

1998

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# Asia's Road to Economic Recovery

The Asian economic downturn has affected the western economies. Asia's culture of working hard and resilience to adversity will carry it through this rough patch.

**I**T HAS BEEN a year since the Asian financial turmoil triggered an alarm in the global economy and international markets. The situation has drawn a wide range of reactions from the International Monetary Fund (IMF) to the White House, international stock markets, and individual companies.

Although traditional economics can be complex, savvy economists have been able to predict most events. The relationships among interest rates, inflation rates, unemployment, stock and bond markets, and economic growth have been well interpreted – until recently, when the low interest and inflation rates, low unemployment, and rising stock markets all occurred in confluence.

## New Economy

It is believed that the less-than-predictable economy is the result of the evolution of a new economy. The “newness” is fueled by the availability and use of new tools coupled with the continued expansion of an international market for almost every industry.

In business dealings, national boundaries have become increasingly vague through export, import, partnership, and joint ventures, creating true “globalism.” Today’s better-informed workforce and consumers further benefit the economy. The new tools that drive efficiency and productivity in business and run daily routines bring us deeper into the Information Age. Information technology has started exerting a real impact since the personal computer (PC) was introduced about 17 years ago.

Looking at the worldwide shipments of PCs, the number of units shipped in 1997 reached an astounding 85.5 million. Over the last four years, it is estimated that 270 million PCs were shipped, not counting minicomputers and servers.



The Information Age has made a great impact on the Asian economy.

These PCs have been put to use in the areas of spreadsheet, financial analysis, data processing, simulations and design, production process control, and word processing.

Recalling the electrical SCM typewriter that I used to type my PhD dissertation 23 years ago, I manually replaced many keys before the triple integrating Calculus equations were completed. I also typed the text several times before I achieved an acceptable format. Today, word processing on PCs does it all in only a fraction of the time it used to take. These 270 million PCs have provided an unprecedented power in computing and data processing, lifting our activities to a higher plateau of efficiency.

More recently, Internet accessibility has generated another level of performance, providing a new communication forum and versatile multimedia functions.

Reportedly, more than three trillion e-mails were sent in 1997, an impressive number, and a phenomenal growth in a short period of time. Some industry segments are already doing business via the Internet in order placement, procurement, new product introduction and marketing, as well as manufacturing information exchange. Used either as an individual unit or as a network, these 270 million PCs have helped to increase the productivity of organisations, as well as the flow and output of factories.

## Asian Market Development

Having had the opportunity to witness the industry develop in Asian countries during my business travels over the last 20 years, the economic growth in some industrial nations in the region is absolutely stunning. Labour markets have responded to the high demand for

workers, resulting in an extraordinarily low unemployment rate in some areas.

Each country has been developed under separate systems and through different processes. Using Taiwan as an example, only a handful of electronic manufacturers existed in 1989. Among the few, production operations were small in scale and limited in capability. For example, surface mount technology was hardly recognised.

Within a few years, Taiwan became the centre of the PC industry with world class manufacturing facilities serving as the global source of suppliers for major components (enjoying more than 80 per cent of PC motherboard market share).

What accounted for this fast development? In addition to the more tangible aspects, such as an educated workforce and solid capital, the tenacious work habit driven by the relentless zeal to acquire wealth has been the powerful momentum behind the growth. Business owners and workers have been willing to put in long hours and maintain a flexible schedule, working whenever needed. The work ethic, compounded with the relatively minimal extraneous constraints, led to quick and profitable results. The downside is weak fundamentals and lack of creativity. Over time, however, superb entrepreneurship led to higher productivity and a faster reward.

### **Korean Business**

Through hard work, many businesses in South Korea have succeeded during the last 15 years. Selected industries in that nation, however, have been supported by government aid through bank loans – some disproportionately. Often, a sound financial base was not present. This may be a good example of excessive government assistance.

Likewise, Singapore has been industrialised since the 1960s. The city-nation has been extremely successful in the manufacturing and service sectors, particularly in the high-tech industry, serving as high volume, low-cost production sites for many major American, Japanese, and European OEMs for the last two decades.

Active government investments and support have established an excellent business infrastructure. Native-grown technologies and businesses through entrepreneurship, innovations, and a new education system is timely for the future

of Singapore. Most recently, the merit of low cost in Singapore has been fading away, forcing many corporations to move their plants to other Asian countries, such as Malaysia, Thailand, the Philippines, Indonesia, and India, whose infrastructures are less established. In some cases, businesses were built on shaky grounds and in an uncertain climate.

Another phenomenon indicated that the vigorous investments and developments have resulted in an overcapacity in some product lines that were, at one point, in highest demand. This not only caused industry consolidation, but also led to fierce price-cutting and, inevitably, a low margin market. This particularly applies to some products that have been the backbone of the information age. The relativity of supply versus demand appears eternally true.

### **Economic Powerhouse**

Japan has always been considered as a separate and unique nation in Asia. Historically, Japan has been an economic powerhouse in the continent. It is also regarded as the technology and manufacturing leader in the region. The nation has not only played a role of a major investor in other Asian countries, but also as an influential exporter to other Asian countries. Some industries in the region were built by Japanese investments and rely on Japan's continued support. Recently, Japan has been experiencing the record high 4.3 per cent unemployment rate, an unthinkable rate for Japan. In relation to the world economy, the continued devaluation of Yen has left the world alarmed. Yet so far, Japan has benefited through its low-cost exports to the Asian region. This, however, has hurt small nations tremendously.

