

## Challenge

The CEO of an international raw materials corporation was the final speaker at an international conference outside the region in the wake of the 1997-1998 Asian crisis.

THANK YOU FOR INVITING ME TO SPEAK TODAY. I KNOW IT'S BEEN A LONG CONFERENCE, AND THAT I AM THE LAST SPEAKER ... SO I'LL TRY AND MAKE MY REMARKS SHORT AND SUCCINCT SO WE CAN ALL MOVE ON TO THE GALA DINNER.

MY TOPIC IS ENTITLED 'MARKET SHIFTS' AND I WANT TO USE THIS TITLE TO OFFER YOU A BROAD BRUSH PICTURE OF WHAT I BELIEVE IS HAPPENING IN ASIA AT THE MOMENT ... AND WHAT IT MEANS FOR A COMPANY LIKE [ \_\_\_\_\_ ], WHICH WORKS RIGHT AT THE CUTTING EDGE OF MARKET FORCES. OUR EXPERTISE IS IN LOGISTICS – PHYSICALLY MOVING COMMODITIES SUCH AS ORES, COALS AND COKES, AND CHEMICALS, FERTILISERS AND STEELS – ACROSS ASIA AND AROUND THE WORLD.

OUR BUSINESS IS HIGHLY SUSCEPTIBLE TO PRICE FLUCTUATIONS IN RAW MATERIAL PRICES AND TRANSPORTATION COSTS. WE HAVE TO OPERATE A VERY, VERY TIGHT OPERATION IN ORDER TO MAKE A PROFIT ON WHAT IS A HIGH VOLUME LOW-MARGIN BUSINESS.... AND THIS IS THE WAY WE OPERATE NORMALLY, WHETHER OR NOT, AS NOW, ASIA IS FACING TOUGH TIMES.

I'D LIKE TO BRIEFLY HIGHLIGHT SOME ASPECTS OF WHAT IS HAPPENING IN ASIA TODAY BEFORE EXPLAINING HOW WE, AT [ \_\_\_\_\_ ], ARE RESPONDING TO THE CRISIS... THEN I'D LIKE TO FINISH BY LOOKING AHEAD.

### **THE ASIAN CRISIS**

YOU'VE PROBABLY READ A LOT ABOUT THE "ASIAN CRISIS" THAT IS AFFLICTING OUR REGION. AND AS SOMEONE WHO HAS LIVED AND WORKED IN ASIA FOR

## Solution

Haleton devised a short speech that painted a broad brush picture of the business environment while demonstrating the company's sophisticated understanding of wider market forces at play.

THIRTY-FIVE YEARS, I CAN CONFIRM THAT WE HAVE BEEN TAKING A BATTERING IN RECENT MONTHS.

I WOULD LIKE TO MAKE TWO MAIN POINTS TODAY. FIRST, THERE ARE REALLY TWO SEPARATE, THOUGH INTERRELATED CRISES HAS SEEN A COLLAPSE IN THE VALUE OF ASIAN CURRENCIES AGAINST THE U.S. DOLLAR: ... THE INDONESIAN RUPIAH HAS DROPPED 80 PERCENT .... THAILAND, SOUTH KOREA, MALAYSIA AND THE PHILIPPINES HAVE SEEN THEIR CURRENCIES DROP 35-50 PERCENT.

THE FINANCIAL CRISIS HAS RESULTED IN HUGE STOCKMARKET LOSSES. MANY BANKS AND FINANCIAL COMPANIES HAVE BEEN SHOWN TO BE UNDERCAPITALISED AND OVERBURDENED WITH NON-PERFORMING LOANS.

TO A CERTAIN DEGREE, YOU COULD ACTUALLY SAY THAT THIS FINANCIAL CRISIS IS STARTING TO EASE. THE ACCEPTANCE AND IMPLEMENTATION OF I-M-F STRICTURES IS HAVING AN EFFECT: CURRENCIES **ARE** STEADYING AND STOCKMARKETS **ARE** RECOVERING, IN THAILAND AND SOUTH KOREA IN PARTICULAR. THE MAIN EXCEPTION IS OF COURSE INDONESIA WHERE POLITICAL FACTORS ARE IN PLAY.

THE OTHER CRISIS IS THE ECONOMIC CRISIS..... AND THIS IS ONLY JUST BEGINNING TO REALLY BE FELT WITHIN ASIA AND BEYOND ASIA. LARGE PROJECTS ARE BEING SHELVED ... NEW INVESTMENTS DELAYED OR CANCELED ... DOMESTIC DEMAND IN ASIAN MARKETS IS WEAKENING AS PEOPLE WORRY ABOUT PRESERVING THEIR JOBS AND SAVE THEIR MONEY RATHER THAN SPEND IT.

