

MICHAEL BACKMAN

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INSIDE
KNOWLEDGE

STREETWISE IN ASIA



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BIG in Asia: 25 Strategies for Business Success (with Charlotte Butler)

The Asian Insider: Unconventional Wisdom for Asian Business

MICHAEL BACKMAN



**Inside
Knowledge**

STREETWISE IN ASIA

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FACTS

- China is set to emerge *second only to the United States* as having the world's biggest population of English speakers. Imagine what that will do to India's business process outsourcing sector.
- Kazakhstan has the world's *second largest* oil field. Prior to 2000, no one knew the field existed. Suddenly Kazakhstan matters.
- China has 33 cities with populations of a million or more.
- *Eight out of ten* of the world's diamonds are cut and polished by Indian Jain family companies in India.
- There are more McDonald's restaurants in Japan than there are in Australia. There are more Chinese restaurants in Australia than there are in Japan.
- India, the world's leading IT outsourcing country, has *just a quarter* of the number of internet users of China. Both have billion plus populations.
- Casinos are banned in China. Neighbouring countries have responded by ringing China with *at least 50* legal casinos just inside their borders.
- Adult literacy levels are *higher* in Mongolia and North Korea than in Singapore.
- China is an emerging investor in third world countries. One reason? It is *not* constrained by foreign corrupt practices legislation.
- Tetley Tea worldwide, like Asia's largest IT outsourcing company Tata Consultancy Services (TCS) is controlled by a series of Parsi charitable trusts.
- Food consumption *rises* in Asia's Islamic nations during the Islamic fasting month of Ramadan.
- Prostitution is *legal* in Singapore and *illegal* in Thailand.



INTRODUCTION: GETTING STREETWISE

A tsunami of historic proportions; embryonic legal systems; a shortage of professional managers; the SARS and bird flu panics; arrogant governments that claim that Confucianism gives them carte blanche to clamp down on media freedom, journalists, and the internet; and companies that pay only lip service to corporate governance: these are some of the problems with which investors in Asia must contend, be they from Asia or outside. But Asia is also home to economies that are changing at a dramatic and exhilarating pace, with rapid increases in spending power, and cultures and people that are a delight.

The biggest problem in Asia is information. Much of the region is an information-scarce operating environment, not just for outsiders but for everyone. It means that quality information is one of Asia's most valuable commodities. So the trick is to be streetwise. How? Information must be gleaned from everywhere. In Asia, businesspeople matter, more so than companies. Personalities are important as are personal relationships. It all means that the scope of what can be considered business information is wider in Asia than perhaps anywhere else. Who is connected with whom, what interests them, and what are their involvements? It all helps to build a picture of what's really going on and, more importantly, what might happen next.

"Some people say that the sultans of Johor will never again serve as Malaysia's king," I was told recently in Kuala Lumpur.

"Why not?", I asked.

"They have Jewish blood, that's the rumor."

Jewish blood? This seemed a little far fetched for the Islamic sultanate in the southern tip of the Malaysian peninsular that's just opposite Singa-

pore. Each of Malaysia's nine hereditary rulers elect from their own number the *Yang di-Pertuan Agong* or king of Malaysia who serves a five-year term. Each is Muslim. It cannot be any other way.

Back in London I chatted with my step-mother-in-law who was visiting from Australia. She'd spent time in London in the 1960s on a working holiday. What kind of work did you do, I asked? One job that lasted for six months involved keeping a wealthy, ageing Hungarian Jewish lady company in her apartment in Grosvenor House on Park Lane.

"What was it like?" I asked.

"Oh, it was terribly dull", she said. "I had to go there each day, sit with her and keep her company. She rarely went out, although most afternoons she would get all dressed up and then we would go downstairs and sit in the foyer. We would watch people come and go, not that many did. Christina Ford lived in the apartment next door but you never saw her. But there was one aspect about the job that made it interesting. Mrs Mendel was the mother of the sultana of Johor."

"Really?"

"But she was Jewish you said?"

"She was *very* Jewish. Yehudi Menuhin, the violinist, was an occasional visitor. Family members would sometimes visit. But the main event of the week was the delivery each Thursday of kosher Hungarian sausages. They arrived from Harrods which had them flown in from Budapest."

And so this is how I came to confirm, from my own mother-in-law, that the sultan of Johor had in fact been married to a Hungarian Jew and had a mother-in-law by the name of Mrs Mendel. Small pieces of information on Asia turn up all over the place.

It was Mrs Mendel's daughter, Marcella, who became Sultan Ibrahim's fourth official wife. They married in the 1950s and had one daughter, Meriam. The sultan was in his seventies. Why this should preclude future sultans from becoming king isn't clear. No doubt the rumor is just that. After all, wasn't the Prophet Muhammad's tenth wife Jewish by birth? But then rumor is just part of the information game. It's a game that everyone plays in Asia, no matter what their line of business.

Beach hawkers and souvenir sellers harass visitors to Bali incessantly when they first arrive. But the pestering stops after a few days. Why? Because as the hawkers themselves have told me, they determine how long tourists have been on the island by the depth of their skin tans. The new arrivals are the easiest targets: they are yet to buy their souvenirs, yet to harden to the hawkers' overtures, and, having just arrived, are cashed up. Tourists find that the harassment eases as their stay progresses, unaware that it is their changing skin tone that is the reason.

Honeymooners are prime targets. They're big spenders and usually are interested in decorative items to adorn the new marital home. But how do the hawkers ascertain who is newly wed and who is not? They look at visitors' wedding rings. If they are shiny and new, they know they have found a target. And so for the hawkers on Bali, a tan or a shiny wedding band convey competitive intelligence, commercially useful information.

It doesn't matter whether you sell aircraft to airlines in China or seashells to tourists at Kuta beach, much useful information about potential customers can be gained from their appearance and attire. Quick decisions can then be made about how best to shape your pitch. Succeeding in Asia is all about watching and noticing.

How many times have you walked into a shop in Asia and the proprietor greets you by looking at your watch? He's assessing how much you can afford; how much time he should spend with you. When quality information is in short supply, people develop proxy ways of finding out what they need to know. They become streetwise, a skill that isn't much needed in the information-rich economies of the West.

No longer do all Sikh men outside India grow their hair and beards long and wear turbans. Instead they are neatly trimmed and look like anyone else, but for one exception: most still wear the *kangan* or *kara*, a thin metal band usually made of pure silver but never of steel or gold, on the right wrist. It is there on the right hand to remind the wearer to act wisely and fairly because it is the right hand that is used to do most things. Muslim men don't wear gold or silk, Indonesians usually wear their wrist watches on their right hands, Filipinos nearly always have a nickname. Details like these lead to more details and soon one's operating environment begins to make sense. So information is available everywhere in Asia. It's a question of how to identify it and use it. That leads to the purpose of this book: the harnessing of knowledge in Asia to provide a competitive advantage in business, not just overtly business-oriented knowledge but all knowledge.

About this Book

Inside Knowledge is a companion book for *The Asian Insider*. But it's not necessary to have read *The Asian Insider* first. Like *The Asian Insider*, it is a pot pourri, a smorgasbord if you like, a bit like Asia. It is not comprehensive. How could it be? However, each of my Asia business books, *Inside Asia*, *The Asian Insider*, *Big in Asia* (written with Charlotte Butler), and *Asian Eclipse*, when considered together and as one body of work should provide an almost encyclopedic coverage of much of the detail of business in Asia.

Inside Knowledge provides detailed information on discrete areas related to Asian business that go beyond the usual superficial treatments provided by most business books. After all, Asia does not have the strict divisions between the realms of business and non-business that the West does. The predominance of family firms is one reason. Where does the family end and the firm begin, particularly when most firms are managed by the family? Leisure pursuits often provide opportunities for business networking. Golf is the most celebrated example in Asia. But art collecting is another means by which wealthy businesspeople in Asia are brought together. And so many ostensibly non-business pursuits in Asia have a business component.

Inside Knowledge begins with a chapter on people's names in Asia. This is deliberate. Connections count for a lot in Asia and an obvious starting point is understanding Asian naming structures which vary across the region and can be as confusing to people in Asia as those from outside. But there are some very practical considerations too. Surnames are in short supply in some parts of Asia; many share the same name, something which plays havoc with credit checks, for example.

Thereafter the book is divided into two parts: "Places" and "Markets." "Places" includes two chapters on China, one provides a positive account and the other a negative. Too many people in business focus on China's positives but prudence dictates that the negatives must also be given due consideration.

Chapters 5 and 6 look at the newly emerging economies of Central Asia, most particularly Kazakhstan but also its neighbors. Why? Because Central Asia has enormous potential and is only just beginning the path to prosperity that the rest of Asia started decades ago. Information on Central Asia is hard to come by so I've erred on the side of detail to help fill the information gap.

Chapter 7 looks at Malaysia and specifically the position of former Deputy Prime Minister Anwar Ibrahim now that he has been released from jail. Why Anwar in particular? Because politics and business are so inextricably entwined in Malaysia. What happens in Malaysian politics inevitably affects business.

Chapter 8 analyses the role that Australian expatriates play in Asia and elsewhere. Australians have become prominent in the Asian offices of accounting, law, and other professional services firms. In one sense, Australians are becoming a commercial diaspora in their own right, much like overseas Chinese or non-resident Indians. They have moved to occupy economic space rather than geographic space, a borderless and mobile commercial community in search of the challenges that evade them in their own comparatively safe and well-developed home working environment.

Chapter 9 focuses on Nepal. The country is underresearched and a relat-

ively unknown quantity among those in business. Opportunity typically lies where information is poorest. Just maybe Nepal is more than beautiful scenery. The first step is to gain more than a passing knowledge about the country.

"Markets," this book's second half, takes a look at various commodities, products, and crazes that are either unique to Asia, have come to be dominated by Asian countries, or have a particular Asian flavor. The first is business process outsourcing in which firms in India have become world leaders. But competitors are closing in. Chapter 10 looks at some of these competitors, including emerging competition from China. Why is China emerging as a player? To date, two factors have driven the international outsourcing market: cost and English language abilities. One of the most important dynamics in the world today, one which is yet to be fully recognized, are the numbers of mainland Chinese who are learning English. The trend is difficult to quantify but I suspect that within a surprisingly short period, the nation with the largest number of English speakers after the United States will not be India or the Philippines, but China.

Other markets addressed are those for Asian art and antiques, birds' nests, rare fish, diamonds, sandalwood, arms and munitions, and bad loans and distressed debt. Hotels in Asia (a subject close to many business travelers' hearts) are examined and how the behavior, attitude, and expectations of guests differ according to their countries of origin. Chapter 15 covers the phenomenal growth of Starbucks and its imitators across Asia. There is also a chapter on Thailand's sex industry and Bangkok's well-known Patpong night strip. Why? Because the matter of the ownership of Patpong fascinates many, particularly as prostitution is actually illegal in Thailand. That Patpong not only exists but is world renowned shows how what passes for the law operates in Thailand, with all the attendant implications for business.

But of course the biggest game in town in Asia today is China and China runs through many of the chapters. As mentioned, China is set to be an important player in business process outsourcing. It is a leading foreign investor in Central Asia where it is constructing oil and gas pipelines inside Kazakhstan. The bid to snare mainland Chinese gamblers is why Asia's governments such as Singapore's that have always opposed casinos now plan to allow them. New demand from China is driving Southeast Asia's birds' nest industry. The extraordinary boom that's now underway in Chinese art and antiques is largely underwritten by mainland Chinese speculators. China also has the potential to revive Asia's market for bad loans and distressed debt, as billions in bad loans are carved from its banks and sold off. The implications of China's dramatic economic growth are very wide indeed.

Table 1.1 Comparing Asia: Who ranks where?

Country or territory	Disposable income (GDP per capita: purchasing power parity basis, US\$)	Population (millions)	Corruption (perceived corruption: rank out of 145 countries; the higher the rank, the more corrupt)	Adult literacy (%)	Ageing population (median age of population, years)
Hong Kong	28,800	6.9	16	93.5	39.4
Japan	28,200	127.3	24	99.0	42.3
Singapore	23,700	4.4	5	92.5	36.2
Taiwan	23,400	22.7	equal 35	96.1	33.7
Macau	19,400	0.45	n.a.	94.5	35.2
Brunei	18,600	0.37	n.a.	93.9	26.7
South Korea	17,800	48.6	47	97.9	33.7
Malaysia	9,000	23.5	39	88.7	23.8
Thailand	6,900	64.9	equal 64	92.6	30.5
China	5,000	1,299.0	equal 71	90.9	31.8
Philippines	4,600	86.2	equal 102	92.6	22.1
Sri Lanka	3,700	19.9	equal 67	92.3	29.1
Indonesia	3,200	238.5	equal 133	87.9	26.1
India	2,900	1,065.1	equal 90	59.5	24.4
Vietnam	2,500	82.7	equal 102	90.3	24.9
Pakistan	2,100	159.2	equal 129	45.7	19.4
Bangladesh	1,900	141.3	equal 145	45.2	21.5
Cambodia	1,900	13.4	n.a.	69.4	19.5
Burma/Myanmar	1,800	42.7	equal 142	85.3	25.7
Mongolia	1,800	2.8	equal 85	97.8	23.9
Laos	1,700	6.1	n.a.	66.4	18.6
Nepal	1,400	27.1	equal 90	45.2	19.9
Bhutan	1,300	2.2	n.a.	42.2	20.3
North Korea	1,300	22.7	n.a.	99.0	31.4
East Timor	440	1.0	n.a.	58.6	20.0
***	***	***	***	***	***
United States	37,800	293.0	equal 17	97.0	36.0
Australia	29,000	19.9	9	100.0	37.1
United Kingdom	27,700	60.3	11	99.0	38.7

Sources: CIA Factbook, 2005; Transparency International, Corruption Perceptions Index, www.transparency.org.

Chapter 21 looks at the role of Asia's Parsis, a minority commercial community that has become disproportionately wealthy compared to the local majority population. And yet, not for them the race-based pogroms that, say, Indonesia's wealthy Chinese minority community sporadically endure. Why? While building up wealth through trading and commerce is important, the Parsis also show that it's important to then share that wealth, if for no other reason than self-preservation. It's a fitting chapter to end on. Corporate social responsibility might be the new catch phrase among modern corporations today, but the Parsis have been doing it for centuries. The Parsis provide a lesson for all.

Chapter 2

YOU'RE WHO? NAMES IN ASIA

Understanding people's names is important when doing business in foreign markets. Which part is the family name? The given name? The honorific? What's the correct form of address? This is true in Asia as much as anywhere. And it's the case for people in Asia as well as non-Asians, on account of the diversity of names and name structures from country to country.

Getting someone's name right is not only important for politeness. There are other implications for business. One is that many computer programs such as those that send out bank statements tend to assume Western-style naming patterns. Fields require a surname and a personal name but what if an individual doesn't have a surname?

Confusion over names also plays havoc with credit checks; due diligence checks; establishing ownership of real estate, stocks, intellectual and other property; database searches for directorships; checking criminal records; establishing family links; checking employment histories; determining entitlement for things such as insurance policies, inheritance, and dividend payments; and confirming academic records of prospective staff.

Governments must grapple with diversity in names too. The correct identification of individuals is important to determine entitlement for government benefits and pensions, tax obligations, voting eligibility, marital status, paternity, and tracking funds in international money laundering cases and funds linked to terrorists.

The Case for Surnames

Not all cultures routinely use surnames. Throughout history, greater ease of tax collection has been the usual reason for the introduction of surnames. Surnames were introduced in Britain, for example, in the eleventh century by the Normans so that taxes could be more easily collected from the local population.

In the Philippines, surnames are in short supply, thanks to a decision of the Spanish Governor-General Narciso Claveria in 1849 to streamline them and allow only a small number of permissible surnames, all of which were Spanish.¹ Having just a few surnames was fine when the country was small but now it has a population of around 80 million people. That most Filipinos today have one of a small group of surnames causes enormous problems of mistaken identity when it comes to credit checks and catching criminals.

Many law-abiding Filipinos unwittingly share their names with criminals and so carry certificates from the National Bureau of Investigation to prove that they are not wanted for some criminal act. Others find it difficult to obtain a credit card because someone else by the same name is a bad debtor.

The use of nicknames is prevalent in the Philippines too and these essentially supplant individuals' real names. Nicknames ought to help identify people from one another except that they are not official and the same nicknames are used over and over. Many seem odd in contexts outside the Philippines. "Baby," for example, is a common nickname for many Filipino women. But it can be difficult for outsiders to get used to calling a 50-year-old woman Baby. A senior member of the Philippines Senate is Senator Joker Arroyo. It's difficult to imagine anyone succeeding in politics anywhere else with a name like that. (There once was a candidate for an Australian federal election by the name of John Crook. "Put another crook into Parliament" was his campaign slogan. Memorable but not successful; he didn't win.)

Biblical first names are popular among ethnic Filipinos who are largely Catholic. Jesus, Joseph, and Mary are common personal names, or even Jejomar, a contraction of all three.² And among Filipinos of Chinese descent, Chinese surnames often are included as part of their Filipinoized surnames. The Chinese surname for the Gokongwei family which controls the Universal Robina Group, for example, is "Go."

Korea also has too few family names. Koreans have been required to have surnames for only about the last 100 years. The world's 75 million ethnic Koreans share just 270 surnames, but most Koreans opted for

names that were associated with the aristocracy. And so most Koreans today have one of about half a dozen common surnames. Around a quarter have the surname of Kim. Another quarter have either Lee, Park, Choi, or Chung.³

Before 1943, no person in Laos had a family name. Laotians were identified by a given name only. Then in 1943 a law was passed whereby every person was required to have a family name. And so today, Laotians follow Western practice and use their family name last.

Many people still don't have surnames in Mongolia. Most did use a clan name as a surname prior to the Communist takeover in the early 1920s. But too few clan names meant that it was difficult to distinguish Mongolians from each other. So to improve national tax collection, the Communists banned the use of clan names and from that point on, Mongolians used only their more diverse given names. But the pressures of globalization have come even to Mongolia. The country is now in the process of adopting family names so that Mongolians and Mongolia can better fit into world markets. A law was passed in 1997 that required the adoption of surnames but it went largely ignored until 2004 when the introduction of a national identity card forced Mongolians at last to comply with the law.

Some Mongolians chose family names that derive from their father's given name, their village or their clan. Others chose surnames that reflect their hobbies, occupations, or personalities. Defence Minister Gurragchaa, for example, chose the surname Cosmos: he is the only Mongolian to have gone into space. Some chose names to fool evil spirits such as "Bujir," which means filthy. Others preferred names that would bring luck such as "Yesuntai" which means nine, a number deemed auspicious. Family members do not always choose the same surnames and so it's not uncommon now for siblings to have different surnames. This is less of a problem, however, than the fact that many have chosen the surname of "Borjigin," the clan name of Genghis Khan, the twelfth-century conqueror from whom many Mongolians are descended. So many have chosen this name that it will likely cause the sort of confusion that saw the Communists outlaw surnames in the first place.

Many Javanese, the dominant ethnic group in Indonesia, use only one name: they do not have family names, which is ironic, given the centrality of the family in Indonesian society and the degree to which individuals are judged by society according to the family from which they come. Soeharto, former president of Indonesia, has no name other than that. (And for the record it is spelt "Soeharto" which is how he signs it with his own hand and not "Suharto" as preferred by the Western media. The "oe" derives from the Dutch colonial period. To complicate matters, his predecessor Sukarno

used the more modern rendering that uses a “u” rather than an “oe”. But to further complicate matters the correct spelling of Jakarta’s international airport is “Soekarno-Hatta Airport”.) Often these single names are shortened and used with an honorific. Soeharto was known as Pak Harto for example. Pak is a title of respect that means a combination of Mr, uncle, and father, and is itself shortened from *bapak*.

More unusually, some Javanese have several names, none of which serves definitively as a family name. Susilo Bambang Yudhoyono who was elected the country’s president in 2004 is a case in point. The president’s children use Yudhoyono but neither of his parents does.⁴ Close friends call him Bambang. The Indonesian media call him either Mr Yudhoyono or Mr Susilo, and, more commonly, simply SBY. As he became more prominent, the international media seemed to adopt the rendering of Mr Yudhoyono. But it’s not clear that Yudhoyono is necessarily the name that the president himself would choose as a family name.

Name Changing

In Thailand, names are associated with luck. And that means that when someone has a run of bad luck, they might decide that it is because their name is unlucky either in part or in full.

Apichet Kittikorncharoen, lead singer of Thai boy band D2B had his name changed for him. A car accident in August 2003 left him in a coma and so the Supreme Patriarch blessed the singer with a new name, Panrawat, which means “to remain alive according to the desires of loved ones.”⁵ The strategy was only half successful. The singer went on to contract a fungal brain disease, spent more than a year in intensive care and is yet to fully recover.

Criminals who get caught sometimes change their names so that they have better luck next time. And top businessmen who have had financial troubles sometimes shed their names along with their debts.

Suseree Tavedikul, Thailand’s former ambassador to The Hague, changed his name after being dismissed from the civil service. He sold his country’s embassy to a local developer in 1999 without authorization from Bangkok. He claimed that he was duped into it, but that didn’t explain why his signature appeared on the contract of sale and his initials on each of its 15 pages. The name change presumably was to put an end to this run of “bad luck.”

In recent years, the Thai government in conjunction with the Red Cross of Thailand has offered thousands of new names that are made available via a public ballot. Successful applicants can select from the new names available. Those with early numbers in the ballot have the most choice.

People queue sometimes for days in the hope of getting a new, "luckier" name. In February 2002, for example, 2545 new names became available. They were created by monks at nine different temples. Married women are not allowed to reserve new family names. Their names change by virtue of their husbands changing theirs.

A newspaper report of the ballot for these names asked several people why they wished to change their names.⁶ One man, a Thai of Chinese descent, said that his surname was too Chinese sounding and that his children would have a better future with names that sounded more Thai. In any event, part of his surname was made up of "Chu" which in Chinese means "diamond" but in Thai means a "type of breed of dog." One lady said that her name clearly was unlucky because "every man I married was a drunk." Another man simply felt that it would be better to have a name that had been blessed by the Supreme Patriarch.

On another occasion, Somboon Krobteerawong, country manager for Visa International for Thailand and Indochina changed the "wong" ending of his surname to "non" so that his surname became Krobteeranon. He felt the new rendering was more auspicious.⁷

Name changing to bring a change in fortune is not unique to Thailand. Malay parents in Malaysia sometimes will change a child's name if the child is sickly or appears to have bad luck. Chinese sometimes do this too in respect of their children. But Chinese adults also sometimes change their names, often on the advice of a feng shui master who will choose a "better" name for the individual, usually in respect of their career aspirations. Rarely, though, do they change their family names. And often, they will try to obtain a new name that sounds like the old name but which has more auspicious or "appropriate" Chinese characters. Hong Kong actor Jackie Chan's name is pronounced as Cheng Loong. His Chinese name was changed from one that was relatively lacklustre to this name which means "Become Dragon." (Lee Kuan Yew named his son Hsien Loong, Singapore's prime minister, the Chinese equivalent of "Show Dragon.")

Name changing does not help with procedures such as credit checks and verifying employment histories. But being aware of these nuances can help to improve the veracity of such checks.

Long, complex Javanese names suggest that the individuals so named are members of the aristocracy, the *priyayi*, or nobles. Sometimes, such individuals attach a prefix to their names such as Raden or Raden Mas sometimes shorted to R.M. Similarly, in Thailand, individuals with an aristocratic ancestry often have the pronoun "na" in their names, as in Chirayu na Ayudhya, the head of Thailand's Crown Property Bureau, the powerful personal investment vehicle for the Thai king.

Aristocratic ancestry, however, no longer holds much cachet in much of Southeast Asia, if only because the widespread practice of polygamy has rendered families so large and decedents so numerous that probably literally millions of Southeast Asians can now claim at least some aristocratic ancestry. Wealth has become diluted and opportunities are no more extensive than those available to anyone else. I have met extended members of the Perak royal family, for example, who live in low-cost housing on the outskirts of Kuala Lumpur.

The Burmese have long names of several components, all of which are used in conversation and are rarely shortened even among close friends. So Daw Ang San Suu Kyi is the correct form of the name of Myanmar's most famous citizen, even for those on close personal terms with her. Usually it will not be shortened even during conversation with her. Daw is the equivalent of Mrs.

China and Chinese

There are perhaps 6000 possible Chinese surnames, but many have died out. Today, there are around 3100 surnames in active use in China, but almost a third of the population, or 350 million people, share one of just five surnames: pronounced in Mandarin as Zhang, Wang, Li, Zhao, and Chen. Each is pronounced differently in other dialects. Zhang, for example, is pronounced as Chong in Hakka, Chang in Hokkien, Cheung in Cantonese and Teo in Teochew. Wong, the most popular surname in Hong Kong, is pronounced as Wang in Mandarin, Heng in Teochew, and Ong in Hokkien.⁸

Increasingly, mainland Chinese use two character names instead of the more traditional three, which remains more common among Chinese outside China. In part, this trend has been driven by email protocols that have difficulty dealing with names in three parts. China's President Hu Jintao has a name of three characters, but two of the three vice-premiers, Huang Ju and Wu Yi, use names comprising only two characters.

More complications come not only from how to translate Chinese names into Roman letters but how to translate them back. The wife of one friend holds an Australian passport in her Chinese name but not in Chinese characters. Banks in China have had difficulty accepting her passport as proof of her identity because they are unsure if the Australianized Chinese version of her name properly matches what she says are the Chinese characters for her name. Ultimately, she was allowed to open a bank account in China using her Chinese name rendered in Roman letters but not in Chinese characters, an odd result for someone who is ethnically Chinese.

Other mainland Chinese adopt more Western-sounding names based on their Chinese names. An Na, for example, might choose to westernize her name as Anna An, and Pan Yi might become Penny Pan. Others simply do a straight translation of their given names from Chinese to English, which is fine, except that in some cases, names that are unremarkable in Chinese seem odd in English. For example, Li Haijun might westernize his name as Navy Li because Haijun means navy in Chinese. Zuo You in English is rendered as Left Right. Others have names that reflect the Communist era. Chen Da Hong is one example. Chen is a common family name. But Da Hong means “Big Red” or “Really Red.”

Sometimes, mainland Chinese adopt Western-sounding names according to their work environment. It’s not uncommon to find local Chinese staff in the Beijing office of an American multinational who call themselves John, Paul, or Sandra. Go to the office of a French multinational and you’ll likely find yourself dealing with local Chinese who’ve adopted names such as Marcel, Francois, and Michele.

The Chinese outside China usually use the same middle name for all siblings of the same sex. For example, two brothers might be Yau Yat Chi and Yau Yat Ming. Often Koreans follow suit in respect of sons. It’s one way of telling if two or more directors of a company are brothers or simply share the same surname, and thus the extent to which a publicly listed company might actually be under family control.

Chinese communities outside China have their own name dynamics often on account of chain migration or local political sensitivities. There might be 6000 possible Chinese surnames but only 500 are in common use in Singapore. And a fifth of all Singaporean Chinese share one of three surnames: Tan (9.9%), Lim (6.9%), and Lee (4.6%). Each of these is the Hokkien rendering, reflecting the dominance of Singapore’s Hokkien community. The Chinese character for Tan is said as Chen in Mandarin, Chan in Cantonese and Ting in Fuzhou.⁹

The transliterations themselves from Chinese, Thai, Tamil, or Hindi characters can introduce further complications. In Hong Kong, it is not unusual for members of one Chinese family to have different surnames when rendered in English. Often it depended on which government official registered the births and their preferred way to translate Chinese names. And so a Mr Tsang might have a brother who is a Mr Chang, Tsao might also be spelt as Chao, and so on.

Most Chinese in Indonesia have adopted Indonesian names but among family many still use their Chinese names. Chinese in Singapore or Hong Kong whose forebears spent time in Indonesia often have Dutch renderings of their Chinese family names. The surname that commonly is written

as Wee, for example, is often spelt Oei among Chinese with Indonesian backgrounds as in prominent Singapore entrepreneur Oei Hong Leong who was born in Indonesia, Cho is written as Tjoe, and Lim as Liem. Other Indonesian Chinese have embedded their Chinese names in their Indonesianized names. Former billionaire entrepreneur Liem Sioe Liong, for example, adopted the family name Salim. Others followed Javanese practice and took just one Indonesian name. Jakarta property developer Tjie Tjing Hwa took the single Indonesian name Ciputra. The well-known Jakarta-based historian Ong Hok Ham simply joined the three parts of his name to make the single name Onghokham.

Ethnic Thais usually have relatively short last names, and Thais with longer surnames are usually ethnic Chinese. Many such names comprise their original Chinese surnames combined with Thai words considered lucky. The founding family of Bangkok Bank is Sophonpanich, which means “good business” in Thai; the word “panich” (pronounced “panit”) suggests “wealth”. Chiarapurk is the Thai name of the Thai-Chinese family that controlled Singapore and Malaysia’s MPH bookstore chain. Their Chinese family name is Chia.

Many Chinese in Southeast Asia choose Western-sounding first names in addition to their Chinese names. Certain names are popular in certain countries but they seem old-fashioned compared with trends in Western countries: names like Mavis, Lawrence, Linus, Edmond, and Edgar. Often these names, which mostly are chosen by the individuals themselves in adult life, come to supplant their actual Chinese given names. This leads to identification problems because while the names effectively become the individual’s “real” name, usually they have no legal standing. Malaysian or Hong Kong Chinese often experience problems proving their residential addresses and their identity when they wish to open a UK bank account if their residence is in the name of, say, Edmund Wee but their passport is in the name of Wee Chee Yee.

Some choose cute-sounding first names. I once sat next to an Indonesian Chinese woman at a conference called Happy. She was. I’ve come across women in Singapore named Sunshine, Sunflower, and Morning. And I know of one Malaysian Chinese man who called himself Toto after Dorothy’s dog in *The Wizard of Oz*. Memorably, I was once checked into Bangkok’s Dusit Thani Hotel by a guest relations officer called Superporn, an unfortunate rendering of the Thai into English.

Finally, some Chinese choose names for their children that represent a plea in respect of subsequent children. One common name among traditional Chinese women is pronounced as “Di.” It comprises one character made up of two parts: that for woman and then that for younger brother.

Essentially, the name means “now that we have another daughter let her be followed by a younger brother.” Similarly, if a family has had a run of daughters, another name for the next daughter might be the equivalent of “bring brother” or “no more sisters.” And this will be the name that the daughter will carry for the rest of her life.

Man or Woman?

Identifying the sex of someone by his or her name can be problematic. Normally this means getting used to, say, male Chinese personal names compared with female Chinese names. Chin Chuen Wei, for example, is an obviously male Chinese name for those in the know. Chin Mei Yuen is an obviously female name. The Chin in both cases is the family name. But sometimes the sex of an individual is not clear even to other Chinese. They might need to see the actual Chinese characters to be sure of the person's sex, assuming that they can read Chinese, which many Chinese raised outside China cannot.

But in Vietnam, some given names are popular for both men and women so “sex indicators” are incorporated into a person's whole name. The indicator for a male is Van. For a female it's Thi. An example of each is Tran Van Hien Sinh (a male) and Ngo Thi Thanh Minh (a female). The first part of each name is the family name. The second part is the sex indicator. The final two parts are the first and second given names. In India too, some names are popular for both males and females.

The Hindi/Hindu names Kumud and Kusum, for example, are common to both men and women, but unlike in Vietnam there are no sex indicators to indicate the individual's sex. This puts Hindi names on the same footing as an emerging trend in some Western countries where personal names such as Ashley, Morgan, and Hillary are used for both males and females.

All male Sikhs have the surname Singh (in Malaysia, Sikhs are actually referred to as Singhs.) And all female Sikhs have the surname Kaur. But in India particularly, many also adopt a third name after Singh/Kaur that typically relates either to their caste, their home village or a family name the family has decided to adopt. The leader of the Communist Party in India is Harkishen Singh Surjeet, for example, Surjeet being his third name so that he can more easily be identified from other Sikhs. The prime minister of India, also a Sikh, is Manmohan Singh. But it's not clear even if he has a third name. The generic Sikh surname of Singh is all that he is known by. To further complicate matters, some Sikh women brought up in

the West follow Western naming practice and adopt their father's surname as their own and so are known by the male Sikh surname of Singh instead of Kaur.

These are just some of the complications of names in Asia – interesting from a cultural point of view but critically important from a business viewpoint. Confusion over names, their lack of standardization, and the relative ease by which some in Asia can change their names all pose additional uncertainty, risk, and cost to business. But then structure is one complication; pronunciation quite another. To provide just one example: the king of Thailand is King Bhumipol. But it's pronounced "poomy-pon." Almost no Thai names are actually said how they read. And that is often the case throughout Asia, to varying degrees. But that is another story.

Part I

PLACES

Chapter 3

CHINA TRIUMPHANT

China's leaders once made pronouncements about the workers' struggle and the need for the bourgeoisie to be smashed. Now all they ever seem to hold forth on is whether the Chinese economy will have a hard or soft landing, whether the yuan will be revalued, and foreign resource deals. The leadership now is pragmatic and increasingly economically literate. And their party, the Chinese Communist Party, ought to be renamed the Chinese Party, for it's nationalism now that is the force that binds China together. No longer is it Communism and class struggle. Nationalism, pragmatism, and preserving their own power at all costs: these are the three characteristics that can be used to explain the behavior of China's leadership today and predict what it will do in future. Little else matters.

China's share of world trade is now around 7%, almost triple what it was a decade ago. Already its economy is far more reliant on international trade than any other big country. By 2004, the sum of exports and imports of goods and services was around 75% of the value of its GDP. The equivalent figures for the US, Japan, India, and Brazil were all under 30%. And at its peak the figure for Japan never went beyond 32%.¹

And of course China's domestic market is huge. It has 33 cities with populations of a million or more. Five provinces have more than 50 million people: each could be a large country in its own right population-wise. And when all those people act together, particularly if they consume together, the effect can be breathtaking. Consider the Chinese New Year period of 2003. In those few days, more than six billion text messages were sent in China. One reason for all those texts is that so many Chinese no longer live and work where they were born. China has

114 million internal migrant workers, representing the largest migration in human history.

Tax revenues, long a weak spot, are improving too. The tax take in 2004 rose by 25.7% over the previous year to a record US\$311.4 billion.² The booming economy helped as did improvements in collection and preventing tax evasion.

Shanghai is mind boggling. (*The Asian Insider* includes a chapter on the city.) It has more than 3000 buildings that are eighteen or more storeys high. And its port overtook Rotterdam in 2004 as the world's busiest. But what's more mind boggling, disturbing even, is the speed with which this has happened. Most of the development has occurred since 1990.

China became the world's biggest recipient of foreign direct investment (FDI) in 2003, receiving US\$53 billion. The US received US\$40 billion. It is the world's second biggest importer of rubber products, second largest importer and consumer of oil, and the international price setter for copper, iron ore, aluminum, and platinum. It is the world's biggest producer of cement. And it produces 200 million tonnes more steel per annum than the US and Japan combined.

But right now for most people outside China, the most apparent consequence of China's rush to industrialize and commercialize is its production and exportation of consumer goods. Seemingly there is nothing that China will not or cannot produce.

The Chinese government attempts to block pornography on the internet to protect the morals of its citizens. And yet China manufactures 90% of all the sex toys that are exported around the world.

It is the world's largest, officially atheist country. And yet it is the source of most of the world's plastic Christmas decorations, and home to the world's largest manufacturer of artificial Christmas trees.

Most children's toys and most footwear now are made in China. Stand by too for China the significant, emerging wine producer. Some of its chardonnays and sauvignon blancs are surprisingly drinkable. China has no shortage of land with warm days and cool nights, perfect for wine growing. Around 340 wineries are spread across the country. Some have employed oenologists from Australia and France to introduce new wine-making techniques.

Chinese-made products turn up everywhere. Most "Venetian" glass sold in Venice now is not Venetian at all, it's made in China. Go to any Wedgwood store in London and a great deal of what's on offer comes from China. Almost all souvenir stuffed koalas and kangaroos and even wooden boomerangs sold to tourists in Australia come from China, their labels proclaiming that fact by law but with a plea that at least the design work was done in Australia.

At least a third of all television sets produced in the world are made in China. So too are a quarter of all washing machines, half of all telephones and almost half of all computer monitors. It also produces 70% of the world's silk, 60% of the world's penicillin, and 80% of the world's tractors and shipping containers.³ This list is illustrative; it's far from exhaustive.

Certain cities in China have developed astonishingly narrow but effective specializations. In the Chinese city of Wenzhou, 70% of the world's cigarette lighters are made by 3000 small firms that have clubbed together. In the city of Datang, 8000 factories have joined together to produce around 8 billion pairs of socks each year, about a third of world demand. Elsewhere, single firms dominate. The Chinese company Galanz makes one in three microwave ovens sold worldwide. Pearl River Piano has become the world's second biggest piano manufacturer.⁴ And Huizhou-based TLC is the world's leading television maker.

Many famous name retailers in the West now are little more than shop fronts for China. US retailer Wal-Mart buys US\$14 billion annually in goods directly from China and another US\$26 billion from US, Japanese, and South Korean companies that use China as an export base.⁵ It's little wonder that in 2003 the US recorded a record trade deficit with China of US\$124 billion. Hamley's, billed as London's biggest toyshop, with its flagship store on Regent Street, barely stocks anything that isn't made in China.

Having almost cornered the world market in footwear, particularly sports shoes, China has made huge inroads into the internationally traded clothing and apparel market. Another boost came on January 1, 2005 with the end of the 30-year textile quota system that had governed the international trade in textiles. Until then, the rich European and US markets were restricted in how much fabric and how many garments they could buy in any one year from any given country. This meant that major brands such as Ralph Lauren and Gap had to source their popular lines from a range of countries. That is why it has been possible to buy identical Ralph Lauren polo shirts, for example, that have been made in China, Thailand, or the Philippines. It is likely now that textiles and garment manufacturing will center on no more than five countries, rather than spread across more than fifty under the quota system. China will be the biggest beneficiary. Prior to the quota system lapsing, China already made about 20% of all clothing and textiles sold in the US. China is expected to capture as much as 70% of the market post 2005.⁶

Trawling the World for Resources

Exports beget imports, particularly for a country as poor in natural resources

as China. In fact, China is not a producer of anything much so much as it is a processor; a processor economy rather than a producer economy. China does have some mineral reserves. It has 54% of the world's manganese reserves, 23% of the lead reserves, 22% of the silver reserves, 12% of the coal reserves, 11% of the vanadium reserves, and 6% of the copper reserves. But most of this is no longer sufficient. China's demand for copper, for example, is only 18% met by domestic supplies.⁷ Twenty-five years ago China imported virtually nothing. But compare that with now.

By the start of 2004 China imported around 150 million tonnes of iron ore (up from 14 million in 1990), almost 1.3 million tonnes of copper (up from 20,000 tonnes), 1.6 million ounces of platinum (up from 20,000 ounces), and almost 62,000 tonnes of nickel (up from almost zero). Its demand for copper accounted for 20.6% of total world demand, for aluminum it was 21.6%, 15.4% for lead, 20.3% for zinc, and 10.9% for nickel.⁸

China's demand for steel was so great by the end of 2004 that Nissan's steel suppliers Nippon Steel and JFE Holdings were unable to meet all the demand they faced. The car manufacturer had to halt car production for five days at three of its four assembly plants in Japan.⁹ In Bangladesh, record prices were being paid for ships to be scrapped and turned into recycled steel. The problem was twofold: fewer ships were being scrapped, on account of high shipping rates thanks in large part to China's rapid ascendancy in world trade, and China's demand for steel was pushing the price of steel up.¹⁰ And in Beijing, municipal authorities had to introduce non-steel manhole covers as more than a third of all the city's manhole and street drain covers were stolen in 2004 alone to be sold to scrap metal dealers.

