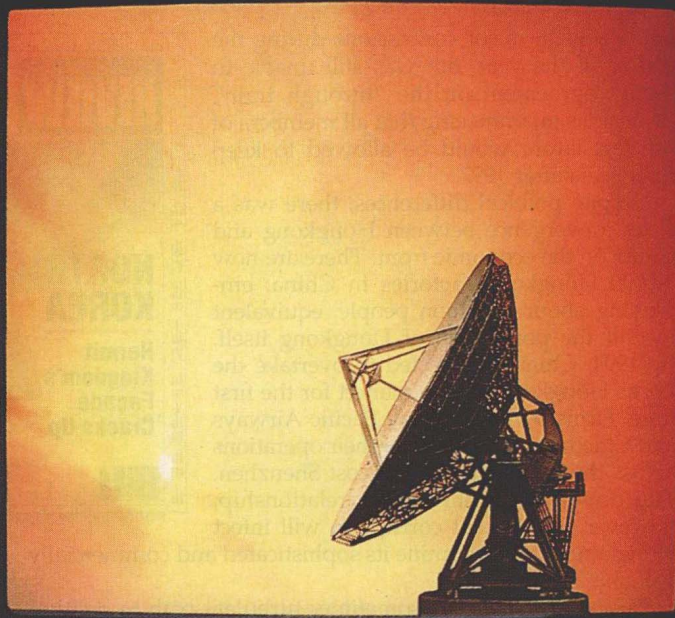
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made several major concessions during the course of the year, but was still unable to secure agreement on the "through train" provisions guaranteeing that all members of the legislature would be allowed to keep their seats after 1997.

Despite political differences, there was a clear convergence between Hongkong and China on the economic front. There are now 30,000 Hongkong factories in China, employing about 3 million people, equivalent to half the population of Hongkong itself. By 1994, China is expected to overtake the US as Hongkong's main market for the first time. Firms such as Cathay Pacific Airways and Citicorp moved some of their operations across the border into lower-cost Shenzhen. The downside of this closer relationship, however, is fear that corruption will infect Hongkong and undermine its sophisticated and commercially valuable rule of law.

Taiwan continued its sometimes turbulent path to political pluralism and economic dynamism. President Lee Teng-hui, who is also chairman of the ruling Kuomintang (KMT), made it clear by his actions that he no longer believes that the KMT has a monopoly on power. Lee campaigned vigorously in the autumn of 1993 for local elections that the KMT feared would not go well. In the event, the KMT held onto the same number of local government posts it had before, but the strong impression was that opposition parties had lost in a fair contest.

Earlier in the year, six KMT lawmakers defected from the party to form the Chinese New Party, the first party split since the KMT arrived on Taiwan in 1945. Even the remaining KMT members split among themselves in June over the requirement that more than 20,000 elected and appointed officials, including the president and premier, disclose their personal assets. This clean-government move was criticised by some as unenforceable, but even Premier Lien Chan complied in the end. Lien turned out to be Taiwan's wealthiest government official.

Taiwan's economy continued to grow with GNP rising at a healthy rate of just over 6%. But a new sense of caution led to a more than 20% reduction in spending in the current six-year plan to the still-considerable figure of about US\$240 billion. Political differences aside, investments continued to flow into China from Taiwan. Unofficial estimates of Taiwan's investment in the mainland are in the US\$15 billion range.

In South Korea, President Kim Young Sam initiated a broad programme of reforms soon after his inauguration in February. Kim's insistence that high-ranking officials disclose their personal assets forced him to fire five of his own cabinet members who were unable to account for their substantial wealth. Several military officers and judges were also found to possess suspicious amounts of money.

Kim then turned his reform efforts to the markets. In a move to make trading more transparent, Kim mandated that henceforth real names must be used in financial transactions. Anonymous accounts which had long been used as a means of evading taxes were abolished. Although there is wide agreement that these reforms will pay off over the long term, in the meantime there is still considerable discomfort. South Korean GDP growth is expected to be around 4% this year.

South Korea spent the year with one eye necessarily trained



on its unfriendly neighbour to the north. North Korea remained in world headlines during the year after its announcement in March that it would withdraw from the Nuclear Non-Proliferation Treaty. This came after Pyongyang barred inspectors from sites suspected of being used for storing waste after plutonium reprocessing. Meanwhile, the Great and Dear Leaders, Kim Il Sung and his son Kim Jong Il, remained atop one of the world's last remaining totalitarian regimes, apparently secure despite the desperately impoverished North Korean economy.