THE AUTO INDUSTRY, A LEADING ECONOMIC INDICATOR, TELLS THE STORY, MALAYSIAN AUTO SALES ARE EXPECTED TO DROP ALMOST 60 PER CENT THIS YEAR. THAI SALES ARE DOWN 40 PER CENT ON A YEAR AGO. TOYOTA, THAILAND 'S LEADING CAR MAKER, HAS SUSPENDED PRODUCTION AT ITS TWO PLANTS IN THAILAND AND IN THE PHILIPPINES BECAUSE IT HAS TOO MANY UNSOLD CARS. TO TAKE ANOTHER EXAMPLE, A LUXURY-GOODS FASHION HOUSE LIKE PRADA IS STILL SCRAMBLING FOR SALES EVEN THOUGH IT HAS CUT ITS PROFIT MARGINS TO MORE REALISTIC LEVELS IN ASIA....THERE ARE MANY MORE EXAMPLES LIKE THIS.

UNTIL GOVERNMENTS IN ASIA SORT THEMSELVES OUT AND OFFER THE RIGHT POLICIES – SUCH AS CLEANING UP THEIR BANKING SYSTEM – THEN NEW LENDING WILL BE CURED, NEW INVESTMENT MONIES WILL BE HARD TO COME BY – THOUGH THERE ARE SOME CLEAR EXCEPTIONS WHICH I WILL MENTION SHORTLY – AND TRADE WILL BE DOWN... IN SHORT, ECONOMIC GROWTH WILL SLOW.

HOWEVER, HOW “SLOW” IS “SLOW”?

WELL, THIS YEAR – 1998 – DOES LOOK BLEAK, ESPECIALLY IN THE FIRST HALF. THE ECONOMIES OF THAILAND, SOUTH KOREA AND INDONESIA WILL CONTRACT. THOSE OF OTHER ASIAN COUNTRIES WILL SEE A MARKED SLOW DOWN.....LESS THAN TWO PER CENT GROWTH IN HONG KONG, MALAYSIA AND THE PHILIPPINES, SLIGHTLY MORE FOR SINGAPORE...MAYBE FIVE PER CENT FOR TAIWAN...SIX PER CENT FOR CHINA.

THAT'S RIGHT I SAID FIVE PER CENT GROWTH FOR TAIWAN...SIX PER CENT GROWTH FOR CHINA... IN A PERIOD OF DIFFICULTY, THERE ARE ECONOMIES IN ASIA THAT CAN STILL EXPECT GROWTH RATES THAT WOULD BE CONSIDERED RESPECTABLE OR EVEN EXCEPTIONAL IN OTHER PARTS OF THE WORLD AND ESPECIALLY IN THE WEST.

THAT BRINGS ME TO THE SECOND POINT I WOULD LIKE TO EMPHASISE ABOUT WHAT IS HAPPENING IN ASIA:

THERE IS NO SINGLE “ASIAN CRISIS”, JUST AS THERE IS NO SINGLE PLACE CALLED “ASIA”.

THE REGION IS MADE UP OF VERY DIFFERENT COUNTRIES WITH VERY DIFFERENT PEOPLES AND TRADITIONS...AND VERY DIFFERENT ECONOMIES. YES, THERE ARE SOME COMMON FEATURES UNDERLYING THOSE ECONOMIES FACING THE GREATEST DIFFICULTIES: ...POOR BANKING SYSTEMS ...A LACK OF TRANSPARENCY ...CRONYISM ... OVER INVESTMENT ESPECIALLY IN PROPERTY ...CHEAP CREDIT... ARTIFICIALLY HIGH EXCHANGE RATES.

BUT THE RESPONSES OF GOVERNMENTS AND COMPANIES IN BOTH THE WORST AND LEAST EFFECTED ECONOMIES HAVE DIFFERED MARKEDLY IN FORESIGHT AND COMPETENCE. FOR EXAMPLE, THE SOUTH KOREANS HAVE TAKEN THEIR I-M-F MEDICINE QUICKLY AND ARE GETTING ON WITH SORTING THEMSELVES OUT ... IN MALAYSIA, THE GOVERNMENT HAS NOT CALLED IN THE I-M-F, PREFERRING INSTEAD TO TRY AND MAKE THE TOUGH DECISIONS OFF ITS OWN BAT--- IN CONTRAST, THE INDONESIAN GOVERNMENT IS STILL STRUGGLING TO COME TO TERMS WITH WHAT HAS HAPPENED.