Its demand generally for minerals and other resources has ignited a resources boom in Australia just as Japanese economic growth did in the late 1960s and early 1970s. The state of Western Australia, Australia's largest state but with a relatively small population and comprising mostly desert, has been the main beneficiary. Two Australian-based companies, Rio Tinto and BHP Billiton, the world's second and third largest iron ore producers respectively, embarked on billion-dollar expansions of their Western Australian iron ore mines, railways, and ports, simply to keep up with Chinese demand.¹¹

In 2002, China signed a US\$18 billion deal with Australia's North West Shelf field (off Western Australia) to supply China's Guangdong province with up to 75 million tonnes of liquefied natural gas (LNG) over 25 years. Woodside Petroleum, Australia's largest oil and gas company and the lead operator of the field, asked Australia's Prime Minister John Howard to go

to Beijing and personally lobby for the deal. This Howard did and Australia outmaneuvered bids from Qatar and Indonesia to win the deal.¹² It was the biggest export deal ever signed by Australia, but the record didn't last long.

A year later, the Chinese National Offshore Oil Company (CNOOC) signed a US\$20 billion deal in respect of Australia's Gorgon gas project to supply up to 100 million tonnes of LNG over 25 years – a new record for Australia and one of the largest LNG deals ever signed.¹³

Woodside Petroleum itself is developing other remote gas fields and by 2004 was routinely sending executives to China to market its gas. It made more than a billion Australian dollars in 2004, its highest ever profit, largely underwritten by China. BHP Billiton similarly made a huge record profit in 2004 of US\$3.5 billion, once more driven by demand from China. Virtually every one of BHP's divisions had achieved production records. The mining and oil company was making so much money that it decided to return US\$2 billion to shareholders via share buy-backs and special dividends, despite plans to spend US\$8.6 billion developing 23 new projects over the next three years.¹⁴

By 2004, Australia and China had become close trading partners. But, essentially, China's economic ascendancy dashed Australia's hopes of being much more than a quarry, growing rich by digging bits of itself up to sell abroad. Nonetheless, the government and its people were triumphant. They'd done it again: raking in billions from a sector that employs very few people but a great deal of machinery in parts of the country that most Australians never visit, and all the while marveling at the apparent cleverness of it all. The real cleverness, though, was in how the Australian government had so successfully courted the Chinese.

China is particularly desperate for long-term oil and gas supply contracts. Other than the Australian deals, smaller ones have been signed in a wide variety of countries including Sudan and Venezuela. Saudi Arabia is an important supplier and getting more important. China raised its crude oil imports from Saudi Arabia for 2005 by 25% over the previous year, to 400,000 barrels per day.¹⁵ A pipeline is being built to link China with Kazakhstan's oil fields too. More on the emerging China–Central Asia nexus appears in Chapter 5.

By 2004, China imported 700 million barrels (100 million tonnes) of oil or around 40% of its consumption. Around 80% of China's oil imports pass through the Malacca Strait, the narrow shipping lane between Sumatra and the Malaysian peninsular. China does not have a blue-water navy to protect its shipping or the Strait, which is susceptible to blockading. It is also annoyed that Singapore provides port facilities to the US which it feels

heightens the risk that its oil supplies might one day be interrupted.¹⁶ Accordingly, China has looked at other routes to transport its oil supplies. One is to build a pipeline from the Myanmar port of Sittwe in the Bay of Bengal, through Myanmar and on to China's Yunnan province. Another is to build a canal through southern Thailand, across a thin strip of land called the Isthmus of Kra. Both will involve huge expense and mean that Singapore, where most of the oil tankers that ship oil to China call in, would be cut out of the equation, leading to a considerable loss to Singapore's economy.

The enormous cost of the Isthmus of Kra canal (put at up to US\$28 billion) probably rules it out.¹⁷ In any event the sudden emergence of Islamic unrest in southern Thailand also helped to kill off speculation that China might be actively considering the canal. Conspiracy theorists who note Singapore's interest in the canal not being built also point to a sudden increase in apparent wealth in southern Thailand, evidenced by a surge in new motorcycle registrations in the southern provinces around the beginning of 2004. This apparent and unexplained rise in disposable income was soon followed by a sudden outbreak of religious and ethnic unrest in southern Thailand that helped to make the canal idea untenable.

China's demand for resources is such that its leadership makes visits around the world in search of minerals supply deals as much as for diplomacy. President Hu Jintao visited Poland in June 2004 during which time China Minmetals signed a contract with a Polish copper group to buy 300,000 tonnes of refined copper for delivery between 2005 and 2010.¹⁸ Other trips that year took him to Africa (Egypt, Gabon, and Algeria) where similar deals were announced. China's prime minister and vice-premier had visited Africa the previous year.

But China doesn't want to rely just on the spot market for commodities. It wants long-term contracts or, even better, it wants to own the mines and oil and gas wells overseas to ensure continuity of supply. Finding and developing its own resources, even offshore, is cheaper than buying from world markets.

Accordingly, China has become a keen buyer of resource assets around the world. But it's a new trend. China is still not an overseas investor of any great significance, particularly given the size of its economy. Cumulative overseas investment stood at US\$33 billion by 2004 but the figure is growing. In late 2004, the Chinese government, through the State Development and Reform Commission and China's Export Import Bank, announced an increase in lending to Chinese firms for the purpose of buying overseas mining assets.¹⁹ It was a green light and showed a definite shift in government policy from isolated purchases to more systematic wholesale acquisitions.

Right away, China's state-controlled China Minmetals Corp entered into talks to buy Canada's Noranda Inc, the world's ninth largest copper producer and third largest zinc producer. It also owns 60% of Falconbridge Ltd, the world's third biggest producer of nickel. The deal was expected to be worth around US\$5 billion.²⁰ And talks also commenced in late 2004 for the Chinese government to acquire Canadian oil and gas giant Husky Energy Inc.²¹ Husky was controlled by Hong Kong entrepreneur Li Ka-shing at the time. These are potentially major deals.

But it's not just about securing resources. China has found that it is able to leverage its new commercial power to achieve foreign policy objectives.

China's President Hu Jintao told a joint sitting of the Australia Parliament in Canberra the day the US\$20 billion Gorgon deal was signed:²²

The greatest threat to peace in the Taiwan Straits is from the splitist activities by Taiwan independence forces. We are firmly opposed to Taiwan independence. The Chinese government and people look to Australia for a constructive role in China's peaceful reunification.

Smaller states are bribed outright. China promised US\$122 million over five years to tiny Dominica if it switched its recognition of Taiwan to China. This Dominica did in 2004. Macedonia, Nauru, Libya, St Lucia, and the Bahamas similarly dropped their recognition of Taiwan in favor of Beijing in recent years too after the promise of aid and contracts.²³ Taiwan answers back with promises of cash and contracts of its own. But it's now China that has the deeper pocket.

China: The Third World's Investor of Choice

China has become the FDI partner of choice among many developing countries. Why? One reason is that it does not have enforced Foreign Corrupt Practices Act-type legislation to stop its enterprises from paying bribes when they invest abroad. As a result, there is little potential for embarrassment in US or EU courts for developing country dictators or bureaucrats that can come if it is US and other Western firms that are prosecuted at home for their corrupt activities abroad. A case in point was the trial that began in 2004 in the US of an American consultant accused of paying bribes to the Kazakhstan president and prime minister (see Chapter 6.) And so Chinese involvement in a venture compared with, say, American involvement is unlikely to involve the same level of scrutiny.

Chinese companies also have plenty of experience in operating in corrupt environments and dealing with corrupt government officials.

They've been doing it at home for years. So one can imagine that when it comes to settling big deals in Africa, South America, or Central Asia there are no mismatches of expectations on either side, few embarrassing silences and shifting of the feet.

So where in the developing world has China been investing? In 1998 and 1999 alone, the China National Petroleum Company (CNPC) spent more than US\$8 billion buying into oil and gas concessions in Sudan, Venezuela, Iraq, and Kazakhstan.²⁴ In July 2003, it paid US\$350 million for several oil refineries in Algeria.²⁵

In Ecuador, many US and European companies, tired of the persistent corruption at the state oil company Petroecuador, had left the country. So enter China. By the end of 2004, its state oil companies had spent around US\$100 million on oil drilling and exploration in the country, apparently untroubled by the working environment.

In Pakistan, China has built a port in the coastal city of Gwadar that ultimately will be used to ship Central Asian oil and gas to China. China contributed US\$198 million via loans and grants. At least those were the formal sums. Pakistan contributed just US\$50 million. Five hundred Chinese labourers worked on site at the peak of the construction in 2002.²⁶ The first three berths opened in 2005.

In Myanmar, CNOOC lead a consortium that signed a production-sharing contract for oil and gas exploration with the state-owned Myanmar Oil and Gas Enterprise in 2004. The consortium planned to explore for oil in Myanmar's western Rakhine state.²⁷ Despite the fact that Myanmar is believed to have gas reserves of 87 trillion cubic feet and recoverable oil reserves of 3.2 billion barrels, most Western companies are unable to do business in Myanmar on account of investment and trade sanctions, and some find it relatively corrupt, although an executive from the French oil company Total, who had operated in both China and Myanmar, told me that in his view Myanmar was not nearly as corrupt as China.

In Indonesia, China has invested heavily in the oil sector. It is now Indonesia's largest foreign producer of oil, a sector traditionally dominated by American firms. CNOOC paid US\$585 million for oil producer Repsol Indonesia in 2002. It paid another US\$275 million for 12.5% of BP's Tangguh project in Irian Jaya in 2003. And Petro China, a subsidiary of CNPC, acquired Devon Energy in Indonesia for US\$262 million also in 2003. CNOOC and Petro China now account for 12% of Indonesia's daily output.²⁸ As US investors have pulled out, frequently citing the Indonesian government's lack of resolve in fighting corruption, China has gone in.

Africa has emerged quickly as a place where China can do business. At least forty African countries have made trade agreements with China. A

wide variety of projects have been started, such as a railway project in Nigeria, a hotel in Algeria, and a mobile telephone network in Tunisia.

The China–Africa Business Council was formed in Beijing in November 2004. It claims that two-way trade between China and Africa amounted to US\$18 billion in 2003, an amount the Chinese government expected to double within two years.

China will soon be one of the top five investors in Africa, despite not having the colonial ties to the continent that many traditional foreign investors have. Oil is the big draw and China has no qualms about doing deals with oil-rich African dictators, the sort of regimes that foreign corrupt practices-type acts constrain much of the West from doing business with.²⁹ China has become a significant business partner of Sudan, geographically Africa's largest country. Sudan's government is a perennial abuser of human rights and stands accused by the world community of ethnic cleansing. But China only sees oil. Prior to China's arrival, Sudan was a net oil importer. China helped in building wells, refineries, and a 1600 kilometer oil pipeline and so now, Sudan exports oil, mostly to China.

Angola is similarly avoided by much of the West. But in March 2004, China gave it a soft loan of US\$2 billion in exchange for 10,000 barrels of oil per day.³⁰ China has courted Zimbabwe too, the government of which is now an international pariah. China reportedly did a deal worth US\$200 million to supply Zimbabwe with fighter jets and other military equipment. Much of Zimbabwe's tobacco crop is now sold to China.³¹

Elsewhere in Africa, China's Huawei Technologies constructed mobile telephone facilities in eastern Algeria in 2003 and in 2004 announced contracts worth US\$400 million to service mobile telephone networks in Kenya, Zimbabwe, and Nigeria.³² And in Zambia, Chinese contractors were helping to build a US\$600 million hydroelectric plant in 2004.³³ Other Chinese firms spent around US\$100 million investing in Zambia's copper industry in 2002 and 2003.³⁴

And then in late 2004 China lent Russia US\$6 billion so that its state-owned oil company Rosneft could finance the purchase of the largest production unit of the Yukos oil company. The borrowing was backed by Rosneft agreeing to supply oil to China in coming years.

So Zambia, Algeria, Nigeria, Kenya, Zimbabwe, Pakistan, Myanmar, Sudan, Tunisia, Kazakhstan, Russia, and Indonesia: these are the countries in which China has invested. And these are the countries ranked by Transparency International as perceived to be the most corrupt in the world. And among them are countries that many others refuse to do business with, largely on account of sanctions and gross human rights abuses. But China is not so fussy. It just wants a bargain.

China to become a foreign military power

China's outward-looking economy also means that it is one of the most exposed to international unrest. Economist David Hale asks: Will China develop a blue-water navy to protect the ships and shipping lanes used to bring critical supplies of oil, gas, iron ore, and copper to China from countries as diverse as Saudi Arabia, Australia, and Brazil?³⁵ The US has long sought foreign military bases in those countries that are important to it commercially. Might China also, for example, ultimately demand bases in Western Australia to protect its resource supplies there? The US has a base in the north of Western Australia. Shouldn't China have a matching base? Or in Africa? Might China be asked to intervene in domestic political struggles in countries where it has commercial interests such as the Congo or Papua New Guinea, asks Hale?

Increasingly, Chinese nationals work for Chinese companies abroad. Dozens of mainland Chinese were working temporarily in Australia by 2004 to fill worker shortages there. In Afghanistan, the Chinese construction and engineering group China Railway Shisiju Group had around a hundred Chinese nationals employed in 2004 building three World Bank-funded highways in projects valued at US\$21 million.³⁶ Chinese companies were awarded roles in the reconstruction of Iraq too after Saddam Hussein's overthrow in 2003. Might China feel obliged to send troops abroad to protect its citizens in the more difficult foreign working environments?

China has already deployed 4000 troops in Sudan to protect its investment in the oil pipeline which it co-developed with Petronas of Malaysia.³⁷ Sudan has been in perpetual internal conflict between its Christian south and Muslim north. Malaysia too as been involved in training Sudanese troops, presumably for much the same reason.

As mentioned in Chapter 5, China has sent troops to Kyrgyzstan to participate in military maneuvers, the first time that Chinese troops have participated in joint military exercises overseas. This coincides with China's growing investment in Central Asia.

The last few decades have seen the rise of China as an international trader and investor and not without political ramifications. China's role as an international military player is only just beginning to emerge.

Chapter 4

CHINA IN CRISIS

The previous chapter looked at the good news about China. This chapter does the opposite. It looks at many of the negatives and there are plenty. China strategy in many foreign companies often becomes captured by China enthusiasts. Many have staked their careers and their reputations on going into China. Millions are at stake and truth is often the first casualty. They look at the yin and forget the yang.

China holds a lot of promise. China might be the world's biggest economy and only Japan and the US among the current G6 countries might be among the six largest economies by 2050, according to a report by Goldman Sachs.¹ Another estimate is that if real incomes grow by 8% a year and current income distribution remains the same, then by 2020, China will have 100 million households with an average income equivalent to the current average of Western Europe.² That would represent a huge, new market. It is an exciting prospect. But how real is the assumption of almost two decades of continued high real growth in a country where many citizens find that the only way to approach a policeman and many other government officials is with an open wallet? The answer is that it's not so much unlikely as impossible.

Investors in China need to prepare for the possibility, inevitability even, that China is heading for a nasty crash. At the very least a damage limitation strategy is needed. Some might do well to have an exit strategy as well.

Why should investors build in a crash scenario? Look at Indonesia in the lead-up to the 1997 economic crisis: a currency tied to the US dollar; diversified conglomerates with poor corporate governance; a stock market that was little more than a dumping ground for companies their founders no

longer wanted; a banking system full of loans that were granted with scant regard for prudence and risk analysis; an autocratic government kept in power by the military; a suppressed media that spewed out propaganda; excess capacity in industry and real estate; an economy highly dependent on the external sector and high inflows of capital; no legal system worth speaking of; widespread corruption; a largely rural population; and a bevy of foreign investors and outsiders prepared to overlook all these cracks so that they could invest, not on the basis of expected returns but because they felt they "just had to be there" and the promise of a huge, rising middle class. This is a description of Indonesia in 1996. And it is a description of China today. China's population is six times bigger, and its export base is far more diversified, but many other fundamentals are the same.

Except for one thing. China might be a huge exporter but it tends to be forgotten that it is also a huge importer. China retains only a tiny fraction of the value of all that it exports: most exports comprise transformed imports. As mentioned in the previous chapter, China is best thought of as a processor economy, not a producer economy. And yet China managed to build large foreign reserves from capital inflows. But when these stop, and there is the possibility that they could overnight, China and those with a stake in it will find themselves in big trouble.

There are those who think that a major contraction is unlikely for China just as the World Bank thought about Indonesia. Only two months before the Indonesian economy went into rapid collapse in 1997, the World Bank described it as "performing very well" and likely to maintain a 7% growth rate in the coming year. But what did happen? The rupiah fell by 85% and the economy contracted by 15%.³

Sustained growth cannot be built on a framework of corruption and poor governance. But speculative bubbles are. And without a system of enforced law, foreign investment can take on the hue of a donation: foreign aid under another guise. That is why the government of China is so eager for foreign investment. Foreign investors might themselves leave but they will leave behind their power plants, their highways, and their other infrastructure. So of course China welcomes investment. Why wouldn't it? What it doesn't welcome is that investment earning a return that can then be repatriated.

Many foreign investors have been defrauded by local partners or obstructed by bureaucratic wrangling. Others find that as soon as they do show profits, copycat local manufacturers spring up and undercut them. Essentially, China is going to give nothing away to outsiders unless it absolutely has to. "Don't treat foreigners fair but as fair game," might be the motto in China.

Some foreign companies, however, are profitable now in China. But a lot aren't. And among those that are, it's suspected that a significant proportion shift costs back to head office or otherwise underestimate them. The only foreigners to have made sustained profits in China to date are those that have used it as a cheap production base for products that are then exported. Few if any have made consistent profits by selling into the local market. After many years of false starts and millions of dollars, the car industry finally looked like it might generate big profits for foreigners around 2003. But then by early 2005 Michelin of France had actually suspended production at its US\$200 million Shanghai joint venture plant after a dramatic slowdown in the Chinese car market.⁴ And in March 2005, joint ventures operated by Ford, Honda, and Audi announced price cuts to help shift large stocks of unsold cars.

And yet the world is desperate for China to succeed. So desperate that problems are frequently glossed over and steps in the right direction are greeted with excessive praise. The first Chinese Formula One Grand Prix was held in Shanghai in 2004. It was a great success and all agreed that the track was particularly advanced. The world media was celebratory. Of course, Malaysia had been running a Formula One Grand Prix for some years but whereas this was a mere detail, China's Grand Prix was written up as little short of a miracle. Reputations, egos, and careers have all been staked on China. Many have a vested interest now in "selling" China. And so the truth becomes even more distorted. Who has an interest in the truth? Clearly not the Chinese government. Executives who've sunk millions of their shareholders' funds into a market that's largely devoid of legal protection? Newspapers around the world that belong to Rupert Murdoch's News Corporation with its billions invested in Star Television and other China-focused media investments? Many commodities are scarce in China. Quality information is perhaps scarcest of all.

In a conversation with a Beijing-based Western consultant in early 2005, he told me:

So many foreigners are being ripped off and are screwing things up here. There are so many anecdotes that I could put in a book of my own. But then I pull back as I imagine being turned into a pariah of the foreign business community if I ever committed the things I know to print. It's a dilemma.

Foreign companies will become far more choosy once they realize that they should invest in China on the basis of returns rather than because it is a "must have" economy. China will have its 1997. The question then is

how resilient will China's economy be for a rebound? How long will the malaise last? And what political unrest will it bring that will further damage the economy? These are questions that all investors in China would do well to consider.

The rush into China for the sake of simply being there was best exemplified by the world's brewers. "A billion beer drinkers" they collectively thought. They acted as if China didn't already have its own beer producers. They lined up to invest, sinking billions into greenfield plants and ossified ones in need of modernization to tap China's huge beer market. But beer is not a sophisticated product. Quality control was poor among local brewers but really what could foreign brewers add to China's beer market? Beer is a product for which any brand is a close substitute to any other, for which start-up costs are relatively low and production techniques barely more sophisticated than adding water to barley and letting it ferment. On top of that margins are thin and getting thinner, to the point that, by 2004, it was estimated that China's 400 brewers operated with a net profit margin of just 0.5%.⁵ Why did the world's brewers fall over themselves to try to get a piece of that? Ultimately, many if not most withdrew with nothing but red ink, red faces, and out-of-pocket stockholders. But the threat of foreign competition had at least encouraged local producers to lift their quality and so the foreign investors had performed a great service to China if not to themselves.

Don't Bank on Bankruptcy

It's almost boring to write (and no doubt read) again about how bad China's banks are. The problem is that China's banks really are appalling and do represent a huge drain on public sector finances.

The banking system is dominated by the "Big Four" state banks: the Industrial & Commercial Bank of China, the Bank of China, the China Construction Bank, and the Agricultural Bank of China. They control 67% of China's financial assets. Each has an average of US\$400 billion in assets, employs 415,000 people and maintains from 15,000 to 58,000 retail branches across the country. Agile and dynamic they are not. The China Banking Regulatory Commission admitted in early 2003 that 24.1% of the loans at the Big Four are non-performing. But analysts thought the true figure to be at least 40%. And that is after the government bailed the Big Four out in 1998 with a capital infusion of US\$33 billion. Bad loans worth US\$169 billion were excised from the Big Four and shunted off to asset management companies the following year.⁶ In return, the banks were issued with US\$141

billion in bonds and another US\$28 billion in cash. And then in early 2004, the central government raided its foreign reserves to tip another US\$45 billion into the Bank of China and the China Construction Bank.⁷ This latest payment still covered less than half the problem loans at the two banks.

But this is not reform. This is no panacea. Pouring billions into China's banks has not and will not solve the crisis. It merely delays it. Bad loans are the consequence of the problems facing China's banks, rather than the problem itself. And fixing consequences does not fix the problem.

Loans are still given in China for reasons that are unrelated to a company's ability to repay them. Often they are given at the direction of the local Communist party boss or to stave off a company's collapse so that its workers can keep their jobs. Risk analysis may not be done and even if there is a desire to undertake it, very often company accounts are poor or fictitious.

Perhaps the most useful tool that bank managers could have to chase delinquent debtors is a bankruptcy law backed up by a well-funded bankruptcy court and then the means by which the court's rulings are enforced. So what is China doing in these three areas? A new draft bankruptcy law was presented to the National People's Congress in 2004. Many analysts felt that it was inadequate, although to be fair, most bankruptcy laws around the world have their inadequacies. The new draft law exempted around 2000 loss-making, state-owned enterprises (SOEs), mostly in the military and mining sectors, from its provisions but for the first time brought all other enterprises in China, state and private, into the same bankruptcy system. And so most SOEs could not be forced into bankruptcy and wound up like any other company. It also allows for the appointment of an administrator who is elected by the creditors themselves rather than appointed by government officials. But then a lot of discretion will also remain with the bankruptcy court itself, more than is usual practice elsewhere, to allow social (and no doubt political) considerations to be taken into account.

Overall, the draft law draws on sound foreign bankruptcy laws and takes China further ahead compared with existing provisions. That at least is the case on paper. But, in reality, how does a creditor force the liquidation of an SOE with good local Communist Party connections? By and large, it would still be the case that an enterprise will only be forced into bankruptcy if local officials allow it and so in many respects, creditors would be no better off even with the new law.

Bankruptcy courts must also contend with vague property rights and confusion over who owns what. How can an SOE be forced into bankruptcy when the extent of its assets is unclear? It might be insolvent, or it

might not. And who wants to buy assets for which the title is unclear even if the court's orders are enforced?

So how does China maintain confidence in a banking system that so clearly isn't worth it? It bans local journalists and media organizations from reporting on the full extent of its problems. The only reason why depositors don't panic is because they're barely aware that they should.

This brings us to yet another problem: the lack of quality information. It starts with the government. Disclosure and transparency are not part of the Chinese government's mindset. In China, journalists who obtain and disseminate information that anywhere else would land them a journalism award often land up in jail for revealing "state secrets." China Central Television, the central government-owned network, has more than 90 channels under its umbrella including news and business channels but it has an informal policy of not interviewing foreigners live on Chinese television because they are unpredictable and less willing to self-censor. They might say something that's critical of the government and which cannot be edited out. They might even say things that are true. The internet is heavily policed and despite conventional wisdom that information on the internet is unstoppable, the Chinese government leads the world in blocking news and other sites that it does not want its people to see.

Most SOEs in China don't even have boards of directors, although several bigger SOEs established such boards in 2004 on a trial basis.⁸ Corporate governance remains a mess even among China's best performing, publicly listed companies. CNOOC, for example, breached Hong Kong corporate governance laws in 2004 when it transferred US\$798 million to an unlisted company controlled by CNOOC's parent company without obtaining the appropriate minority stockholder approvals.⁹ China Aviation Oil, a locally listed, state-owned Chinese company based in Singapore, collapsed at the end of 2004 with US\$550 million in speculative trading losses. Its chief executive responded by returning to China to "visit his sick mother" but was encouraged to return to Singapore to assist regulators there with their inquiries. It wasn't immediately clear which entity was responsible for the losses and who would cover them.¹⁰

From the start, China's two domestic stock markets in Shenzhen and Shanghai have been treated as dumping grounds for the rubbish that China wouldn't dare list in Hong Kong. Almost 1300 companies have been hived off onto the two domestic exchanges not because they're good and need funds to expand but because they're so bad they need funds to patch up holes. Most are state-controlled and their IPOs were not approved by independent underwriters but by political committees. The markets had boomed but only because local investors, starved of legal

casinos, used the local bourses as the outlet for their cultural predisposition towards gambling. Both markets fell by around 30% in the three years to June 2004 as the punters grew to realize how heavily the house had loaded the dice against them. Fortunately, China's stock markets are small relative to the size of the overall economy and so their mismanagement is unlikely to destabilize the wider economy. But the legitimacy of stock markets in general has been undermined among domestic savers and investors.

China's larger companies, both state-owned and private, have shown disturbing tendencies to use spare funds to diversify way beyond their core areas of expertise. Many larger groups are beginning to resemble Korea's *chaebols* or Indonesia's conglomerates prior to the Asian economic crisis. Reckless diversification is never good. Stockholders in water company Vivendi of France that also morphed into a music recording company found that out. But how many mini-Vivendis are there in China? The number grows each month. A case in point is the D'Long Group, a private corporation that grew to a US\$12 billion conglomerate making products from tomato paste to auto parts and with 30,000 employees. It grew too big, too fast and by mid-2004 had to be bailed out by the central government.¹¹ Other companies that started out in computers have diversified into real estate and banking. State-owned tourism companies have diversified into highways and water plants. And once more, most of these companies don't even have boards of directors, they are inadequately audited, and typically they are granted bank loans not on the basis of prudence but their proximity to local Communist Party officials.

Laws? What Laws?

China's own Ministry of Commerce estimated in 2004 that around 4000 corrupt Chinese officials had fled abroad in the previous two decades, taking more than US\$500 million with them.¹² Of course most don't flee. There's no need. And besides, why leave the source of one's income?

A lot of money has been made legitimately in China and a great deal more illegitimately. One estimate puts the number of millionaires in China at 300,000. In November 2004, China's most expensive private residence went on sale. The luxury mansion in the eastern part of Shanghai was listed for US\$15.7 million, not bad for a country that remains ostensibly Communist.¹³ The mansions around the reservoirs north of Beijing are another manifestation of all this new wealth. When I asked who they

belonged to, I was not told businessmen, factory owners, and the like. I was told officials. Laws in developed economies allow for order because they are enforced. In countries such as China where enforcement is a problem, they produce bribery and corruption.

Prior to 1978, China had no formal legal system. It has come a long way since. New laws have flooded out of Beijing and now most things are covered by one law or another. If only China had put a similar effort into law enforcement. The practical effect is that China remains largely lawless. Order is maintained by power. Contracts are enforced via connections backed by those with access to power once mutual advantage has evaporated.

China has far too few trained lawyers and most judges lack adequate legal training; they're likely to be from the local Communist Party hierarchy or retirees from the military. Many of the laws promulgated by China's National People's Congress are contradictory, poorly drafted, vaguely worded, and often not even known to members of the legal profession or fully understood by the officials who are responsible for their enforcement. The opportunities for discretion on the part of officials who are invariably poorly paid are many and the consequences obvious. Bribery renders the rule of law patchy and inconsistently applied in many parts of China. Indeed, the more laws there are, the greater the bribe-taking opportunities. (A corollary of this in the West is that sometimes it's not that criminality has increased but rather that the number of laws that can be broken have. And so one way to reduce crime statistics is simply to reduce the number of laws.)

The law is not applied equally when it is applied. The 60 million party officials, the judiciary, and the police all feel themselves to be above the law. Largely they are. It is true that some are charged with corruption. But when so many are corrupt, usually such charges are a veil for something else. Do ordinary people go to the police when they need help? That is a good test of a civil society and a decent state. In China they tend not to. After all, in China, the state is not there to serve the people so much as the people are there to serve the state. Self-serving cultural explanations such as Confucianism simply provide legitimacy to a regime that primarily is concerned with the preservation of its own power.

The lack of laws at the practical level means that the probability that foreign investors will be stolen from is extremely high. "People leave their heads at home when they come here," James Bryant, the head of Beijing operations for Subway, a US sandwich franchise company has been quoted to say. "They forget all about due diligence. They meet a guy on the street,

give him a ton of money to run something and six months later he absconds with it." Bryant spoke from experience. His local partner defrauded Subway out of US\$200,000. A relatively small sum but then after nine years in China Subway had opened just 30 restaurants. It had gone into China with plans to open 2000.¹⁴

China has plenty of laws to protect intellectual property but once again does comparatively little to enforce them. The World Trade Organization (WTO) insisted that China pass intellectual property laws before China could join the WTO but bizarrely it did not also insist on making membership contingent upon the enforcement of those laws. The laws were insisted upon by Western officials who seemed to assume that a law passed is a law enforced.

The counterfeiting problem in China is so severe even after China's entry into the WTO that in 2004, the US Patent and Trademark Office appointed an intellectual property attaché to the US Embassy in Beijing, the first such official assigned to any specific country.¹⁵ Production of pirated goods has become more fractured, with assembly of the final good happening quickly in one location and without stockpiling so that infringements are difficult to detect and prosecute. Components for a patented CD player, for example, might be produced at various plants in a variety of locations. The components are brought together at the last minute, assembled, and then distributed. Another problem is that central government officials might attempt to close down a plant that produces pirated goods in a given location but the local government will physically block access to the factory, citing concerns over unemployment should the factory be closed down. And that brings us to another complication of doing business in China.

Who's in Charge?

Government in China is fractured. There is a central government, provincial governments, and municipal governments. Then there are statutory and regulatory authorities. And spread across this lot is the Communist Party. Demarcations between them are often unclear, even on paper. And in practice the division of power is even more confused.

British American Tobacco (BAT) provided the world with a lesson about doing business in China in 2004. At last, it trumpeted, it had broken through to be awarded the right to be first foreign cigarette manufacturer to make cigarettes in China. It was quite a coup: China is the world's largest tobacco market, with annual sales of 1.9 trillion cigarettes in 2004. Its 350 million

smokers consume a third of all the cigarettes that are produced in the world. China holds an additional attraction for cigarette companies in that its legal system is so bad, there's little danger anytime soon that cigarette companies will face the law suits from dying customers that they do most particularly in the US. But was it the coup that BAT had thought?

BAT had signed a deal with local China Eastern Investments to build an £800 million (US\$1.5 billion) plant to make up to 100 billion cigarettes a year, a deal reached after expensive and lengthy negotiations with the central government using local intermediaries and "advisers." But BAT had crossed its t's but not dotted its i's: it did not reach a deal with the sector's regulator, the State Tobacco Monopoly Administration (STMA) and it is this body and its officials that profit most directly from China's tobacco monopoly. As far as the STMA was concerned, there was no deal.¹⁶ By the end of 2004, BAT didn't know whether it had approval or not, six months after issuing triumphant press releases announcing that it had. The reality was that BAT had approval to build a factory from the *central government*, but that is not the same as having approval to build a factory. That's the trouble with China: the higher up the hierarchy you go for your approvals, the further you are from those who will implement them. What matters most usually is the regulator or government body that's closest to the target industry. As for the central government, well, everyone has heard the maxim: "The mountains are high and the emperor is far away." Everyone that is but BAT. But that was not the end of it. In early 2005, the STMA banned for the time being the construction of *any* new cigarette factories in China.¹⁷ Its power was clear, notwithstanding the fact that two years earlier the National Audit Bureau had uncovered 88 secret accounts that held US\$12 million at the STMA, plus evidence of widespread corruption and fraud.¹⁸ BAT was left to lick its wounds – and take a £50 million (US\$94 million) write-down in March 2005 on the money it had spent trying to get agreement to build a factory in China. The biggest winners were the locally engaged consultants. they got paid but BAT still had no factory.

French hypermarket chain Carrefour is one company that did play it by local rules. Quickly it built up China's second largest chain of stores by ignoring the central government's requirement that it approve retail joint ventures.¹⁹ Instead it signed deals with local governments, rightly assuming that once the stores were open and hundreds of locals were employed, the central government would not shut them down. It didn't. Carrefour has revolutionized wholesaling in China, achieved wide name

recognition, and good consumer and supplier acceptance, all *without* central government approval.

In some respects China is a conglomeration of vaguely defined and overlapping fiefdoms run by chiefs who are very conscious of their positions relative to all the other chiefs, positions that rarely are defined in absolute terms. Connections are important in China but less so today to open doors and more to help outsiders pick their way through this morass of delicate egos, bureaucracy, and real as opposed to *de jure* power.

Japan and China

China surpassed the United States in 2004 as Japan's top trading partner for the first time. So Japan and China – Asia's two largest economies – are enjoying closer relations? Nothing could be further from the truth.

Japan has shifted a lot of production to China in recent years. But a lot of this production is not for the Chinese market. It is exported, often to the United States.

Meanwhile there is a lot of resistance to Japanese brands in China itself. The reason? Japan's appalling World War II crimes in China. They might have been forgotten in Japan but not in China. Memories hamper the relationship between Asia's two giant economies, and Japanese investment in China has suffered because of it.

The Japanese bombed and murdered their way through Shanghai in 1937. And that December in Nanjing (Nanking), they embarked on an appalling massacre generally and a mass rape of Chinese women. Prisoners were used for bayonet practice. And many injured were buried in mass graves.²⁰

How many died? The author Iris Chang (1997) in her well known book *The Rape of Nanking*, estimated that the number of Chinese killed in the Nanjing massacre to be as many as 300,000. This was an upper estimate, with little supporting empirical evidence. Nonetheless, that figure has come to be popularly accepted as the actual number of deaths. But it is almost certainly an exaggeration. Unfortunately, Chang's death from suicide in late 2004 robs us of the opportunity to further investigate her methodology.

If the definition of Nanjing is widened so that it takes in hundreds of square kilometres (including Suzhou, almost 200 kilometres away), the period taken into account is lengthened from six weeks to several months and soldiers killed "legally" (that is, in battle or executed legally) are included, then a death toll of perhaps 150,000–200,000 can be justified.

But if Nanjing is defined as the city and its surrounding suburbs, and only the deaths after the Japanese entered the city are counted, and the deaths of Chinese soldiers who fell in battle are excluded (as is reasonable) then a figure of 40,000–50,000 probably is more realistic.

Still, the actions of the Japanese amounted to one of the great crimes of the twentieth century. Many Chinese regard the actions of the Japanese in Nanjing as on a par with the worst of the Nazis' war crimes in Europe. But there's a difference. Germany was contrite afterwards and that contrition today remains with many Germans who feel a deep sense of personal embarrassment about their country's recent history. The Japanese attitude simply bewilders many Chinese.

I have asked several Japanese how they can account for the animalistic barbarism that went on in Nanjing not in a flash but over many days. They cannot. Assuming they even know what I'm talking about.

Japan's Mori Corporation has long planned to build the 95-storey Shanghai World Financial Center in Shanghai's Pudong district. It will either be the world's tallest, or among the tallest buildings, if and when it is completed. It will have a giant, open circle built into its apex giving it the appearance of a giant bottle opener. The circle is supposed to represent the sky, and the tower, the earth. But as one Chinese said to me, "Many Chinese feel that this building will be a disgrace to all Chinese. The circle represents the Rising Sun. How can we allow this symbol of Japan to rise over all Shanghai?"

The open dislike for Japan among many ordinary Chinese was apparent at the Asian Cup football final that was staged in Beijing in August 2004.²¹ Mobs simmered in the streets following China's defeat against Japan. Local spectators booed the Japanese team and the Japanese national anthem in the stadium, while outside thousands of Chinese fans clashed with police as they chanted anti-Japanese slogans. A busload of Japanese fans required police protection as did the Japanese team which left China a day early.

The episode was fuelled by journalists in the state-controlled media who, prior to the match, supplied plenty of incendiary commentary that would see them being fined or jailed under anti-racial vilification laws in most Western countries. And then in April 2005, anti-Japanese demonstrations broke out in many cities across China.

But why should anti-Japanese sentiment still be so strong among young Chinese? Anti-Japanese feeling that arose from the war has coalesced into a general prejudice against all Japanese. They are not to be trusted and have "twisted" morals is a common sentiment held by many young Chinese.

The Chinese Government itself helps to foster anti-Japanese feeling by continuing to have made television dramas set in the war period that show Japanese maiming and torturing peasant Chinese men, women, and children. These are shown regularly on state-run television. Schools too have a heavy component on Chinese history that focuses on Japanese war atrocities against the Chinese, and anti-Japanese sentiment is even actively encouraged by some teachers.

One Japanese involved in his country's foreign aid program recently told me of Japan's frustration at not being given adequate credit for the billions in aid that it gives the rest of Asia because the aid is usually seen only as "reparations" and so not as aid at all.

A consequence of the hostility to Japan among ordinary Chinese is that Japanese firms have a more difficult time in China than do other investors. When they get into trouble, typically they must pay a higher price. When Mitsubishi Pajero had a problem with its braking systems in China in 2001, the Chinese government slapped a two-year import ban on them. And yet the problem was not Mitsubishi's doing. It was caused by the cars being smuggled into China and improperly re-assembled by Chinese car factories, a fact that was well known at the time.

Memories of Japan's wartime atrocities fuel such aggression. But Japan's continued failure to face up to those atrocities and to fully admit to them exacerbates the sentiment. It represents baggage that other foreign investors do not have.

Excess Capacity

China has historically high savings rates. This and high foreign capital inflows allow it to have very high levels of investment. China's investment share of GDP was almost 45% by 2004, the highest in the world. During the investment boom in Asia prior to the Asian economic crisis, some emerging markets in Asia managed a rate as high as 42%. The more usual level for developing countries is 20–30%.²²

And as mentioned, China overtook the US as the world's single largest recipient of FDI in 2003. It attracted US\$52 billion in FDI compared to the US\$40 billion attracted by the US.

With all this investment, there is enormous potential for China to develop a huge excess capacity in manufacturing. This will serve to further keep manufacturing costs down and allow China's exports to remain competitively priced. In essence, China is becoming one giant cobweb: everyone is investing on the basis of today's unmet demand without adequately taking into account the similar investment decisions of others.

Germany's chemicals giant BASF and a local partner built China's most modern integrated petrochemical plant near Nanjing, which opened in 2005. At a cost of US\$3.7 billion and requiring more than 150,000 tonnes of steel, it was one of the world's biggest industrial construction projects.²³ That's the good news. The bad news is that at the time five more were planned for China. China is full of potential oversupply problems, not just in real estate but in plant and equipment. The speed at which China is industrializing has ensured this: market signals suggest need and too many step in at once to satisfy it.

Anti-dumping

What will all that excess capacity mean? A contraction in new investment and a consequent economic slowdown will be one consequence. Another will be a big increase in anti-dumping measures taken abroad against Chinese goods.

