Southeast Asia

'Pre-Attack Trend Set To Continue'

by Ron Castonguay

The quote in the title of this article, taken from a headline in the Malaysian English-language daily the *New Straits Times* on Sept. 19, reflects the situation that obtains across Southeast Asia. Things were bad, and getting worse, before the Sept. 11 terror attacks; now they continue to get worse, but even more rapidly.

The most clear-cut financial effect was in the local stock markets, which dropped sharply, in some cases after the markets were closed for a day or two. Most of the losses were of the same order of magnitude as that of the U.S. Dow Jones Industrials. In most other ways, the immediate economic effects of the Sept. 11 atrocities were similar to the effects on the American economy: disruption of business, especially air travel, air freight, hotels and restaurants, and certain financial clearings. Security was immediately tightened, with associated costs and disruptions.

Before the dust had cleared in New York City, governments and private economists in Southeast Asia were issuing warnings and revising downward all economic projections. The major economies of Southeast Asia (Indonesia, Malaysia, Thailand, the Philippines, and Singapore) are heavily dependent upon exports to the United States and the other industrialized economies, which were all faltering long before Sept. 11. For Thailand, Malaysia, and Singapore, the export sector of the economy is larger than the domestic sector; for Indonesia and the Philippines, the domestically available resources to protect the economy, by and large, don't exist.

Malaysia

Just hours after the destruction of the World Trade Center, the Petronas Twin Towers in the capital, Kuala Lumpur, the world's tallest buildings, had to be evacuated because of a bomb threat. A day later, the IBM and Citibank facilities in Penang got the same treatment. The stock exchange was closed by government order on Sept. 12, and, when it reopened, proceeded to lose 12.3%, as of Sept. 24.

The Fitch Credit Rating Agency on Sept. 20 dropped Malaysia's international credit rating. Already in a severe slump (second-quarter growth was only 0.5%), the government announced a "pump-priming" measure of 4.3 billion ringgits ($1.1 billion). This year's budget, which started in October 2000, already contained $8 billion in stimulus spending, to which another $1 billion was added in March. Interests rates were cut 0.5% on Sept. 21, for the first time in years.

The Malaysian financial system is the best protected in Asia, because of Prime Minister Mahathir bin Mohamad's protective measures during the 1998 crisis, imposing exchange controls and securing the value of the ringgit. But these measures go only so far, given Malaysia's reliance on exports, especially in the collapsing "new economy" sector, and especially to the United States.

Singapore

Singapore was already officially in recession by the time of the Sept. 11 attacks. Unemployment had been rising, and exports falling. In a report released after the attacks, but reflecting the previous period, all non-oil exports were sharply down: electronics by 37.5% and semi-conductors by a whopping 60.9%. Job cuts, previously estimated at 20,000 by year's end, are now expected to greatly exceed that. The Singapore stock market saw the most severe drop in Southeast Asia, at 18.0%.

Prime Minister Goh Chok Tong called on Singaporeans not to be disheartened. "Today is a rainy day," he said, "and I think tomorrow it will continue to rain," but he said that the budget surplus is enough to see the country through the crisis. "We will be working out programs to ensure that those who will be retrenched [fired] in the months ahead will at least have their essential living expenses taken care of," he said.

New measures will be made public after the third-quarter results are announced in November. They will come on top of the $2.2 billion off-budget package announced in July, to ease the pain of the recession. Goh also called for Singaporeans to be flexible, "like Americans," and take any job they can get!

Thailand

Thai officials immediately closed the Thai stock and bond exchanges at word of the attacks on the World Trade Center. They remained closed for two days, but the market lost 15.4% after they re-opened. Fearing immediate U.S. reprisal attacks in Central Asia, the Thai government took emergency steps to protect its oil supplies by banning petroleum exports, which had a severe impact on neighboring Laos and Cambodia, which import much of their refined oil from Thailand. Plans were made to evacuate the more than 25,000 Thais working in the Middle East.

In a move that has greatly upset the Wall Street speculators, the Thai government decided in late September not to break up and privatize the Electricity Generating Authority of Thailand (EGAT), pointing to the disaster that deregulation had caused in California.

Thailand had already been engaged in a process of switching its economy from export/import dependence to a greater reliance on internal demand and trade with the other members of the Association of Southeast Asian Nations (ASEAN) and the rest of Asia. There are indications that this process will be stepped up.