Southeast Asia had a happier tale to tell. Malaysia was another successful economy in the region this year, with GDP growth of about 8%. This steady economic performance served as the backdrop to the emergence of a new generation of party leaders in the ruling

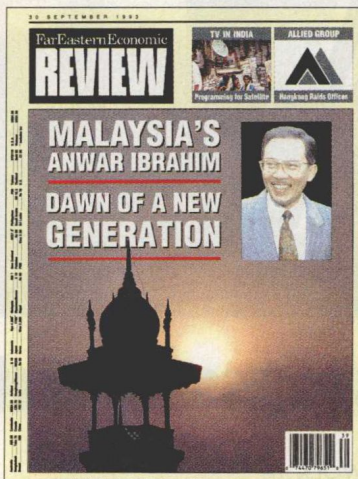
United Malays National Organisation (Umno). Prime Minister Datuk Seri Mahathir Mohamad was always certain to remain president of Umno, but the year began with uncertainty about how quickly his likely successor, Finance Minister Datuk Seri Anwar Ibrahim, might rise in the party.

Anwar won the November election for deputy party chief, defeating veteran party leader Ghafar Baba. Campaigning on the theme of the "new Malay," Anwar drew strength from the increasingly urbanised Umno membership. "Things have changed considerably from the general Malay thinking of past," Anwar told the REVIEW. "There is now a battle over whether you accept the narrow, parochial, chauvinistic Malay agenda that is promoted in the villages, or else a national Malay agenda that accepts new political and economic realities."

The big political news in Singapore at the end of 1992 was that the two deputy prime ministers, Lee Hsien Loong and Ong Teng Cheong, had both been diagnosed with cancer. The big political news this year was that both had returned to active political life. Prime Minister Goh Chok Tong this year strengthened his own position by resigning his parliamentary seat to contest a by-election, which he won easily. More drama came as Ong was elected president, but only after a relative unknown, Chua Kim Yeow, won more than 40% of the vote. At the beginning of the year, Singapore was widely considered to be approaching more modest levels of economic growth. The accepted wisdom was proven wrong as GDP growth of 5.6% in 1992 was followed by growth this year estimated at about 9.2%. The financial services and manufacturing sectors both had double-digit growth rates.

For Thailand, 1993 was a year of national recovery from the May 1992 massacre of pro-democracy protesters in Bangkok. The subsequent collapse of the pro-military government led the way for the current government of Prime Minister Chuan Leekpai. Still, the Chuan government endured a difficult political year, with opposition parties and occasionally even politicians from among its five-party coalition criticising the prime minister's lack of practical accomplishments.

As even infrequent visitors to Bangkok know too well, traffic remains a huge barrier to growth and considerably reduces the quality of life in the nation's capital. It was therefore somewhat ironic that the government engaged in a bitter battle with firms that had invested in an expressway in Bangkok. The cabinet voted to cut the proposed fare, disrupting the



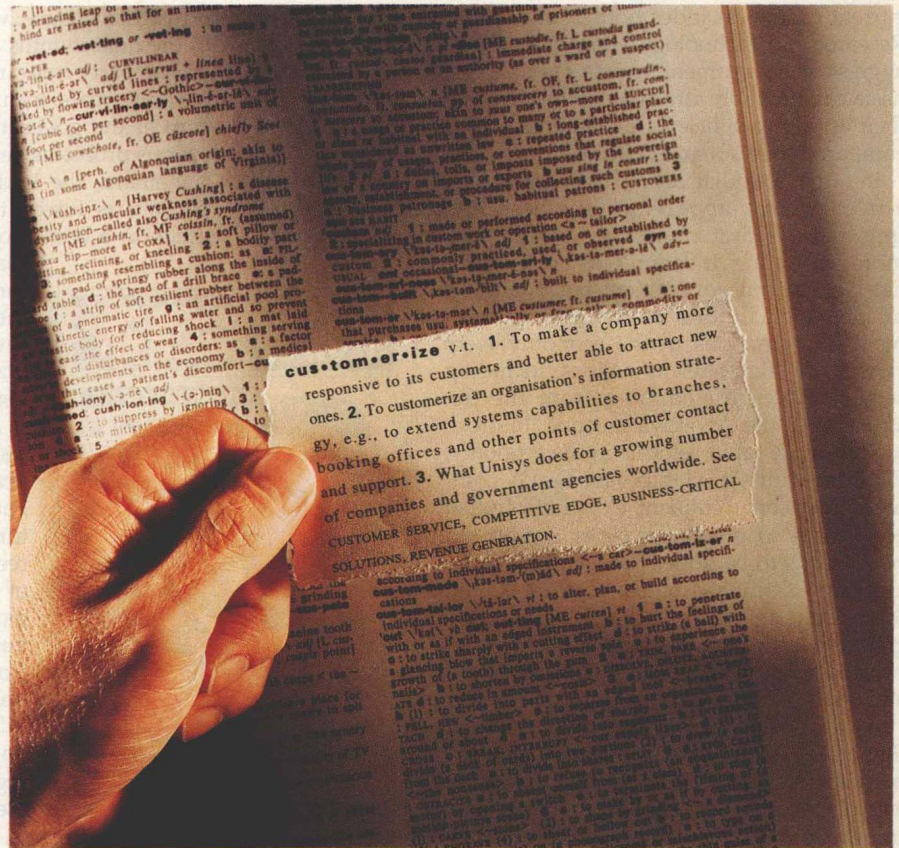
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financial structure of the deal originally signed in 1988. Rather than negotiate with the Japanese project owners, the government forced the road open, worrying other foreign investors, and potential investors. Overall, the Thai economy fared well with GDP growth forecast in the 7.5-8% range by the second half of the year. Industrialisation, of course, also has its risks. In May, Thailand suffered the world's worst factory disaster, when 190 workers were killed in a fire in the Kader Industrial toy factory outside Bangkok.