China has been the target for dozens of anti-dumping actions since its entry into the WTO in 2001. The EU reaffirmed in 2004 that it was not yet prepared to recognize China as a market economy. The EU's Brussels-based administration found that China's economy still suffered from excessive state interference, weak rule of law, and poor corporate governance. The finding was important because once China is accepted as a "market economy" under WTO rules, it will be far more difficult for other

countries to impose anti-dumping measures against its products.²⁴ As things stand, it's far easier to demonstrate and certainly to assume that production in China is not occurring on a fully costed market basis and therefore has the potential to be anti-competitive.

Most anti-dumping actions launched in the US and the EU are against Chinese companies. But China too is learning to play the game. In May 2004, for example, the Ministry of Commerce in Beijing decided to keep in place anti-dumping tariffs on cold-rolled steel imports from South Korea, Russia, and Taiwan. It also issued a preliminary ruling against Corning of the US and nine other makers of fiberoptic cable.²⁵ But in the future, as excess capacity is built into the system, there will be many more anti-dumping actions against China. Trade lawyers who can speak and more particularly read Chinese will have a field day.

China: No Threat Anytime Soon to US Economic Dominance

Analysts tend to anticipate that China's economy will overtake the US economy some time in the 2040s and become the world's biggest economy in dollar value. On a PPP (purchasing power parity) basis, the catching up might occur earlier. But the trouble with these sorts of projections is that they tend to look at China's growth rate now and project it forward along with that for the US. The point at which the two lines cross is then taken to be the point at which China's economy will overtake the US economy. But an awful lot is going to have to happen to the Chinese economy before it gets anywhere close to rivaling that of the US. No country is rich because its citizens work in factories making plastic toys and cigarette lighters. China will only ever become a country with developed country levels of incomes when the bulk of its citizens have *stopped* making these things; because they have moved higher up the skills ladder and are employed in services. That is the paradox of many "industrialized" countries: no longer do they have significant industries.

In late 2004, IBM sold a majority stake in its PC division to China's Lenovo Group for US\$1.25 billion. The acquisition made Lenovo, already China's largest PC manufacturer with a 27% domestic market share, the third biggest PC manufacturer in the world. Under the terms of the deal, Lenovo was able to keep using the IBM brand name freely for five years.²⁶ A triumph then for a Chinese company buying into a world-renowned name? Not really. IBM sold the division because it didn't want it. Margins had been competed down to a minimum in the PC business and IBM was looking for an exit. Essentially the sale meant that the manufacture of

another high-volume, low-margin, commoditized product was being shifted to China. Neither China nor Lenovo was moving up the skills ladder with the sale – IBM was. The market seemed to recognize this. When it looked like the acquisition might not go ahead due to US security concerns, shares in Lenovo rose 7.4%, their biggest gain in four months.²⁷

Just a fortnight later, China's TPV Technology paid US\$358 million for the PC monitor business of Dutch electronics giant Philips. The acquisition turned TPV into the world's biggest monitor maker.²⁸ But again the move signaled less the arrival of another mainland Chinese company and more the exit of Philips from a business it no longer found to be sufficiently profitable.

Haier, China's number one white goods producer, is held up so often as the first attempt by a Chinese company to build a global brand that it has become something of a cliché. Partly owned by the northern city of Qingdao, Haier claims a third of the market for small fridges in the US and a billion dollars in overseas sales, but the truth is that it ranks high on the list of world producers only because most of its sales are for the Chinese domestic market. It has a long way to go before it will ever compete with the true world market leaders, the sophisticated likes of Whirlpool and Bosch-Siemens, with their streamlined production facilities and huge investments in design and innovation. One problem for Haier is that it costs a lot to ship white goods from China to the big markets of the West. Most white goods are box-like and full of air. The problem of cost has grown worse because China's massive expansion into world trade (imports as well as exports) over 2003–5 massively forced up shipping rates. And so Haier resorted to opening production facilities in the US. But the whole point of Haier's competitive advantage is that it is a low-cost producer and yet workers at its US plant are paid ten times the hourly rate that its China-based workers receive.²⁹ What can Haier as a non-China producer offer that, say, Bosch-Siemens cannot? Certainly not design and product quality, two things on which it trails the market. Paradoxically, Haier, the one Chinese company that is routinely held up as *the* branding success story, might be better off if it simply focused on China's domestic market.

Right now China is doing well from convergence whereby it doesn't need to incur the expense of R&D because it can beg, borrow, and steal it from other economies that already have it, and by shifting workers out of low productivity employment in rural areas to higher productivity employment in factories. But the problem with growth that derives from convergence is that each extra unit of growth carries with it lower prospects for continuing growth at current levels.

The story of China's economy so far is the story of numbers. A great part of the story comprises millions of underemployed rural workers having removed themselves from the fields and gone to work in factories. That simple act has seen a dramatic shift in China's economic output.

If China is going to be as rich by the 2040s as analysts say, it is going to have to be a very different place compared with what it is now. China's private sector has been important for introducing flexibility and driving exports, but virtually all China's heavy industries remain in state hands. Half of all bank loans still go to SOEs and most of the loans granted by China's big banks will never be repaid. China remains one of the most corrupt countries in the world, and the Chinese Communist Party, the world's biggest, most corrupt organization. All of this will need to change.

It will need to need to invest heavily in education, more so than it does now. It will need a comprehensive legal system that is enforced. Property rights will need to be better recognized. And it will need to have a political revolution so that the market for ideas is robust and unconstrained. This will mean greater plurality in the political arena and the media. Is that likely? It all depends on what China's political leadership really cares about. Does it care more about economic development? Or preserving its own power? Clearly, it is the latter. Converting China from a paddy field to a factory does not threaten the leadership's political power, indeed, it preserves it. But the next stage of economic development, the development of an ideas-based, creative, services-oriented economy, will present a direct threat to the leadership. And so it is unlikely to happen any time soon. China will hit a great wall. So too will its economy.

Chapter 5

ASIA'S BIG NEW FRONTIER: THE STANS OF CENTRAL ASIA

Kazakhstan

Capital: Astana

Population: 15.1 million

Religious mix: Muslim 47%, Russian

Orthodox 44%

GDP per capita (PPP basis): US\$6300

Corruption: equal 122 (out of
145 countries)¹

Turkmenistan

Capital: Ashkabad

Population: 4.9 million

Religious mix: Muslim 89%, Eastern

Orthodox 9%

GDP per capita (PPP basis): US\$5800

Corruption: equal 133 (out of 145
countries)

Uzbekistan

Capital: Tashkent

Population: 26.4 million

Religious mix: Muslim 88%, Eastern

Orthodox 9%

GDP per capita (PPP basis): US\$1700

Corruption: equal 114 (out of 145
countries)

Kyrgyzstan

Capital: Bishkek

Population: 5.1 million

Religious mix: Muslim 75%, Russian

Orthodox 20%

GDP per capita (PPP basis): US\$1600

Corruption: equal 122 (out of
145 countries)

Tajikistan

Capital: Dushanbe

Population: 7.0 million

Religious mix: Muslim 90%

GDP per capita (PPP basis): US\$1000

Corruption: equal 133 (out of 145
countries)

Once more the former Soviet republics of Central Asia matter – this time for commercial reasons. In the past, it was for reasons of geopolitical factors and imperial aggrandizement that anyone bothered with them. But now, not only are the economies of the republics becoming important in their own right but they are increasingly important to the rest of Asia, particularly China and its fast-developing economy.

Britain and Russia signed a treaty in 1907 after years of posturing, in which they set out their imperial interests in Central Asia. Russia agreed that Afghanistan lay within the realm of British influence. And Britain agreed to accept Russia's rule over the rest of Central Asia, namely Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan, and Kyrgyzstan. Emirs and khans ruled over these five as vassals of Russia. Russian peasants moved into Kazakhstan but otherwise life went on much as before. But by the 1920s, most of the traditional Islamic rulers had been overthrown and new localized rulers established autonomous people's republics. The five republics were formally incorporated into the Soviet Union over the next decade, sometimes violently. Rebellions were put down. One in Turkmenistan in the 1930s saw thousands executed including the president and premier of Turkmenistan. Thousands more died from 1925 to 1933 either from famine or reprisals from Stalin's policies of collectivization, particularly in Kazakhstan, where the region's nomads were forced to settle and operate state-controlled farms.² Thereafter the five were largely subjugated politically and tended to underperform economically. Their economies were based on agriculture, largely cotton, which was traded with the rest of the Soviet Union.

The five gained formal independence in 1991 with the Soviet Union's collapse. The first years were a struggle. Their economies collapsed with the removal of Soviet state subsidies and the loss of Soviet export markets. But they did open their borders to China and the rest of the world. The region was known to have oil and gas reserves but the extent of these reserves was unknown. Until now.

Politically, the five are more diverse than suggested by their common Soviet pedigree. The government of Turkmenistan has evolved into one of the world's most repressive and ridiculous dictatorships. Uzbekistan is not far behind. Tajikistan at least has a façade of tolerance but the opposition is emasculated. Kazakhstan is more liberal but it's unlikely that its president will readily give up power. Kyrgyzstan has the most democratic, liberal regime, but it's not without its cracks. The one thing all five share is corruption. Each is grotesquely corrupt and each ranks among the most corrupt countries in the world according to Transparency International.

Culturally and commercially, the region formed an important stop on

the fabled Silk Road but also operated as one market rather than a series of discrete and isolated entities. Into the nineteenth century, Uzbeks controlled many Central Asian cities with the support of Turkmen mercenaries and Tajik farmers.³

The five sit together between the Caspian Sea and China and form a block that in shape looks like a bigger version of India. Kazakhstan is the biggest by far. With 2.7 million square kilometers, it is bigger than the other four combined, slightly smaller than India, 25% bigger than Indonesia and more than five times the size of Thailand.

To the west, Kazakhstan and Turkmenistan border the Caspian Sea as do Iran, Azerbaijan, and Russia, but Kazakhstan has the longest Caspian shoreline. And to the east, Kazakhstan, Tajikistan, and Kyrgyzstan directly border China. Other than their Caspian Sea frontage, the countries are landlocked. None have access to the open sea and thus to the world's commercial shipping lanes. So why do the Central Asian republics suddenly matter?

Near and beneath the Caspian Sea lie the world's greatest untapped oil and gas resources. It has been known for centuries that the resources were there. It's their extent that has only just become known. It's likely that only Saudi Arabia has more oil reserves than what lies beneath the Caspian and its vicinity. The Kashagan oil field off the Kazakhstan coast was only discovered in 2000. It is now among the world's five largest known fields. The discoverers of the Kashagan field had drilled to 4300 meters and struck oil. It then didn't matter where they drilled they still kept turning up gushes of brown crude. They drilled 40 kilometers away and again, more oil. Chemical analysis from all the samples showed them to have come from the one oil bubble. An estimated 38 billion barrels of oil had been found, the second largest field in the world and at least twice the size of all the North Sea oil fields combined.⁴ The oil field is projected to have 13 billion barrels of recoverable oil, given existing technology, and will come on stream in 2008. A consortium that includes Italy's ENI, Shell, Total of France, ConocoPhillips, ExxonMobil, and Inpex reached an accord in early 2003 with the Kazakh Government on how to develop the field. It agreed to spend around US\$29 billion to bring it into production.⁵

Big though it is, the oil field is an expensive one to develop. It lies beneath sea that is frozen for much of the winter. Additionally, the Caspian is shallow in many parts, making it difficult for icebreakers to operate effectively. The depth changes quickly too. In recent years, it has risen several meters, dramatically changing the coastline and submerging facilities built along what was once shoreline.

The problem for all the Central Asian republics is how to get their oil, gas,

and other mineral wealth out to the outside world. The region is landlocked and a long way from any of the principal markets for its resources. Insofar as oil and gas are concerned, the more obvious solution is pipelines. But whichever way the pipelines go, there are political instability issues. The most cost-effective route would be from the Caspian Sea to the Gulf but that would mean crossing Iran, which Central Asian oil states are happy with, but to which the US with its embargoes on Iran objects. Another route is through Russia, but the republics are loath to expose themselves to such reliance on Russia, having won their independence from the USSR such a short time ago. Another route is into China, but that serves China only, making the republics dependent on one large customer. Besides, whilst China is close, its industrialized and energy-hungry provinces are not. Pakistan is desperate for energy and would like to see a pipeline from the Caspian region that passes through its territory. India too needs more energy as it develops.

More progress has been made in respect of nearby Azerbaijan's Caspian oil and gas. British Petroleum heads an international consortium that is building a US\$2.9 billion pipeline from Baku through Georgia and then Turkey to Ceyhan where a marine terminal is being built.⁶

Territorial issues are another problem. The Caspian Sea is not big, is bordered by five countries, and beneath it lies enormous mineral wealth. This is not a recipe for regional political stability. The five have yet to definitively work out how to divide between them the sea and its bed. Should the Caspian be defined as a sea or a lake? If a lake, each bordering country is allocated several kilometers reaching into the lake from its shores. The rest is defined as international waters to be used communally and the bordering countries must then negotiate how to tap the resources and divide the proceeds. If a sea, the entire sea – bed and water – must be divided among the neighboring nations like a pie and each is free to exploit its part how it chooses.

Most experts view the Caspian Sea as a sea. But Iran does not. Nor did the Soviet Union. Between them they signed treaties on how to exploit what they had legally defined as a lake. But Russia, Kazakhstan, and Turkmenistan no longer feel that they need adhere to Soviet-era treaties and so the division of the Caspian remains unresolved, although agreements are under negotiation.

So in Central Asia, the world has found an unexpectedly huge supply of oil and gas that both helps to extend the world's supply of cheap fossil fuel and diversifies supply. Importantly, the Central Asian countries do not belong to the Arab-dominated oil cartel OPEC. With their production and assuming that a US-favoring regime in Iraq takes Iraq out of OPEC, a significant amount of the world's supply of oil no longer will come from

OPEC countries and OPEC's price-setting power will be destroyed. There is now the possibility of decades of cheaper energy, thanks in large part to Central Asia.

China and Central Asia

China is desperate for reliable energy sources. Until the 1990s it supplied all its oil needs from domestic fields. But demand has boomed with the economy. And so by 2004, China imported around 700 million barrels to supplement domestic production.

But from where should China's oil come? Central Asia is an important emerging source.

All of China is covered by just one time zone: Beijing time. It means that government offices in far western China close mid-afternoon and open absurdly early in the morning. Merely to cross the border from Tajikistan and Kyrgyzstan into China means having to adjust watches and clocks by three hours. (The difference at the border with Kazakhstan is not always so extreme because Kazakhstan operates across time zones.)

There are six transit points along the border now between China and Kazakhstan, including a railway, which until oil pipelines are completed, is how Kazakh oil reaches China. China is also a big buyer of scrap metal from the Central Asian republics. The metal comes from Soviet era factories that have been closed and dismantled. It's taken by truck across the border into Xinjiang province and to the rest of China where it is melted down for reuse.

China has signed a raft of oil supply deals around the world, but the biggest supplier potentially could be central Asia. In 1997, the government in Beijing directed the Chinese National Petroleum Company (CNPC) to buy 60% of Kazakhstan's third largest field, the Aktubinsk field. CNPC paid way above what was considered the market price for the stake. A 35% stake in the smaller North Buzachi field was acquired next from a Saudi Arabian company. And China's Sinopec bought 50% of three blocks near the Tengiz field.

In March 2003, China's state-owned offshore oil company CNOOC announced that it would pay US\$615 million for almost 10% of the Kashagan field, buying the stake from British Gas. But the other foreign consortium partners blocked the sale, asserting their right of first refusal.

The long-planned construction of an oil pipeline to link China with Kazakhstan finally began in September 2004, an extension of the 400 kilometer Kenyak-Atyrau pipeline within Kazakhstan that was completed in 2002. The new pipeline ends at Alashankou, just inside the Chinese border

and will have an annual capacity of 70 million barrels. A gas pipeline is likely to follow. China plans to spend billions on new pipelines to then convey the Kazakh oil from Alashankou to its industrialized eastern coast. China imported 8.3 million barrels of Kazakh oil in 2003, just a small fraction of the total imports of 637 million barrels. But with the new pipelines, Kazakhstan's contribution will rise.

To date, China's commitment to Kazakhstan and its oil and gas is worth around US\$10 billion. Kazakhstan's overtures to China have been helped by the fact that its foreign minister and the president's chief assistant are fluent in Chinese as well as Russian and English.⁷ The two countries have something else in common: a desire to contain internal Islamic sentiment.

Military Bases and Islamic Insurgents

Foreign countries have been quick to establish bases in the region since the demise of the Soviet Union, reflecting both its new-found mineral wealth and its role in the international war against terror.

US troops arrived in Uzbekistan in October 2001 to establish a base at Chanabad from where humanitarian missions would fly into Afghanistan as the war against the Taliban proceeded. These were the first US troops to be deployed on territory of the old Soviet Union. It has become the largest US base in Central Asia. Uzbekistan and the US signed a Strategic Partnership Framework in 2002. Uzbekistan was rewarded with US\$220 million in cash.⁸

A few months later, after US troops arrived at Chanabad, more arrived in Manas, near Bishkek, Kyrgyzstan, to establish a US base there. The base would be an important position from which the US armed forces would commence their attack on Afghanistan and its Taliban government. The US government pays an annual rent to the Kyrgyzstan government for the base. The amount has not been disclosed but it reportedly pays an extraordinary US\$7,000 for each US plane that lands as a landing fee.⁹ By 2005, there were 1000 US troops based in Kyrgyzstan and 800 NATO troops.

Initially, the US bases at Manas and Chanabad were to be temporary. But they are likely to be ongoing. Turkmenistan was the only Central Asian republic to reject all US requests for assistance in the war against the Taliban regime in neighboring Afghanistan, although it did allow humanitarian aid missions to cross into Afghanistan from its territory.

But it's not only the Americans who have set up bases in ex-Soviet Central Asia. Russia established an airbase in Kyrgyzstan in early 2003 after a visit to the country the previous December by Russia's President

Putin. The Russian planes and soldiers were to be joined by troops from Kazakhstan and Tajikistan to make a joint rapid reaction force. The move appeared to be an attempt to re-establish the influence and presence in the region that Russia once enjoyed. The airfield, at Kant, is just 56 kilometers from the US base at Manas. Kyrgyzstan agreed in February 2005 to double to 1000 the number of Russian troops based within its borders. It would appear that the Kyrgyz government is attempting to play Russia and the US off against each other to extract financial and strategic benefits.

Russia also opened a permanent base in Tajikistan in November 2004. It serves as an outpost for Russia's 5000 strong 201st Motorised Rifle Division. A key military space observation centre was also handed over to Russia. For its trouble, Tajikistan was rewarded with the cancellation of most of its US\$300 million debt to Russia and pledges of some US\$2 billion in investment over the next five years.¹⁰

Tajikistan has also become the venue for India's first-ever military outpost on foreign soil, located at Farkhor, about 10 kilometers outside Dushanbe. Construction was underway in 2004 and it was likely that two Indian air force squadrons would be stationed there.¹¹

China too is becoming more interested in military involvement and cooperation in the region. It held joint military exercises in Kyrgyzstan in October 2002. Around a thousand troops were involved from China, Russia, Kyrgyzstan, Tajikistan, and Kazakhstan. It was the first time that Chinese soldiers had participated in military exercises abroad.

As mentioned, China, like the Central Asian republics, has a problem with growing Islamic sentiment. Nine million Uigher people live in Xinjiang province. The Muslim Uighers are close relatives of the Turkic peoples of Central Asia. There is a Uigher independence movement that is largely suppressed. The more militant wing of the movement is responsible for various terrorist attacks and bomb blasts in the province from the 1990s onwards. Separatists Uigher rebels did declare a short-lived Eastern Turkistan Islamic Republic in Kashgar in 1933 and governed some other areas of the province as semi-autonomous areas under the Kuomintang, but that was all lost when Mao and his Communists seized power in 1949. A final Uigher uprising was put down in Hotan in 1954.¹² Hundreds, possibly thousands, of Uigher sons were sent to Koranic schools in Pakistan in the 1980s and 90s where it's now known that they came into contact with radical Wahhabi preachers who preach the extremist version of Islam as it's practiced in Saudi Arabia. Many mosques and Islamic schools that had operated in Xinjiang have been closed since the separatist movement regained impetus. All Imams are now state-approved and closely monitored.

Xinjiang is remote and sparsely populated but it is important to China. The province comprises around a sixth of China overall, and accounts for as much as three-quarters of the country's mineral wealth. Big reserves of oil and gas lie beneath the province, including the massive Tarim Basin in the north.¹³ A 3800 kilometer pipeline that is expected to be completed in 2008 is being built to take gas from the field to Shanghai. Shell Corporation is leading an international consortium that is paying half the US\$5.2 billion cost of the project.

The Uighers are not China's only Muslim minority. The Hui Chinese are another Muslim group who are as numerous as the Uighers, except they are spread across central China. They too have been the subject of sporadic ethnic unrest. Ethnic clashes that involved the Hui in the central Chinese province of Henan left seven dead in October 2004, for example.¹⁴

In June 2001, Russia and China formed with all the Central Asian states, except Turkmenistan, the Shanghai Cooperation Organisation. This has become the most important multilateral organization in the region. Ostensibly created to combat Islamic terrorism in the region, it is a means by which China and Russia can express their strategic aims in the region and counter the West.

But what are each of the five republics like? How do they differ and what are their prospects? The following chapter looks at them in more detail, providing an overview of a part of Asia that will only grow in strategic and commercial importance.

Caviar and the mafia

Prior to all the excitement over oil and gas, the Caspian region was best known to the outside world for its caviar. But what has happened to that industry is symptomatic to the region's wider problems.

Sturgeon, the fish that produces the finest caviar, are found in many waters particularly in the northern hemisphere, including the seas near Japan, North America and Europe. But the best caviar comes from the sturgeon that are caught in the Caspian Sea. The principal sturgeon species in the Caspian are the Beluga, Oscietre and Sevruga. Caviar from the Beluga sturgeon typically attracts the highest price but only because it is the rarest; it may not be the best. Sevruga caviar probably takes that honour.

Since the dissolution of the Soviet Union there has been a significant breakdown in the quota system that governed sturgeon fishing in the Caspian Sea. Overfishing resulted and immature fish were caught. Controls to stop over-fishing were put in place but it's thought that for every fish caught legally, 12 more are poached. Mafia groups from Russia, Kazakhstan, and Turkmenistan have moved in on the trade and now perhaps 80% of all Caspian caviar, particularly if sourced from these three countries, comes via these illegal channels.

Good caviar is very good. Eat bad or cheap caviar and you'll wonder what all the fuss is about. The best caviar that I've had was in St Petersburg at a restaurant that specializes in Russian food. To underscore the perilous state crime has reached in Russia, before I was taken to the table, I was frisked for weapons by an attendant who then insisted on taking my jacket before I was permitted to go to my table on account of "security."

The stakes in the caviar trade have been sufficiently high to lead to murder. In 1996, 30 people were killed when an apartment block was bombed, a direct result of Russian mafia infighting over control of the illegal caviar trade.¹⁵ A lot of the illegal caviar is of dubious quality. Documentation is non-existent or unreliable, refrigeration patchy, and poor handling may lead to contamination. Much of it is tinned and labeled in the same manner as legally sourced caviar and so the region's caviar producers face the same problem worldwide, with brand infringement and counterfeiting, as do, say, producers of cigarettes and Scotch whiskey.

Chapter 6

THE STANS IN DETAIL

Kazakhstan: Asia's Newest Star

Fifteen years ago, Kazakhstan barely mattered. But then it was discovered just how much oil the country has. It hasn't looked back. Few people know much about it; however, Chinese government strategists in Beijing are not among them.

The 15 million strong population is potentially fractious, for it comprises over a hundred ethnic groups and 38 dialects. It's also the only former Soviet republic in Central Asia that has an Orthodox population almost as large as the Muslim one. The others are overwhelmingly Islamic.

Kazakhstan is the richest and most developed of all the stans – and it has the brightest prospects. Income per capita is rising fast, and now is almost on a par with Thailand's, on a PPP basis, despite the fact that at independence at the end of 1991, Kazakhstan was essentially bankrupt.

Almaty is the commercial capital. It was the administrative capital until 1998. It has a population of around a million people and is lush with poplars and hedges. Astana, the new administrative capital, is thirteen hours from Almaty by train or almost two hours by plane. Day-to-day life in the country's cities and towns is open and relaxed. There are busy internet cafes and vibrant shopping.

Kazakhstan's President Nursultan Nazarbaev is a former steel mill blast furnace operator and long-time head of the Communist Party in Kazakhstan. He became the country's president at independence in 1991. He has ruled Kazakhstan with a mixture of benevolence and totalitarianism. One of his first acts was to hand back to Russia all the nuclear warheads on

Kazakh soil. He has generally been pro-market and pro-business; the regulatory moves of his government have generally had a beneficial effect on the economy.

Elections were held in 2004. The three main parties were Nazarbaev's Otan (Fatherland) Party, the Asar (All Together) Party headed by his daughter Dariga, and the leading opposition party Democratic Choice of Kazakhstan, which was finally allowed to register as a party on May 5, 2004, after a three-year struggle with the authorities. The elections were held in September 2004. Otan won an overwhelming victory amid strenuous claims of vote rigging.¹ Asar had hoped to get at least 50% of the votes but achieved only second place with 11%. Perhaps even the president's daughter fell foul of voting irregularities. "This election really discredits Kazakhstan's bid to be known as the democracy of Central Asia," a senior researcher at Human Rights Watch was quoted as saying.² In any event the parliament is largely toothless; real power radiates from the office of the president. Political killings are unknown in Kazakhstan. The country's only political prisoner was let out of jail prior to the election so that he could resume running Democratic Choice.

Nazarbaev, like all the other leaders in the region, has sought to control militant Islamic sentiment. Such sentiment is monitored carefully and channeled via a national Muslim body that is headed by a state-appointed mufti. In September 2001, the Foreign Ministry ordered all Kazakh men pursuing Islamic studies abroad to return immediately to Kazakhstan. So it seems that the events of September 11, 2001, were not only a wake-up call for the US, although political parties based on religion had been banned since 1998.

Onwards and Upwards

Chevron of the US was the first foreign oil company to be awarded a drilling concession in Kazakhstan after the country's independence, gaining the right in 1993. It formed a joint venture Tengizchevroil with Kazakhstanmunaigaz, the Kazakh state-owned oil company, and invested more than US\$4 billion in developing the Tengiz oil field, sixty kilometers inland from the Caspian Sea. The field contains up to 25 billion barrels, making it the world's sixth largest oil bubble. Seven years later the massive Kashagan field was discovered out to sea, as described in the previous chapter.

Currently Kazakhstan produces about a million barrels of oil a day. By 2015, production will be more than three million barrels. A US\$2.2 billion

pipeline has been completed across the northern Caucasus to the Russian port of Novorossiysk, on the Black Sea, to shift 700,000 barrels per day by 2010. Other pipelines are under discussion or have been agreed, such as those that will link Kazakhstan with China.

But Kazakhstan not only produces oil. It is the world's fourth biggest producer of uranium and supplies about 8% of world demand, and is a large agricultural producer. The industrial sector is based on the extraction and processing of its natural resources, and manufacturing the associated extraction and processing equipment. Kazakhstan's oil has a high sulfur content. The Tengiz field alone produces 4080 tonnes of sulfur, part of which Tengizchevroil processes into fertilizer that is sold in Europe.³ The Kazakh government is attempting to diversify the economy away from oil and gas, and provides incentives for greater investment in light industry.

Wealth has come quickly, as illustrated by Nazarbaev's own circumstances as president. Back in the early 1990s, when Nazarbaev wanted to fly anywhere on a state visit, he had to borrow cash for the visit from local businessmen and ask for jet fuel from the countries he visited. He now travels abroad on a US\$80 million Boeing 767 presidential jet.

But it hasn't been a question of simply extracting oil and selling it. Economic management has been relatively prudent. The country's debt was awarded an investment grade rating by Moody's Investor Services in April 2003, two notches higher than Russia's and better than some US cities. Moody's commended the Kazakh government for its "tight fiscal and monetary policy and improved banking system regulation and supervision." In 1996, Kazakhstan became the first CIS (Commonwealth of Independent States) state to adopt international accounting standards, to which most enterprises in the country now adhere. Securities market regulation has also been significantly tightened. And in 1999, a new Budget System Law was enacted which shifted many hidden, off-budget expenditures onto the budget, thereby significantly enhancing the transparency of the government's finances. Various IMF (International Monetary Fund) loans have been repaid ahead of schedule. There is a functioning stock exchange and laws have been passed that require all trading in listed companies be done via the exchange. The banking system has been tidied up too and is now relatively solvent and transparent.

The US is Kazakhstan's biggest foreign investor, responsible for around a third of all foreign investment since 1991. But the Kazakh government has grown increasingly unhappy by the level of foreign involvement in its energy sector. Some officials feel that contracts negotiated early on favored foreigners too much. The government has tightened restrictions on

foreign investment so that foreign companies can now only invest in Kazakh-controlled joint ventures. Nonetheless, renationalization of oil and gas assets, at least in part, is now a risk.

Mittal Steel, controlled by London-based but Indian born Lakshmi Mittal, is perhaps the single largest non-oil sector foreign investor. It employs 50,000 workers at its steel works in Kazakhstan. Much of its output is exported to China.

The Kazakh government has won praise for establishing a national oil fund, the Future Generations Fund. It manages more than US\$3 billion and is modeled on Norway's oil fund. But the way in which the fund has been managed has attracted criticism. Funds that go into it do not come directly from the oil sector but are skimmed off the national budget. Others claim that it is not independently managed; the managers are too close to Nazarbaev. The fund is run by the National Bank of Kazakhstan but the board of directors includes government members and members of the president's own staff. Critics also argue that there are insufficient guidelines about how the funds should be invested.⁴

With greater wealth come more concerted efforts to protect it. In 2003, Kazakhstan decided that it would create a fully fledged navy, although it is landlocked other than for the inland Caspian Sea. But then it's beneath the Caspian that much of Kazakhstan's mineral wealth lies. Defence contracts are being awarded and purchases made. In November 2004, for example, Singapore's weapon maker ST Engineering, 55% owned by the Singapore government, announced a joint venture with Kazakhstan Engineering, a company formed in 2003 by merging 19 former government defence companies. The venture will provide IT, engineering, and defence services to the Kazakh government.⁵ There is little doubt that, with growing oil revenues and resources to protect, Kazakhstan and the other Central Asian states will become lucrative customers for defence contractors, just as the Saudi Arabian regime, for example, has become a milch cow for British contractors.

Corruption and Nepotism

For all the good news, Kazakhstan is corrupt, very corrupt. Nepotism is also a big problem. Political and business appointments typically proceed along clan lines. In Kazakhstan, as in many places in Asia, nepotism is not seen as necessarily bad but almost an obligation; one is expected to help one's own clan and family. This is similar to how many Indonesians viewed the corruption and nepotism of their country's former President

Soeharto. The fact that he used his position to benefit his children and friends was not seen as wrong per se. It was only when the nepotism and patronage became excessive that Indonesians objected.

Corruption is a systematic problem, particularly for small and medium-sized businesses (SMEs) and investors who lack the political clout and connections to protect them from rapacious government officials. The government adopted anti-corruption laws in 1998, but if other laws are subverted by corruption, why will anti-corruption laws be any different?

The biggest corruption scandal to date involves no less than the president himself, in what locally has become known as Kazakhgate. One large American oil company in particular and its agent are implicated in questionable multi-million-dollar payments that were banked in overseas accounts in the name of the president and another senior Kazakh political figure. An American businessman was charged in 2004 in the US under the US Foreign Corrupt Practices Act in relation to US\$78 million in questionable payments.

Nazarbaev ignored the controversy, preferring to do energy deals with China. China does not have adequate legislation against corrupting foreign officials that is actually enforced, nor (at the time of writing) has it ratified the UN Convention against Corruption, nor does it have a well-resourced and inquisitive media. Thus it is unlikely that the Kazakh president will suffer any significant embarrassment over deals done with Chinese firms.

Meanwhile, the president's family have enjoyed access to government positions and business opportunities. Dariga Nazarbaev, the president's daughter, controls Khabar Television, the main local television station. She also chairs the Congress of Kazakhstan Journalists. Nazarbaev named her husband, Rahat Aliyev, to senior positions first in the tax police and then the security agency KNB, the local successor to the KGB.

Another daughter, Dinara, is a director of the National Education Fund. Her husband Timur Kulibayev was put in charge of oil and gas transportation and was then made deputy chief of an agency that oversees most of the oil industry.⁶

Aliyev and Kulibayev both developed large private business interests as well. Aliyev grew rich through sugar trading and other enterprises. Members of his family bought control of Khabar and two other television stations, a bank called Nurbank, a regional carrier called Atyrau Airlines, and the country's largest circulation newspaper, *Karavan*. And Kulibayev gained control of another bank and a caviar-trading monopoly. He also gained an interest in the Alibekmola oil field. A government company that he headed then raised US\$150 million in bond financing to help build an export pipeline from the Alibekmola oil field.

But it was Aliyev who made himself the most unpopular. His role in the economy grew so large that the creation of the opposition Democratic Choice Party was felt to be a response to it.⁷ As head of the tax police he used what many said was excessive tactics to hound businesses. The tax police appeared to have become a personal fiefdom. Critics claimed in parliament that he demanded “tribute” from local businessmen and they questioned his loyalty to the president.

Rumors circulated that Aliyev was planning a coup against his father-in-law. Whatever the case, Aliyev was now a considerable political liability, and so Nazarbaev effectively exiled him from the country by appointing him ambassador to Austria and the Organisation for Security and Cooperation in Europe (OSCE).

Nazarbaev had another daughter Aliya marry Aydar the son of the then Kyrgyzstan president Askar Akayev. It appeared to be an attempt to forge a diplomatic alliance in the manner of Europe’s royal families throughout the ages. But the marriage ended in divorce and Aliya has remarried. It did however serve to underscore the split personality of emerging Kazakhstan: an economy with bright prospects overlaid on what in many respects remains a traditional, clan-based society.

Turkmenistan and its Sun King

Turkmenistan, like Kazakhstan, is rich in oil and gas. Probably not as rich, but rich nonetheless. But its people are relatively poor, particularly at the level of actual household disposable income. The reason: it is ruled by one of the world’s most ridiculous and self-aggrandizing dictators, who rules by a mixture of repression and subsidy.

Proven gas reserves amount to at least 2.8 trillion cubic meters and possibly 7.4 trillion, putting the country’s reserves in the top ten in the world. Untapped oil fields lie in the Caspian Sea off the country’s coast, the size of which are yet to be quantified.

As enormous as the country’s resources are likely to be, there’s almost no foreign investment in the country. The government does little to encourage it. And so the country is far poorer than it needs to be. The rule of law is embryonic and much that happens in the country is at the whim of the president. Vague property rights and unclear laws mean that there is little protection for foreign investors, either from each other or corrupt officials. Transparency International’s 2004 survey of perceived corruption found that of 145 countries examined, only seven were perceived as more corrupt than Turkmenistan.

Soviet President Gorbachev's perestroika or openness policy of the late 1980s completely missed Turkmenistan by and it remained one of the last remaining orthodox Communist outposts in the Soviet empire, holding onto the tenets of a centrally planned economy that Russia quickly ditched. The country's President Saparmurat Nyazov rose to power and proceeded to build a Stalin-like personality cult around himself, long after the rest of the leaders in the CIS had ceased to contemplate any such thing.

And so the economy remains in a moribund state. The country is covered largely by the Kara Kum desert, the hottest in the world. Agriculture exists only with the aid of intensive irrigation; around half the irrigated land is planted with cotton. Much of the economy is still in the hands of the state and little attempt has been made to privatize state assets. Little is known about the economy with any great precision: basic economic statistics are either deemed state secrets or they are blatant lies.

Gas, oil, and cotton are the main exports. Electricity has emerged as a new export. The Turkmenistan–Iran–Turkey energy bridge was completed in late 2003 and electricity exports to Turkey have since doubled to 300 million kW, earning US\$21 million annually, with US\$3.8 million paid to Iran in transit fees.⁸ But this is paltry compared with what Turkmenistan could earn if it proceeded with the robust development of its oil and gas sector. But that would mean significant foreign investment and would subvert the president's preference for total control.

Diary of a Madman

So who is the man who effectively holds the five million Turkmens hostage? A plump, thick-necked man, President Saparmurat Nyazov is the former head of the Communist Party in Turkmenistan. He has turned his country into Central Asia's own North Korea. He models himself on Kemal Atatürk, the founder of modern Turkey, and sees himself as the founder of modern Turkmenistan. To a degree that is true. He is certainly giving the citizenry an identification they've not previously had. But it's also true that he is a dictator who has stamped out opposition and shut down all democratic channels. Decades after his death, Turks still breathlessly exclaim how much Turkey today owes Atatürk. The same will not be said of Nyazov after his death.

Nyazov rules by decree and micromanages as much as he can. A system of KGB-type informers is used to spy on the population. Many citizens are not permitted to travel abroad. Nor are visitors welcomed readily. The price of a visa to Turkmenistan is prohibitive, if possible to get at all; visa rules are restrictive and whimsical.

All newspapers are state-owned and Nyazov personally names all editors. Each reports directly to him. All foreign publications are banned, including those from Russia. Satellite television is not banned, however, but that's probably because foreign satellite television almost never carries news on or commentary about Turkmenistan. Access to the internet is restricted.

Nyazov's rule has grown more bizarre the longer he has stayed in power. He adopted the name *Turkmenbashi* or Father of all the Turkmen and has had his rubber-stamp parliament appoint him president for life. Statues of the man grace Ashkabad everywhere as do banners that proclaim the state slogan: *Halk, Watan, Turkmenbashi* (One People, One Fatherland, One Leader). Following a successful heart operation, he had thousands of portraits of himself that showed him with white hair replaced by ones that show him with dyed black hair.⁹ He seems keen to suggest that he is immortal.

A 23-meter victory column at the centre of Ashkabad is topped by a 12-meter gold statue of Nyazov, his coat billowing, his arms stretched out. It rotates, doing a full turn every 24 hours, but rotates so that it always faces the sun during daylight hours. Nyazov has styled himself into something of a Sun King. Uniformed guards stand to attention beside most of the statues.

And then on the tenth anniversary of the country's independence from the Soviet Union, a 300-meter-square handmade carpet, the world's largest, was unveiled. "The 21st Century: The Epoch of the Great Saparmurat Turkmenbashi" was the carpet's title.

Nyazov's face also adorns books, and food and alcohol packaging. A gold profile of him revolves constantly in the upper right-hand corner of the screen for each local television channel.

Both Ashkabad's central road and the airport are named after Nyazov. The Caspian port city of Krasnovodsk, Turkmenistan's second largest, was renamed Turkmenbashi. Regions, plants, and even asteroids have been named after him.

Nyazov has often complained about receiving excessive praise. "It's a bit difficult for me that I am praised so much that I cannot even leave my home because of it", he was reported as saying on Turkmen Television in mid-2004. Several of the huge portraits of the president that adorned the city centre were removed and one statue was taken down.¹⁰ But apparently such complaining should not be taken at face value. In the past it signaled dissatisfaction with underlings and an imminent purge. Nyazov wants all the praise he can get. But he does not want to take responsibility for it. That would seem egotistical.

But the adoration doesn't stop with Nyazov. He has extended it to his

dead parents, an unremarkable pair who died before Nyazov reached his teens. Statues of his mother have been erected around Ashkabad. She perished along with other family members in an earthquake in 1948 that devastated the city and killed more than 110,000. Nyazov was eight years old at the time. The parliament declared 2003 to be the year of Gurban-soltan, the president's mother. The national women's association, a factory, a school, and other facilities are named after her. In August 2002, Nyazov decreed that henceforth January would be known as Turkmenbashi and April would be renamed after his mother.¹¹

Nyazov's father died several years before his mother in World War II, killed in fighting in the northern Caucasus. He too has been given the hero treatment. The parliament declared 2004 to be "The year of Atamyrat Nyazov, Hero of Turkmenistan and Father of Saparmurat Turkmenbashi the Great, Turkmenistan's first and life President." The country's war veteran's organization is named after Nyazov's father as is a town in the country's east formerly known as Kerki.