Japan's Yen devaluation also puts pressure on China, making China's exports to the region uncompetitive. This could dangerously induce the devaluation of the Yuan (*Renminbi*). Japan's sluggish response to rescue the Yen and to energise its economy as urged by the United States, China, and other countries, has its roots in the aggregate of complex political, social, and financial factors.

China's economy is closely linked to other small but prosperous industrial nations that have huge investments as well as manufacturing operations in the mainland. China's role in the region has been

historically different from Japan's and will continue to be so in the future. As the largest potential market and the most populous nation, China's continued economic reform and currency stability are vital to the region's overall economic stability.

The recent phenomena in declined foreign investments, slower export growth, and "luke-warm" consumer demands have dampened the original reform momentum. This year's estimated growth rate is expected to fall short of the targeted 8 per cent. On the bright side, the Premier's reform agenda has sparked more positive signals for the nation's future economy. His reaffirmation that China intends to maintain the stability of the Yuan and to peg the Hong Kong dollar with the US dollar is good news for other nations in the region. Furthermore, the recent bold "anti-corruption" effort to close down all businesses of the People's Liberation Army should, in the long run, minimise the irregularities in the country's financial system even more.

### **Impact on the United States**

Over the years, the USA has benefited from the Asian market in areas such as: exporting to the growing market, trading with the most populous nations, building low-cost offshore factories, obtaining quick turnaround outsourcing, and setting up factories closer to customers.

During Asia's financial crisis, one immediate impact on the United States has been decreased exports to the region, as a result of lower consumer demands and less competitive pricing related to local currency devaluation. This contributes to the US trade deficit. Declined exports apply to both end-use products as well as to the raw materials and parts that are incorporated into final consumer and industrial goods. The low demand in Asia consequently contributed to the excess inventory of many US products, creating a negative effect on the overall economy.

Many US companies are experiencing pressure on prices. Nonetheless, blaming the increasing pricing pressure solely on Asian finance would be unrealistic. For local factories, the currency devaluation automatically increased the cost of raw materials and parts imported from the USA. These materials and parts are required to produce end-use products. On the other hand, the cost for raw materials

supplied by Asia has dropped. This could be potentially vulnerable to price erosion. In the meantime, the US offshore plants in Asia have been cheaper to operate, producing lower-cost goods.

Overall, American consumers can temporarily take advantage of cheaper imports, boosting the already "hot" consumer demands, which fuel the US economy. In addition, the regional financial crisis appears to have contributed to the sustained low interest rate in the United States – normally welcomed by sectors including the housing market, housing-related goods, business community and stock market, yet not viewed as a safe haven from a money supply perspective.

The impact of Asia's financial turmoil to individual businesses varies with the nature and content of the business. Certain sectors have been deeply hurt, and some areas are not significantly affected, depending on the geographical distribution of business, end-market, and diversity of products and services. Companies with production in the USA, with a large portion of exports to Asia would have been adversely affected. Impact to the companies that manufacture in Asia and supply to worldwide market would be much milder.

Today's economics resembles the nature of the universe operating by the law of thermodynamics: spontaneously going

to "randomness". The forces that make up the economy come in various directions, creating a true dynamism. The net force that balances all forces in positive and negative directions is the final result observed today.

## Outcome

The root causes of the current financial turmoil in Asia vary with each country. As an aggregate, the following factors combine to form the economic condition in Asia: bad loans, over-extended loans, high debts, excess government "assistance", a corrupted environment, an unsound system, an extraordinarily high debt-to-equity ratio, inadequate infrastructure, the lack of quality workforce, and overcapacity. The situation can be considered as a "timely" correction for those nations establishing industries and developing businesses. It acts as an alert for those who invested in the past and will invest in the region in the future.

Globalisation has become "natural" for today's business. Adequate understanding of each country and the region is what makes the process work. Recognising what makes it tick, and more importantly, what it takes to sustain business, is the key to long-term prosperity.

The crisis to some nations in the region that have healthy fundamentals and human resources is perhaps tran-

sitory. But to others that lack an established infrastructure and a sound system, long-term reform is necessary. If the crisis prolongs, Asia may face the danger of turning low unemployment in some areas to high unemployment, leading to other ailments. In the meantime, this may have created bargain stock opportunities for astute investors, assuming that stock market will evolve within the normal correction range (less than 10 - 15 per cent). Ironically, Japan, the country with the historical leadership in resources, finance, technology, is faced with the deepest problem. Since the Asian financial crisis broke out, I have visited the region in December 1997, March, 1998 and July 1998. Businesses are still sizzling hot and people are working just as hard.

Hard work, together with the Asian drive for prosperity and their resilience to adversity will facilitate the recovery and reestablishment of Asia's economy. The current turmoil is the turning point for the region – one that will allow it to achieve a better balance between self-reliance and interdependence, noting that E-commerce will make the world economy increasingly interdependent. Information technology and leading technologies will continue to be the engine of the Asian economic development. ■



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