In Indonesia, President Suharto was elected to his sixth five-year term by the People's Consultative Assembly. This result was unsurprising, but the stability of this system does not mean there is unanimity on policy within the government. An engaged debate is taking place over economic theory. The current cabinet includes both "technocrats" and followers of Research and Technology Minister B. J. Habibie, who supports aggressive government investment in hi-tech industries. Indonesia can probably afford to let the two sides experiment with their opposing policies: GDP is forecast to grow at 7% in 1994 compared to less than 6% in 1992.

In India, a similar debate between a planned economy and a free economy appears to have been resolved in favour of free markets, but translating theory into practice proved more frustrating. Inflation was brought under control, but government borrowing remained high. Efforts to continue government liberalisations in the economy were slowed by high-tension politics, including secular violence stemming from the destruction of the Ayodhya mosque. In order to spur more rapid reforms in the economy, Finance Minister Manmohan Singh commissioned some eminent expatriate Indian economists to prepare a paper setting out what needs to be done. The economists, including Jagdish Bhagwati and T. N. Srinivasan, agreed that the size of India's government bureaucracy must be reduced, privatisation accelerated, subsidies removed and trade barriers lifted.

It was a sign of a mixed year, however, that just as Coca-Cola agreed to re-enter the market after being forced out by protectionist policies years ago, the grain giant Cargill Inc. withdrew from a salt farm development because of opposition to the project.

The Philippines, still only a potential member of the club of growing Asian economies, surprised many observers by taking several of its problems seriously this year. President Fidel Ramos began to make good on his pledge to break down monopolies that harm consumers. His government issued an executive order requiring Philippine Long Distance Telephone Co. (PLDT) to connect its facilities to competitors. Some of the 800,000 people currently waiting for installation of a telephone may soon get relief from PLDT's own "Zero Backlog" programme. The government hopes to encourage more private sector firms to solve the continuing shortfall in energy and other infrastructure bottlenecks. The Philippines has a long way to go before it joins the club of Asian tigers, but the 2% growth estimated for the year would be a respectable showing.

Japan finished the year as the odd man out. Its troubled economy showed little signs of recovery, with most private economists estimating that GNP grew by less than 1%, though the government predicted 3.3%. The yen continued to surge, making trade far from an efficient search for comparative advantage. Instead, Japan has been forced towards a costly practice of effectively hedging currencies by opening plants in one

country and slowing them down in another.

Japan continues to suffer from the fallout of the 1980s "bubble economy." In August, Keynesian pump-priming, including US\$60 billion in new spending, failed to boost the economy. The second and third stimulus packages also failed. Token deregulation has had little effect. By the end of the year, even the Ministry of Finance seemed resigned to attempting the supply-side solution of a significant income-tax cut.

The most headline-grabbing news from Japan in 1993 was the dramatic break-up of the monopoly on power that kept the Liberal Democratic Party (LDP) in power for the whole of its 38-year existence. The July election opened the way for a coalition of reform parties. These parties, led by Prime Minister Morihiro Hosokawa, are defined mostly by what they were created to oppose, which can best be understood by a review of the final months of the LDP as Japan Inc.