Nyazov's desire for follies goes beyond statues. Enormous sums have been spent on a large gold-domed presidential palace, and water gardens in what is otherwise one of the world's most arid countries. Nyazov built what was the largest mosque in Central Asia in his home town of Kypchatk. Ruins of a 2500-year-old city lie just outside Ashkabad and Nyazov has built a 21-kilometer staircase that passes over sand dunes alongside the site, the stairs being illuminated at night with thousands of small lights. A massive reservoir, the Golden Era Lake is being built in the desert east of Ashkabad. It will be 120 kilometers long and 60 kilometers wide. The concern is that it will suck up scarce water from rivers that provide water for crops and drinking. Nyazov himself has claimed that the dam will cost US\$7 billion.¹² It seems an overestimate. The country simply doesn't have the money.

Nyazov has declared that neither the Koran nor the Bible provide sufficient guidance for his people and so has published his own book of moral teachings called *Ruhnama* or *Book of the Soul*. It has become part of the mandatory curriculum in schools and universities, replacing more practical texts to the point where a generation of Turkmens will likely have impaired education. In August 2004, Nyazov decreed that all learner drivers must pass a 16-hour course on the *Ruhnama* as part of the requirements to gain a driving license.¹³ He completed a second volume in mid-2004. (The English translation can be accessed at www.ruhnama.com. Souvenir *Ruhnama* T-shirts, carry bags and mugs are also available from the site. Seriously.) Every work unit must organize weekly discussion groups about the *Ruhnama*. "This book, written with the help of inspira-

tion sent to my heart by the God who created this wonderful universe,” it starts off. Indeed, Nyazov is said to have inquired of the religious authorities whether he could declare himself a prophet. But then in 2004, he didn’t have to. The country’s youth association declared that he should be known as the Prophet of the Turkmen Nation. Well, why not? The month of September had already been renamed “Ruhnama.”

Clearly, Nyazov is a megalomaniac. But it’s not all bad. The country is the only one in the region to have abolished the death penalty (although 678 executions were performed in the eleven months before).¹⁴ Nyazov refuses to have a chauffeur; he prefers to drive himself around the capital. The monuments and public buildings around the capital might be wasteful and excessive but Turkmen seem to be impressed by them, in the same way that Malaysians are impressed by the Petronas Twin Towers in Kuala Lumpur, a project that had little commercial justification but probably had beneficial effects by way of nation building. And, Nyazov has succeeded in creating a Turkmen identity out of what is otherwise a series of desert tribes.

Largely on account of his tight control over everything, Nyazov’s rule faced little obvious opposition but that changed in 2002, which saw an assassination attempt and a growing number of officials leaving the country and going into exile. An opposition is in exile too. And so Nyazov promulgated a law requiring that candidates for president must have lived in Turkmenistan for ten years prior to the ballot.

Pressure also comes from ethnic rivalry. The population comprises seven main tribes and 24 smaller ones. Tribal affiliations remain strong. Nyazov is from the most numerous Tekke tribe. Many and perhaps most of his senior officials tend to be Tekke too. But the Yomad tribe, which is centered around the Caspian port of Turkmenbashi, see themselves as having to pay taxes to Ashkabad and thus the Tekke to build up Nyazov’s grand capital with little obvious benefit to them.

Governance and Government

Nyazov dominates the government completely. The situation was formalized in 2003 when a law was passed that made it a crime punishable by life imprisonment to “sow doubts about presidential policy.” Little is delegated and as a consequence the business of government either jolts ahead if it involves a project that has caught the president’s eye, or it grinds to a halt.

The president likes to approve all major decisions and many minor

ones. He is also quick to fire those who have made a wrong decision. Consequently almost no one in the government is willing to make a decision. Foreign investors find that meetings with ministers are pointless, they are disempowered and their words meaningless.

Only meetings with and agreements made by Nyazov hold much value. Corruption is rife. This is encouraged by the president's habit of sacking almost everyone after just short tenures in the job, so senior officials have an incentive to take what bribe money they can, knowing that they will probably only have a short window of opportunity. Influential or competent officials are removed too because they might pose a threat to the president. And so the functioning of the state is undermined because no one can make a decision, few among the political elite are permitted a stable career, and those that are, are there by virtue of their incompetence.

The 50-seat parliament meets only occasionally and then to accept laws already announced by the president. Elections for the parliament were held in December 2004. But they were a farce. Only one political party, that of the president, is registered, and all candidates were required to have demonstrated loyalty to Nyazov. Voter turnout figures are not known but were probably very low. Many citizens seemed unaware that an election was being held.

Cabinet meetings are broadcast on television. "Nyazov sits, admonishing government ministers, who stand trembling along the wall, taking notes with their heads bowed, clearly in fear of his questions," is the description provided by the Brussels-based International Crisis Group.¹⁵ Purges come with monotonous regularity. Ministers are fired regularly, sometimes for corruption and nepotism, at other times for underdelivery, or simply on a whim and probably often to ensure that rivals are kept at bay. Sometimes, Nyazov even fires ministers live on television. Poran Berdiyev, a former interior minister, was sentenced to 25 years in prison in 2004. His crime was not specified but he is known to have fallen out with the president in September 2002 after cotton harvest targets were not met. Probably the role of minister is not a job that attracts the best candidates in any event.

Government budgeting lacks transparency and presumably is a mess. The funds for Nyazov's grandiose projects appear to come from the off-budget Foreign Exchange Reserve Fund, of which he has exclusive control. Details of the fund are kept secret and so the cost of all Nyazov's projects is not known. It is believed that most of Turkmenistan's earnings from oil and gas go into the fund and from there are spent on the president's monuments.

The Turkmen Economy

The prospects for Turkmenistan and its economy are potentially very good. It is hugely rich in fuel resources particularly compared with its relatively small population. One day its people will enjoy per capita incomes as high as any other oil and gas rich state. It is all contingent on the removal of Nyazov.

As things stand, only two pipelines export gas from Turkmenistan. Both are small – one to Iran and one to the Ukraine. The Iranian pipeline earns very little by way of export earnings. Nor does the Ukraine one and much of what it does earn is paid by way of barter trade.

A new pipeline was considered across the Caspian Sea to Azerbaijan and on to Turkey but the idea was dropped in 2000, partly because Turkey was offered better alternatives by competing countries but also because the foreign firms Bechtel and Shell charged with assessing the feasibility of the project could no longer work with Nyazov and his ever-changing demands.¹⁶

Malaysia's national oil company Petronas is one of the few outside investors. It has exploration rights over the Makhtumkuli field in the Caspian Sea off the Turkmen coast. It announced in early 2005 that an oil well in the field had begun to produce major oil flows of nearly 800 tonnes and half a million cubic meters of natural gas each day. It also said that commercially viable flows had begun at two other offshore fields where Petronas has exploration rights.¹⁷

Nyazov announced in 2004 Turkmenistan should export 75% of all oil products produced by 2020. A US\$2 billion deal was concluded in April 2004 with Itochu and JCG of Japan for the modernization and expansion of the country's refineries. And plans were announced for two new refineries to double oil processing capacity. The details are hazy however, and the plans may not be sufficient even assuming they come to fruition.

Nyazov has signed various gas supply agreements with Russia and other CIS states but there is doubt that Turkmenistan will be able to extract enough gas to fulfil all the contracts. It's not that the gas is not there but that the facilities to extract and convey it are inadequate.

The election of President Hamid Karzai in Afghanistan in 2004 and the promise of a more stable Afghanistan augers well for the longer term prospects of the Turkmen economy. The Turkmenistan government has long hoped to have a pipeline built through Afghanistan and out to Pakistan from where its gas can then reach export markets. Political problems, instability, and sanctions had put paid to that while the Taliban was in power but in March 2002, President Karzai, on a state visit to Turkmenistan, discussed reviving the pipeline idea with Nyazov.¹⁸ The

following May, Karzai and Nyazov met in Pakistan with President Pervez Musharraf to sign a treaty authorizing construction of a US\$3.2 billion gas pipeline from Turkmenistan to the port of Gwadar in Pakistan. The plan is to build a parallel oil pipeline later on. Karzai himself has worked for the American oil company Unocal and in 1997 had represented the company in pipeline negotiations with the Taliban leadership.¹⁹ Pakistan is desperate for energy resources and at the same time can profit from being a transit country for a gas pipeline to India. How the pipeline will be brought to fruition remains unclear. The situation in Afghanistan was improving, but it was still the case in early 2005 that the country's opium crop was enormous, drug money accounted for as much as two-thirds of national income and had corrupted the government from very senior levels down, and much of the country outside Kabul was still controlled by regional warlords and drug barons.

In terms of foreigners doing business in Turkmenistan, the central role of Nyazov and the poor state of the rule of law mean that connections to the president and his patronage are critical factors for success.

One foreigner who did well in Turkmenistan was Igor Makarov. He grew up in Ashkabad but is now a powerful businessman in Moscow where he is CEO of the Russian energy company Itera. He used a long-standing friendship with Nyazov in 2002 to secure supplies of Turkmenistan gas for Itera. Old Soviet-era pipes were used to convey the gas.

Bouygues Batiment International of France, the world's third biggest civil engineering company, has done well in Turkmenistan. Nyazov routinely chooses it to build his various monuments and follies, including construction of the US\$95 million mosque in his birthplace and a presidential palace.²⁰ An August 2004 presidential decree announced that a four-kilometer-long cable car complex would be built on the outskirts of Ashkabat along with shopping and restaurant facilities, an observation deck, fountains and an ice skating rink with capacity for a thousand people. The estimated cost was US\$43 million, and once more the contracts were awarded to Bouygues.²¹

Wasteful projects, corruption, centralized control, and insufficient investment in export-earning sectors are not the only challenges for the Turkmen economy. Another is the non-convertibility of the Turkmen currency, the manat, which hampers foreign investors. Worker productivity is low too. Almost 90% of the 2.3 million workforce are employed by the state.²² There are many public holidays to mark obscure events such as Melon Day in autumn when melons are brought into Ashkabad by soldiers and the people can eat as many melons as they like. January 2 is Health Day, another public holiday. Farm yields are low due to an approach to the sector

that borders on the collectivist, and the need to meet production quotas that lead to inefficient and counterproductive farming practices.

The pricing system is in disarray. Subsidies for a broad range of goods and services mean that resources are misallocated across the economy. Basic foods such as flour and salt are heavily subsidized, as is housing. Water, gas, and electricity are provided to citizens practically for free. Gasoline subsidies mean that a full tank (fifty liters) is priced at around US\$1. Flights on Turkmenistan Airways are cheap to the point that market gardeners find it profitable to fly with their produce 700 kilometers across the country in the morning to sell in the street bazaars of Ashkabad and then fly home before nightfall.²³ Not surprisingly cross-border smuggling with Uzbekistan is a big problem. Turkmen buy things at subsidized prices at home to sell to Uzbekistan at a profit.

The broad system of subsidies is enormously difficult to roll back and is part of the means by which Nyazov perpetuates his power. Any regime change will need to reduce and then eliminate such subsidies if the economy is to be put on a market-based footing but such moves will be met with enormous resistance from ordinary Turkmen citizens.

What will the future hold for Turkmenistan? Nyazov must know that his dictatorship is unsustainable. Turkmenistan is isolated and he is isolated within it. Even his close family have either left or been pushed aside. His only son lives in Austria; his daughter in Moscow with her mother. Nyazov is said to have been deeply disturbed by images of statues of Saddam Hussein being toppled in Iraq and reportedly sank into a bad mood for at least a week.²⁴

Like Myanmar, Turkmenistan has a lot of potential but is held back by an obstinate and isolationist leadership. The extreme centralization of power with the president significantly raises the political risks for investors. What will happen when Nyazov leaves office or dies? Will there be a fight for power? Will contracts be repudiated? These are pertinent questions, given that Nyazov, although not old, is now several years beyond the typical life expectancy for a Turkmen male and has had heart surgery. Change will come sooner rather than later for Turkmenistan. Foreign investors and businesspeople should prepare for emerging opportunities now, if only to determine what those opportunities might be.

Uzbekistan, Kyrgyzstan and Tajikistan

Uzbekistan, Kyrgyzstan, and Tajikistan are the three poor relations of Kazakhstan and Turkmenistan. Each has a per capita income, PPP basis, of

well under US\$2000. Uzbekistan is the leader in the region population-wise, with a population of 26.4 million, and has aspirations of being the regional power to match. What is the current state of play in each country and what economic prospects does each have?

Uzbekistan: How Not to Run a Country

Uzbekistan is largely arid and is landlocked. But it is not devoid of resources or prospects. Much use is made of irrigation. It is the world's second largest producer of cotton and fourth largest producer of gold. It is also a significant exporter of oil and chemicals. It has a long history of involvement with international trade too.

Historically, what is now Uzbekistan was connected to the rest of Asia via the Silk Road. Bukhara, which was on the Silk Road, is in modern-day Uzbekistan as is Samarkand, with its spectacular Islamic architecture. Some of Southeast Asia's prominent trading families have ancestral roots in Uzbekistan. Leading Malaysian businessman Syed Mokhtar Albukhary, for example, is partly descended from Bukhara traders. In short, Uzbekistan has a critical mass population, a not insignificant endowment of natural resources, and a long history of commercial involvement with the outside world. So what is going wrong?

The answer is its government. It is headed by President Islam Karimov who was the head of the local Communist Party until 1991 when he had himself made president of the newly independent republic. His rule is dictatorial and among the worst in the world, both in terms of human rights abuses and economic management. No opposition parties are allowed to register and so the opposition is either overseas, in jail or underground. The parliament rubber-stamps all laws, and the media is utterly muzzled and intimidated. Dozens of journalists have been jailed. The police are required to fill crime-solving quotas and in order to meet the quotas many innocent people are reportedly framed and jailed by the police.²⁵ Torture is systematic in Uzbekistan jails.

Pious Muslims have been caught up in the hunt for terrorists, and Muslim activists and extremists face particularly harsh conditions. Independent Islamic schools and mosques are banned. And almost 7000 political prisoners are kept in what a UN rapporteur has called "cruel, inhuman and degrading" conditions.²⁶

By and large, government officials are corrupt, the police appallingly so, and violent toward citizens as well. Enforcement of rules is arbitrary and theft of private property by police commonplace. Discontent is rife. Early

2004 saw open fighting and bomb attacks in the streets of Tashkent itself between government forces and militant extremist Islamic groups. Accordingly, Karimov has built up an 80,000-strong army, the largest in Central Asia, reflecting Uzbekistan's desire to be the regional heavy-weight, as well as to help in putting down dissent at home and entrenching his rule.

Most sectors of the economy remain in state ownership. The government's role in the economy is intrusive and heavy-handed. Inefficiency, waste, and corruption abound. Legitimate businesses from stall holders in markets to companies are at the mercy of rapacious government officials and the police who impose unofficial levies and constantly demand bribes. There is little predictability in the business environment, and insufficient reward for effort. Consequently little effort is made.

The Uzbekistan government's tardiness on improving human rights and reforming the economy has led to condemnation from abroad. The US announced in 2004 that it would withhold millions of dollars in security and economic assistance because of its "disappointment" over Uzbekistan's continuing human rights abuses. The European Bank of Reconstruction and Development similarly decided that it would suspend its assistance to Uzbekistan on account of the lack of progress on economic restructuring. It's a case of not wanting to throw good money after bad as much as anything else. The som, the Uzbek currency, was made convertible in October 2003. Ordinarily, this is a step forward but in Uzbekistan's case banking and other restrictions mean that, in practical terms, convertibility has done little to help would-be foreign investors.

Uzbekistan has moved militarily closer to the US, allowing a US base on its territory. This is partly on financial grounds. But as the US and Western Europe have grown increasingly disapproving of Karimov and his regime, Uzbekistan has sought to re-engage Russia. In May 2004, deals were signed with Russia's Gazprom for gas extraction in the Ustyurt fields, for example. In 2003, 2.5 billion cubic meters of gas were shipped from Uzbekistan to Russia. The government targeted 7.7 billion cubic meters for 2004.

One significant foreign investor is Indonesia's Bakrie Group, headed by Aburizal Bakrie. Bakrie was appointed coordinating minister for the economy by Indonesian President Susilo Bambang Yudhoyono in October 2004. In Uzbekistan, the group has a stake in a mobile telephone operator, Bakrie Uzbek Telekom, and invested in a hotel that had been built by India's Tata Group but sold it on in 1999. The Bakrie family has ancestral roots in the region, which seems to be part of the reason for their investment.

A Hand in the Till?

Most families in Uzbekistan have remained poor since the country's independence. One family in particular has not: that of the president. A glimpse of the family's wealth was afforded by the divorce proceedings of his daughter Gulnara Karimova in a New Jersey court in 2003. Documents presented at the hearing suggested that in the US Gulnara had jewelry worth US\$4.5 million, at least US\$11 million in bank and investment holdings in Switzerland and Dubai, a house in Tashkent, a US\$10 million retail complex, a US\$13 million resort, a US\$4 million Moscow penthouse, Tashkent nightclubs valued at US\$4 million, a 20% stake in Uzdunrobita, Uzbekistan's main mobile telephone company valued at US\$15 million, a television station, and a recording studio. Later, when interviewed, Gulnara admitted only to the Uzdunrobita stake.²⁷

A barely existent rule of law and corruption is a heavy roadblock on the way to developing a stronger economy. One law that President Karimov did have the parliament pass in 2003 was a law that ensures that ex-presidents cannot be detained, interrogated, or searched. There are no ex-presidents to date. Karimov will be the first, assuming he does not die in office. The fact that he had such a law passed suggests that he does at some point intend to step aside and in that there is a glimmer of hope for Uzbekistan and its economy.

Kyrgyzstan: Marks for Trying

Kyrgyzstan is not a country on many people's lips. One reason is because few know how to pronounce it. (Try Kee-er-gistan.) It is poor and mountainous. And yet it has been something of a regional leader on economic and political reform since the end of the Soviet era. Certainly it provides a lesson on reform and decency that so far has been lost on Uzbekistan's leadership. But such things are relative.

Its economy is largely agricultural; cotton, tobacco, wool, and meat are the main agricultural products. Exports comprise tobacco, cotton, gold, mercury, uranium, natural gas, and electricity. Poor as the country remains, the government has been adept at privatizing government assets and introducing market-based measures. Its management of its finances has also been relatively prudent. There has been an eagerness to reach the outside world, even if that eagerness might not always be reciprocated: Kyrgyzstan was the first CIS country to become a member of the World Trade Organization for example.

Leadership, as always, counts for a lot. Askar Akayev who served as president from 1992 to early 2005 was the only former Soviet Central Asian head of state who was not a senior communist. He is a former physics professor and as president was generally liberal in his inclinations. He won the presidency in 1992 in elections that were widely regarded as democratic. Akayev successively wound back Kyrgyzstan's democracy, culminating in his being chased from office in March 2005 and fleeing the country after parliamentary elections were staged that were regarded widely as fraudulent. But on the whole, the country remains one of the more liberal in the region.

Kyrgyzstan society is relatively plural. The local business elite gather in the Bishkek Business Club for example. Political parties are allowed to register relatively freely. Even towards the end of the Akayev regime there were at least 44 of them. But by and large they are not so important. Many are built around single personalities and tend to exist to serve an individual's political career rather than the other way around.

Akayev was not a popular politician, largely on account of his economic reforms. Constitutionally he was permitted only two terms as president and he said repeatedly that he did not intend to run for a third term. Nonetheless, the two-stage March 2005 parliamentary elections were rigged and Akayev supporters ultimately won 69 of the 75 seats, raising concerns that he would have the parliament amend the constitution to pave the way for him to run again. Widespread public protests and looting in which four people were killed led to Akayev's fleeing the country even though he still maintained that he had no intention to run in presidential elections to be held later in the year. But his son Aider was a successful candidate in the parliamentary election, as was his daughter Bermet, and this fuelled speculation that the family was attempting to establish a political dynasty.

Kyrgyzstan remains one of the world's most corrupt countries, ranking at 122 out of a possible 145 according to Transparency International's 2004 survey of perceptions of corruption. The practice of position buying is systematic, with senior government positions practically up for auction.²⁸ Winnable seats in the 2000 parliament were said to cost as much as US\$500,000 in payments to senior members of the government. Such payments are reminiscent of the "simony" of the medieval Catholic Church in Europe, whereby sons of the aristocracy "bid" to be appointed as cardinals and bishops or even pope for all the bribe taking and commercial opportunities that such positions entailed. Still, some small and medium-sized business operators claim that the business environment is getting better and less corrupt. Others are yet to discern a change.²⁹

Kyrgyzstan is a significant producer of gold. Its Kumtor gold mine, one of the largest in the world, holds as much as 70 metric tonnes of gold. The mine had been a joint venture between the Kyrgyz Government and Canada's Cameco but was folded last year into a new company, Centerra Gold Inc, along with majority stakes in Mongolia's Boroo gold mine and a stake in a mine in Nevada. The new entity was listed on the Toronto Stock Exchange. The Kyrgyz Government was allocated around 27% of the shares in Centerra in exchange for its two thirds share in Kumtor. It then sold this down to about 16%.³⁰ The terms of the deal dismayed some Kyrgyz parliamentarians and there were hints of suspected corruption.

Akayev's family did well commercially from his presidency. One family member controlled fuel sales to the US base at Manas.³¹ And in 2004, the telecommunications company Areopag, which is linked to son Aidar, bought a significant stake in Pyramida TV, the country's most influential independent television company. Akayev's son-in-law Adil Toigonbaev (Bermet's husband) owns several media outlets, including the popular newspaper *Vechernii Bishkek* and the popular television station KORT, and is involved in the local tobacco, alcohol, building materials, and oil products businesses.³² Akayev's legacy is not all bad. He introduced many pro-market reforms to his country and allowed it greater freedoms than enjoyed in several other Central Asian republics. But the manner of his departure from office ensured that he was demonized, and that he will be remembered as yet another despot even though his leadership was not without benign tendencies.

Tajikistan: Back to Mama

Tajikistan is the loser in the pack among the ex-Soviet Central Asian republics. What does it have to offer the world? Not much. It has the lowest per capita GDP among all 15 former Soviet republics. It has almost no arable land. Cotton is the most important crop among the few that can be grown. It lacks the oil and gas resources of its Central Asian neighbors. Other mineral resources are limited too. Industry comprises one large aluminum plant, some hydropower facilities, and small inefficient factories left over from the Soviet era. These are involved in light industry and food processing.

The government has privatized state assets, not that there was much to sell off. Unemployment is widespread and the economy is burdened by high external debt. Corruption is rampant. Transparency International's 2004 survey on perceived corruption found that as with Turkmenistan, of 145

countries examined, only seven were perceived as more corrupt. A civil war between 1992 and 1997 gravely damaged an already weak economy.

Drug money is one of the most important influences on the Tajik economy. The country has become a major transshipment route for heroin and other drugs produced in Afghanistan, earning Tajikistan as much as US\$300–400 million a year.³³ The drugs enter Russia and from there are distributed to Western Europe.

Tajikistan's political institutions are weak. President Imomali Rahmonov has sequentially removed most of his erstwhile allies from positions of authority to head off any rival sources of power. And in June 2003, a referendum extended the time that a president may stay in office, and so Rahmonov could now run for two more terms and stay in office until 2020. Parliamentary elections were held in February 2005. They were widely criticized by international observers. The ruling party kept its majority. Rahmonov responded to international criticism by saying that it was "dangerous to force democracy" on a fractious society like Tajikistan.³⁴

Russia's influence is strongest in Tajikistan, among the Central Asian republics. Russian troops were sent there as peacekeepers in 1997 after the five-year civil war between the post-Communist government and Islamic factions. Around 50,000 people are believed to have died in the conflict. The Russian troops are yet to leave and in 2004, the situation was formalized with the opening of a Russian base in Tajikistan. The need to protect Russia's southern flanks from drug smugglers from Afghanistan is one of the reasons proffered. In return, Russia forgave most of the debt owed to it by Tajikistan and promised billions of dollars in new investment, rewards it seemed for coming home.

But in essence, Tajikistan, like its other Central Asian neighbors, remains a largely unknown quantity. Few know much about it. Fewer still have been there. And where there are knowledge gaps, the potential can be enormous, as Kazakhstan has shown.



ANWAR IBRAHIM: MALAYSIA'S DARK CLOUD

A dark cloud hangs over Malaysia in the form of the former Finance and Deputy Prime Minister Anwar Ibrahim. Anwar was fired from these positions in September 1998. He was then charged with sodomy and abuse of power and jailed for nine and six years respectively. The sodomy charges were overturned on appeal in 2004 and Anwar was released.

What is Anwar planning to do now that he has been released from jail? Will he become a divisive opposition figure? How much trouble will he cause? Planning for business needs to take these unknowns into account. They will impact upon Malaysia's future political stability.

What Anwar's Release Really Means

The decision in 2004 by Malaysia's Federal Court to overturn Anwar's conviction for sodomy might have got him out of jail but it did not get him off the hook. Many commentators and journalists who reported on the decision did not appear to have read the detail of the 36-page majority judgment. The initial conviction rested on a confession by Anwar's co-accused, his adopted brother Sukma Darmawan, and statements by the only witness, Anwar's wife's driver who claimed to have been sodomized by both men. The charges against the two men related to acts of sodomy between given dates, dates that famously had to be changed three times on the charge sheet as Anwar came up with credible alibis.

The Federal Court majority judgment ruled Sukma's confession as inadmissible. The judges found that it had been obtained under duress. There is

little doubt as to Sukma's sexual orientation. But what the court had to prove beyond reasonable doubt was that the incidents occurred within the dates specified by the charges. The Federal Court judges found that the dates had not been proven, and it was on this basis that they allowed Anwar's appeal.

Guilty but Not as Charged

Critically, the majority judgment says, "we find evidence that the appellants were involved in homosexual activities." It is this point that many in the media, particularly outside Malaysia, missed. What the judges couldn't find evidence for was the dates.

In one respect the majority judgment went further than earlier courts. It found that the driver "was an accomplice" to the acts of sodomy. Earlier courts had judged him to be a victim. To put it crudely, the judges paint a picture of a happy threesome rather than of two aggressors.

Rumors of Anwar's homosexual activities had circulated in Kuala Lumpur for years. Hanif Omar, the well-regarded police chief from 1974 to 1993, has publicly stated that the police were concerned at least as early as 1993 about Anwar's alleged homosexual activities because of the risk of blackmail. In that year he had informed then Prime Minister Mahathir of the concerns. Mahathir at that stage found Hanif's claims difficult to believe and Anwar was not charged for another five years.¹

Why does all this matter? Because in Malaysia, politics and business are inextricably linked. Anwar himself had no shortage of "clients" in the business sector when he served as finance minister. He awarded banking licenses to conglomerates that previously had been unable to get them, and his people were appointed to the helms of various government-linked companies. Some of his backers in the business community were accused of manipulating the stock market to raise funds for his campaigns within the ruling party.

Many Malaysians were pleased to see Anwar released. But that might have been more a consequence of a Malay preference to let bygones be bygones rather than because of a view that the sodomy charges were fabricated. When asked to express an opinion as to Anwar's guilt, most Malaysians seem to be of the view that they just don't know.

Indeed, what was unusual about Anwar's treatment was that it was so devastating. The winner take all approach is alien to Malay culture. Had the government, and more particularly Mahathir, orchestrated events in the grand conspiracy that's typically supposed, Anwar's annihilation is unlikely to have been so total. It's more usual in Malaysia for the defeated to be allowed to retire from the public sphere with a degree of dignity.

In any event, politicians in Malaysia do not direct the outcomes of trials, contrary to widespread belief. Ministers do not ring up judges and demand convictions. There's no need. Typically the judiciary does the government's bidding without being asked.

A very senior Malaysian government figure once described Malaysia's judiciary to me as a "bunch of bloody idiots." Of course we want them to favor us, he explained, but not to the point where it's so embarrassing. It must be said that improvements have been made since then.

Anwar's prosecution pointed to a process that ran out of control such that none of the participants were able to stop it. The police and the judiciary overestimated what was expected of them, and the government, true to its word, did not intervene. Instead it looked on with rising horror and incredulity. Mahathir might have hoped for Anwar's removal, not his destruction. Probably no one was more shocked at the turn of events than Mahathir.

But did the 2004 freeing of Anwar signal a more independent judiciary? Probably not. Perhaps once more, the judiciary was simply second-guessing the government's wishes. New Prime Minister Abdullah Badawi appeared to be quite comfortable with the court's decision and among the well-wishers at Anwar's house soon after was Khairy Jamaluddin, Abdullah's son-in-law and close advisor.

Will Anwar rise once more? Electoral support for his cause appeared to have waned at the federal elections held earlier in 2004 when the opposition party headed by his wife saw its representation in Malaysia's federal parliament fall from five seats to one.

Also, the fact that the Federal Court cleared Anwar of the conviction but not the allegations will not go unnoticed by many in Malaysia. Nor will it go unnoticed by Anwar's many enemies who will have an interest in reminding the electorate and the ruling party that in the view of all three Federal Court judges Anwar is a sodomite. Of course in more liberal countries, the notion that sodomy is a criminal offence is an absurdity, but in a morally conservative society such as Malaysia, it's not a strong foundation on which to rebuild a political career.

In any event, Anwar's second appeal, against the abuse of power charges, was rejected by the Federal Court shortly after it overturned the sodomy convictions. The rejection was unanimous. The court decision meant that Anwar remains a convicted criminal and is banned from holding political office until 2008.²

Meanwhile, once out of jail and having returned from Germany where he had back surgery, Anwar did attempt to initiate public contact with Abdullah. Anwar appeared unannounced at a community hall in Penang

state for a breakfast celebrating the end of Ramadan in November 2004, knowing that the prime minister was there. Hearing that Anwar was outside, Abdullah went to the door, welcomed Anwar and escorted him inside. Some in the media interpreted this as Abdullah looking on Anwar with some sympathy, with a view to a rapprochement but it was no such thing. It was simply Abdullah as ever displaying traditional Malay hospitality even to one's adversaries. Foreign journalists are quick to report on outcomes in Malaysia but rarely do they interpret correctly the rationales and motives of the key players. Whatever else Anwar might have done he is also a past deputy prime minister.

Binladen, the Ayatollah and the ABIM

In early 2003, after I'd just given a speech at the Bankers' Club in Kuala Lumpur, a Malay businessman approached me. I asked him what business he was in. Construction, he said, specifically mosque construction. Had his company bid for the construction of the Putra Mosque at Putrajaya, the new billion-dollar capital city being built outside Kuala Lumpur, I asked? No, he replied. Anwar Ibrahim, the finance minister at the time, had already decided who the contract would go to. Anwar, my informant told me, was "very keen" to have the Binladen Group involved in Malaysia. And it was to that group that Anwar gave the contract. He did so, I was told, without a tender, despite there being no shortage of local construction firms capable of building a mosque and with plenty of experience. As my informant said to me: "Why a foreign firm? Why one from Saudi Arabia? And why without a tender?"

The Binladen Group is of course owned and run by the estranged family of international terrorist Osama bin Laden. On being awarded the contract to build the US\$71 million Putra Mosque, it set up a local subsidiary, Puturan Mutiara (M) Sdn Bhd to undertake the project. The contract to build aprons and taxiways at Kuala Lumpur International Airport also went its way.

Anwar had been an early leader of the Angkatan Belia Islam Malaysia (ABIM), the Muslim Youth Movement of Malaysia. As its newly elected president in 1974, he was detained for 22 months under the Internal Security Act for his part in some student demonstrations. The ABIM was active among Malay students and graduates and sought to raise the level of Islamic consciousness in the broader community. It rejected a separation between politics and religion and was responsible for the revival and growing Islamicization of Malaysian society. Anwar became powerful with the ABIM as his platform. Recognizing this, Mahathir enticed him into the ruling UMNO party with promises of ministerial posts. Many

were surprised. They thought Anwar would have been more at home with the opposition Islamic party PAS.

Anwar has many curious links to foreign Islamic organizations and business groups. To what end? many in Malaysia wondered. Anwar, who is from Penang, had learned Chinese calligraphy but many Malaysian Chinese were not won over by this symbolism. They remained suspicious of his motives. A student radical, an Islamic activist, and now apparently a liberal. Who was the real Anwar? many wondered. Which Anwar would emerge as Prime Minister? The Anwar of old who had forged close links to Islamic movements in Pakistan, Bangladesh, and Indonesia? The same who traveled to Iran in the early 1980s to meet with the country's newly installed leader Ayatollah Khomeini?³ One notable aspect of Anwar's political demise was how few of his parliamentary colleagues rushed to his support either publicly or even privately.

What Anwar did Wrong

Anwar had been one of Mahathir's strongest supporters. During the 1987 political crisis in which Tunku Razaleigh challenged Mahathir for the leadership of UMNO and thus for the position of prime minister, a challenge that Mahathir very nearly lost, the challengers had taken to referring to Mahathir's principal backers – Anwar and three other government ministers Daim Zainuddin, Sanusi Junid and Rafidah Aziz – as the “AIDS” group, after their initials.⁴ They were a cohesive group, united in their support for Mahathir. How things changed.

As Mahathir's premiership developed, it was clear that Anwar would succeed him. All he had to do was wait. But, by most accounts, he couldn't. And when the 1997–98 Asia economic crisis struck, Mahathir and his supporters were particularly vulnerable politically. Tensions over how best to resolve the economic crisis boiled into the political and factional arena.

Anwar's main error was to transparently move against Mahathir during the economic crisis when he thought Mahathir was politically weak. He and his supporters did so in a way that caused Mahathir to lose face. Retaliation was inevitable. By then the mistakes had been accruing. They had a long genesis.

A Tale of Two Finance Ministers

Anwar replaced Daim Zainuddin as finance minister when the latter

resigned in 1991. And Daim replaced Anwar when Anwar was sacked in 1998. They had been friends but this changed during Anwar's tenure as finance minister. Daim was a businessman in his own right and so now was subject to approvals and licenses being granted by the man who replaced him. And not all Anwar's decisions pleased him.

An early major bone of contention between the pair was the sale of Hock Hua Bank in Sabah. It only had eight branches, a small customer and assets' base. Nonetheless, Daim had to pay M\$90 million (then around US\$30 million) for it. The transfer price of all banking licenses is set in conjunction with the Ministry of Finance, and hence the finance minister. In this case, it was Anwar.

Daim wanted a banking license, but they were hard to come by. He was not particularly interested in Hock Hua's Sabah operations but more in the license. He considered M\$90 million far too much to have to pay, but had little choice. He complained to Anwar, but his response was simply that Daim could afford it. Why Anwar had any interest in the amount being so large is not clear. After all, the money did not go to the Treasury but to the Sarawak-based Chinese owners of Hock Hua Bank. There is little doubt that the price Daim had to pay was high, given the assets. I had a chance meeting with John Ting, Hock Hua's CEO, in Sibu a few weeks after the sale went through in 1997. His delight with the price was obvious.

Daim had also cultivated certain businesspeople during his tenure as finance minister but now Anwar sought to develop his own people in the business sector by granting them licenses denied to them by Daim. Malaysia's banking regulations have tended to mean that its banks generally belong to owners whose main interest is in banking. The finance minister is empowered to grant exemptions, and that is what Anwar did as finance minister. He allowed the diversified Hong Leong Group to acquire MUI Bank from Khoo Kay Peng. (It was then renamed Hong Leong Bank.) Hong Leong is Malaysia's largest conglomerate and had not been permitted by Daim to buy a banking license when he was finance minister in the 1980s. Daim was completely opposed to Hong Leong acquiring a banking license. He felt that diversified conglomerates should not hold banking licenses. Other businesspeople were granted concessions and licenses who Daim regarded as being hostile.

A Roof Over One's Head

Another sticking point related to a property transaction between the two men. Anwar's official residence in Kuala Lumpur actually happened to be

owned by Daim. It is next to what was then the prime minister's official residence. Despite extensive renovations to the house paid for by Daim and requested by Anwar, the rent that Anwar paid each month was just M\$6000, far below the likely market rate. Daim says that he asked Anwar to pay more but Anwar refused, saying that Daim was rich and didn't need the money. To add insult to injury, Daim claims that Anwar had another house in Kuala Lumpur that he privately owned but which Anwar rented out for M\$15,000 per month by virtue of his occupation of Daim's house. To Daim, Anwar was simply profiting at his expense.

Businessman Amin Shah, Daim's close friend who has big shipping interests, moved into the house in 2000 by which time Anwar was in jail. By then the market value of the rent was thought to be around M\$25,000 a month.⁵

Another matter of contention was Putrajaya, the administrative city being built outside Kuala Lumpur. The decision to build Putrajaya was taken when Anwar was finance minister. Mahathir very much drove the plans for the new city but Anwar was responsible for approving the details as they related to public expenditure. Putrajaya's estimated cost was M\$20 billion (US\$5.3 billion.) Building commenced in 1996 and is scheduled for completion in 2012. When finished, it supposedly will have a residential population of 300,000 people, including 76,000 civil servants. The prime minister's residence in the new center was one of the first buildings to be completed. It is large and lavish and for that it attracted enormous criticism. Mahathir was its first occupant. He defended the residence, or at least his role in its erection, by saying that he would only be a temporary resident. Future prime ministers would be greater beneficiaries than he. When I asked Daim, Anwar's replacement as finance minister, about the cost of the residence, he commented: "I don't know how Anwar agreed to it." But of course when he did, he fully expected to be its next occupant. And his local mosque would be the one constructed by his Saudi Arabian friends. Anwar was involved in the final designs for the residence. The residence was built with six bedrooms in addition to the master bedroom. Mahathir only had two of his children still living with him. Anwar had six.

Anwar and the IMF

The economic crisis rolled through Asia in mid-1997. The IMF arrived shortly after, the economic doctor with its one-size-fits-all, cure-all remedy. Thailand, Indonesia, and South Korea had little choice but to

swallow the bitter pill on offer, but Malaysia had other ideas. In any event, Malaysia simply did not need the IMF's money.

If Malaysia didn't need the IMF's money, then perhaps it could take its advice. Anwar was sympathetic to the IMF's policy prescriptions. His policy response to the economic crisis was higher interest rates and a tougher stance on non-performing loans (NPLs). Higher interest rates were to attract foreign money and thus restore the ringgit to higher levels. The prime lending rate rose from about 9% in mid-1997 to a high of 12.27% in June 1998. However, because funds were scarce and banks' assessment of the risks of lending rose dramatically, some borrowers suddenly faced rates as high as 24%. Malaysia's business leaders, hit hard by the economic crisis, then had to face Anwar's high interest remedy. They complained vociferously to Mahathir.

Policy differences emerged within the government. There were dramatically different ideas about which way the government should turn. Mahathir opposed the IMF-style policy prescriptions, but was unsure what other options should be considered. Communications between Anwar and the prime minister started to break down.

Perhaps the most spectacular communication breakdown occurred in relation to the fate of the large, state-owned Bank Bumiputera. Around late 1997, Anwar was on the verge of allowing it to fail. He then planned to liquidate it. The bank had been bailed out several times before and was a perpetual headache for the government. Liquidating it would get rid of the problem once and for all. The problem is that Anwar had not told Mahathir of his plans. Closing the bank was an enormous decision and it is surprising that the prime minister had not been consulted. The bank's managers went to Daim to tell him of Anwar's plans. Daim went to Mahathir with the news. Mahathir was shocked and agreed that the government should support a government bank. No doubt the incident unnerved Mahathir. His deputy prime minister had not kept him informed of a very major development and had unilaterally made a historic decision. "We have a Brutus in the Party," Mahathir is known to have remarked on several occasions.