Indonesia

Indonesia expects a U.S. recession and a drop in exports, perhaps excepting oil, of 10-20%. In spite of this, the Indonesian market dropped only 7.9% during the past weeks, as hopes are high that the new government of Megawati Sukarnoputri will bring some stability to the troubled country. President Megawati carried out her already-planned visit to the United States in the days after Sept. 11. She was given "red carpet" treatment in her meeting with President George Bush and on her stops in New York and Houston, where she meet with top officials of the U.S. oil and mining industries. She also meet with World Bank and International Monetary Fund (IMF) officials.

The Bush Administration has been seeking better relations with Indonesia, and now would like its support, as the largest Islamic nation in the world, in the coalition against terrorism. Bush offered Indonesia a $657 million aid package, and resumption of U.S.-Indonesian military ties. The oil companies offered an increase in investment of $2 billion, and the IMF dismissed worries that there was any risk to the expected $2.8 billion debt rescheduling deal which is expected this year.

While Megawati may have played a crucial moderating role in regard to the U.S. military plans in the Islamic world, any subsequent American adventure may provoke an explosion in Indonesia, which would undermine her capacity to hold the nation together.

Philippines

Due to a somewhat smaller dependence on exports than its Southeast Asian allies, the stock market dropped only 4.9% during this period, although it had already been going down for some time. The government's economic response to the crisis has been primarily political, consisting of flag waving—the American flag, that is. The Clark Air Force Base has been made available for at least limited use by American F-18s, and President Gloria Macapagal-Arroyo initially indicated that the country might send troops to aid in any U.S. military action. This provoked intense resistance, both on Constitutional grounds, and in regard to nationalist sensitivities.

The Philippines has two special, interrelated problems. The country's largest export is its people. Millions of Filipinos work abroad; there were an estimated 1,000 employed at the World Trade Center alone, of whom about 100 are missing and presumed dead. Most of these foreign workers remit part of their pay back to the Philippines, amounting to about $6 billion annually, the single largest source of hard currency.

As in Thailand, in the days immediately after the crisis, the government was scrambling to implement and finance contingency plans for the evacuation of their nationals from the Middle East. In the case of the Philippines, this amounts to over 1 million people.

HMD Comeback Shows Blair's Policy Failure

by Rosa Tennenbaum

British Prime Minister Tony Blair seems to be very eager to get involved in the war that is being prepared, to retaliate against the attacks on the World Trade Center in New York City and the Pentagon in Washington. He urgently needs to distract from problems and crises he has at home, problems that are running out of control and that have caused him tremendous difficulties in recent weeks. Since the attacks, British media have been filled with war propaganda; they spend no words on major domestic issues, such as hoof and mouth disease (HMD), which is a real, pressing concern in Great Britain.

On Sept. 11, the day of the attacks, the *Daily Telegraph*'s headline read, "Farmers Forced To Kill 200,000 Calves," which just highlights the situation Blair faces. Four days earlier, Simon Jenkins, a well-known senior jounalist, ripped apart the government's policy in an article in the London *Times* headlined, "Blair's Foot-And-Mouth Policy Must Be Culled." Remember, hoof and mouth was diagnosed in the country on Feb. 20—seven months ago. In March, Blair put himself in charge of the fight against the epidemic. In May, he declared the epidemic to have ended—because he wanted to have the national election no matter what. But the virus did not listen: It was still there, and obviously enjoying circumstances favorable to its spread. It broke out again, this time with its center in Northumberland, in northern England. The needless practice of slaughtering whole herds of healthy animals in the vicinity of an outbreak, was geared up. On Aug. 31, the government had to call in the Army, again to help dispose of animals that are being culled in the thousands every single day.

The Policy Is Not Being Changed

The policy to eradicate the virus by slaughter, no matter how many animals it would cost, instead of using vaccine to protect the healthy animals, has completely failed. This was to be expected. Being confronted with an epidemic that threatened to run out of control, even Tony Blair changed his mind suddenly at the end of April, and asked the EU Commission in Brussels to permit vaccination. But he never established this policy, against strong opposition within parts of the political establishment and the head of the National Farmers Union (NFU). Now, after seven months, the epidemic is making a big comeback; it was always there, but was ignored by the