THE COUNTRY WHICH HAS BEEN LEAST DIRECTLY AFFECTED HAS BEEN CHINA. EVEN THOUGH IT FACES MANY OF THE SAME PROBLEMS OF ITS NEIGHBORS, TIGHT ANTI-INFLATION POLICIES MEAN THERE IS NO REAL PRESSURE ON CHINA TO DEVALUE IN ORDER FOR ITS INDUSTRIES TO RETAIN THEIR COMPETIVENESS. THERE MAY BE OTHER DANGERS FACING THE CHINESE ECONOMY, BUT IT IS NOT GOING TO TOPPLED BY WHAT IS HAPPENING ELSEWHERE IN THE REGION.

WHAT DOES THIS ALL MEAN FOR ESCORTS AND IMPORTS AND FOR THOSE IN THE SHIPPING INDUSTRY?

CLEARLY TRADE IS DOWN. US AND EUROPEAN EXPORTS TO ASIA HAVE FALLEN BY ONE FIFTH. ASIA IS BUYING LESS HEAVY MACHINERY... FEWER MACHINE TOOLS... FEWER AIRCRAFT AS WELL AS FEWER MERCEDES BENZS... LESS COGNAC ... AND FEWER PRADA HANDBAGS.

FORTY PER CENT OF ASIAN EXPORTS ARE NOW TO CUSTOMERS WITHIN THE REGION. THESE ARE CLEARLY BEING ADVERSELY AFFECTED BY THE REGIONAL SLOWDOWN. COMPANIES MAKING CARS, OR CEMENT OR STEEL OR PETROCHEMICALS OR PLASTICS FOR CUSTOMERS ROUND THE ASIAN REGION ARE HURTING, ESPECIALLY IF THEY HAVE RELIED ON PROTECTED HOME MARKETS TO SUSTAIN SALES... ASIAN PORTS THAT DO A LOT OF INTRA-ASIAN TRADE, SUCH AS THOSE IN MALAYSIA, ARE REPORTING A DROP IN BUSINESS.

WITH FALLING CURRENCIES TRANSLATING INTO CHEAPER COSTS, THE OBVIOUS OPTION WOULD BE FOR TROUBLED ASIAN ECONOMIES TO EXPORT THEIR WAY OUT OF DIFFICULTIES.

THIS IS HAPPENING TO A CERTAIN EXTENT, BUT NOT AS MUCH AS MANY PEOPLE WOULD HAVE HOPED. BECAUSE OF THE PROBLEMS IN THEIR BANKING SYSTEMS, MANUFACTURERS CANNOT BORROW THE MONEY THEY NEED TO PAY FOR IMPORTED RAW MATERIALS, ESPECIALLY IF THOSE MATERIALS ARE PRICED IN U.S. DOLLARS.

AS WE ARE ALL AWARE, THERE HAS BEEN A CONSIDERABLE KNOCK-ON EFFECT ON SHIPPING RATES. AVERAGE RATES FOR DRY BULK CARRIER VESSELS HAVE FALLEN BY ((20)) PER CENT. ANOTHER ((20)) PER CENT FALL IS EXPECTED THIS YEAR. ...RATES FOR LARGER VESSELS ARE OFF ((10)) PERCENT....AND OF COURSE, CHARTER RATES ARE DECLINING, ESPECIALLY FOR PANAMAX SHIPS WHICH ARE USED ROUND ASIA'S SMALLER PORTS.

AND THE DIFFERENTIAL BETWEEN ATLANTIC-PACIFIC CHARTER RATES FOR CARRYING CARGOES FROM TO AND FROM ASIA IS WIDENING AS MORE OWNERS WANT TO AVOID SENDING THEIR SHIPS TO ASIA BECAUSE OF THE DIFFICULTY FINDING RETURN CARGOES.

AND THIS IS BEFORE THE ARRIVAL OF SIGNIFICANT NEW CONTAINER AND DRY BULK CARGO TONNAGE THAT WAS ORDERED IN THE MID- 1990S FOR DELIVERY IN 1998.

IN SHORT, NOT A PRETTY PICTURE. BUT NOT A PICTURE WITHOUT SOME GOOD POINTS...

## LOOKING AHEAD

I'D LIKE TO CLOSE BY LOOKING AHEAD.

I HAVE ALREADY SAID THAT 1998 DOES NOT LOOK LIKE BEING A VERY GOOD YEAR FOR MOST OF ASIA'S ECONOMIES. BUT WE WILL COME OUT OF OUR DIFFICULTIES AS WE HAVE IN THE PAST.