Restraining Mahathir

Few realize even now that Mahathir considered announcing a state of emergency in response to the economic crisis. Most probably this would have involved establishing a National Action Council along the lines of the one established in the aftermath of the 1969 race riots in Kuala

Lumpur. Daim was vehemently against imposing a state of emergency. "One was imposed in 1969 and it was a mistake then too," Daim told me. A similar declaration in 1997 would have "more or less allowed Mahathir to rule by decree." Daim believed that it would have been a disaster for Malaysia. All those foreigners who were convinced that Mahathir was a totalitarian dictator would have been correct after such an imposition, Daim thought, because the state of emergency would have given Mahathir the dictatorial powers that many foreigners wrongly presumed he already had.

Daim called a meeting of nine members of the UMNO Supreme Council (UMNO's key policy-making body) in late 1997 to attempt to avert Mahathir's plan. The nine were the chief ministers and *menteri besars* of the UMNO-ruled states. Daim held no cabinet post at that stage, but the nine chief ministers and *menteri besars* attended anyway. Daim had the ear of the prime minister and that's what counted.

Daim briefed them on the state of emergency option. It found little favor. Instead, Daim proposed what became the National Economic Action Plan, which was then taken to Mahathir, with the broad backing of the UMNO Supreme Council. Daim's plan to which Mahathir agreed included establishing the National Economic Action Committee (NEAC) which he would head. It came to rival Anwar's Ministry of Finance. Effectively, Anwar was sidelined.

Disaster for Malaysia

Daim was appointed finance minister after Mahathir fired Anwar from the job on 2 September 1998, the day after capital controls were introduced and the ringgit was tied to the value of the US dollar.

Politically, things were moving to a head. Anwar or at least his supporters were moving on Mahathir. Publicly they complained of nepotism and corruption, a thinly veiled attack on Mahathir. In response, allegations of Anwar's sexual impropriety resurfaced. Mahathir seized on them.

Prior to Mahathir's decision to fire Anwar, Mahathir called a meeting of the various UMNO chief ministers and briefed them on the sodomy allegations. The consensus apparently was that Anwar should be fired and charged. But Daim felt that this order of events was wrong. Anwar should be charged and then fired, and he told Mahathir so. He argued that it would be better if Anwar was arrested immediately. That would destroy Anwar's credibility. But Mahathir ignored the advice. Time was lost. The delay in Anwar's arrest was due partly to the police, who had decided that Anwar

should not be arrested while the Commonwealth Games were still being staged in Kuala Lumpur. To do so would have provoked serious civil disobedience and security problems. When the police did detain Anwar, they initially did so under the Internal Security Act (ISA). It was a mistake, as that, alone, provoked howls of outrage. Mahathir later said that the decision to use the ISA was the police chief's and not his or the government's decision. Singapore's then Senior Minister Lee Kuan Yew met up with Mahathir at Davos in Switzerland in early 1999 where he asked him how Anwar could be arrested under the ISA as a national security threat when he'd been deputy prime minister only a month before. He was "flabbergasted" to learn that Mahathir did not know that Anwar was going to be arrested under the Act.⁶ Once more the business of governing Malaysia was shown not to be the neat conspiracy that the Western media so often presumes but was in fact far messier and uncoordinated.

On hearing that Mahathir was about to move against him, Anwar confronted Mahathir, who told him that he should resign. Anwar asked for a week to think about it. Anwar decided that he would not resign and so Mahathir fired him. The time between Anwar's sacking and his eventual arrest allowed Anwar to galvanize support, the very thing that Daim had feared would happen. In Daim's view, the whole affair of Anwar's dismissal was mishandled. The delay in arresting Anwar cost Mahathir, the government and Malaysia dearly. It allowed Anwar to state his case before the international media and organize his supporters.

But the biggest debacle was the black eye that Anwar received as part of a vicious beating from the Inspector General of Police Abdul Rahmin Noor, after his arrest and detention. Every member of the Malaysian government was appalled when they saw images on their television screens of what had happened to Anwar. "The PR was appalling and the black eye was an unmitigated disaster," the then defence minister and now Deputy Prime Minister Najib Tun Razak told me. Daim was also disgusted. The police chief had been under huge pressure, due to the threat of rioting in Kuala Lumpur because of Anwar's Reformasi campaign, and he had been personally verbally attacked by Anwar but his actions were inexcusable. He compounded the felony by taking so long to admit that he was the perpetrator.

Lee Kuan Yew, on his first visit to Malaysia in ten years in August 2000, during a media conference in Kuala Lumpur, echoed Najib's views that the Malaysian government had mishandled the Anwar episode. "It was an unmitigated disaster, and I felt more sorry for Dr Mahathir than I felt for Anwar," Lee said.⁷

The Trials

The first trial that Anwar underwent related to the abuse of power charges. The presiding judge was Augustine Paul. He has since been demonized, probably unfairly. The way in which the trial was conducted is open to criticism. He allowed charges to be amended late in the trial. Initially the trial dealt with Anwar's alleged sodomy and with him using his position to have witnesses withdraw statements against him. The amended charges meant that in this trial at least only the second matter was addressed. And so the truthfulness of the sodomy allegations was immaterial. What mattered was whether Anwar had abused his position.

But rather than adjust to the new charges, regardless of their procedural propriety, Anwar's defence team carried on regardless. In fact, Anwar's defence team was unbelievably incompetent. Paul's job was to adjudicate over a matter of law. Had Anwar broken it or not? Anwar's defence team kept demanding adjudication over a political matter. Their main argument was that Anwar was the victim of a political conspiracy. Paul reminded them repeatedly that it was irrelevant. The issue was whether Anwar had abused his position. The motives of the government in bringing the charges were irrelevant. They were something for another arena. Ultimately, the judge presented a lengthy, well-argued decision with plenty of references and precedents. And Anwar's defence team presented political arguments that were inappropriate for a court of law.

And so had Anwar abused his position? Absolutely. There is no doubt whatsoever that Anwar was guilty of these charges. Paul correctly found Anwar guilty. Anwar had indeed asked the Special Branch of the Malaysian police to "put a little fear" into two witnesses who had made statements in relation to Anwar's alleged sexual impropriety. Special Branch officers were then assigned to get the two witnesses to retract their statements. They threatened the witnesses with detention under the Internal Security Act and, from the officers' own testimony, subjected one or both of the witnesses to night-long, non-stop interrogation "to create an atmosphere in which physical threat is imminent."⁸ Anwar was sentenced to six years on each of the applicable four charges, to be served concurrently. The sentence was tough. But it was not the maximum.

The next trial related to the sodomy charges. Here the evidence was less clear cut. In any event Anwar was found guilty. He was given nine years. It too was a tough sentence. But it might have been worse. Section 377B of the Malaysian Penal Code states that whoever voluntarily commits carnal intercourse against the order of nature shall be punished with imprisonment of a term which may extend to 20 years and shall also be liable to whipping.

And From Here?

So where does all this leave us? What should be clear is that the whole Anwar episode is a lot less black and white than was portrayed in the foreign media particularly, much like Anwar himself. The case for Anwar is not clear cut. And so politically no matter what the future brings, Anwar is damaged goods. Will he resurface as a significant political force in Malaysia? It seems unlikely. Not because of any grand government conspiracy to stop him. But because of the man himself. But it won't stop him from trying. And what must not be forgotten is that sympathy from the Malay community and indeed other Malay politicians for Anwar on account of how he was treated should not be taken as a sign that they think that he is innocent of all with which he was charged. He remains barred from holding political office until 2008. The only way around this is if he receives a royal pardon. But pardons do not exonerate. They merely excuse. And once again that is not a good platform on which to resurrect a political career.

Chapter 8

GUNS FOR HIRE: AUSTRALIAN EXPATRIATES

Expatriates are one of the great commercial minorities of Asia. One of the most prominent in this diaspora are the Australians. But what are they good for? Australians are direct to the point of rudeness. They are insensitive to hierarchy. They are disparaging and dismissive of authority. And as employees, that makes them very valuable, especially in Asia.

Asian culture demands the opposite of these attributes. But modern corporations need employees who are able to tell managers the truth, even if the news is bad. They need employees who put productivity above loyalty; they need management that is participative and not authoritative. And nowhere more are these attributes needed than in Asian family firms.

So what do Australians have to offer the world, and more specifically Asia? Australians themselves joke about Foster's beer, the Hill's Hoist, and Vegemite. But these things really are not important. Perhaps their most valuable attribute is their ability to detect bullshit and their unwillingness to put up with it. Australians are deeply cynical and suspicious of authority. Typically they are unafraid to question it.

Australians seem to be born with in-built bullshit detectors. And, in a world that is increasingly full of it, that is a very valuable commodity. But those in-built bullshit detectors do not often come with in-built senses of discretion. And so Australians' ability to not only detect bullshit but also announce it as such is something that many companies around the world find valuable. This is why Australians make such useful expatriates. They are bullshit detectors for hire. Of course they are more than that, but it is an attribute that can provide a competitive edge. The Australian ability to pipe up in a meeting and say quite unashamedly,

“what a lot of nonsense,” particularly in the presence of more senior managers is a skill much needed in corporate Asia.

This attribute makes many Australian professionals excellent troubleshooters. Increasingly they work as lawyers, auditors, and management consultants in Asia. But it can also make them short-term employees. The crash or crash through mentality means that often Australians in Asian workplaces can introduce reforms that others cannot but, having done that and trodden on everyone's toes they then find their positions untenable. They can be blamed for the discord that all workplace change brings – be forced out or be fired – and yet leave behind an organization more streamlined and efficient than when they arrived. They represent an all-inclusive package for any Asian manager who needs change but doesn't want to be blamed for it.

They are cost-effective too. Australians have the reputation in business services such as accounting and law as being highly skilled, flexible, and well priced when it comes to remuneration. Anecdotally, Australians do not require compensation packages as large as, say, comparable American or European expatriates in Asia. No longer is spending time working in Asia unusual for many Australians. Asia is not seen as being far from home, exotic or unknowable, as it might appear to Americans or Europeans. Working in Asia is now viewed in Australia as unremarkable. Jakarta or Hong Kong might as well be an outlying suburb of Sydney as far as many Australian business professionals are concerned now.

World Citizens

Australians are leaving Australia in record numbers, even though in the late 1990s and early 2000s the Australian economy was one of the world's most resilient. But it's a cultural thing. Educated Australians are inquisitive, flexible, and adapt well to living in other countries. Many enjoy being mobile and independent. These are sentiments that few in Asia understand and for whom to leave family and friends permanently and by choice is unthinkable.

About 120,000 Australians leave Australia permanently or for the long term each year. Overwhelmingly they are young professionals: accountants, lawyers, and IT professionals. Altogether about 5% of Australians or about a million live outside Australia.¹ Many operate in the international labour market and remain internationally mobile.

Only in 2002 did the Australian government pass legislation to allow all Australian citizens to hold dual citizenship. Previously only overseas-born

Australians were able to hold two passports. According to the Australian government, the change was to keep in step with social and economic realities. But it was also because Australians overseas had lobbied the government for the change.

Here Come the Australians

Australia is not an important country on the world stage. But Australians are prominent as individuals around the world more than is suggested by their numbers. Australians are phenomenally successful in show business. Many of the biggest names in movies today are Australian. But many heads of worldwide corporations are Australian too. One reason for this is the size of the Australian economy. It is too small, given the number of highly educated Australians, be they professionally trained actors or managers. Domestic audiences are too small and there aren't enough management positions around. Challenges are also limited. The Australian economy is relatively benign; those looking for big challenges must often look elsewhere. The following are some areas of influence:

- In acting there is Cate Blanchett, Hugo Weaving, Hugh Jackman, Russell Crowe, Toni Collette, Naomi Watts, Eric Bana, Nicole Kidman, Pamela Stephenson, Barry Humphries, Judy Davis, Paul Hogan, Mel Gibson, Geoffrey Rush, Guy Pearce and Noah Taylor, Bryan Brown, Jonathan Lapaglia, Heath Ledger, and Paul Mecurio.
- In movie directing there is Phillip Noyce, Baz Luhrmann, Bruce Beresford, Peter Weir, George Miller, Gillian Armstrong, Richard Franklin, Simon Wincer, and Fred Schepisi.
- The list of world-renowned Australian musicians perhaps is bigger. Joan Sutherland (opera), Nick Cave, Darren Hayes, Kylie Minogue, and Natalie Imbruglia (pop) are among them.
- Australians head some major names in world business. Jacques Nasser was a recent CEO of Ford Motors worldwide; Charlie Bell was the CEO of McDonald's Corp until stepping down in late 2004 due to ill health (he died from cancer in January 2005, aged 44); David Johnson served as the chairman of Campbell Soup Co until 1997; and Douglas Daft headed Coca Cola worldwide until the end of 2004.
- And at the start of 2005, other Australians heading up big name non-Australian corporations included Geoff Bible, CEO of Philip Morris; Andrew Liveris, CEO of Dow Chemical; Bob Bishop, CEO of Silicon Graphics; Philip Bowman, CEO of Allied Domecq; Leigh Clifford,

CEO of Rio Tinto; Rod Eddington, CEO of British Airways; Doug Flynn, head of Aegis Group; Peter Hearl, president of Pizza Hut; Stephen Millar, CEO and president of Constellation Wines, the world's biggest wine business; David Mackay, president of Kellogs; and John Pizzey, chairman of the London Metals Exchange.²

- Robert Thompson, the editor of *The Times* in London, is another Australian. UK Trade Minister Patricia Hewitt is Australian by birth, having been raised in Canberra. So too is James Wolfensohn, the head of the World Bank. Rupert Murdoch, the CEO of News Corporation, is also Australian born but gave up his Australian citizenship for US legal reasons.
- Some Australian companies are making it big in the home of capitalism, the United States: Australia's Westfield Corporation is the second biggest shopping center owner and manager; Lend Lease Corporation is the biggest manager of tax-exempt real estate; and Boral is the biggest brick and roof tile manufacturer.

Is Australia a Part of Asia?

Australian expatriates are commonplace throughout Asia but is Australia a part of Asia? Australia is close to Asia or at least it is physically close. But Australia's population is concentrated in the bottom southeast corner of Australia. So while Australia is physically close to Asia, most Australians physically are not. They live nowhere near it; those parts of Australia that are close to Indonesia and the rest of Southeast Asia remain largely uninhabited.

Australian politicians talk about "the region" meaning Asia. But the reality is that Beijing is closer to London than it is to Canberra. And yet the English do not describe Beijing as "in their region." Anything but, in fact. Asia is the "Far East," usually said with a great deal of emphasis on the word "Far." (The idea that Asia is on the "East" really only works if you consider the world to be flat. Otherwise keep heading east and you'll end up back in London.)

So what is "Far" to the English is "our" region to the Australians. And as for Australia's "near" neighbor Indonesia? Well, Tehran or Kabul are as far from London as Jakarta is from Sydney, Canberra, or Melbourne. Clearly, the British do not regard Iran and Afghanistan as near neighbors. They'd spend even more on defence if they did.

And what of Australians themselves? What do people mean when they talk of "Australians"? Typically they mean "white" Australians – Australians of European descent. But old stereotypes are precisely that. Many

Table 8.1 Asian-born Australians – top ten countries of birth³

Country of birth	Numbers	% of Australian population born overseas
Vietnam	174,400	3.9
China (excluding Hong Kong and Taiwan)	168,100	3.7
The Philippines	123,000	2.7
India	100,200	2.4
Malaysia and Brunei	97,600	2.2
Indonesia	67,600	1.5
Hong Kong and Macau	56,300	1.2
Sri Lanka	56,000	1.2
Korea	41,400	0.9
Singapore	30,700	0.7
All Asian regions	1,077,800	23.9

Australians are Asian. Indeed more than one million Australians were born in Asia and almost 10% of the country's population has its ethnic origins in North and Southeast Asia or in the subcontinent (see Table 8.1).

In fact a quarter of all people who live in Australia were born overseas and of these a quarter were born in Asia. The Asianization of the Australian population's ethnicity is accelerating. The number of Australians who were born in Asia quadrupled between 1980 and 2000.⁴ Just over half were born in Southeast Asia, a third were born in Northeast Asia and a fifth come from the subcontinent. The three most common countries of birth for Asian-born Australians are Vietnam, mainland China, and the Philippines. Table 8.2 shows the top ten source countries in Asia.

As it is, proportionally Australia has the highest Asian-born population in the world outside Asia (Table 8.2.) Australia is also said to have the biggest concentration of Greeks outside Athens (in Melbourne), the second biggest Maltese community outside Malta, and the largest number of Holocaust survivors per capita outside Israel.

Table 8.2 Asian-born populations in selected countries⁵

Country	Proportion of the population born in Asia (%)
Australia	5.6
Canada	5.2
New Zealand	3.3
USA	2.0
Sweden	1.0
UK	0.8
France	0.4
Italy	0.4

Food culture in Australia is among the most open and diverse in the world. Most Australians are familiar with regional Chinese, Vietnamese, and other Asian foods. Chinese restaurants are far more common in Australia than McDonald's. As many as 4000 Chinese restaurants have opened in Australia and there are another 2000 other Asian-style restaurants. There are at least 2500 Italian restaurants. But there are only around 700 McDonald's. Counterintuitively, McDonald's has made greater inroads into Japan than it has into Australia. And Chinese restaurants have made greater inroads into Australia than they have in Japan.

Australia and Asia

Australians are very preoccupied with Asia, particularly at the government level. When he was prime minister, Paul Keating made a great play of cultivating some Asian leaders. It made him popular in Asia. He was closest to Indonesia's President Soeharto. But to what end? Ultimately, it did Australia little good. For all the time and money spent cultivating that relationship, about the best that could be said of it was that one of Australia's former prime ministers had a good relationship with Indonesia's now disgraced and very corrupt former president. The ties between the two countries had not deepened beyond that.

Most of Australia's largest embassies and high commissions are in Asia. Australia appoints its best and most experienced ambassadors and high commissioners to Asia. And Asia is the focus for a lot of Australia's intelligence gathering, much of which is done in cooperation with governments in Asia, particularly the Singapore government. Australia "looks after" Indonesia on behalf of the Western alliance. The US and the CIA almost entirely relied on Australian intelligence when the matter of East Timor's sovereignty was being resolved.

The Americans also rely on Australia's diplomats and senior ministers as occasional emissaries to China. The US-China relationship is complex and sometimes fraught, so the two governments convey and reinforce messages to each other via mutually friendly third countries such as Australia. The US has relied on visits to China by Australian ministers and defence officials to emphasise, for example, that China should never assume that the US is not prepared to defend Taiwan. In return, China has passed messages back to the US via Australian officials that it considers that the US fails to fully appreciate the degree to which China regards Taiwan as properly within its territory.

But ultimately it is the linkages between private individuals that gives a

bilateral relationship depth and relevance. And these are thriving between Asia and Australia. Australians are working in Asia in unprecedented numbers, particularly since the 1997–98 economic crisis after which there was great need for corporate restructuring expertise. Education is another tie. Tens of thousands of Asian professionals have passed through Australian universities.

Are Australians Racist?

There is a residual anxiety in Asia that Australians are racist. Of course every country has its racists including Asian countries. But there is none of the racial violence or racial vilification in Australia that appears to be common in, say, the US. In any event there are strict laws against it. Presumably if contemporary Australian culture is racist towards Asians, then Asians would not choose to settle in Australia which, as explained above, they are doing in ever-increasing numbers. Asians, it seems, are voting with their feet.

The White Australia Policy is routinely brought up in Asia as evidence that Australia is somehow a racist country. The policy, introduced by Labor governments in the 1950s, encouraged immigration from Europe and of Europeans to the exclusion of non-Europeans. But it is too simple to say that it was motivated by race. Instead, it was more to do with protecting existing unionized labour from immigrants from countries such as those in Asia that were not unionized and where wage rates were comparatively low. The Labor leader Arthur Calwell is famously said to have once remarked in respect of immigration policy: “Two Wongs don’t make a white.” I did once sit next to his daughter, a nun, on a flight. She said that she was writing a biography of her father, and in conversation she was adamant that he said no such thing and had been greatly misrepresented.

Liberal Party-dominated governments started dismantling the White Australia Policy in the late 1950s when Harold Holt, future Liberal prime minister, was immigration minister. The last vestiges of the policy were removed in the early 1970s. There was no unrest, and barely even any contention when this was done. Essentially, the White Australia Policy was discarded far too easily for race-based nationalism to have been a deep part of Australian identity.⁶

Perhaps the one area in which Australians truly are racist is in their treatment of the country’s indigenous people. But the racism is not active. It’s passive. After all, no single ethnic minority group in Australia receives as much public funding as do the Aborigines and Torres Strait Islanders.

The funding represents a big transfer of wealth from largely white Australians to indigenous people. Institutionally, there is clearly no racism at work here. But does the average Australian know much about the culture of the Aborigines? The answer is no. Few realize that there are hundreds of Aboriginal languages. Few know about the song lines, the routes across the country that are "sung" by Aboriginal elders. The racism that many indigenous people feel in Australia thus is one of disregard and dismissal. Most Australians are far more curious about Italian or Chinese culture than they are about Aboriginal culture.

But no one in Asia should take comfort from this as confirmation of their own prejudices about what Australians are or are not, because racism is alive and well in Asia. Malays in Singapore complain that the local majority Chinese community, particularly in matters of employment and promotion, disregards them. The numbers of incidences of abuse of Indonesian maids by Singaporean employers is extraordinary. There simply is no comparable phenomenon in Australia.

Penan and Iban people claim that they face racism in peninsular Malaysia. So do Indonesians in Malaysia. Thousands of Indonesian Chinese have been murdered, raped, and stolen from en masse on account of their ethnicity as recently as 1997. I have Malaysian Chinese and other Chinese friends who now refuse, on principle, to visit Indonesia. Local Indians face discrimination in Myanmar. Hill tribe people are looked down on in Thailand. Muslims in the Philippines say they face discrimination. Southeast Asian Chinese say that they find Hong Kong Chinese rude and disparaging of their Cantonese language skills even if say they are from Kuala Lumpur and speak Cantonese as a matter of course. And I have been told by the staff at the Lok Yu Teahouse in central Hong Kong that I'm not welcome to sit in the more preferred downstairs area because I'm not Chinese.

So no one has a clean slate when it comes to matters of race. And in comparison to the relatively tranquil cities and towns of Australia, where thousands of affluent Asians wish to send their children for tertiary education, it is Asia that more readily might be described as a hotbed of racism.

And then there are the Japanese. No society in the world is as xenophobic and insular as Japan's. There is little commonality between Southeast Asians and Japan. That was made abundantly clear during World War II when Southeast Asia was seen as a source of raw materials and comfort women. The culture that is closest to that of Japan's is Korea's but even Koreans face enormous discrimination in Japan.

Ultimately, those who claim that Australians are "racist" are, of course, committing the same error of which they accuse: they are indulging in

stereotyping. Many in Asia remember the ultra-conservative politician Pauline Hanson and her questioning of Asian immigration. But they should also remember that in national elections she and her party scarcely scored more than 5% of the vote nationwide and that was when her "popularity" was at its peak. Ultimately, she lost her parliamentary seat and in 2002 was charged with electoral funding fraud. She received a three-year jail term in August 2003, although the conviction was later overturned on appeal. She stood again for election in the 2004 Federal election and was overwhelmingly defeated. Rarely has a politician, who is as unpopular at the ballot box as Pauline Hanson, attracted so much attention, particularly in the newspapers of Asia. She did not, by any means, speak for the majority of Australians. If she did, they would have voted for her. Instead, the typical Australian today is more interested in going to the beach with their Malaysian-born neighbors, eating out at a Chinese restaurant and holidaying in Thailand. Meanwhile, Australian accountants, lawyers, and the like head to Shanghai, Bangkok, Jakarta, and wherever else bluntness and cynicism is required.

Chapter 9

NEPAL: FROM DEMOCRACY TO DICTATORSHIP

Hindu cosmology has four ages. In which do we live? We live in the worst. The gods Vishnu and Shiva are asleep and do not hear the prayers of their devotees. It is an age when the natural order of things breaks down, an age of corruption and violence. Two world wars, nuclear weapons, international terrorism, even global warming are all products of this age. It is the Age of Kali, the consort of Shiva. And so I visit the temple of Dakshinkali, 20 kilometers outside Kathmandu. It is the most important temple in this overwhelmingly Hindu country. It is devoted to Kali. The temple stands at the edge of a still, dark valley, surrounded by forested hills and at the confluence of two rivers.

I stand in the temple's forecourt, my bare feet mired in mud and blood, for Kali requires sacrifices, specifically the blood of uncastrated male animals. For more than an hour I watch various animals – three goats, chickens and ducks – have their throats cut open. The butchers hold each terrified, dying animal aloft and sway it to and fro, with one hand on the body of the animal and the other beneath its chin so that the neck wound gapes open. Sliced jugular veins spray steaming blood onto a row of stone statues of Kali and other gods. Some release their contents with a whimper. Others do so geyser-like, the dark red ejaculate splashing out in a series of angry gushes, draining the kicking animal of life and spirit.

A sacrifice to Kali is designed to lessen whatever ills one might be suffering, and so businesspeople, politicians, and even students hoping to avoid bad exam results make the trek to the temple to pay for animals and then pay again to have them killed. Want to have a safe plane journey abroad? Then sacrifice a goat. Want to stave off the collapse of your bank?

Then better sacrifice several buffaloes. The car park higher up the ravine fills with buses of pilgrims from India and the Mercedes of Kathmandu businessmen. I turn to leave, my feet freezing and bloodied. A mad woman shrieks as she smashes a coconut over a stone lingam. That's one thing that seems to cross cultures: the hard end of religion attracts the mentally ill.

Nepal is sandwiched between India and China. The miracle is that neither has managed to subsume it but then even roads do not service most of the country. It's too mountainous. Instead, tracks traversed by donkeys are the main way that goods are distributed around much of the country. The main threat to Nepal is internal. A bloody Maoist insurgency has waged almost non-stop since 1996.

The country's terrain has determined its politics. The Shah family has ruled Nepal as its kings since 1769. For centuries, the Shahs had been the rulers of Gorkha, a tiny hill state to the west of Kathmandu. At the time of the Shah family's ascendancy over what is now Nepal, no less than 60 independent hill states existed within its borders, each with its own raja, army, and laws. Many had their own languages, often unintelligible to those of adjacent principalities. Ranges of mountains cut across much of the country. And so each kingdom roughly corresponded with a valley. But all that changed in 1769 when Prithvi Narayan Shah united all the principalities to become Nepal's first king.

The Economy: Corruption and Donkeys

The terrain also determines Nepal's economy. Nepal is poor. It is a country of more than 26 million people and yet annual government revenues are just US\$700 million. Almost half the people are defined by the World Bank as living beneath the poverty line. The international community funds more than 60% of Nepal's development budget and more than 28% of its total budgetary expenditure.

GDP per capita on a PPP basis is less than half that of Indonesia's and little more than half of India's. And yet the typical Nepalese has a keen sense of humour, and does not share the pathos that you see in India or the lack of self-confidence that breeds envy and suspicion on Java. Their music is raucous and their dancing energetic.

And yet everywhere, people can be seen doing things that human beings should no longer have to do. V. S. Naipaul, in respect of poor Indian workers, writes of the "nullity" of tasks in India, "where there are so many hands and so few tools, where a single task can be split into minute portions and labour can turn to an absurdity."¹ The same is true of Nepal.

The road to Lumbini, the birthplace of the Buddha in southwest Nepal, is lined with large mature mango trees and occasional mud brick houses with thatch roofs. And by the side of this road I saw people squatting in the dirt, hammering at rocks to splinter them into smaller stones and the gravel to be used in road construction. Dozens were employed this way, using up their lives in fields of rocks that could be turned into gravel in an afternoon by a single mechanized rock crusher.

Even in Kathmandu the poor are treated like animals, or worse than animals. Teams of men, dressed in rags, can be seen walking quickly through the streets carrying the most appalling loads on their backs that are balanced by cloth harnesses that reach around their foreheads. It is the work of donkeys except that the time of these men is worth even less than the price to rent donkeys. Otherwise, donkeys would do it.

Nepal's population is ethnically very diverse. This too is a consequence of the terrain. People living side by side but separated by mountains have developed along separate cultural tangents. And so today there are Thakalis, Tamangs, Sherpas, Rais, Limbus, Newars, Gurungs, Magars, Brahmins (known locally as the Bahuns), Chhetris, and Tharus as well as Tibetans from the north. No single group forms a majority. But the Thakalis and Sherpas are seen as being "good" at business and the Newars have long dominated higher end crafts. Kashmiri businessmen have settled in Kathmandu to sell carpets and embroidered textiles that they can no longer sell to tourists in Kashmir on account of the armed strife there. Another interesting commercial diaspora in Kathmandu are Muslim Tibetan families who sell Tibetan artifacts. (At the time of the Dalai Lama's departure from Tibet in 1959, there were 300–500 Tibetan Muslim families in Lhasa. Almost all fled soon after, mostly to Kathmandu and Kashmir.)

The economy remains largely feudal. *Zamindars* (landlords) lorded over millions of Nepalese until 2000 when bonded labour was outlawed. Many bonded labourers were freed but, as with many laws in Nepal, enforcement is a problem. And for those who are now free, their lives scarcely have improved as they remain landless. The feudal nature of the rural economy carries over to the non-farming sector. It is dominated by a handful of family-owned groups of companies with diverse involvements.

The caste system was abolished in 1963 but many vestiges of it remain. Members of the Brahmin and Chhetri castes, the two highest castes, continue to dominate government, business, and higher education. Three groups (the Brahmins, the Newars, and the Chhetris) account for around 70% of all graduates in Nepal but less than 40% of the population generally,² and 80% of all senior positions in the judiciary, the civil service, and the legislature.³ They also dominate the media and own most of the land.

Corruption and administrative incompetence are enormous problems in Nepal. The civil service is underfunded and undertrained. The consequences are entirely predictable. The police, for one, have become a by-word for corruption and generally are despised. One evening in Kathmandu, I was at the Nagarkot restaurant and nightclub that's popular with locals. We ate chilli buffalo, danced to energetic Nepalese traditional music performed by a live band and were out-talked by some twenty raucous Sherpas at the adjacent table. The bonhomie ended prematurely with a police raid. Nonetheless, everyone was ordered out while the police collected bribes from the club's owners.

The all-pervasive corruption and incompetence are best suggested by the state of Nepal's national flag carrier. The Himalayas are one of the world's major tourist destinations. And the only practical way for most visitors to reach them is to fly into Nepal. So it might be imagined that Royal Nepal Airlines is a relatively strong airline. But it isn't. It is a good year when it is not teetering on bankruptcy. It has just two Boeing 757 jets to service its international routes. And in November 2003, when one jet was grounded in Kathmandu for technical problems and the other was grounded in Shanghai for similar reasons, it meant that the airline's entire international operations were grounded. The airline's former chairman was fined US\$300,000 and jailed in Kathmandu for two years for corruption in early 2005.⁴ Incompetence has meant that Nepal has been unable to capitalize even on the unique advantages that it has.

Nepal's banks are beset with problem loans, not from poor people unable to repay debts, say, for a motorcycle or a small house, but from big people with political influence. They use their influence to get big loans and then use it again to ensure that they don't have to repay them.

Infrastructure in Nepal is abysmal. A four-wheel drive vehicle is desirable even in some parts of central Kathmandu, simply to navigate the potholes and rain-worn ruts. Outside the city, the roads are much worse, if they exist at all.

Drugs are one mainstay of the Nepalese economy, partly because marijuana is native to the Himalayas and so is cheap and plentiful. It is not uncommon while trekking to see fields of the plant growing wild. Accordingly, marijuana and hashish are readily available on the streets of Kathmandu. (Hashish is produced simply by rolling green marijuana leaves with vegetable oil until the lot congeals into a pitch-like mass that can then be cut with a knife.) The trade is illegal but you wouldn't know it. Many if not most young Nepalese are regular users of the drug. And most rickshaw drivers in the tourist areas appear to moonlight as drug dealers, enticing would-be buyers into their rickshaws so that negotiations can be carried out as the driver pedals along.

From Democracy to Dictatorship

A multi-party system was introduced by King Birendra in April 1990. The political parties subsequently proved to be fractious, barely able to negotiate, wracked by perpetual, internal feuding and mostly headed by corrupt, nepotistic, petty leaders who cared only about their own prestige and bank accounts. And so, after more than ten years of democracy, there was no resolution to a murderous Maoist insurgency, the cities were wracked by regular blanket strikes, the economy was in tatters, and corruption was rife at every level of government. In short, democracy delivered few obvious benefits to ordinary Nepalis.

And so in February 2005, Birendra's successor Gyanendra sacked the government. The move was met with international condemnation and calls from everyone for a return to democracy. Everyone that is but ordinary Nepalese. They simply got on with business, probably with a sense of relief. In any event, democracy did not end in Nepal in early 2005. It ended in mid-2003 when Gyanendra suspended parliament, pressured the prime minister to resign and appointed his own prime minister. The dismissed government cried crocodile tears in early 2005 but it had no more legitimacy than the new arrangements. While in office, almost all its moves had been approved if not orchestrated by the king who maintained a thin, but fictitious veneer of estrangement from day-to-day political processes. The events of early 2005 merely formalized the situation. And so calls for a return to democracy were two years too late; their timing based on ignorance more than anything. Many leading politicians were placed under house arrest although, as one Nepali said to me from Kathmandu via email, that represented one final luxury: "You should see their houses."

Nepal's serious Maoist insurgency sparked Gyanendra's actions. His view was that peace needed to be achieved before multi-party democracy could be reinstituted. But in practice, the parties, fractious and incompetent though they are, would be needed if the peace process was to have legitimacy and broad-based acceptance.

The Maoist Insurgency

Nepal's economy faces many problems. The biggest comes from the virulent and effective Maoist uprising. There had been a Maoist uprising in northern Bengal in the late 1960s and early 1970s. Known as the Naxalites after Naxalbari, the area where their movement began, the Maoists were good at killing and destroying public property but bad at actually fleshing

out their demands beyond vague notions of land reform. The Communist Party of Nepal (Maoist) has followed in the footsteps of the Naxalites.

It decided to resort to violence in the wake of the 1995 elections in which it won nine seats in a 205-seat assembly. The insurgency started the following year and by 2005, at least 10,000 people had lost their lives. The insurgents are thought to have 8000 regular troops and maybe 40,000 irregular fighters. Their ideology is confused and there is no evidence that they receive any support from China despite their Maoist pretensions.

The list of the insurgents' demands seems moderate enough and includes things like minimum wages, better rights for women, a secular state, free education and healthcare, and an end to government corruption – the kinds of things that are standard in any Western democracy.

The damage wrought by the insurgency has been enormous. More than a third of 4000 village development committee buildings have been destroyed. Post offices, bridges, telecommunications, and power stations have been bombed, including the US\$20 million Jhimruk hydroelectric plant. Telephone repeater stations have been destroyed in most hill districts. Schools have also been targeted, the Maoists seeing these as instruments of the state. The National Planning Commission puts the cost of the damage to public infrastructure to date at US\$400 million.⁵

A seven-month cease-fire in 2003 achieved little other than to allow the Maoists to regroup and improve their position, strategically and financially. Negotiations held during the cease-fire were hampered by a lack of expertise and professionalism on the part of the negotiators, a reluctance to involve truly independent and skilled mediators, and the absence of an effective secretariat.⁶

Both sides have perpetrated extraordinary human rights abuses. The Maoists have maimed and tortured school teachers and others with education and have beheaded those they claim are informers, often in front of their families. And the military has conducted numerous extrajudicial killings, including the summary execution of 19 suspected Maoists *during* the cease-fire.

Public buses have been targeted by the Maoists, one of which I'd seen on the day that I traveled from Pokhara in the north to Lumbini near the Indian border in the south. It had been abandoned and was burnt out. Maoists had forced it to stop earlier that day, ordered everyone off it and torched it. The point of such destruction is not clear. Most of the harm accrues to poor rural people, the very people whom the Maoists claim to want to help.

The Maoists' leadership has sought to appeal to the lower caste Dalits, members of the occupational castes such as the Kami (blacksmiths), the

Damai (tailors) and the Sarki (shoemakers), and those ethnic groups that had been marginalized. The leadership itself though comprises mostly well-educated, upper-caste Brahmins and Chhetris. Baburam Bhattarai, for example, the Maoists' lead ideologue, second-in-command and chief negotiator, is an upper-caste intellectual who holds a PhD on Nepalese regional development issues.

Attacks on the offices of multinationals such as Coca-Cola, Lever, and Colgate-Palmolive and the US Embassy in Kathmandu have undermined international investor confidence. Bomb threats and occasional blasts are mixed with demands for protection money. The Maoists sent letters of demand to various multinationals demanding amounts of up to US\$70,000 in 2003, for example.

The Maoists also raise cash from bank robberies and the worldwide diaspora of Nepalese migrants and guest workers. Partly this is achieved by threatening relatives who remain in Nepal to ensure that the Nepalese abroad pay up.

The insurgency is distorting the Nepalese government's spending priorities. Expenditure on the armed forces and weapons procurement has had to increase greatly at the cost of other areas such as education and health. For the price of a single M-16 gun, it has been estimated that a typical Nepalese village dispensary could be provided with medicines for a year.⁷

Face to Face with the Maoist Rebels

The mountains that once divided Nepal into 60 separate kingdoms mean that defeating the Maoist insurgency completely will prove impossible militarily. Nepal's terrain guarantees that the government has little choice other than to negotiate with the insurgents. But what are the insurgents like? How sophisticated are the ordinary cadre politically? Or are their skills largely restricted to bomb making and property destruction?

I did meet several insurgents while trekking in the mountains above the northern town of Pokhara. Four young Nepalese men were seated and eating when I walked into the dining hall of a lodge where I was to spend the night. They ate with enthusiasm and in a way that suggested that they did not expect to pay for their meals. One finished and turned to me. Where was I from? he asked. It is a standard question. The Maoists demand passage money from all trekkers. They had heard that I was here and so had turned up to collect the money. The fee is set at 1000 rupees (about US\$13) unless you're American, in which case it's double on account of the US

Government having provided military assistance and weapons to the Nepalese army.

I was asked by one Maoist what I thought of Nepal. I said that the scenery is beautiful and the people are very likable. He agreed and then launched into a litany of problems: the government is corrupt, the king is a murderer (a "criminal king"), America is no good, the American president is corrupt, India is no good, China is no better, but Osama bin Laden is good.

He asked, not unreasonably:

Millions of dollars in aid comes into this country from the World Bank and others, but where is it? The people's health is bad, the schools are terrible, the roads terrible, where is all the money?

But what do the insurgents really stand for? It's what everyone is wondering. So I asked him. They themselves seem confused. He let fly with a series of contradictory positions in a pre-programmed monologue that invited no dissent:

We are Maoists. We hate Communism. We don't like the system of government in China. George W. Bush is no good. Bin Laden is good. We want a multi-party democracy. The last king was a good man. We want a republic.

The spiel ended with the request for 1000 rupees. I'd been advised to hand it over. An Israeli tourist had recently been almost killed for refusing to do so. I did so and was handed a receipt, a proper, printed receipt that was then stamped with a hammer and sickle. The cadre then insisted on writing two web addresses on its reverse (www.cpnm.org and www.insof.org) so that I could "find out more". "Insof" stands for something called the Internationalist Nepalese Solidarity Forum. "CPNM" stands for the Communist Party of Nepal (Maoist). Later I looked at the website. It opens with a quote from Mao Zedong: "Political power grows out of the barrel of a gun."

The receipt was to be shown to other insurgents along the way so that no further demands for money would be made of me. And the next evening, a group of them did appear, holding rifles, and from behind a stone wall. We were about to enter the village of Ghandruk. I showed the receipt and we were allowed to pass. High up in the Himalayas, Ghandruk was Maoist territory. I could see the occasional Maoist dart along a path or into a house as I stood in the front garden of the guest house where I was to spend the night. But it was not to stay Maoist for long. I could see several government soldiers standing in the front garden the next morning.