One-party rule suffered a series of embarrassments over the past few years, including corruption scandals that went to the core of the government-big business relationship. The most serious problems developed in the autumn of 1992, when Shin Kanemaru, the leader of the Takeshita faction of the ruling party, was forced to resign from parliament after pleading guilty to a breach of the Political Funds Control Law. Kane-

maru's departure led to calls for electoral reform as LDP dissidents began to abandon the party. These included such powerful figures as former LDP secretary-general Ichiro Ozawa and former minister of finance Tsutomu Hata.

At the other end of Asia, Australia attracted world attention on several fronts this year. In a surprise victory, Prime Minister Paul Keating's Labor Government was returned to power despite the country's sticky recession. He pledged to make Australia part of Asia, hoping to bring a share of the region's prosperity Down Under. Australian businesses will get a boost in this direction from the announcement that Sydney will hold the Olympics in 2000.

The year ended with an event that symbolised the pre-eminence of the Asia-Pacific region, the summit of the Apec forum. The centre of the earth seemed to shift markedly towards Asia and away from Europe, with Asian countries wondering what to make of their new-found importance and interest from America. US President Bill Clinton, who acted as the host for 15-member group as it met in Seattle, offered a rosy view.

"Imagine an Asian-Pacific region in which robust and open economic competition is a source of jobs and opportunity without becoming a source of hostility and instability," Clinton said. A region that has prospered by engaging in economic competition could prosper more with even freer markets. For Apec or any other group to play an important role in Asia's future, however, the countries of Asia must first decide whether they share enough interests to provide a foundation for an organisation like Apec.

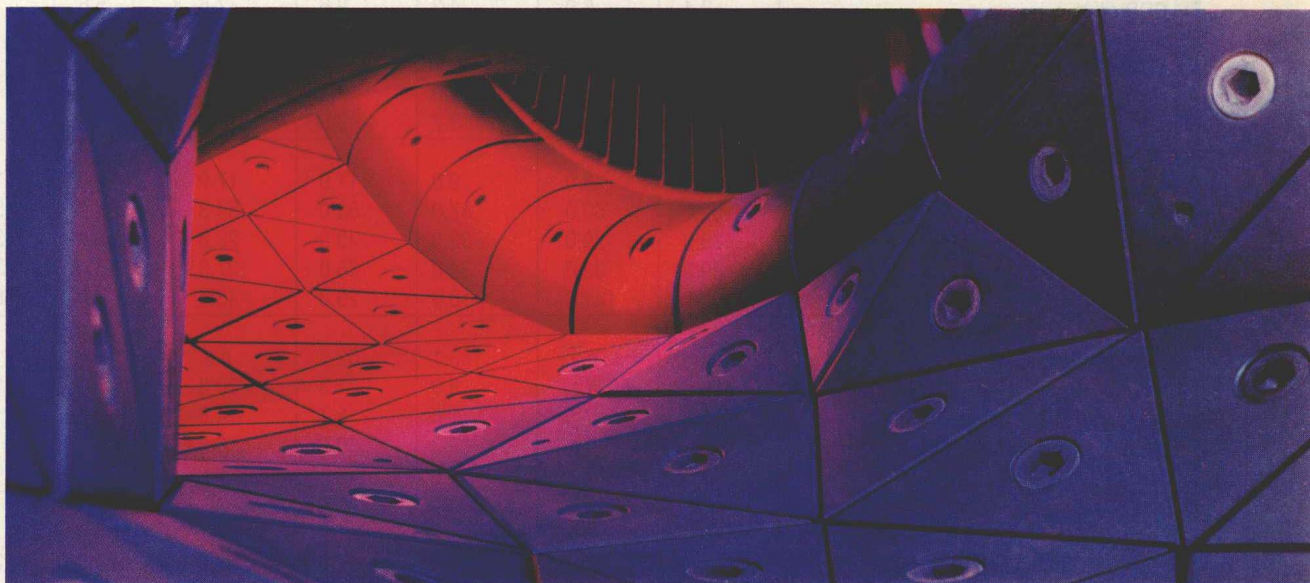
If 1993 gives any indication of the direction of shared goals for Asia, then these clearly do include more open trade to give the people of the region full opportunity to make the most of their talents. Giving individuals the chance to improve their lives has been the secret to the Asian economic boom. As we enter 1994, the economic progress that has made Asia the envy of the world shows little sign of retreat.

— L. GORDON CROVITZ

L. Gordon Crovitz is Editor & Publisher of the Far Eastern Economic Review.



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