THE MAIN DIFFERENCE BETWEEN TODAY'S PROBLEMS AND THE CRISIS OF, SAY, IN 1980 AND 1981, IS THAT THE CURRENT CRISIS IS AFFECTING SO MANY OF ASIA'S TIGER ECONOMIES AT THE SAME TIME.

THIS MEANS THAT THIS TIME THERE WILL BE A GREATER PREMIUM ON ALL THE GOVERNMENTS OF THE REGION RESPONDING PROPERLY AND INSTITUTING THE CORRECT POLICIES, ESPECIALLY WHEN IT COMES TO REFORMING BANKING PRACTICES AND SETTING REALISTIC EXCHANGE RATES THAT ARE NOT PEGGED TO THE U.S. DOLLAR.

IF GOVERNMENT DOES NOT...OR CANNOT...MAKE THE CHANGES IT NEEDS TO, IT WILL SEE ITS COUNTRY'S ECONOMY LEFT BEHIND BY ITS NEIGHBOURS'.

SECOND, WITH THE RIGHT POLICIES, ECONOMIC GROWTH CAN RESUME SOONER RATHER THAN LATER. PERHAPS GROWTH RATES WILL AVERAGE FIVE OR SIX PER CENT A YEAR IN FUTURE RATHER THAN THE EIGHT OR NINE PER CENT A YEAR, WE HAVE HAD OVER THE PAST DECADE.

I AM SURE YOU WILL AGREE THAT IS QUITE ACCEPTABLE IF IT MEANS BETTER BALANCED, MORE SUSTAINABLE GROWTH.

THIRD, THERE ARE GOING TO BE SOME SURPRISING WINNERS AND LOSERS. FOR EXAMPLE, BUSINESSES THAT MAINLY USE LOCALLY PRODUCED MATERIALS ARE GOING TO PROSPER.

WE ALREADY SEE THAI RICE AND SUGAR EXPORTERS ROARING AWAY.... WATCH OUT FOR KOREAN CAR MAKERS WHO ARE TALKING ABOUT EMPHASISING PROFIT MARGINS ON EXISTING SALES RATHER THAN BOOST EXPORT VOLUMES.

AND REMEMBER CHINA....

YES, CHINA'S TEXTILE, SHOE, LUGGAGE AND ELECTRICAL APPLIANCE INDUSTRIES WILL FACE TOUGHER COMPETITION FROM SOUTHEAST ASIAN COMPETITORS...

YES, REGIONAL DEMAND FOR SUCH THINGS AS CHINESE CEMENT MAY BE FLAT, BUT CONSIDER THIS: CHINA CAN AFFORD TO STOCK UP ON CHEAPER IMPORTED RAW MATERIALS.... THIS WILL STRENGTHEN ITS ECONOMIC BASE AND BOOST ITS EXPORT INDUSTRIES.

FOURTH AND FINALLY, THERE ARE SOME GREAT INVESTMENT OPPORTUNITIES TO BE HAD IN ASIA AT THE MOMENT.

WE ARE SEEING THE FIRST SIGNS OF A MAJOR REALIGNMENT OF ASIAN CORPORATES AS BARRIERS TO FOREIGN OWNERSHIP COME DOWN.

THIS TREND WILL INTENSIFY AS INDIVIDUAL ASIAN BUSINESSES START TO RECOGNISE THAT THEY CANNOT IGNORE THEIR INDIVIDUAL PROBLEMS ANY LONGER.

THIS TREND IS ENCOURAGING US AT [ \_\_\_\_\_ ] TO STAY CASH-RICH AND KEEP OUR BALANCE SHEET READY FOR SUCH NEW OPPORTUNITIES THAT MAY ARISE BOTH WITHIN ASIA AND FURTHER AFIELD. LIKE OTHER STRONG, WELL-MANAGED COMPANIES IN OTHER INDUSTRIES, WE BELIEVE THAT IF WE

FIND GOOD, UNDERVALUED ASSETS, WE WILL BE ABLE TO EXPAND OUR MARKET SHARE IN TIME FOR THE INEVITABLE RESUMPTION OF ECONOMIC GROWTH IN ASIA.

THAT IS WHERE I'D LIKE TO FINISH. I HOPE I HAVE LEFT YOU WITH THE REALISATION THAT THE DIFFICULTIES WE ARE EXPERIENCING IN ASIA ARE PROFOUND, BUT THE CONSEQUENCES ARE NEITHER UNIFORM NOR NECESSARILY ALL BAD.

NOW IT'S TIME FOR A DRINK AND DINNER.....

THANK YOU.