Each held a submachine gun. At least fifty soldiers were distributed around the village. Some stood in groups around. Others scurried in single file along the paths, their machine guns at the ready. Overnight, Ghandruk had changed hands.

The Royal Family

The most extravagant confirmation for the Nepalese of the arrival of the Age of Kali came on the evening of June 1, 2001 when King Birendra and Queen Aishwarya plus eight other members of the royal family were gunned down by their son, Crown Prince Dipendra. Others were wounded, including Dipendra's aunt, the woman who is now queen. The family had gathered for a regular get-together. Dipendra had been drinking and smoking marijuana and was emotionally fraught at having been prohibited by the queen from marrying the woman he loved. He also had a big collection of firearms.

One can imagine the confused looks on the surgeons' faces as they arrived that night to the emergency room of the Chhauni Military Hospital to see the bloodied bodies and bits of bodies of the king, the queen and many other members of the royal family laid out on beds and slumped against walls. The hospital simply did not have the facilities to cope with so many emergency cases at once. Staff had the difficult task of choosing who to treat first. Protocol was confused with health issues and much effort was expended at first on the king even though he was clearly dead.⁸ Meanwhile the other wounded royals lay bleeding to death. The queen was also clearly dead. Most of her skull had been shot away. Dipendra shot himself but did not die for several days, during which time convention demanded that he be declared king. He was, but he never regained consciousness. (Official montages in Nepal of past kings now include a photograph of Dipendra.)

The bodies of the royal family were taken in procession to the Pashu-patinath temple complex on the banks of the Bagmati River where they were burned on the cremation ghats. Most of the residents of Kathmandu will find their way here eventually, to be cremated, their ashes being pushed into the Bagmati that eventually flows into the Ganges. I sat at the cremation ghats once for four hours and watched a cremation ceremony from beginning to end. There were prayers, chanting, even professional wailers. The body was taken from a verandah to the ghat before it, laid out on a platform of wood, and covered with straw. Coins had been strewn about to send the soul on its way but no sooner was this done than about a dozen beggar children appeared to scavenge them while several mourners attempted to chase them away with sticks. The children appear

to live on the cremation ghats for this purpose. I stayed for as long as it took for the smoke to change colour from white to bluish-black; the point at which the flames had reached the body and its fat began to burn.

The killings left Prince Gyanendra, a younger brother of Birendra, as Nepal's new king. Ordinarily, Gyanendra might have been an acceptable choice. But official obfuscation about what really happened on that June evening meant that the new king's legitimacy was eroded. Many and perhaps most Nepalese simply believe that the new king somehow orchestrated the bloodbath.

This view was compounded by the persona of the new crown prince, Gyanendra's oldest son Paras. Already deeply unpopular, Paras is thought to have supplied Prince Dipendra with the hashish that he smoked on the evening of his bloody rampage. Paras is also blamed for causing two deaths in hit-and-run accidents, the second of which led to the death of Praveen Gurung, a popular Nepalese recording artist. No action was taken against Paras.⁹ With his *shree panch* status, Paras suffered no legal consequences. Still, Paras is hardly the first Nepalese royal in recent times to have had a less than decorous lifestyle. In the 1960s, Prince Basundhara, the brother of the then king and Paras's great uncle, was famous for having taken the American Barbara Adams as a mistress. Marian Lindt of the Lindt chocolate family was a previous mistress.

King Gyanendra's political intrusions have done little to endear him. King Birendra had turned Nepal into a democracy. This did not lead to an appreciable increase in the quality of government in Nepal. Gyanendra dissolved parliament in 2002 and appointed his own government, ostensibly to allow the Maoist insurgency to be better dealt with.

In response, the opposition parties regularly called widespread strikes called *bandhs*. I experienced one of these while in Kathmandu. The effect is almost total. Most shops close and stay closed for the day of the *bandh*. Taxis and public transport are non-existent. And even private cars and motorcycles are discouraged from appearing on the streets. It is not that shopkeepers and the like necessarily are sympathetic to the opposition but rather that they run the risk of having their shop windows broken if they do not comply. Dozens were hurt as police baton-charged protesters during the *bandh* that I experienced. It applied only to the Kathmandu valley but that meant that the major cities of Kathmandu, Patan, and Bhaktapur essentially closed down for the day. The Nepalese Chambers of Commerce and Industry claimed that each *bandh* cost the economy 0.3% in GDP.¹⁰ The estimate appears a gross overestimate but does nonetheless indicate the paralysing effect that they have. Early 2004 saw more *bandhs* and dozens of anti-government protests in the streets of Kathmandu.

King Gyanendra in Business

Another source of suspicion of Gyanendra derives from his private business interests. The Shah family is not the richest in Nepal. It never was. But in Gyanendra, the country now has its richest monarch for centuries. Nepal's royal family has long been subjected to rumors of having a hand in the illicit drugs trade. But the new king has visible and extensive business interests.

King Birendra personally owned the Raniban-Nagarjuna resort and the Gokarn resort. Gyanendra inherited these. But his principal asset is his stake in the Soaltee Group, although he shares its ownership with a branch of the Rana family (see below). How the ownership is split has not been disclosed.

The Soaltee Group is the third largest business group in the country in terms of turnover, and it has estimated its net assets to be worth around US\$100 million.¹¹ A 2001 report estimated that the Group accounted for 12–14% of the government's total tax revenue.¹²

Key subsidiaries include travel companies, Himal International Power (which has a stake in the US\$100 million Bhote Kosi hydroelectric power project), tea plantation joint ventures with the UK-based Lawrie Group, a shipping joint venture with Denmark's Maersk, the Tata truck dealership for Nepal and Kathmandu's five-star Soaltee Crowne Plaza Hotel which incorporates the Casino Nepal.

Surya Tobacco, an associate company, is the largest private sector company in Nepal in terms of turnover. It is the leading cigarette producer and is 59% owned by India's ITC Ltd, 2% by BAT and 39% by Nepalese interests, believed to comprise largely or wholly the Soaltee Group.

Gyanendra is not the only royal with a casino. The family owns two of Nepal's four legal casinos. A cousin owns the Hotel De L'Annapurna in Kathmandu which includes the Casino Anna. The same cousin also owns the 50-room Fish Tail lodge at Pokhara in northern Nepal, the town from which most treks to the Annapurna region begin.

The Rana Family

One might imagine that the Shah family, being the royal family and the pinnacle of a feudal tree, was the most important and powerful family in the kingdom. But from 1846 to 1951 it was not. During these years the Rana family supplied the prime ministers. The Ranas manipulated the situation so that the position of prime minister became hereditary and more

magnificent than that of the king. The Shah family was sidelined and the king was practically kept captive in his palace. The Ranas proceeded to award themselves the plum commercial opportunities and their wealth and prestige grew inversely to that of the king's family, for whom little was left.

The Ranas gave themselves the trappings of royalty: palaces; diamond, emerald, and pearl crowns (called *sirpech*) topped with enormous Bird of Paradise plums; and they sat on thrones. Many took to using the royal "We" when referring to themselves. But they never took that final step of actually seizing the throne of Nepal for themselves. There's a telling photograph in the marvelous (and very expensive) coffee table book that the Ranas published on themselves in 2003 of a young Rana prime minister standing on a dais before his enormous, gilded throne.¹³ He is crowned, uniformed, and imperious. And to one side, standing lower, at floor level, and looking a little lost and somewhat irrelevant is the much older king. He was there to lend legitimacy, an act that required only his presence.

Between 1805 and 1941, the various offshoots of the Rana family built for themselves a total of 40 European-style palaces in Kathmandu.¹⁴ They spoke their own court language, a language that many Rana family members continue to use. A complex system of precedence was devised, whereby family members were divided into three ranks: A, B, and C, according to parentage. Lower ranked Ranas were not permitted to rise to the upper echelons of the public administration.

Relations between the Shahs and the Ranas were often uneasy but were managed via intermarriage. The Ranas had money, the Shahs legitimacy and so the marriages were of mutual convenience.

King Gyanendra, his predecessor Birendra and a third brother all married Rana women. Devyani, the woman that Crown Prince Dipendra wanted to marry but of whom Queen Aishwarya disapproved, is a Rana too, but only of C rank. The queen, it is believed, did not approve of their relationship. She hoped for him a wife of greater rank.

The Ranas have little overt political power today. Instead many have gone into business. Rama Malla is among the more prominent. She owns Kathmandu's Malla Hotel, with its beautiful rear garden and closely cropped lawn. Rukma Rana is chairman of Dabur Nepal, one of Nepal's largest export companies. Himalaya Rana serves as the chairman of the privately owned Himalayan Bank. Prabhakar Rana co-owns the Soaltee Group with the family of King Gyanendra. He retired from active involvement with the Group in 2002 and now holds the title of Chairman Emeritus. His son Siddhartha Rana replaced him as chairman. And Pradeep Rana serves as the inspector general of police. Today, doing business in Nepal often means doing it with or accommodating one or more members of the Rana family.

The Future

Nepal faces enormous problems that are complex and interlinked. Unfortunately, the key stakeholders simply do not possess the negotiating and leadership skills to work their way through them. Low-profile international mediators from neutral countries are needed in the way that Norwegian mediators helped in negotiations between the government of Sri Lanka and the Tamil Tigers.¹⁵

An expanded military might prove a problem for the future should the Maoist insurgency be quelled. The army has had a taste of power and is unlikely to want to give it up. The insurgency has converted it from having little more than a ceremonial role to a fighting force. It is likely to remain more loyal to the king than the government of the day, partly because its senior ranks are filled by Rana family members who are closely allied now to the Shah family on account of their repeated intermarriage.

Meanwhile the economy goes from bad worse. At one level that means that there ought to be significant buying opportunities for outside investors but the risks are high and the payoff might take years. On the positive side, the country is one of the world's premier tourist destinations. Tourist arrivals are down with the Maoist insurgency but tourists still arrive representing a source of continual cash flow.

China is an emerging economy. Central Asia is on the verge of emerging. But what about Nepal? Perhaps it is Asia's submerging economy. Still, change is afoot, particularly with Gyanendra's assumption of overt dictatorial powers in February 2005. Democracy had led to a fractious, corrupt, and incompetent series of governments. Would Gyanendra do better? He could hardly do worse.

Part II

MARKETS



Chapter 10

OUTSOURCING: IT NEED NOT BE INDIA

Outsourcing is a huge business. Some predict that the global market for outsourcing will be worth US\$1.2 trillion by 2007.¹ Already about 16% of the world's IT services sector is carried out remotely, away from where those services will be consumed.² The huge investment in bandwidth in the 1990s by governments and big telecommunications companies and the consequent massive falls in telecommunications costs have made all this possible.

Rarely is the extent of outsourcing visible. First Data Corporation handles all or some of the administration involved in processing credit card transactions for 417 million credit card accounts and on behalf of 1400 card issuers around the world. And ADP, a payroll outsourcing company, now pays one in six private sector employees in the US.³ But who realizes that?

India has been a big beneficiary. As described in several chapters of *The Asian Insider*, its IT and business process outsourcing (BPO) sectors are booming. Hundreds of companies from the US, the UK, Canada, Australia, and elsewhere have either established "captured" back office processing centers in India or contracted out the work to outside companies based there. Exports from software, other IT services and BPO were US\$12.5 billion in 2003-04.⁴ It was only in 2002 that Azim Premji, chairman of Wipro Technologies, one of India's leading IT companies, predicted that India would earn US\$5 billion for software exports that year.⁵ The figure seemed incredible. Two years later and it had paled into insignificance.

Software programming is big business in India but BPO has been the biggest source of growth in recent years. Much of the work is not sophisti-

cated and rests largely on two factors: cost and English language ability. Indeed, around 70% of India's BPO sector's revenue comes from call centers. Around 20% comes from high-volume, low-value data work such as transcribing health insurance claims. Only 10% is from higher value work such as dealing with insurance claims.⁶

But the work that Indian companies receive from abroad is diversifying. Animation for children's cartoons and electronic games is now being outsourced to India, as is blood and urine diagnostic testing, and even the electronic pursuit of bad debtors in the US on behalf of companies such as American Express, Citigroup, and General Electric. Financial wire service company Reuters has even established a team of editors and journalists based in Bangalore to cover and report on 2000 American SMEs listed on the New York Stock Exchange. Each company's results and filings are received in Bangalore electronically, analysed, written up, and then sent out on Reuter's wire service.⁷ And increasingly, India is the source of the world's junk faxes.

But only one thing is certain about booms. They end. Wages are bid up, other costs rise and competitors are attracted into the marketplace. That is happening now in India. Hundreds of outsourcing companies from Sri Lanka, Hungary, Russia, the Philippines, Malaysia, China, Egypt, Romania, Dubai, Argentina, South Africa, Mexico, Canada, Australia, and South Africa to name a few are springing up to challenge the dominance of Indian outsourcing firms. Outsourcing conferences are yet to fully reflect that India is under challenge. Why not? Because most are sponsored by the big names in Indian IT and BPO and they insist as part of their sponsorship arrangements that their own executives dominate conference programs as speakers, and so India is pushed as the destination for outsourcing to the exclusion of newly emerging competitors.

The Competitiveness Gap Closes for India

India's IT exports grew 30% in 2004 over the previous year and that was on top of a hefty increase the year before. Not surprisingly, wage rates in the sector are rising at 10–15% annually. Staff turnover is extremely high too, meaning that search and training costs are high. A 2004 KPMG study, commissioned by India's main IT industry body, the National Association of Software and Services Companies (Nasscom), predicted that the industry will face an acute shortage of technical employees by 2009, falling short by 250,000 workers.⁸ Who pays the piper calls the tune and Nasscom certainly has an interest in such dramatic predications as it seeks

to get increased government funding for business and engineering schools, but one thing is clear: India's competitiveness in IT and BPO is not based so much on skills and expertise (the main outsourcers, the US and the UK are not short of these) but on cost, and it is this aspect of India's competitiveness that will be eroded.

India produces 300,000 IT engineering graduates each year. The US produces just 50,000. But it is a mistake to assume that they are in any way comparable. Companies fight over India's top 30,000–40,000 graduates. The rest are not fought over. Another 90,000 business school graduates are produced each year and again it's really only the top 5000 from the top six state-run institutes of management that are competed for. Clearly, then, quantity is one thing and quality quite another. And it is quality graduates that India is not producing in sufficient numbers. But even staff for call centers are becoming more difficult to find.

Other problems are on the horizon. In mid-2004, Kiran Karnik, head of Nasscom, the industry body in India, pleaded with the then new Indian government to "back off" on intruding in the outsourcing sector with new regulations that he said were like "constant pinpricks." Instead he said the government should focus on modernizing the country's airports and improving power supply which he described as "dismal."⁹ Compare Shanghai's international airport with Mumbai's and you'll see what he means. The road from the airport into central Mumbai is memorable for all the wrong reasons, while the highway that leads into Shanghai is everything that it should be, complete with a Maglev high-speed train that runs alongside it. But who could imagine a Maglev in India?

India's most often cited advantage other than cost is its English-speaking population. But it's easily overstated. English is not taught as widely in India as is commonly believed. There is a two-tier level of schooling in which only the elite are taught English. Often English language education does not extend to the village level. As it is, India is not the largest country of English speakers after the US. That honour goes to the Philippines, with its population of 85 million, almost all of whom are conversant with English. But the Philippines might lose this edge. India too. A bright new star in the IT and BPO marketplace is emerging.

China on the Rise

India might be a long way out in front but the IT and BPO capabilities of China are going from strength to strength. GE, Nokia, and Siemens all have manufacturing-related R&D facilities there. By early 2005, the

number of internet users in China had reached 94 million, making China second only to the United States with its 200 million users. About a third of the users in China have access to broadband connections. Foreign interest in the internet in China is rising too. Amazon.com bought a US\$75 million stake in China's biggest web retailer Joyo.com in mid-2004, and so joined Google, Yahoo!, and eBay who were already in China.¹⁰

China has another ingredient that has been important for India's success in the IT and BPO sectors: a focus on engineering in higher education. By the start of 2005, it had around 200,000 IT workers compared with India's 850,000, but 50,000 software graduates are being added to China's pool each year.¹¹ Nonetheless, the demand in China for any capable graduate with IT skills is high and so whereas an entry-level programmer in India might earn US\$125 a month, the Chinese equivalent earns around US\$145. But that gap is likely to close as more IT and BPO is outsourced to India and China's economy slows, slowing demand for graduates from other sectors.

Both India and China have populations in excess of a billion but China scores better than India on a range of criteria. Around US\$800 billion in FDI has poured into China in the past 20 years. For India the figure is probably around US\$20 billion. Local branches of multinationals provide a good source of domestic demand for outsourcing and China has plenty of those. India has relatively few. The thousands of Western firms that now have a presence in China will drive China as a new outsourcing hot spot. Many Western firms have a good knowledge of China. Comparatively few know much about operating in India. And so, increasingly, it will seem only natural to outsource business processes to China, particularly if they also have manufacturing facilities there.

Several of India's top outsourcing companies, such as Tata Consultancy Services, Wipro, and Infosys Technologies have picked outsourcing to China as a future trend and are now hiring Chinese staff and opening branches in China. Tata announced in October 2004 that it would double the number of staff from 180 at its Shenzhen office in China's Guangdong province within the next eighteen months.¹² Initially, Tata focused on providing services to existing international clients that also had offices in China. By the start of 2005, Infosys had 200 staff at its office in Shanghai and four multinational offices.¹³

Some IT companies in China that provide outsourcing work to multinationals in China already look offshore for clients in the same way that Indian IT companies do. Beijing-based IT United Corporation is one such company. Its clients include Airbus (for which it developed promotional software in Chinese to promote its aircraft to Chinese airlines), British Airways, Cisco Systems, Siemens, and Kraft Foods. The company has

around 100 mostly Chinese staff in offices in Beijing, Xian, and Shanghai. Foreign owned and headed by expatriate Cyril Eltschinger, it offers web- and IT-based solutions and call center management services, not just to companies based in China or with operations there but to companies worldwide.

Literacy in China is 91%. The figure for India is just 59%. GDP per capita (PPP basis) in China is US\$5000. For India it's US\$2900. The numbers keep changing but when China had 263 million fixed telephone lines as at 2004, India had 48.9 million. When China had 269 million mobile phone connections, India had just 26 million. When China had 94 million internet users, India had only around 25 million. IT research company Gartner has estimated that when China had more than 6000 software companies, India had more than 3000. And when China's domestic software sales were US\$4.3 billion, the figure for India was US\$2.06 billion.¹⁴

Telecommunications infrastructure in China's main cities is of a high standard. Starting fresh and from a low base means that they have the latest and best. Ironically, there are many Chinese cities that have telecommunications infrastructure that is now more advanced than many cities in Western Europe. The same cannot be said of India.

But there's something else. English language skills have become a national priority in China. It is not clear how many good English speakers there are, but what's certain is that there have never been so many. English schools are springing up all over China. Foreign educationalists are setting up in China to teach English. For example, Australia's largest private English provider Acl signed an agreement in 2003 with the School of Continuing Education at Tsinghua University in Beijing to set up one hundred English language centers across China.¹⁵

Speaking English in China has become a matter of "face." It is seen as progressive and modern, and for status-conscious Chinese that is important. Nor is learning English the city-based phenomenon that it is, by and large, in India. The entire country is in on the trend. I had a conversation with a man in a Beijing street on a recent visit to China who spoke impeccable English. That in itself is no longer unusual. He told me that he'd been in Beijing for just two weeks. And from where had he come? Inner Mongolia. Do many people where you come from speak English now?, I asked. Oh yes, he said, everyone wants to learn English. Already, the central and some provincial governments now tie promotions for certain senior levels in public administration to English language abilities. And so it seems likely that sooner rather than later the largest number of English speakers after the US will not be the Philippines or India but China.

The Philippines: A Niche at Last

But China is not the only competitor. The fact that the US accounts for at least half the world's potential outsourcing business is good news for the Philippines. The Philippines, a former colony of the US, has a commercial code that is compatible with that of the US. Language is another advantage. Officially, Pilipino based on Tagalog is the first national language of the Philippines. But less than a quarter of Filipinos actually speak Pilipino. The true national language is English, which is spoken by 95% of the population.

A high literacy rate (92.6%, which is higher than China's and much higher than India's), a large pool of IT professionals, and a telecommunications infrastructure that might be patchy but is cheap to use all suggest the Philippines' potential competitiveness. With around 85 million, its population base is not small, but wages in the Philippines even at the level of back office services are considerably higher than in India. But the Philippines remains attractive. The Philippines has a customer service culture that is lacking elsewhere in Asia. Filipinos are familiar with American ways too, even jargon and slang.

Dozens of mostly US-owned companies have opened call centers in the Philippines, including America OnLine, the largest internet service provider in the US. Its center at Clark in Angeles City, north of Manila, employs 600 locals.¹⁶

Procter & Gamble, Delta Airlines, American International Group (AIG), and Citibank have all shifted back office work to the Philippines. Procter & Gamble centralized its back office operations for Asia in the Philippines, and US engineering giant Fluor Daniel has much of its technical work undertaken there too by a team of 800 local engineers, architects, and draughtsmen.¹⁷ AIG's Philippines business processing unit now has more than 4000 staff.¹⁸ And in late 2004, Citibank Australia closed its Brisbane call center with 120 staff and relocated it to Manila.

US call center operator Sykes Enterprises said in early 2005 that it would move half its business from India after complaints from its US-based customers that the accents of some Indian service representatives were difficult to understand. It is likely that Sykes will move the business to the Philippines where it already has facilities.¹⁹

Medical transcription has become big business for outsourcing companies. Almost 7000 US hospitals are now required by Federal regulations to convert medical records into data format. It's a US\$15 billion market in the US. Some of the work has gone to the Philippines, which is home now to twenty or more medical transcription companies.²⁰

Malaysia and its Multimedia Super Corridor

The Malaysian government has played an active role in promoting Malaysia as a technology and business processing hub. It established the Malaysian Multimedia Development Corporation (MDC) in 1996 to oversee the development of the Multimedia Super Corridor (MSC), a 15 by 50 kilometer strip of land near Malaysia's new administrative centre Putrajaya and its new international airport. (At 750 square kilometers, the MSC is about a hundred square kilometers bigger than all of Singapore.) At first the MSC looked like a white elephant and at the outset, perhaps it was. But as its mission evolved and became more clearly defined, international companies were drawn to it, Shell, DHL, Intel, Motorola, Ericsson, HSBC, Standard Chartered, BMW, EDS, IBM, and Unisys among them. Today, the MSC promotes Malaysia as a regional and even a global hub for information and communications technology, BPO, call center operations and multimedia organizations. Consulting firm AT Kearney in its 2004 Offshore Location Attractive Index listed Malaysia as the third most attractive destination worldwide for IT-related outsourcing after India and China.

Concurrently with the physical specifications of the corridor, the MDC developed a framework of draft laws and regulations to promote an IT and IT-enabled services industry in Malaysia, which were then adopted by the Malaysian government. It expedites applications to locate or relocate to the MSC. Companies that are granted MSC status receive a lavish package of benefits that includes no corporate tax for at least five years, generous R&D grants, and work visas granted to qualified expatriate staff in a maximum of ten days.

International oil and gas company Shell was an early entrant. It established Shell Information Technology International with around 1000 local staff in the MSC, which is one of nine hubs that it uses around the world for its internal back office and IT needs. A financial processing center also administers Shell's financial transactions for the Asia Pacific region. The work is done by Malaysians and expatriate staff drawn from the region who can speak Mandarin, Japanese, Arabic, Tagalog, and English.²¹

The London-based bank HSBC chose the MSC for one of its five worldwide data processing centers (the others are in Bangalore, Hyderabad, Shanghai, and Guangzhou). The Malaysian operation provides processing support and customer contact for the group's operations in Europe, Asia, and Australia in areas such as payment, trade, mortgage, and personal financial services. Standard Chartered also has a similar operation in the MSC, employing around 1000 staff.²²

Carlson Marketing Group is another international company to have set up operations in the MSC. It has around 60 staff at its call center. Carlson chose Malaysia over Singapore because of cost. The monthly cost of each staff member in Singapore would be a likely US\$4000, but in Malaysia the cost was to be around US\$1000, according to a company representative at the time of its decision to set up in Malaysia.²³

Some R&D facilities have been attracted to the MSC. Japan's telephone company NTT has its second largest R&D center outside Japan in the MSC. And AccTrak21, a small accounting software developer, has also set up in the MSC.

Don't forget Malaysia

Scicom, a call center company operated in Kuala Lumpur by expatriate Sri Lankan entrepreneur Leo Ariyanayakam, further demonstrates how the outsourcing of business processing functions to lower cost countries is not going all India's way.

The company uses BT's virtual private network and is BT's largest customer in the Asia Pacific region. Its principal clients are Nokia, HP, Hilton, and Petronas, Malaysia's national oil company. It handles all the customer service inquiries for Asia Pacific including those that originate from Australia for Nokia and HP. The Nokia account alone accounted for 215 staff of Scicom's almost 1000 staff by 2004.

Malaysian companies are getting into outsourcing too. Petronas and Maybank, Malaysia's largest bank, being the two prominent examples. Maybank announced a RM1.3 billion (US\$342 million) IT outsourcing deal in 2003 with Computer Science Corporation which would handle the bank's IT needs from Malaysia and Singapore.²⁴

But why did Ariyanayakam choose Malaysia? An important reason was language. Call centers in India are adept at functioning in English and of course the various languages that are indigenous to India, but not much else. Malaysia's multiethnic population means that five languages are spoken widely in Malaysia and spoken well (English, Malay, Tamil, Mandarin, and Cantonese). And so Scicom sought not so much to offer call center

services to the US and UK as to the Asia Pacific market. By also hiring expatriate workers from within the region (specifically from Indonesia, South Korea, Japan, and the Philippines) it can offer support services in 14 Asian languages.

Another advantage of Kuala Lumpur is that office space is high quality but cheaper than in most locations in India. This compensates for higher employment costs for Malaysian-sourced staff. Nonetheless, most of Scicom's staff are graduates. And that allows the company to offer higher end, premium call center services.

Japan

Japan ought to be a huge source of business for external BPO contractors but it isn't, largely due to reasons of language and culture. The highly stylized *keigo* language that's used when dealing with clients in person or by telephone, an intricate form of exceedingly polite and respectful grammar in which verb endings often are changed and exalted references for others and more humble terms for oneself are used, is a huge barrier.²⁵ It means that knowledge of Japanese is insufficient. Call center workers would also need to know *keigo* to be fully effective. Conventionally, a falsetto voice is adopted by Japanese women when it comes to providing assistance over the telephone. And so when business processes are outsourced, it's usually done internally, to Japan's less prosperous and cheaper regions.

The northern island of Hokkaido, where salaries can be 30% lower than in Tokyo, rents lower by 50%, and local governments provide salary subsidies and other incentives, is one area within Japan to which business processing jobs are being shifted. IBM and NEC have opened back offices in Okinawa, US insurance giant AIG has moved jobs out of Tokyo to Nagasaki and Sony Finance has call centers in Sapporo, the capital of Hokkaido, Sendai, north of Tokyo and in Fukuoka, in the west.²⁶

Biomedicine, however, is one area where Japan can and is outsourcing to companies offshore.²⁷ Rule changes in March 2004 allowed clinical studies for drugs to be sold in Japan to be undertaken in a handful of countries outside Japan. Diagnostic samples are being sent out of Japan to cheaper destinations for testing now too. In 2004, logistics company TNT reported

a tenfold increase in biomedical samples being sent from Japan over the previous year. Many shipments involved blood and urine samples, which deteriorate quickly. Consignments can reach Singapore within 24 hours, so making Singapore an ideal destination. TNT even opened a life sciences and diagnostics shipment office in Tokyo, exclusively to handle such shipments. And so Singapore has attracted American and European firms that wish to get a slice of Asia's biomedical science outsourcing market. Albany Molecular Research of the US is one example. In January 2005 it announced plans to open its first overseas office in Singapore. Biomedical business outsourced from Japan was specifically mentioned as one reason for it to set up in Singapore.²⁸ The UK's NHS also is likely to send diagnostic samples to lower cost destinations for analysis. In 2004, it was investigating sending blood and urine samples to India and further afield.

The Centrality of Language and Culture

What really matters when it comes to business process outsourcing? Cost is paramount. But so too is language. Indians have done well in high-tech industries in the US but not in Germany. Language and culture offer an explanation as to why.

China's emergence as the world's second biggest English language country will drive its success in this area more than anything else and will help to promote China as a serious competitor to India when it comes to BPO. China's English language capacity probably is yet to reach India's, but each new English speaker in China represents a strike at the heart of India's continued competitiveness.

Language also explains why some countries have been slow to outsource back office operations overseas. Germany and Japan are examples. But when Germany does outsource, Hungary is increasingly an option, because Hungary is cheap and it has large numbers of German speakers. Belgium too was an early provider of BPO services to the rest of Europe, largely because its residents speak a number of European languages.

Similarly, India's Infosys established operations in Mauritius to boost its share in the European market because of the French language skills of its population.²⁹ Infosys intended to invest US\$25 million in a disaster recovery center in Mauritius to provide data back-up for French-speaking, European clients. The center would employ 445 staff. "Our biggest challenge is that we are not finding enough qualified IT people here," said the Infosys officer in charge of the new centre. Language is what drove Infosys to set up in Mauritius, and obviously not the pool of local IT talent.

The IT and BPO revolution is inducing change across the world. It's not simply a matter of job relocation. All sorts of new trends, new opportunities, are emerging. Old ties between Europe and its former colonies are being reignited: shared language being an important driving factor in the BPO market. Ordinary Americans and Britons who a decade ago would never have dreamt of calling India now do so routinely as they upgrade their insurance cover or query their telephone bills. How long will it be before they're also talking to Inner Mongolians who speak with flawless English in call centers outside Beijing? And to think that two decades ago it was practically illegal for ordinary mainland Chinese to even have a conversation with a foreigner, and to do so would certainly have attracted the interest of the police.



ASIA'S ART MARKET: FOR INVESTMENT AND CONNECTIONS

The arguments for the antiques market as a place for sound investment are compelling, particularly at the high end. The market grows ever narrower and the number of museum-quality items fewer relative to demand. And yet never before have there been so many wealthy people in Asia or anywhere else. So, with a fixed supply of antiques by definition, and increasingly rich populations, the sky is the limit as far as price is concerned when it comes to quality works of art.

But there's something else about antiques and art in Asia: a surprising number of wealthy Asian businesspeople and politicians are collectors. It's often said of Asia that golf is an important way to make contacts and cement business ties. But antiques and art present another route. Attend a Sotheby's auction of Southeast Asian paintings in Singapore and in one room you're likely to see more members of the Jakarta and Surabaya business elites than you'll see anywhere else. Attend a Christie's auction of Chinese porcelain in Hong Kong and you will be rewarded with an overview of the Hong Kong, Taiwanese and emerging mainland Chinese business elite.

One of the first major auctions of Asian art that I attended was the mortgage sale in Perth, Western Australia, of the goods and chattels of the Nizam of Hyderabad in 1995. Why were the Nizam's personal belongings being auctioned in Perth of all places? The Nizam had fled India to Western Australia in 1971 when the then Indian Prime Minister Indira Gandhi abolished the privy purse enjoyed by India's hundreds of former rulers and their families. He bought a large house near Perth and leased a 168,000 hectare pastoral estate in the north of Western Australia. Along

with him came a huge assortment of ex-palace chandeliers, gilded occasional furniture and masses of Indian Mughal-style bric-a-brac. By 1995, the Nizam could no longer pay his bills, he'd divorced his first wife and his new wife had died of Aids.¹ The prices paid were astounding. Art and antiques are a wonderful hobby. They're also big business.

Chinese Antiques Madness

Wealthy Chinese businesspeople outside mainland China have long collected Chinese artworks. Consider for example the jade collection now in Singapore that was built up by the Aw brothers who founded the Tiger Balm and newspaper empire. Or the legendary Chinese ceramics and jade collection amassed by T.Y. Chao who founded Hong Kong's Wah Kwong Shipping Holdings.

The market for Chinese antiques went through the roof in 2004. At Sotheby's in Hong Kong in October 2004, a Qianlong period (1737–95) porcelain vase with a ruby background, estimated to be worth US\$5 million, sold for US\$5.3 million, setting a world record for a piece of Qing dynasty porcelain.²

The following month a Ming dynasty (1368–1644) copper-red porcelain dish that had been used by a family in the San Francisco Bay area to serve cracked crab sold at Bonhams & Butterfields in San Francisco for US\$5.7 million, a US record for a Ming porcelain object at auction. The estimate had been US\$1–2 million. The plate had been exhibited in Hong Kong, London, and New York prior to the auction to excite interest.

I attended one of Christie's auctions for Chinese works of art in London in November 2004. The room was not filled with the elegantly tailored and coiffed representatives of Europe's upper echelons, but with disheveled groups of mainland Chinese, with their giveaway short-back haircuts, cheap clothes, and battered shopping bags from down-market Oxford Street retailers. Only their expensive Mont Blanc pens signaled the moneyed firepower they were about to unleash.

A seventeenth-century enamel censer with a £70,000–100,000 estimate made £811,650; an eighteenth-century enamel vase with a £5000–6000 estimate made £139,650; an eighteenth-century porcelain moonflask estimated at no more than £50,000 raised £206,850; an eighteenth-century cloisonné enamel "vessel" and cover estimated at £10,000–15,000 made £111,650; and a pair of cloisonné enamel jardinières that should have sold for no more than £60,000 raised £341,250. The final lot, a pair of eighteenth-century enamel jars, was expected to bring between £40,000

and £60,000. Just as bidding started at around £60,000, a man in the room called out a bid of £200,000, an extraordinary jump, causing a stir in the room. Bidding momentarily ceased and potential bidders reassessed their strategies. Bidding soon resumed. And the man's response? He called out another bid: £300,000. A phone bidder countered with a higher bid still, the man in the room gave up, and the lot was sold to the phone bidder for a stunning £363,650. It was an extraordinary end to an extraordinary auction. Those assembled and on the telephones had spent more than £5.3 million on just 59 lots.

No doubt Christie's has suffered some culture shock with the changing structure of its client base. But it has not been slow to recognize new economic realities. It had prepared a catalogue that gave each lot's title in English and Chinese, and an ethnic Chinese auctioneer switched between public school English and brusque, street Mandarin to explain that some lots had been withdrawn prior to sale.

Most of the Chinese bidders were men, middle aged or younger. They turned the room into an elaborate, expensive game of blackjack as bids bounced around the room. Pre-auction estimates become meaningless as the mainlanders appeared to play a game of chicken with one another, seeing who would blink first. They approached the bidding with the same good-natured spirit with which they would approach a game of baccarat in a Macau casino. When they weren't inside bidding, they stood in groups in the street outside, sharing Red Pagoda cigarettes.

Sotheby's also staged a Chinese art auction in London that week. If prices went beyond Sotheby's estimates, they soared. Take, for example, an eighteenth-century scroll painting attributed to Ding Guanpeng that was estimated to sell for £8000–12,000; instead it went for £302,400. A nineteenth-century scroll that should have made £5000–7000, went for £130,600, and a jade bowl that was expected to bring no more than £20,000 made £156,800.

Chinese Art or Chinese Laundry?

It's not as if both auction houses don't know how to value their lots. They auction Chinese art many times a year around the world. So what is going on? Why were their estimates so wrong, so often? It is true that the major auction houses prefer estimates that are on the low side. Lower estimates are believed to attract more bidders who once started won't stop. But there is a difference between an estimate on the low side and getting it wrong by a factor of six.

Possibly, some mainland buyers were buying not for themselves but were gift hunting, looking for pieces to give to public museums in China. This would go a long way in currying favor with local officials. Or perhaps the pieces are for the local officials themselves. Gift giving is part and parcel of doing business and developing connections in China. Beyond some point, gifts become bribery, but who is to say how much a £100,000 Chinese vase bought in London is worth back in China? Only the giver need know, and the receiver, who presumably needs to know how thankful he should be.

Another factor contributing to the price explosion is the huge sums accumulated in foreign bank accounts by mainland Chinese officials. The Chinese government has become better at detecting inappropriate payments through China's banking system. Sometimes Chinese officials might ask for bribes to be paid into offshore accounts, and if the briber is a foreign firm, the funds can be paid and received offshore, never entering China, even though that's where the favors will be delivered. How then to repatriate the proceeds to China?

Importing something like a sports car will attract stiff customs duties and raise questions about the source of the funds for its acquisition, plus the value of a sports car is easily determined. But repatriating the wealth in the form of Chinese antiques is less likely to raise customs problems or suspicion. The values of antique items are difficult to quantify, especially at the border.

And so it is likely that a fair proportion of the current boom in Chinese works of art on the international market is coming from mainland Chinese looking for a way to get funds that have accumulated offshore into China but without raising the suspicion that a hefty international bank transfer or some other more visible import might raise.

Another source of demand are those officials who have absconded. China's own Ministry of Commerce estimated in 2004 that around 4000 corrupt Chinese officials had fled China in the last two decades, taking more than US\$500 million with them.³

Betting and Bubbles

Speculation is also driving the Chinese art boom. Previously, the market was propelled by wealthy and serious collectors in Hong Kong, Taiwan, the US, and Europe. But now few of the new entrants, the mainland Chinese, are collectors. Few study the field and make careful purchases of objects that they want to keep for the better part of a lifetime. Instead many look for

quick profits. The hassle is a lot less too. Buying a rare vase at Sotheby's means a lot less red tape than does buying a plot of land in Shanghai. Hong Kong's William Chak of Chak's buys on behalf of mainland buyers at auctions like Sotheby's and Christie's. He was the buyer of many of the major pieces at Christie's sale described above. He also bought the top lot at Christie's Asian arts auction held in Paris that same month. It was a Wanli period (1573–1619) red lacquer box with an estimate of €5,000–7,000. Chak bid an astonishing €217,200.⁴

Chak was asked in an interview in *Arts of Asia* magazine, published in early 2005, what the difference was between collectors today and in the past:⁵

Most collectors these days want to know what the pieces are likely to cost in the future. When I was formerly working for Hong Kong dealer Mr Wong for over twenty years at Fook Shing Antiques, that never happened ... Now the idea is different. In Taiwan they still have big collectors who like what they buy and do not resell. But some mainland Chinese clients buy to invest and not to collect.

In the same magazine, well-known London dealer Giuseppe Eskenazi described some Chinese “collectors” as “betting” rather than collecting. He also decried the recent practice of the major auction houses reselling pieces a year or two after they last appeared at auction, when in the past, the informal practice had been that pieces would not be accepted for consignment if their last appearance in the auction rooms was in the past five or six years. The quick resale of pieces has given the market the feel of a bubble.

Western collectors with deep pockets have been caught up in the speculative fervor, not so much out of speculation on their part but out of fear that Chinese art objects sold to mainland buyers are unlikely ever again to appear on the international market because Chinese cultural heritage laws will prevent their re-export. Foreign governments eager to attract future investment and trade deals from Beijing have shown their readiness in recent times to help the Chinese government in this regard. The Australian government in 2004, for example, tracked down, confiscated, and sent back to China a large assortment of dinosaur fossils that the Chinese government claimed had been smuggled out of China. The Australians were obsequious. “We care about protecting Chinese culture,” said the officiating Australian minister in front of the Chinese ambassador at a press conference. It was the trade minister.

Whatever the rationale, suddenly big sums of cash are available overseas for Chinese art objects. And so the world's major auction houses have repositioned themselves towards China, not just Christie's and Sotheby's.

Stuttgart-based auctioneer Nagel held previews in Shanghai and Beijing in 2004 of selected lots prior to its auctions of Chinese art in Germany. The strategy worked well, attracting a lot of new interest from Chinese buyers. All but one of the top ten lots for Nagel's Chinese art auctions held in May 2004 went to buyers based in Asia. One mainland buyer paid €53,200 for a vase that was expected to raise €1800. And a Hong Kong buyer paid an astonishing €186,200 for a nineteenth-century jade seal that was estimated to bring €1200.⁶

Foreign auction houses were permitted to hold auctions on the mainland itself from December 2004, as part of China's WTO obligations. But they are not allowed to sell art, books, and paintings dated prior to 1949 due to cultural protection laws. So it's likely that the spectacular prices seen in London, Hong Kong, Stuttgart, and elsewhere for Chinese art will continue. All the more so given that the number of rich Chinese continues to grow exponentially while the supply of Chinese antiques is fixed.

Islamic Art Booms

The market for Islamic art and antiques is not as broad and deep as that for Chinese art but it too has been booming. The zenith for Islamic art came in London in April 2004, at the Sotheby's and Christie's Islamic art auctions. Both put together collections and catalogues designed to ensnare one client in particular: Sheikh Saud al-Thani, first cousin of Sheikh Hamad bin Khalifa al-Thani, the Emir of Qatar. The strategy worked. The Sheikh lavished money on both auction houses and prices went not so much through the roof as the stratosphere.

From where did the Sheikh's money come? Qatar has a population of just 840,000 but its proven natural gas reserves account for 5% of the world's total and are the third largest in the world. In February 2005 alone, Qatar signed oil and gas deals worth US\$90 billion with European and US companies. These and other expected deals are likely to make Qatar the world's richest country on a per capita basis. The Qatar government is using its huge earnings from oil and gas to turn its little sandy peninsular that juts into the Gulf from Saudi Arabia into a tourist destination. The plans are ambitious. They need to be. I spent a day and a half in the capital Doha in late 2003. A few hours would have been more than enough. There is literally nothing there, other than one large shopping center, a few hotels, and an awful lot of sand. Most Qataris seem to live in the upmarket London suburbs of Kensington and Knightsbridge. Meanwhile, back home the running of their country is left largely to guest

workers. I don't think I actually met a Qatari while I was in Qatar. Everyone seemed to be from either the Philippines or southern India.

Part of the plan to remedy the unrelenting nothingness of Qatar is the opening of five museums in Doha. The Emir is betting that cultural tourism will be big business and will help Qatar to reduce its reliance on gas and oil. And so his cousin Sheikh Saud al-Thani poured millions into acquiring Islamic antiques to stock a new Museum of Islamic Arts, the lead architect for which is I.M. Pei. The Qatar National Museum is being redeveloped too and is due to reopen in 2006.

And so in that one week in April 2004, Sheikh Saud al-Thani spent over £15 million at Sotheby's and Christie's auctions.⁷ Christie's sale netted £11 million, suggesting just how large an impact the Sheikh's purchases made on the market.

Among the many spectacular results was £1,036,000 at Sotheby's for a sixteenth-century, 27-centimeter-long Ottoman dagger with a lapis lazuli handle and a gold-inlaid blade. Its pre-sale estimate was £50,000–£70,000. Another £1,461,600 was paid for what was described as a fourteenth-century Central Asian glazed ceramic cenotaph but was subsequently rumoured to have been recently constructed from looted materials.⁸

Over at Christie's, a seventeenth-century Mughal Indian jade flask set with gold, diamonds, and rubies that had been on loan to the Victoria and Albert Museum sold for £2.91 million. A flywhisk of banded agate set with emeralds and rubies that been estimated at £5000–8000 sold for just over £900,000. Difficult questions were asked about the identities of the underbidders. Some suspect that given the knowledge that Sheikh Saud al-Thani would be the buyer at any price, some with an interest in the matter ensured that the prices he paid were very high indeed. At an earlier auction he'd paid £94,850 for a seventeenth-century Iranian pottery tile that had an estimate of just £1000–1500. But then in March 2005, Sheikh Saud al-Thani was removed from his position as head of Qatar's National Council for Culture, Arts and Heritage after having spent an estimated US\$2.5 billion on art and antiques on behalf of Qatar. He was then arrested on suspicion of misuse of public funds, a development that sent shockwaves through the international art market.

The nine months between September 2003 and March 2004 saw Qatar emerge as the UK's third biggest destination for art and antiques after the US and Switzerland, with £48.4 million worth of art, antiques, statues, and prints exported to Qatar from the UK during that period. Included was £25.8 million worth of antiques "over one hundred years old" in the first six months of 2004.⁹ Significantly, these figures did not include the items

acquired at the April sales and certainly not the items acquired at auctions held in October that year.

But Sheikh Saud al-Thani has not been the only major buyer of Islamic art. He's merely the newest. Other royal families of the Gulf's oil states have pushed the market for Indian Mughal jewelry to astronomic heights. One collection already put together and on display is the fabulous Al-Sabah Collection at the Kuwait National Museum. Sheik Nasser Sabah Ahmed al-Sabah, a minor member of Kuwait's royal al-Sabah family, has assembled a stunning collection of more than 20,000 pieces of Islamic art. The peak of his buying came in the early 1990s. His acquisition rate has slowed since.

Saddam Hussein's forces meticulously shifted the Al-Sabah Collection from the Kuwait National Museum to Iraq's National Museum after they invaded Kuwait in 1990. The UN later returned the pieces aboard a UN cargo plane. I saw highlights from the collection in 2001 when they were exhibited at the British Museum in London. They were stunning. Later they were shown at the Metropolitan Museum of Art in New York.

The Sultan of Brunei has been another big buyer. He poured millions into the Islamic antique market in the early 1990s, buying swathes of Islamic jewels, porcelain, and early Korans for his public museums in his capital Bandar Seri Begawan. Unfortunately as is so often the case with Brunei, money does not mean expertise. His main Islamic museum is literally stuffed to the rafters with fabulous items but they are poorly described and displayed. I was the only visitor on the occasion of my visit. The staff seemed surprised to be disturbed and yet here in the steamy jungles of north-western Borneo is one of the world's most exquisite collections of international Islamic art.

Another important collection is the Khalili collection of Islamic art assembled by David Khalili, a rich property investor from a Jewish family in Isfahan, Iran, and now based in London. His 20,000-piece collection is probably the world's largest collection of Islamic art in private hands. Khalili has said that he intends to finance a museum to be established in London to show his collection.¹⁰

And in Kuala Lumpur, there is the Islamic Arts Museum Malaysia, established by the charitable foundation set up by leading Malaysian businessman and philanthropist Syed Mokhtar Albukhary. The museum contains many fine items in a beautiful building built to house the collection. Albukhary paid a New York antique dealer around US\$250,000 in 2004 for what he believes is the earliest known Koran produced in China. The museum is professional and produces expensive and scholarly catalogs. Syed Mokhtar has told me that he "might" consider opening other Islamic art museums in places that don't have the resources to open them themselves.

How to Make a Market

An almost surefire way of wringing money out of the antiques market is to quietly collect an obscure, hitherto unrecognized item such as Mongolian saddles, opium bowls, or Burmese fold-out books (*parabaiks*), and buy up as many examples as possible, become well versed in the field, and write a book about it which will stimulate interest among other collectors. A market will be made and suddenly your large collection acquired at modest cost will be worth a fortune, particularly if it can be sold en bloc to a museum or gallery.

Books that in recent years have helped to make markets for an obscure area of Asian art include Henry Brownrigg's *Betel Cutters: From the Samuel Eilenberg Collection* (Thames and Hudson, 1992) which almost single handedly excited interest in betel cutters of India and Southeast Asia as a discrete area of collecting to the point where I watched a single Sri Lankan betel cutter sell at auction at Christie's in London in October 2004 for a record £4182 against an estimate of £400–600. I saw the author several days after the auction and told him that such a price was entirely his fault. He didn't disagree.

And then there are the four books on Straits Chinese porcelain, silver, furniture, and beadwork and embroidery written by Singapore's Professor Ho Wing Meng.¹¹ Again, almost single handedly, these four books created a whole Straits Chinese industry in Singapore even though some of the items ascribed in the books to Straits Chinese workmanship (particularly in the silver book) are of mainland Chinese or Indonesian workmanship. For a time, Christie's even staged auctions of Straits Chinese porcelain, jewelry, and embroidery. It ended these when it could no longer source enough items to warrant staging such auctions.

The international market for Tibetan antiques is huge. One reason is because there's so much supply to meet demand, thanks largely to the international diaspora of Tibetans through whose hands smuggled Tibetan antiques pass and because huge quantities of Tibetan art flooded out of Tibet during the years of the Cultural Revolution when thousands of Tibetan monasteries were destroyed. Fabulous fourteenth-century gilded copper panels from the Densatil monastery that stood southeast of Lhasa and which was destroyed in the Cultural Revolution routinely appear at international art auctions. The Chinese government is now cracking down on antique smuggling from Tibet and at least one prominent ethnic Tibetan dealer with a gallery in Kathmandu has been arrested in China in recent years.

Has the market for Asian art changed apart from the influx of mainland

Chinese looking for quick speculative profits? London's Theresa McCullough of Theresa McCullough Ltd, a specialist dealer in Southeast Asian and South Asian art and antiques, advises that the most noticeable trend in the past 15 years has been a move away from "ethnological" collecting, whereby serious collectors specialize in a field and collect one of everything regardless of aesthetic value, toward big, showy pieces that are as much about interior decorating as anything else. Accordingly, the prices of big, museum-quality pieces such as Gandharan statues have risen significantly in recent years relative to lesser pieces. Contemporary Indian paintings have performed well, as have recent Vietnamese paintings, showy Mughal jewelry and of course important Chinese ceramics.

With all the oil being found in central Asia, Central Asian antiques and artefacts ought to prove good investments for the future. But I'm not the only one who thinks so. Three gilded silver women's headdresses from early twentieth-century Uzbekistan were sold at Christie's, South Kensington in February 2005 with estimates of £500–700 each. They made £1560, £3840 and £5040 respectively. Three weeks later I saw the same headdresses at a London antiques fair. Each now had a price tag of £18,000.

The strange case of Bhutanese textiles

Bhutanese textiles are beautiful, rare and, for a long time, completely unappreciated by collectors and even the Bhutanese themselves. And so Marko Bartholomew, an American who lived for a while in Nepal, quietly amassed a huge collection of the textiles over twenty years. He was particularly interested in designs connected to Bhutanese royalty which were often presented to ordinary Bhutanese by the king and his family.

When one of the Bhutan king's wives decided to open the National Textile Museum in Bhutan, it was found that most of the quality pieces of Bhutanese textiles were no longer in Bhutan but now belonged to Bartholomew. He had paid relatively little for the collection; often he'd swapped pieces for cooking oil and the like with Bhutanese visitors to Nepal. But, in time, his collecting began to pay off. In 1978 he sold 77 pieces to the Royal Ontario Museum for US\$30,000 and several years later, 40 pieces to the Osaka Museum in Japan for US\$200,000. By the

time the Bhutanese queen was looking for textiles for her museum, Bartholomew was in a position to offer the remains of his collection (more than a thousand pieces) for US\$2 million.¹² The Bhutanese balked at the price but what choice did they have? Bartholomew had almost cornered the market.

One other significant collector was the American Barbara Adams (mentioned in Chapter 9) who also lived in Nepal where she'd been the mistress of Nepal's Prince Basundhara. She built up a collection of around 300 pieces and helpfully wrote a book on Bhutanese textiles (*Traditional Bhutanese Textiles*, White Orchid Books, 1984) which served to heighten collectors' interest and push up prices.

Within a short period Bhutanese textiles went from being discarded to highly desirable, so much so that by late 2004, just a single piece of eighteenth-century geometric patterned Bhutanese ritual cloth could be offered for sale in London by renowned Asian textile dealer Linda Wrigglesworth for US\$11,000.

The Business of Forgery and Theft

Asian art is big business and consequently so is Asian art forgery. The biggest targets for forgeries are probably Chinese ceramics, Cambodian Angkor period stone statues, and tenth–fifteenth-century Javanese gold. Forgeries of Angkor stone statues have become so good that it is believed that many famous collections around the world contain several or many forgeries, including the collection of the National Museum of Cambodia. And so provenance now means everything: pieces with ownership that can be traced to the decades before serious faking began attract big premiums over those that don't have this.

Tibetan art is faked too, even kapala bowls which are made from the inverted top half of human skulls and often lined with silver. Traditionally, the skulls came from dead monks. But today, graves in cemeteries in Tibet and along its borders are being raided by fakers for the necessary raw materials. How to identify a bowl of recent manufacture? Smell it (really)! Similarly, recently made conch shell trumpets can be made to look old but the odour of dead fish is a giveaway.

Mixing Business and Pleasure

Art has always been big business in Asia. The Chinese emperors were among the biggest collectors the world has ever seen. It is a testament to the importance of art in China that the Chinese Nationalist forces, when fleeing mainland China in 1948 ahead of the Communist takeover, took with them what had been the Imperial collection of porcelain and bronzes. It's still in Taiwan today and forms the spectacular National Palace Museum collection. There's a permanent collection on display. The remainder is stored in supposedly nuclear-proof bunkers in the hillside at the site on the outskirts of Taipei.

Today Asia is home to some big private collectors, both corporate and individual. Japan is by far the biggest market in Asia for European art, particularly paintings. The end of the property bubble in Japan around 1990 saw huge quantities of paintings released back onto the international art market after their Japanese owners went to the wall. Many paintings had been used as loan collateral. By 1998, one finance company, Osaka-based Lake, had seized from collectors and dealers several hundred paintings with a book value of over US\$600 million. Works by Picasso, Monet, Manet, and Braque were among Lake's cache, including Picasso's *The Wedding Party of Pierette* which had been bought by one-time Japanese property billionaire Tomonori Tsurumaki in 1989 for an absurd US\$51.7 million, a sum that Tsurumaki had borrowed.¹³

Samsung is South Korea's biggest corporate collector and arts patron. It opened the Leeum Samsung Museum of Art in October 2004 in Seoul (Leeum is a composite of Lee, the surname of Samsung's chairman, and um, the suffix of museum). The museum houses Samsung's collection of traditional Korean art and its large collection of local and international modern art. Samsung has also sponsored the opening of other art galleries in South Korea. It spends millions each year acquiring and supporting the arts: around US\$8.4 million in 2003, for example.¹⁴

I once asked Sofyan Wanandi, the head of Indonesia's diversified Gemala Group, whether he collected paintings like his brother Jusuf. His reply was not really, he collected factories. Sofyan lost quite a few of those factories in the wake of Asia's economic crisis. But Jusuf still has a nice collection of paintings.

James Riady of Indonesia's giant banking and real estate Lippo Group, who was at the heart of the donations-for-access "Donorgate" scandal during the Clinton presidency, has amassed probably the world's most important collection of Indonesian paintings. I watched Riady's agent spend around US\$1.5 million on a single painting at a Christie's auction at the Singapore

Hyatt Regency Hotel in March 1997. I've met Riady only once, at the home of the Australian ambassador in Jakarta. We discussed paintings. It turned out that Riady had been the buyer of a Bali painting by the Australian artist Donald Friend that I had recently sold through Sotheby's in Singapore.

Tsui Tsin Tong (more commonly known as T.T. Tsui), chairman of Hong Kong's CNT Group, has one of the world's most important private collections of Chinese art. His private museum, the T.T. Tsui Museum in a high-rise building in central Hong Kong, holds more than 4000 pieces of Chinese art. He's also a big donor. In 1995, he gave a large quantity of porcelain and bronze items to the National Gallery of Australia in Canberra. The gallery opened a new wing, the T.T. Tsui Gallery of Chinese Art to house them. He's also donated funds, artworks, or both, to the Victoria and Albert Museum in London, the Art Institute of Chicago, the Royal Ontario Museum of Canada, and the Shanghai Museum. For a time, Tsui's companies acted as a foreign distributor for Norinco, the People's Liberation Army-owned manufacturer of arms and weapons.

Malaysia's Daim Zainuddin, former finance minister and one of that country's wealthiest businessmen who controls the International Bank of Malaysia Group, has a large collection of Asian paintings. He has built a freestanding gallery that comprises three main halls on his residential compound in the hills above Kuala Lumpur. I was shown the collection one evening, which Daim and his wife Tok Puan Mahani keep guarded by Nepalese Gurkhas. In the collection there are watercolours by Chang Fee Ming, a Hakka Chinese artist from Terengganu, including the *Song of the Fisherman: Melody*, a large, spectacular painting that shows a group of East Coast Malaysian fisherman from the waist down as they stand in the water near their fishing vessel.

Chang's works are popular with many wealthy business collectors in Southeast Asia. Apart from Daim's collection, his paintings appear in the collections of James Riady, Jusuf Wanandi, Tossin Himawan of Indonesia's Astra Group, Azmi Wan Hamzah of Malaysia's Land and General Group, and Malaysian corporate collections including those of Sime Derby, Bolton Properties, Federal Flour Mills, Bank Negara, Petronas, and Malaysian Airline System.

Abdul Taib Mahmud, the very wealthy, long-serving chief minister of the timber-rich Malaysian state of Sarawak, whose family controls massive timber concessions as well as the locally based CMS construction and banking group, is also a big collector of art. He specializes particularly in Southeast Asian betel nut paraphernalia. He also reportedly paid almost US\$2 million for the piano that once belonged to the late American showman Liberace.¹⁵

Singapore's Wee Cho Yaw, chairman of United Overseas Bank, is a collector of Chinese paintings. His corporate suite is decorated with massive paintings of goldfish. Artists popular with Singapore's rich are Georgette Chen and Lee Man Fong. The late Jack Chia who owned Singapore's MPH book chain, had a large collection of celadon porcelain.

Hong Kong-based Adrian Zecha, who owns the ultra-luxury Amman chain of hotels and resorts, has a large collection of Asian art that he keeps in his Hong Kong Mid-Levels apartment. He founded *Orientations*, one of the two leading Asian art and antique magazines. It is published eight times a year.

The other magazine, the lavishly illustrated *Arts of Asia*, was founded by Hong Kong-based Tuyet Nguyet, who perhaps more than any other single figure has built up and perpetuated Asia's antique and art market. A collector herself, she is one of the most powerful figures in the trade. Articles on obscure topics in *Arts of Asia* have the power to make markets where previously there were none. She travels the world staying in touch with Asian art dealers, auctioneers, and collectors and at the same time publishes six issues of her magazine each year which has become the chronicle worldwide for the industry.

If you want to understand Asia's most successful businesspeople, you have to become interested in what interests them. A subscription to *Arts of Asia* might be a good way to start. Art is big business, a good investment, and a good way to make important business contacts in Asia or confirm them. There's nothing like shared interests outside work to help build up a relationship. And so art is a good way to kill several birds with one stone, which no doubt goes some way to explaining its popularity among Asia's business elite.



Chapter 12

SINGAPORE, MALAYSIA, AND THE INTERNATIONAL ARMS INDUSTRY

Singapore is a modern, ultra-clean city-state, with excellent tourist and shopping facilities. It also has the highest rate per capita of executions in the world, a large, government-regulated commercial sex industry, and is a manufacturer and exporter of weapons that are designed to kill. The Singapore government's strong preference for execution and the city-state's commercial sex industry were looked at in *The Asian Insider*. It's Singapore's role in the international arms industry that is examined here.

No Messing Around

Four men of Pakistani descent hijacked Singapore Airlines flight SQ117 on March 26, 1991. The flight was on its way from Kuala Lumpur to Singapore, with 118 passengers from 18 countries and 9 crew members on board.¹ Armed with knives and canisters of explosives, the hijackers directed the flight's captain to take the plane to Sydney. But the plane did not have enough fuel for the journey, so the hijackers agreed to allow it to land at Singapore's Changi Airport.

The four claimed to be members of Pakistan People's Party (PPP), Pakistan's main opposition party. Their demands included the release of various PPP leaders from prisons in Pakistan. Once at Changi, they asked that the aircraft be refueled so that it could be flown to Australia and thereafter to Iraq or Libya.

The first load of fuel was delivered to the aircraft at about 3am. The hijackers agreed to release ten women and children before the next load of

fuel. But they changed their minds: no hostages would be released. By 6am the hijackers decided that the plane, still with insufficient fuel for Sydney, should now fly to Jakarta. Forty-five minutes later they issued a deadline: if their requests were not met within five minutes, they would start to kill the hostages.

At around 6.50am, hooded Singapore Armed Forces commandos were given the command to storm the plane. They had been waiting beneath its rear section. They propped their ladders against the sides of the plane and opened its doors from the outside. Twenty commandos stormed in, from both ends of the aircraft. They detonated stun grenades to immobilize the hijackers, while screaming to the passengers to get down.

Automatic gunfire followed. Within minutes the commandos had killed three terrorists with their precision shooting. The fourth grabbed a woman to shield himself. Another passenger grabbed the woman away, allowing a commando to open fire at close range, and the fourth hijacker was killed instantly.

The storming was over in just four minutes. Each of the four hijackers was dead and not a single passenger or crew member had been harmed. The authorities had not even needed to close the airport. It was one of the cleanest, most efficient endings to a plane hijacking ever.

Singapore has developed one of Asia's most advanced armed forces, as the four hijackers were to learn, if only briefly. It has also developed one of the region's most sophisticated defence industries. From where did Singapore receive the inspiration for all this? Israel, with whom Singapore has close military ties. It turned to Israel for help to create a defence force after its separation from Malaysia in 1967, when the British advised that they would be withdrawing their forces from the island. Malaysia did not recognize Israel (and still doesn't), but Singapore did immediately. And with recognition came assistance.

Singapore's Armed Forces routinely participate in joint exercises with other armed forces in the region. This helps with training but also provides knowledge of regional capabilities. Not surprisingly, the Singaporean forces invariably are superior, and sometimes the gap is very wide.

Singaporean soldiers who have been involved in joint exercises with the Indonesian military have told me how two or three Indonesian soldiers are "routinely" killed when it comes to exercises that use live ammunition. Accidents are common. Often Indonesian soldiers are shot dead by their colleagues. In summing up the Indonesian generals' attitude towards their troops, one former senior Singapore army officer told me that "life is cheap."

ST Engineering

For many, getting to know the real Singapore can be a surprise. Few realize that Singapore is home to an armaments and munitions industry. The biggest player in the sector is a Singapore government-linked company, ST Engineering.² But the sector is not simply focused on arming Singapore's military. It has become heavily export focused.

Singapore's Defence Science and Technology Agency (DSTA) handles a lot of the research and development. The rationale is that there is a need for armaments and the other paraphernalia of the battlefield to be redesigned to fit the physique of the Asian soldier and also to function efficiently in tropical conditions. With most weapons being designed in Europe and North America for larger bodies and cold to temperate climates, it is a marketing pitch that ought to appeal to prospective clients in Asia, Africa, and South America.

ST Engineering has four main subsidiaries that are involved in military research and hardware manufacturing, although not exclusively: ST Kinetics, ST Aerospace, ST Marine, and ST Electronics.

ST Kinetics is ST Engineering's key military hardware division. It was formed in 2000 by the merger of Singapore Technologies Automotives with Chartered Industries of Singapore. It has almost 3000 employees and operates from new premises in Jalan Boon Lay in Singapore. From its Singapore Technologies Automotives parentage, it still has considerable automotive interests, including its ownership of CityCab, a taxi company in Singapore with over 5000 vehicles. But it's the military hardware business that the company is now most eager to expand and promote.

The shopping catalog for ST Kinetics makes illuminating reading: Field air defence mounts, advanced mortar systems, remote weapon stations, automatic grenade launchers, machine guns, assault rifles, and howitzers all made in Singapore are available for order. On the munitions side there are various rounds, cartridges, and grenades.

But that's not all that ST Kinetics produces. It has developed the Terrex AV81, an eight-wheeled light armored vehicle. ST Kinetics later bought a 25% stake in Ireland's Timoney Holdings, the company that designed the vehicle on its behalf. The vehicle has become part of the company's export push. ST Kinetics signed an MoU (memorandum of understanding) in 2002 with the Turkish automotive manufacturer Otokar to jointly develop an 8 x 8 vehicle based on the Terrex AV81 prototype to bid for a supply contract with the Turkish army. And it has developed infantry carriers that have been sold to the US army.

But it's the SAR-21 automatic rifle that is perhaps ST Kinetics' best-

known product. (SAR is short for Singapore army rifle and 21 refers to the twenty-first century.) For many years Singapore's Armed Forces had used M16A1 rifles manufactured in Singapore under license. But the terms of the licensing agreement meant that exports were difficult. So that Singapore might earn export dollars from its rifle production, it developed its own rifles. The first local rifles to be developed were the SAR-80 and the SAR-88. The SAR-80, for example, was then sold to South Africa. But it was the SAR-21 into which most development and energy has been expended. It was developed by ST Kinetics both for Singapore's Armed Forces and to sell overseas. Modifications allow it to be converted into a machine gun and a grenade launcher. "The SAR-21 is among the best handling and easiest rifles to use that the author has ever experienced," wrote one interviewer for *Jane's International Defence Review*.³ Others say that since it's gas operated, it's prone to jamming. Sales have been disappointing. The market for rifles, like for most light munitions, has become commoditized. They're easy to make and replicate and consequently margins are low.

ST Kinetics is a regular exhibitor at international arms fairs, including the International Defence Exhibition in Abu Dhabi, Defence Systems and Equipment International in the UK, the Latin America Defentech in Brazil, and the Armor Conference in the US. In the US, its weapons are marketed and distributed by VT Systems, an ST Engineering subsidiary.

In March 2001, it signed an MoU with Italy's Oto Melara to co-develop a variant of its 155mm lightweight self-propelled howitzer. It has also developed its 40mm air bursting munitions system in collaboration with Switzerland's Oerlikon Contraves. And there's a development agreement with Australia's Innovonics for the installation of fleet management and vehicle monitoring systems for its Bronco all-terrain vehicles.

What will the future bring? ST Kinetics is reportedly keen to move away from production of conventional weapons, munitions, and vehicles toward robotics, guided weapons, and unmanned aircraft. The desire is to move toward production of more sophisticated weaponry for which margins are higher and the potential for export earnings greater.

ST Kinetics' sister company ST Aerospace is a genuinely global player in the market for upgrading and maintaining military and commercial aircraft. It provides upgrade packages to the world's air forces to "provide maximum performance and survivability" for fighter, transport, and rotary wing military aircraft.

Recent clients have included the Turkish air force for which ST Aerospace upgraded 48 F-5 fighter aircraft; the Brazilian air force, which awarded the company a similar upgrade contract; and the Singapore air

force. The US navy is a long-term client of ST Aerospace with which it has a C-130 Hercules depot servicing contract. Upgrade programs have also been developed for various military and civilian helicopters and F-16 fighters.

The company has subsidiary operations in Texas. And in 2001, it set up a joint venture with FR Aviation Group, a subsidiary of the UK-based defence manufacturer Cobham. The joint venture, Bournemouth Aviation Services (60% owned by Singapore Technologies) is based at Bournemouth International Airport in the UK.⁴ For its part, Cobham supplies military air-to-air refuelling systems among other defence-related products. It won a contract to supply such a program to Malaysia in 2001.

ST Marine supplies the Singapore navy with small vessels and it too is keen to win export contracts with foreign navies. Its capabilities also include ship repair and ship conversion. It has produced a range of military ship designs that incorporate advanced stealth capabilities although it's not clear that these have gone beyond the design stage. The company has subsidiaries overseas including VT Halter Marine in the US. This company has contracts with the US navy to construct logistic support vessels. It also won a US\$47 million contract in April 2003 to complete the building of a car carrier vessel.⁵ In 2004, it was named as a prime contractor for a potential US sale of three fast missile craft to Egypt.⁶

ST Electronics designs and develops software and advanced electronics solutions principally for road and rail transportation but also develops systems for defence and defence training and simulation. A subsidiary, ST Training & Simulation, offers for export state-of-the-art flight mission trainers for pilot training that include precision-combat flight operations and mission-simulation training. Also on offer are armor gunnery and tactical simulators.

Keppel and Avimo

While ST Engineering dominates weapons, munitions, and military components manufacturing in Singapore, it's not the only local player. Yet another government-linked company is keen to develop an interest in the defence industry. In October 2003, Keppel Corp's US subsidiary Amfels won a US\$73 million contract from Boeing to outfit a semi-submersible drilling platform that would be used as a radar outpost for the US government's missile defence system. It was expected that when finished, the platform would be deployed in the Pacific Ocean to be used as an early detection facility for missiles fired from North Korea.⁷

Avimo is another Singapore company involved in the sector. It designs, manufactures, and services advanced precision optics and optical coatings, laser equipment, and the like. It won major contracts to supply systems for Apache helicopters.

The British arms manufacturer Alvis controlled Avimo until around 2001. Alvis's final 17% stake in the company was sold for £25.7 million to Thales (formerly known as Thomson-CSF).⁸ The Kuwaiti Investment Office held a minority stake. Thales of France is one of the world's biggest weapons and military systems manufacturers. Its acquisition of Avimo means that it now has a manufacturing presence in Singapore.

The Myanmar Controversy

Singapore's military exports sometimes prove controversial, none more so than the alleged export of weapons and military know-how to Myanmar in the late 1980s. Several articles appeared in *Jane's Intelligence Review* in which it was claimed that 84mm rockets and other munitions made under license by Chartered Industries of Singapore (ST Kinetics' predecessor) appeared to have been shipped to Myanmar towards the end of 1988.⁹ This was shortly after the massacre by the military of pro-democracy protesters in the streets of Yangon (Rangoon) in September 1988. M16A1 automatic rifles, 7.62mm assault rifles, and ammunition and communications equipment were sent in other shipments, according to the allegations.

And then there was the separate accusation that a modular, prefabricated factory designed and built in Singapore by Chartered Industries of Singapore with Israeli assistance had arrived in Myanmar in 1998 where it was set up to produce small arms or ordnance of up to 37mm. The Directorate of Defence Industries of Myanmar's Ministry of Defence had taken delivery of the facility. It was said that the factory could be assembled and operational within a matter of weeks and possibly could have been assembled within an existing building such as an airport hanger.

The Singapore government has always denied these allegations. Nonetheless, 104 stockholders in the TIAA-CREF, one of the biggest pension funds in the US, sent a letter to the fund in November 2002 in which they urged it to dump its shares in Singapore Technologies, on account of its arms allegedly being sold to Myanmar's military.¹⁰ However, it's worth remembering that, regardless of whether Singapore-made weapons and accessories have found their way to Myanmar, it is China that is by far the biggest weapons supplier to Myanmar and the contributions of other countries are dwarfed by China's efforts.

One of the most surreal experiences that I can recall having in Southeast Asia occurred while I sat on rough timber benches in an open-sided teahouse in the central Myanmar town of Thazi in the late 1990s. The teahouse was memorable for having a telephone number that comprised just two digits. The usual passing parade of rusting bicycles, clapped-out buses, and donkey-drawn carts was interrupted by the extraordinary sight of three spaceship-like, silver-colored armored tanks that tore past. They looked sophisticated even by NATO's standards. But here, among the dust and the poverty, they looked utterly bizarre. No doubt they comprised "aid" from China.

Singapore and Anti-personnel Landmines

Singapore has not signed the UN's 1997 Mine Ban Treaty. One reason is because it has a stockpile of landmines which it wants to keep. It also has land mine manufacturing capacity. In the past, Singapore has produced two types of antipersonnel landmines: a plastic blast mine (VS-50) and a bounding fragmentation mine (VS-69), both copies of Italian designs.¹¹ Prior to 1996 it even exported them. Reportedly, Iraq was one destination for Singapore-made landmines.

Singapore declared a two-year limited moratorium on exports of non-self-destruct and non-detectable antipersonnel landmines in May 1996. However, it has maintained that antipersonnel landmines are needed for "legitimate self-defence."¹² In February 1998, Singapore expanded the moratorium to include all manner of antipersonnel landmines, not just those without self-neutralizing mechanisms, and extended the moratorium indefinitely.

It is unclear whether Singapore still manufactures landmines. But it is clear that it maintains the ability to manufacture them. ST Kinetics remains the only company in Singapore that either manufactures landmines or has the ability to manufacture them.

Malaysia Follows Suit

In its efforts to compete with Singapore in almost every sector, Malaysia is keen to develop its own arms industry. That it should have its own indigenous arms industry is now government policy. In June 2003, it emerged that Malaysia planned to manufacture its own guided missiles and was eyeing technology from Bosnia and Brazil, two countries with which Malaysia was studying the feasibility of cooperating in manufacturing missiles.

Malaysia's defence procurement program appears to have ratcheted up in recent years. Britain's Alvis supplied eight supercat, all-terrain mobile platforms to Malaysia in 2001 and was expecting follow-on contracts.¹³ The eight vehicles are believed to have cost Malaysia around £10 million. In 2002, Malaysia decided to buy 18 Sukhoi fighter jets from Russia in a deal believed to be worth US\$900 million. It also agreed to acquire three French-made submarines for US\$1.23 billion, and ordered British and Russian missile systems worth US\$364 million.¹⁴

Increasingly, deals such as these include provisions for military technology transfer to Malaysia. In 2003, Malaysia agreed to buy 48 attack PT-91M tanks from Poland for US\$368 million. Part of the deal was that local company MMC Defence would be involved in the tanks' production with the Polish manufacturer Bumar Labedy. The contract also allowed for 128 Malaysian military personnel to be trained in Poland.¹⁵

MMC Defence is part of Malaysian Mining Corporation, which is controlled by local businessman Syed Mokhtar Albukhary. The company was established in March 2001 from a company called MMC Engineering Services that in turn had been set up around 1986 to venture into armored vehicles and armaments production. The MMC Defence workshop is located at Nilai, not far from Kuala Lumpur. It is equipped to undertake the repair and refurbishment of armored vehicles and upgrading programs.

Then in late 2004, Syed Mokhtar won control of a local conglomerate DRB-Hicom.¹⁶ Defence Technologies, a subsidiary, was expected to be the major beneficiary of planned increases in Malaysian government defence spending, that would lead to, among others, a likely US\$1 billion joint venture between Defence Technologies and Augusta of Italy to assemble helicopters locally for the armed forces and the Malaysian coastguard. The company already had a US\$290 million contract to supply armored personnel carriers to the army. Syed Mokhtar is likely to merge MMC Defence and Defence Technologies, and most probably give the new entity an export focus as well as relying on Malaysian government contracts.

Another local company involved in defence-related manufacturing is Arsenal Malaysia. Controlled by Malaysian businessman Amin Shah, it trades in explosives and ammunition. In 2002, Singapore's Explomo Technical Services sought to team up with Arsenal, to jointly develop mobile demilitarization units for places such as Bosnia, Kosovo, Albania, Cambodia, and Laos.¹⁷ Amin Shah also controls the listed PSC Industries, a naval and commercial shipbuilder. In 1998 it was awarded a multi-billion ringgit contract to construct 27 vessels for the Malaysian navy. PSC's principal banker is the local Affin Bank, controlled by the Armed Forces Superannuation Fund, although legal proceedings commenced

between the two parties in early 2005 over disputed loans.¹⁸ The navy was yet to take possession of the first two completed craft amid complaints over quality and the government seemed intent on blocking Shah's every move if not taking over the project completely.

Sell, Sell, Sell!

Does Singapore's and Malaysia's manufacture of weapons and munitions signal a Southeast Asian arms race? No. But it does signal an increase in locally made weapons available for other countries in the region to buy. Is that a good thing? Unfortunately, this export focus is also occurring at the same time as the rise in regional fundamentalist Islamic militarism. New markets are being looked for. In late 2004, ST Engineering, for example, announced a majority-owned IT, engineering, and defence services joint venture with Kazakhstan Engineering in the Central Asian state.¹⁹ Lenin once said: "When it comes to hang the capitalists they will compete with each other to sell us the rope at a lower price." It's an observation that Malaysia and Singapore might also heed.

Chapter 13

ASIA'S GREAT CASINO INVASION

Gambling is huge business in Asia and it's about to get even bigger. Millions of mainland Chinese with enough spare cash to gamble in foreign casinos, an enormous cultural inclination to do so, and the freedom to travel abroad like never before represent an incredibly lucrative potential gambling market. The China Center for Lottery Studies at Beijing University has estimated that an extraordinary 600 billion yuan (US\$72 billion) in gambling money now leaves China each year.¹

Macau has opened up its casino monopoly. Thailand is toying with allowing casinos. So too is Singapore, despite rare domestic opposition that even saw anti-casino petitions circulated in late 2004 by active members of the ruling Peoples' Action Party, which asked the country's president not to sign government bills that would allow the establishment of casinos. But principles are easily sacrificed when there's mainland Chinese money to be had. By late 2004, the government of Singapore had invited submissions from casino developers. It received 19 bids from international gaming groups, some of which had linked up with Singapore government-linked companies. And in April 2005, the Singapore government announced that two casinos would be permitted to open. It was envisaged that Singapore citizens and permanent residents would have to pay a S\$100 (US\$70) government levy for each day that they gambled at any casino to be built or a S\$2000 annual levy. Other restrictions on Singaporeans would be put in place.² The real target was the mainland Chinese market.

Of course there are many illegal casinos that operate across Asia. And then there are the legal ones that take advantage of their illegality in neighboring countries. Casinos are illegal in China, for example, and, at the

time of writing, in Thailand. And so what has this led to? No longer are these countries surrounded by tanks and militarized zones. Instead, casinos that have been set up along their borders just inside neighboring countries ring them. It has also led to myriad illegal casinos, protection rackets, and payoffs to police and local politicians within their borders. And there are other substitutes too. In Bangkok it's known as the Stock Exchange of Thailand (SET), which has one of the world's shortest average holding times per share purchased. In 2002, the SET even suffered a marked loss of liquidity during the World Cup as punters sold shares to raise cash to make bets on the outcomes of each match.

The Chinese like to gamble. Of course, one must not resort to stereotypes. But sometimes it is difficult not to. To be fair, not all Chinese gamble. But if they don't, they can nearly always point to some relative who does. Gambling is an industry that is worth billions in Asia. It's one that is worth understanding if one is to understand Asia.

For most Chinese gamblers, gambling is less about money than it is about recreation. It is a pastime that can be spent socializing with friends and business colleagues. Mah jong and cards are used by many Chinese businesspeople as social settings in which business is discussed while they play, to relax and socialize and build up relationships. Trips to a casino can perform a similar function. To emphasize the social nature of a gambling session rather than its monetary aspects, the big winner of a session often will use his winnings to buy dinner for the rest. So whereas gambling in Western culture might be seedy and about money, in Chinese culture it has more of a social and relationship-building role. (Mah jong has become popular in the US, but curiously almost exclusively among older Jewish women.)

Malaysia has dealt with the urge to gamble by licensing just one casino and then forbidding Muslims to enter it. And so ironically, this Islamic country is home to the biggest casino in the Asia Pacific region. But the Malaysians are being pragmatic. Without this casino, many of the seven million-strong Malaysian Chinese population would travel abroad to gamble. Instead, Chinese from Singapore and Indonesia travel to Malaysia and Malaysia is a net earner from the activity rather than a net loser like its neighbors.

Casinos are illegal in Indonesia, but illegal ones flourish. The mayor of Batam, an Indonesian island a short ferry ride away from Singapore, ordered the closure of at least 46 illegal casinos in early 2003.³ Somehow though he had given his imprimatur for one casino to operate at Batam's Tering Bay in cooperation with a local company, PT Dewa Menara Wisata. But the police took a dim view of this and closed it down. It seemed only fair if they were

no longer able to benefit from the illegal casinos. If the illegal casinos, such as one in the Good Way Hotel in Nagoya, Batam's main city, that had long operated under the eye of the local police could no longer operate, then no casinos would, as far as the police were concerned. The local administration in Jakarta has said that it would like to allow casinos to open in the Seribu Islands just off Jakarta but to date this has not happened.

India has around five small casinos, mostly with slot machines only. A new license was reportedly granted for a casino in the remote state of Sikkim in early 2004 to an ethnic Indian businessman Vivian Reddy who operates gambling interests in South Africa. Former cricketer Kapil Dev is Reddy's main business partner in India.⁴

Nepal has four casinos, though Nepalese citizens are forbidden to enter them. The Philippines has 12 and several slot machine arcades. They must compete against gambling that's associated with cock fighting which is banned almost everywhere else except the Philippines. A Philippines internet service provider even proposed in 2004 to introduce online betting for cock fights.⁵ Japan bans almost all forms of gambling although municipal governments are lobbying for change. South Korea has 13 foreigner-only casinos. Vietnam has one and North Korea has two. Laos has several, Myanmar maybe seven or more and Cambodia more than a dozen. Elsewhere, casinos are banned, including Taiwan, but as in Japan and Singapore, the resolve against casinos is weakening.

Australia is now home to many casinos. There are casinos in Canberra, Sydney, Melbourne, Brisbane, Darwin, Perth, Hobart, Adelaide, Launceston, the Gold Coast, Townsville, Cairns, and Alice Springs. The Malaysian businessman Jaya Tan and his brothers Kamahl and Tajuddin own this last one, Lasseter's Casino, through the listed Malaysian company Repco Holdings.⁶ Each Australian casino markets itself heavily to ethnic Chinese gamblers in Asia. Many offer high-end gamblers premium-player commissions and rebates to attract their business as well as free accommodation, flights, and meals. New Zealand too now has casinos. They too are largely aimed at high rollers from Asia.

The stakes involved were suggested in a court case in 2003 when Eddie Ye Li Pei, founder of the Shanghai property company Super Ocean Group, sued Melbourne's Crown Casino in relation to a multi-million-dollar transaction. Evidence presented to the court by Crown showed that Ye had a total turnover with the casino of A\$150 million (US\$105 million), mostly made up by 19 visits in 1999 when his turnover for that year was A\$122 million (US\$85 million). The evidence showed that the casino was marginally ahead from Ye's gambling, although on one visit in July 2000, his net loss was A\$5 million (US\$3.5 million).⁷

Bees and a Honey Pot: Encircling China

Gambling, as mentioned, is banned in China. So China's neighbors have responded by ringing the country with casinos. As China looks across its borders with Russia, North and South Korea, Vietnam, and Myanmar, it looks onto casinos. South Korea even has visa-free visits to the seven casinos on its Cheju island. There's also the Emperor Hotel and Casino in Rajin in North Korea, close to the border with China. The casino-hotel complex was opened in 1999 supposedly at a cost of US\$180 million. North Koreans are not allowed to enter the casino and visa restrictions mean that its only customers are mainland Chinese. Originally, North Korea opposed the word "casino" being in the complex's name because it did not want North Koreans to know what the word meant.

The casino has 52 slot machines and 16 gaming tables that offer all the casino staples such as blackjack, baccarat, and roulette. About 50,000 mainland Chinese visit the casino each year. Many are government officials who gamble public money, several of whom have been executed as a consequence.⁸

The casino was built by Hong Kong's Emperor Group which is headed by Albert Yeung. Yeung has had numerous run-ins with the law including serving six months in prison in 1981 for intimidating witnesses, and facing insider trading investigations.⁹ Yeung was arrested again in 2003 after a corruption probe into the entertainment industry by Hong Kong authorities, a sector in which Yeung also has interests.¹⁰

Casinos have proliferated along Myanmar's northern borders with China. It's not clear what their legal status is, which is suggestive. The ethnic Wa people, who variously have fought an insurgency war against Yangon and are among the world's biggest amphetamine producers, also run casinos in Mongla, across the border from China's Yunnan province.¹¹ On weekends, Mongla is jammed full of Chinese tourists who visit for the gambling and the prostitutes. Myanmar's Minister for Hotels and Tourism, Major General Saw Lwin, toured the hotels and casinos of Tachilek and Mongla in January 2002. The tour received a write-up in Myanmar's government-sponsored newspaper.¹² So, whatever their legal status, they do appear to have official backing.

And along China's borders with Russia there are yet more casinos. One example of a Russian border casino town is Blagoveshchensk, a city that's just 500 meters from the Chinese border and home to thirteen casinos. They are not as classy as some of their southern competitors: "Nobody would ever mistake the Las Vegas Casino for a Las Vegas casino ... The only floor show is a very drunk prostitute trying and failing to find her way

out the door," wrote one underwhelmed visiting *New York Times* journalist.¹³ But Macau is the biggest draw for mainland Chinese gamblers.

Macau, Casino City

In 1961, the Portuguese administrators of Macau, a narrow peninsular and two small islands of just 23 square kilometers south of Hong Kong, awarded a syndicate, the Sociedade de Turismo e Diversoes de Macau (STDM), the monopoly right to operate casinos in the territory for the next 40 years. Ho Hung-sun, better known as Stanley Ho, controlled the syndicate and still does. It has made him and his fellow investors fabulously wealthy.

A Eurasian, the octogenarian Ho is a mix of European and Chinese influences. He is every bit as aggressive in business as the other senior Hong Kong magnates, but he is also passionate about ballroom dancing and tennis. Like many old-style successful Chinese businessmen, he is polygamous. He has at least three concurrent "wives," each with her own mansion in Hong Kong. He fathered his seventeenth child at the age of 78.

Ho is the biggest stockholder in the STDM, with a 30% stake. There are thirty stockholders in all. Another is his younger sister Winnie Ho Yuen-ki who has a 7.5% stake. And their Shun Tak Holdings has another 5%. Cheng Yu-tung, the head of the Hong Kong real estate company New World Development, is another stockholder, with 10–12%.

But the second biggest stockholder of STDM is Henry Fok, with a 25% stake. Fok is one of the richest men in Hong Kong and has long been one of Beijing's most ardent supporters in the territory. He had his start in business by organizing a smuggling ring to break the UN's embargo on trading with China during the Korean War.¹⁴ His smuggling on behalf of China (to which he freely admits) earned him several lucrative contracts and concessions with China.

The STDM partners opened their flagship Lisboa Hotel and Casino in 1970. The high-rise building is shaped like a giant birdcage, on the advice of feng shui experts, so that money, once it has flown in, stays there.¹⁵

With legal gambling in nearby Hong Kong restricted to bets placed on horse racing, Ho's casino monopoly has been like a license to print money. Up until the STDM's casino monopoly was ended, it had eleven casinos on Macau. In total, they had a combined 808 slot machines and 338 gaming tables. That's an average of just 73 slots and 31 tables per casino. So each casino was not big. About 15,000 people were employed in Macau by Ho's interests, or about a fifth of the territory's labour force.¹⁶

Ho's casinos accounted for more than half of Macau's economic activity. Annual revenue for the privately held STDM runs to billions. And in 2003, the STDM paid an unprecedented US\$1.4 billion to the Macau government in taxes.¹⁷ Compare this to the not quite US\$800 million paid in taxes to the state of Nevada by all the casinos in Las Vegas and the rest of the state that same year.¹⁸

Ho's casino monopoly ended in 2001 and three licenses were made available. Each of the new licenses would allow the holder to operate casinos in Macau for up to 20 years. And each will have to pay 40% of gross revenues to the government.¹⁹ The successful tenderers were Stanley Ho's STDM, the Las Vegas casino giant Wynn Resorts, and a company owned by Las Vegas Sands which operates the Venetian Casino in Las Vegas. So Ho was back but he would now have to share the industry that he had built.

Las Vegas Sands opened its first Macau casino in May 2004. This US\$240 million casino, with 250 gaming tables and 600 slot machines, was the first casino to open and thousands of gamblers, mostly from mainland China, lined up outside the building for hours before the doors opened for the first time. When they did open, it wasn't long before security guards needed to shut them again to avert a stampede.²⁰ The casino was expected to pay for itself in its first year. The company intended to next develop a string of hotels, shopping centers, and gambling complexes on reclaimed land in Macau at a cost of US\$1.8 billion.²¹ The Waldo Hotel and Casino, with 38 tables and 100 slot machines, was opened the following month by Hong Kong businessman Lui Che Woo who shared a casino license with Las Vegas Sands.²² Meanwhile, the Wynn Macau Casino was due to open at the end of 2006.

So how did Stanley Ho respond? He opened yet another casino, the Greek Mythology Casino, the first phase of which opened in late 2004 with 228 gaming tables. The second opened a few months later, doubling the number of tables. Melco International Development, a Ho company, also commenced work on a massive Grand Hyatt Hotel and casino complex that was due to open in Macau in late 2007. Ho sold a 28% stake in the project for US\$163 million to the Australian billionaire Kerry Packer who in turn owns Melbourne's Crown Casino and Perth's Burswood Casino for which he'd paid around US\$1.8 billion.²³ Ho and Packer also agreed to cooperate in all future casino projects that either would undertake around Asia from that point on. The first such cooperation was to be the joint submission of plans for a casino and resort in Singapore.

The single event of Macau opening up its casino sector triggered a building boom that saw the territory's economy grow by an astounding

15.6% in 2003 and an even more incredible 25% in 2004.²⁴ Macau would have at least 20 casinos by 2007.

Encircling Thailand

Casinos are illegal in Thailand as they are in China. And so Thailand must contend with as many as thirty casinos that ring the country from just across its borders. They have been set up for no other reason than to attract Thais, especially ethnic Chinese Thais, to come and part with their cash. As many as 500,000 gamblers from Thailand are attracted to these casinos each year. The Thai government has estimated that it loses almost US\$200 million a year at these casinos.²⁵

Poipet in Cambodia is the principal gambling haven to which Thais head. It is in western Cambodia, within easy reach of Bangkok. It has no less than eight casinos. The first was established only in 1999 as part of deliberate Cambodian government policy to profit by helping Thai residents get around the casino ban in their country. "Legally speaking, we might be in Cambodia, but practically speaking, it is in fact Thailand," one casino manager was reported to say.²⁶ Certainly, the casinos are not there for Cambodians to patronize; they're banned from them.

The casinos have names like Grand Diamond City, Golden Crown Casino, and Star Vegas and are owned by investors from Thailand, Cambodia, Taiwan, Malaysia, Indonesia, and China, with management teams drawn from as far afield as the US, the UK, Australia, and France. Many are owned in part by politicians. The Casino Star Vegas Resort, for example, is owned by Major General Ti Soth, the elder brother of Cambodia's Defence Minister Tia Banh, and Wattana Asavahem, the leader of Thailand's Rassadorn Party.²⁷

The latest to open is owned by Ho Wah Genting, a listed Malaysian company (and no relation to the Genting Group) controlled by Chen Lip Keong. It is a big investor in Cambodia, not only in casinos. The first phase of the casino, when complete, will include a 200-room hotel costing US\$3 million.²⁸

The larger of the Poipet casinos have massive gambling halls with all the kitsch decorations that might be expected. The Princess Hotel and Casino is the largest, with 166 slot machines and 96 gaming tables. In total, the eight casinos have 939 slot machines and 482 gaming tables. Each also has its own in-house pawn shop where punters can pawn gold rings, watches, necklaces, and mobile telephones so that they can keep gambling or sometimes to raise cash for the journey home.

During Chinese New Year, the Poipet casinos are lavishly decorated with red and gold decorations and thousands of Thais of Chinese descent flock to them. More than a thousand and as many as 5000 Thais cross the border each day at Poipet. And they don't need to go far to reach the casinos, as the closest is just 20 meters from the border.

The Poipet casinos are legal but like casinos in many places attract jealousy and rivalry. Two bombs exploded at the Princess Casino and Hotel in January 2002, wounding two security men. And the previous December, the manager of the Grand Diamond City Casino was almost killed in a car bomb explosion. He was killed not long after by a gunman while in a taxi in Bangkok.²⁹

The enormous wealth generated by the Poipet casinos was suggested in the aftermath of the rioting that broke out in January 2003 in the Cambodian capital Phnom Penh. Unsubstantiated reports that a Thai actress had claimed that Cambodia's Angkor Wat temple complex really belonged to Thailand inflamed existing anti-Thai sentiment among many Cambodians. Thai interests in the Cambodian capital were damaged badly, including the Royal Thai Embassy. Thailand reacted angrily. It demanded that financial compensation be paid by the Cambodian government for the damage to its embassy.

The Cambodian government agreed to pay the Thailand government almost US\$6 million in compensation. But it was strongly rumored that the real sources of the compensation were Kok Ahn and Pad Supapa, two men who own casinos in Poipet. Their interest in the matter? Thailand had closed its border to Cambodia and this and other restrictions severely hampered the ability of Thais to get to their Poipet casinos. The two men are said to be extremely wealthy and are close to Cambodia's Prime Minister Hun Sen.³⁰

Casinos once thrived in Phnom Penh itself. More than 65 large and small casinos are believed to have operated in the capital prior to their closure by Hun Sen in 1999. Thereafter, casinos have only been allowed to operate legally in areas along the Thai border, although several licenses have been awarded since for casinos in Phnom Penh.

Ho Wah Genting was awarded a license in January 2003 to operate a seven-storey, 197-room hotel and casino complex with at least 100 gaming tables in Phnom Penh. A related company Ariston owns a seven-storey floating barge that operates as the Naga Casino. It's moored on the Mekong River in Phnom Penh.³¹ Patrons are required to lodge their guns and knives at the cloakroom before being allowed entry.

Myanmar has several casinos just inside its border with Thailand including two at Thahtay Kyun island, Kawthaung, in the country's far south and just opposite the Thai town of Ranong. They are the Andaman Club & Casino with 25 gaming tables, where patrons must exchange a

minimum of US\$6,000 for casino chips on arrival, and Treasure Island, with 130 slot machines and 22 gaming tables.³² The Andaman Club belongs to Thai Senator Vikrom Aisiri.³³

Three more are on the Thai/Myanmar border at Tachilek in Myanmar's Shan state. They are the Allure Resort with 133 slot machines and 16 gaming tables, and the Regina Entertainment Resort, with 30 slot machines and 12 gaming tables. Allure is controlled by Thailand's Allure Group, which is headed by the Thai businessman Upakit Pachariyangkun. And in early 2000, the Paradise Resort opened in Tachilek. It includes a 144-room hotel and cost US\$25 million to build. Thai real estate investor Jiratha Anupavatham built it with Prasit Phothesuthon as his partner. Prasit is a brother of the then Thai Agriculture Minister Prapat Pothasuthon.³⁴ Another casino said to have opened along the Thai-Myanmar border is the Riverside Club. It's believed to be owned by Tong Jo, son of opium warlord Khun Sa who surrendered to the Burmese government in 1996. (Khun Sa now lives comfortably in Yangon.)³⁵

In Laos, a new casino opened in Tha Khaek, a town on the border with Thailand, in January 2003. It is owned by a Chinese businessman who plans to open another at Chai Kong, also in Laos and just opposite Thailand. There's also the Dansavanh Casino in Vientiane, close to the border with Thailand, with 150 slot machines and 60 gaming tables. And the Casino Daen Sawan Nguem Resort which counts the Laotian Deputy Defence Minister Nakon Sinanon as a stockholder.³⁶

Thailand's neighbors have done much to subvert the Thai government's ban on casinos. The casino business around Thailand is such big business that there's even a casino management company based in Bangkok: the PCM Group, owned and managed by several Western expatriates. The Allure Resort and Treasure Island casinos in Myanmar and the Tropicana Resort casino in Poipet are among the casinos that it helped to set up and manage.

By 2004, the Thai government was on the verge of bowing to the inevitable. Prime Minister Thaksin Shinawatra indicated that his government would license casinos in Thailand. Why should Thailand continue to lose this business to its neighbors? It's a step that the Malaysian government took decades ago.

A Visit to the Genting Highlands, the Biggest of them All

Lim Goh Tong is Malaysia's richest man and a US dollar billionaire in clear and net terms. To most Malaysian, he is known as "Uncle Lim." He

was born in 1917 in China's Fujian province and remains very much of the old school. He is most fluent in his native Hokkien, speaks some Malay and no English.

In 1965, Lim Goh Tong and Mohd Noah bin Omar, a Malay partner, set up a private company called Genting Highlands. (Mohd Noah bin Omar would become father-in-law of two of Malaysia's prime ministers.) Between the years 1965 and 1970, they made applications to the Pahang and Selangor governments for 4940 hectares and 1110 hectares of freehold land respectively. Eventually, the applications were granted, so now Lim controls a huge swathe of lands in the highlands. Back then it was nothing but mountainous jungle. Now, different Genting company developments dot the area, with all the roads and other infrastructure having been paid for by Genting, largely out of casino profits.

"Lim's name has a lot of wood in it," a Chinese friend told me. "That is why he made his fortune in the jungle. All that wood. That's what we Chinese say." Indeed, Lim's name in Chinese does comprise several characters that include the symbol for wood or tree (the symbol actually looks like a tree). His surname includes a double of the symbol, meaning forest.

Lim was single-minded in his determination to create Genting. He has never shied away from spending what was required. And he always knew that the development would live or die on the basis of politics and political whim. Successive prime ministers protected Lim and his casino. Undoubtedly Lim must be one of the country's most important political donors. Long-lived monopoly rights to a large casino do not come free of charge. Genting is also believed to pay more than a 20% gaming tax on top of the usual corporate taxes.

Genting is in the highlands above Kuala Lumpur about 50 kilometers from the city. The highlands are indeed high and noticeably cooler. The resort is often bathed in cloud and on the occasion of my visit, clouds actually visibly passed right through the open-sided, high-rise car parking facility, providing an unusual effect.

The road to Genting is steep and infamous for the number of deaths that occur along it. Accordingly, the Lim family has spent a lot of money to widen it to try to make it safer. Two lanes now run in each direction along most of the ascent. They have also spent heavily on landscaping the verges and the medium strips, landscaping that is well maintained. The road lighting on the way up to the casino is solar powered. It's an impressive ascent. It's also one that is always busy. Genting receives more than 15 million visitors each year.

Along the way, the road passes a terraced section of hillside that looks out across a valley. It too has excellent landscaping with well-trimmed

grass and shrubs. To the casual observer a lot of trouble has gone into this site but to no obvious purpose. But this, I was told, will be the final resting place for Lim Goh Tong, an exclusive, private cemetery with just one occupant. The site's feng shui is said to be excellent and is likened to a large, comfortable chair with excellent panoramic views.

Further along is the Chin Swee Temple. Lim built it as a religious haven for gamblers who need to call on something other than mere luck, although many suspect that it works more on his behalf.

I had expected something seedy, smoky, and gaudy prior to my visit, perhaps something like the old STDM casinos of Macau. I was wrong. The resort is world class. And it is huge. And that goes for the gaming part especially, which is divided into the Casino de Genting where most of the gaming tables are and Starworld, which is where most of the slot machines are. The casino is easily the biggest in Asia. There are 3140 slot machines and 426 gaming tables that offer baccarat, blackjack, tai sai, and the like.

Australia's two biggest casinos, Crown Casino in Melbourne and Star City in Sydney, are considered large by world standards. But even they only have 2500 slot machines and 350 tables, and 1500 slot machines and 200 tables, respectively. The Casino Lisboa, long Macau's flagship casino, has just 107 slot machines and 146 gaming tables. In actual fact, Genting is bigger than all the casinos in Macau combined. It is a monster. But an elegant one.

The interior design is very opulent, surprisingly so. Millions have been spent on luxurious furnishings. A walkway between two large gambling areas comprises an extravagant stained and frosted glass ceiling similar to that in the casino at Monte Carlo. Painted, wooden carousel horses are placed here and there to further lend a continental feel. Everywhere security camera bubbles dot the ceiling and tuxedoed attendants carefully watch the gaming tables and the patrons. There are even large no smoking areas (this is Asia, remember). Clearly, the Genting Casino is one well-run, highly professional operation.

Mostly, the patrons are Malaysian and Singaporean Chinese. Indonesian Chinese also come but not in the numbers that might be expected. The crowd is surprisingly young too. Malays are not allowed to enter the gaming halls.

But Genting is more than a casino. The 40-page guide available for visitors to the complex has just one page devoted to the development's casino operations. All the rest is about its restaurants, shopping facilities, and theme park attractions. While the Chinese are all in the casino, outside in the shopping arcades and fast-food restaurants, most of the patrons are Malay. And that is important. The only reason for Genting to exist is the

casino. But Lim is trying to do as much as possible in this predominantly Muslim country to have his complex thought of as anything but a gambling one.

Five hotels circle the complex. The theme park is large and has over 40 rides. There's a Ripley's Believe it or Not! gallery, a shopping plaza with more than 70 outlets and over 80 outlets that sell food in one form another including Italian and Chinese restaurants. There are two cineplexes, a 28-lane bowling alley, a massive concert hall, a snow house "with real snow falling all around you" and a cable car service. The coffeeshops and other stores and restaurants all help to give Genting the feel of an alpine village. Indeed, the hills drop away steeply from the complex and tree ferns tower through swirling mist.

Genting is around 40 years old but it keeps getting bigger and better. There is no sign that its popularity is abating. In 2002, then Prime Minister Mahathir – who cannot set foot inside the actual casino by law as he is a Malay – formally opened the first 3300-room stage of what is claimed to be the world's biggest hotel, the First World Hotel. When completed, the hotel will have 6300 rooms. World-class golfing facilities have been developed at the nearby Awana Genting. A new resort village called Gohtong Jaya has also been developed.

Still there remains considerable political risk, particularly should the Pahang state government fall to the Islamic opposition party PAS. In this event the federal government probably would use its powers to protect Genting. Nonetheless, Genting has sought to diversify. It has power generation interests, plantations, paper mills, oil and gas exploration interests, and has also developed the highly profitable Star Cruises, the world's fourth largest cruise line. Its ships are luxurious and, like the Genting resort, extremely well maintained. They also have casino facilities which can operate in international waters without political interference. Genting also controls Norway's NCL Holdings, another cruise operator. Genting did have management contracts and equity interests in the 1990s in four casinos: Burswood Casino in Perth, Adelaide Casino, Lucayan Beach in the Bahamas, and Subic Bay Casino in the Philippines but it disposed of these to concentrate on building up Star Cruises.³⁷

Lim's son Lim Kok Thay has also entered into several deals in the US whereby they lend tens of millions of dollars to Indian tribes so that they can establish casinos on reservation land. To date more than US\$200 million is believed to have been lent by the Lims for this purpose.

And in 2004, Genting increased its presence in the UK casino industry ahead of expected liberalization that would allow big, American-style casinos to operate in London and the rest of the country instead of the

existing casinos that are modeled more on gentleman's clubs with limited gambling facilities. There were 135 such casinos at the start of 2005. Genting raised its equity in London Clubs International, the biggest casino operator in London which owns well-known London casinos Les Ambassadeurs and 50 St James, to more than 15%.³⁸ Later that year, Genting acquired a 10% stake in London Clubs' main competitors and the biggest casino operator in the UK, Stanley Leisure. Genting had earlier bought London's Maxims Casino for £10.5 million and part of the deal with Stanley involved it acquiring a 50% stake in Maxims from Genting.³⁹ Stanley and Genting were likely to jointly bid for new casino licenses that the UK government was intending to grant.

Lim stepped down as Genting's chairman at the start of 2004. He was by then an old man. An autobiography was published that same year. "Medical Crises in My Life" is the title of one chapter. Here's an excerpt:

In late November 2001, I started to have constipation problems. One Saturday night, I suddenly developed severe abdominal pains and was rushed to Subang Jaya Medical Centre. On admission, I was found to be mentally confused besides being in severe pain.⁴⁰

Let that serve as a warning to other aging billionaires not to self-publish autobiographies in a language that they can't read and thus edit for discretion.

Chapter 14

DIAMONDS, JAINS, AND JEWS

Eight out of every ten diamonds sold in the world today have been handled by Indian Jains. Jain family members have fanned out across the world to corner diamond processing and handling, be it in the traditional diamond capitals of Antwerp, London, New York, Tel Aviv, and now, of course, in India. Their story is remarkable.

Jainism is a subset of Hinduism but it is more like Buddhism, with its emphasis on not harming living creatures and non-violence. It emerged in India in the sixth century. At least seven million Jains live in India, largely in Mumbai, Bangalore, Gujarat, Punjab, and Delhi.

The preference to avoid killing and the accordance of all living things equal status means that orthodox Jains can be seen in Indian streets gently sweeping the path before them lest they inadvertently tread on an insect as they proceed. It's an outlook that many carry into business.

Jain ethical codes mean that the close dealings with government officials and the corruption and questionable practices that go with it tend to be avoided. But such dealings are necessary to be an industrialist in India. It means that Jainism does not sit well with going into industry. And so although Jains are famous in India as canny businessmen, typically they are traders rather than industrialists.

The desire to avoid killing means that strict Jains, along with orthodox Jews, are among the world's fussiest eaters.

The *kashrut* or dietary laws of the Jews are set out in the Book of Leviticus (11:2–46) and Deuteronomy (14:3–21) in the Bible and also in the Talmud, the compilation of Jewish civil and religious law.¹

Animals that both chew the cud (meaning herbivores) and have cloven

hooves (which means that they cannot hold prey and thus be carnivores) are considered clean and are permitted. All others, such as pigs, rabbits, horses, and beasts of prey are unclean and prohibited. All birds of prey and certain birds such as owls, storks, and ostriches are forbidden. So too are animals that have died of natural causes. Game that has been hunted and killed by gunshot is also forbidden because of the obligation of ritual slaughter. When it comes to fish, only those that have both scales and fins can be eaten. So all shellfish, octopuses, stingrays, sea urchins, and eels are forbidden. So too are all reptiles and insects. Blood is absolutely forbidden. Milk cannot be consumed with or after meat – in Eastern Europe the local custom is six hours. Among Dutch Jews, the prohibition is just one hour.

Most Jewish communities have a Jewish bakery that specializes in producing matzo bread, the crisp bread that when crumbled is made into matzo balls for chicken soup. It's also the bread that's used for Passover because it is unleavened (that is, yeast is not used in the baking process.) A rabbi blesses the flour that is used. The growing, harvesting, milling, and storing of the wheat and flour are all supervised to ensure that there is no contamination with any moisture that might cause fermentation. When it comes to making the bread itself, no more than 18 minutes must elapse from the time that the ingredients are mixed until the commencement of baking according to Jewish law, lest fermentation occur.

These are the basics for the preparation of food that is kosher. There are many more complexities, owing in part to differing local interpretations but this should suffice to give an idea of the food constraints one must accept if one is to be an observant Jew.

Now here are the dietary rules of the Jains: devout Jains are extreme vegetarians. Meat and fish are avoided but so too are many other foods. There are 22 classes of prohibited items. Among them are vegetables that grow underground such as carrots, potatoes, garlic, ginger, turmeric, and onions. The reason being that insects might be harmed during cultivation and harvesting. Orthodox Jains also avoid pulses that produce no oil such as chickpeas, pickles more than a few days old and honey because its extraction is thought to harm bees. Fruits and vegetables that contain a lot of seeds, such as pomegranates, tomatoes, peppers, strawberries, okra, and kiwi fruits also are prohibited. Butter, eggs, ice, hail stones, eggplant (aubergine), gram flour, mushrooms, and sprouted pulses are prohibited. A whole range of fruit, vegetables and grains that are specific to India are on the prohibited list as well. Many Jains also prefer not to consume alcohol. And all plant products must be thoroughly washed because the consumption of soil is prohibited.

Some Jains do not eat after dark and drink only filtered water lest they inadvertently consume insects and other small animals. In some respects there is an analogy here with a controversy that arose in 2004 in relation to New York tap water and whether it could properly be considered kosher. Ordinarily water is kosher. But several rabbis in New York discovered that harmless, microscopic creatures called copepods were finding their way into the city's water supply. Although not visible to the naked eye, copepods are crustaceans and crustaceans are forbidden by Jewish dietary laws.²

But probably it is easier to be an observant Jew than it is to be an observant Jain, at least as far as food is concerned. But such rules are exclusionary and help to keep small communities intact. And that is useful if business is to proceed along ethnic lines and be contained within dispersed ethnic networks.

In India, some young Jain boys become novice Jain monks. They are the *munis*. Ideally they do not have fixed places of abode but sleep in Jain temples. They rely on charity for their food and go from Jain house to house in search of food donations. Jain houses typically have a Jain emblem, tile, or even a sticker at their entrance so that other Jains can identify it as belonging to fellow Jains. (Many Jews similarly have their *mezuzah* at the entrances of their houses or shops, not for identification but as a blessing for the occupants of the house. The *mezuzah* is a cylinder that's fastened to the right-hand doorpost as one enters. Inside is a parchment with Deuteronomy (6:4-9) and (11:13-21) lettered on one side and the word *Shaddai* (Almighty) on the other.)

I've included all this detail because it's fascinating in its own right. But also because Jews (or at least Hassidic Jews) and Jains have something else in common: diamonds.

The world diamond distribution and processing trade has been the preserve of a small, powerful group of Hassidic Jews until recently. (The giant De Beers cartel is itself controlled by the Jewish Oppenheimer family.) It's a trade that's based on trust as any trade in small, high-value consignments must be, particularly if it's across international borders. Hence, it's a business for which families and small, cohesive ethnic groups are well suited.

The main centers for the trade were Antwerp, London, and Israel. In London, it centers on the old Huguenot stronghold of Clerkenwell, where Hassidic Jewish businessmen can still be seen rushing around the streets with their dark hats and mobile telephones.

But gradually the Hassidic Jews are being squeezed out by Jain families. This has gone hand in hand with India's rise as the world's most important diamond processing country.

The success of the Jains in outcompeting the Hassidim has been such that they now dominate the trade even in Tel Aviv. Rough gems are imported by Jain-owned firms in Mumbai from Jain dealers in Antwerp, London, New York, and Tel Aviv from where they are taken to Jain-owned cutting and polishing factories in Gujarat. From there they are sent back to Mumbai and re-exported to gem centers around the world. Bangkok too is becoming more prominent in the diamond cutting and polishing trade, with the small Jain community there handling much of the business.

India earned US\$7.78 billion in 2001 from the export of gems and jewelry, which accounted for 17.6% of all exports. About 80% of the exports were diamonds. Gold jewelry accounted for 15% and the rest was made up of colored stones, silver jewelry, and costume jewelry. Diamond exports amounted to 33.12 million carats, representing 80% of the world diamond trade by volume but 55% by value.³

About 80% of India's diamond processing work is done in the northern Indian state of Gujarat and more than half of it in and around the city of Surat. Nearby Ahmedabad, a noisy and chaotic city that is famous for its dust, is also an important processing center.

Surat has a population of around three million. And today it's booming, thanks in large part to the newly emerged diamond trade. Around 10,000 diamond processing units are believed to operate in the city. Together they notched up exports of US\$7.7 billion in 2002.⁴ Overall, around 900,000 people are believed to work as basic diamond polishers in India.⁵

The processing is contracted out to thousands of small family-owned workshops. Labour costs are low and many gem-quality diamonds are cut and polished for as little as a dollar a piece. The contractors almost invariably are Jain diamond merchants.

Antwerp has long been the center for cutting and polishing larger diamonds. The city's diamond district lies just beyond Central Station. It begins on Pelikaanstraat and comprises about a square kilometer inhabited by more than 1500 diamond companies. More than half the world diamonds pass through these few blocks of Antwerp. The area is purely functional. Security is tight, shutters are kept down, and by and large there's little to see. It is a curious area inhabited largely by bearded Orthodox Jews and Indian Jains. Indeed, many of Antwerp's 18,000 Jews work here, but there are also Lebanese and Armenians. But even here the Jains are ascendant.

Many of the overseas Jains involved in the diamond trade are from Palanpur, a town on the Gujarat-Rajasthan border. With such a specific ancestry, many share the similar surname of Mehta, and so it is common today to find diamond traders from London to Israel with the surname of Mehta.

Typically, Jain diamond families place a member in say, Tel Aviv, one in Antwerp, maybe another in London and one in Mumbai to manage family-owned companies in each location. These then cover each major segment of the international diamond market. The family behind Arjav Diamonds, a De Beers' "sightholder" (one of approximately 120 exclusive De Beers' contractors) is a case in point. Ashit Mehta is the principal at the Arjav Diamonds office in Antwerp. Family members Anuj and Ashay are based at the company's offices in Mumbai and another family member heads up Arjav International in Tel Aviv.

Money from myths

The De Beers family of South Africa has dominated the world diamond market for almost a century. The family has grown immensely rich by monopolizing the world's rough diamond supply, building up huge stockpiles of diamonds and erroneously letting consumers think that diamonds are rare. It supports this falsehood with massive advertising campaigns to market diamonds as rare, an investment, and as luxury goods. It spent US\$180 million on advertising in 2003. Its clients spent a further US\$270 million.⁶

The selling of diamonds is unique in the world. De Beers' outrageous practices wouldn't be tolerated in any other industry. It did, however, settle price-fixing charges in the US in 2004 in respect of industrial-quality diamonds by paying a relatively modest US\$10 million fine (the De Beers family is thought to be worth around US\$4.5 billion). De Beers executives can now enter the US without fear of arrest, something that they'd been unable to do for almost a decade.

De Beers has no interest in processing stones. It directly mines diamonds and buys up others that are not produced from its mines and then sells them in rough form in lots to invited clients or sightholders. The sightholders do not have an opportunity to sort through the rough diamonds on offer. They are simply offered presorted lots on a take-it-or-leave-it basis. Sales occur ten times a year in London after which sightholders have the diamonds in their lots cut and polished before selling them on.

New mining entrants have sought to challenge De Beers dominance of the industry but they too have an interest in artificially maintaining world diamond prices and so now, De Beers effectively heads an informal cartel rather than a monopoly.

The Gembel Group is one of Belgium's more prominent diamond cutters and exporters. Based in Antwerp, it was founded in 1956 by Kirtilal Manilal Mehta, an Indian-born Jain. He claims to have helped 1800 other Jains set up their own diamond businesses in Antwerp. Gembel now has a network of offices in Antwerp, New York, Tel Aviv, and Mumbai. Each is managed by a Mehta family member.

B. Vijaykumar & Co is another Jain-owned diamond firm. It is India's largest importer of rough diamonds and was founded by the Jain businessman Vijay Shah. The company has cutting and polishing factories in Bangkok, Antwerp, Tel Aviv, Mumbai, Surat, and Palanpur, and collectively they employ 22,000 people.

An Indian Jain-controlled company, Inter Diam, acquired control of the company that runs one of Singapore's better known jewelry stores, Mondial Jewellers, located in the giant Ngee Ann City complex.⁷ Inter Diam is linked to Asian Star, a De Beer's sightholder that is controlled by the India-based Jain Shah and Kothari families.

Why the Jains and Why Now?

A number of factors have contributed to the rise of the Jains in the world diamond industry. In 1947 after India's independence from Britain, bizarrely the Indian government banned the import of rough and polished diamonds into the country. Only in 1962 did the government decide to re-allow the import of rough diamonds. And so India's diamond processing industry was reborn. Effectively, the import prohibition had handed the diamond processing business to the Hassidic Jews.

Another, more recent factor, was the opening of the massive Argyle diamond mine in the Australian state of Western Australia. Rio Tinto's Argyle diamond mine has revolutionized the world diamond market. The main processing plant at Argyle was commissioned only in 1985 and yet today the mine accounts for around 35% of annual world diamond produc-

tion. It is also the world's single biggest producer, with 40 million carats annually compared with De Beer's 31 million carats. But Argyle diamonds typically are small and so the opening up of this mine has flooded the world market with small diamonds.

Israel, Antwerp, and London specialize in cutting larger diamonds. India's comparative advantage is in cutting labour-intensive, small diamonds. And so Argyle has helped India and the Jains in their rise to prominence in the world diamond industry

Chapter 15

FROM STARBUCKS TO COFFEE BEAN: ASIA'S COFFEE SHOP REVOLUTION

I was tired. I was thirsty. And more than anything I was jet lagged. I was in Beijing's Forbidden City, the very cradle of Chinese culture, the home to generations of China's emperors, their concubines, and their eunuchs. And then I saw it, next to the *Jing Yun Men* (the Gate of Great Fortune), right in the heart of the Forbidden City. It was discreet. It was small. But it was there. It was Starbucks.

"Many foreigners are not happy when they see this here," a young Chinese said to me. But I was too jet lagged to be purist. I had a café Americano with three shots and imagined the Son of Heaven sitting in the corner doing the same. Hadn't Pu Yi, the last emperor, caused howls of outrage among his eunuchs when he had a telephone installed in the Forbidden City in the 1920s? Perhaps the problem is not so much that there is a coffee shop in the heart of the Forbidden City, but that it is American.

Revolutions used to be planned in the coffee shops of Europe. But in Asia, it is the coffee shops themselves that are the revolution. Tea is the traditional beverage of Northeast Asia and India. And yet it is coffee shops that have marched into Asia creating huge demand where before there was none.

Coffee has long been consumed in Southeast Asia. *Kopi tubruk* remains popular among ordinary Indonesians. It is gritty, served hot in a glass and with several spoonfuls of sugar. The grains are not filtered off but left in the glass where they sink to the bottom.

Traditionally, coffee beans in Malaysia, and especially Penang, were not roasted and blended but fried with butter and sugar. The beans were

then powdered and put into a muslin strainer. This was then placed over an enamel mug and hot water was passed through it. The resulting beverage was then sweetened with sugar and condensed milk and served hot or over ice.

The new-style coffee shops are not the open-air *kopi tiam* of old with marble-top tables and Brentwood chairs but Western-style coffee shops that cater to young, affluent Asians. American chains are making the greatest inroads but they're not having it all their own way. Many locally owned chains also have gone into business.

Coffee, which is the world's second most widely traded commodity after oil, is also grown increasingly in Asia. It is the main commercial crop of East Timor. It's grown in Indonesia and Thailand too. And Vietnam has planted millions of hectares of coffee trees in only a short time, such that its annual production of robusta beans rose from 85,300 tonnes in 1990 to 965,200 in 2000. It is now the world's second largest producer.¹

The Starbucks Revolution

Starbucks has been the most aggressive among the new entrants to Asia. The Seattle-based company is the world's largest coffee chain. By 2005, it had more than 6100 outlets in the US and almost 8500 worldwide.

Its overseas expansion has been phenomenal, particularly as Starbucks, like most of its imitators, spends next to nothing on advertising. Starbucks might be the McDonald's of coffee but when it comes to advertising and marketing expenses the two could not be more different. Instead, its stores are its advertising. Enormous research goes into determining the location of each store. They must be visible and they must be accessible to the right demographic. Emphasis is also put on lifestyle. The stores are not so much a place to buy coffee as a good place to sit, meet friends, and generally hang out. The price of a coffee is effectively the price to rent a table.

Starbucks' first overseas outlet opened in Tokyo in 1996. Its expansion since has been phenomenal. By 2005 there were 1169 Starbucks stores in East Asia, 544 of these were in Japan. Sazaby is its local partner in Japan. Sazaby too is a retailer. Its more than 180 stores in Japan sell a wide range of products that it manufactures, including furniture, interior decorations, clothing, and handbags. The licensing agreement with Sazaby became the prototype for its expansion elsewhere in the region: choose a good local concessionaire, license them, and let them do the rest.

But Starbucks has struggled to be profitable in Japan not so much

because it's not popular – it is – but because of high costs. Almost half its products are imported and attract high trade tariffs. Also it faces significant competition from Japan's biggest coffee shop chain, Dotours, which has around 2000 outlets. Nonetheless, Starbucks' Japanese stores are its busiest in the world and have average revenues of 1.5 times those of its US stores.²

Taiwan was next. Starbucks opened 138 stores in Taiwan between 1998 and 2005 in conjunction with Uni-President Enterprises, its local partner.

The first Starbucks opened in Shanghai in May 2000, the first of 50 stores planned in partnership with Uni-President Enterprises.³ Renmin Square was the site for big protests in 1989 echoing those in Tiananmen Square in Beijing. Today, the square is lavishly landscaped and there's a Starbucks in one corner. Another Starbucks is at an equally strategic spot in the city, on the Pudong waterfront where it's visible from almost anywhere along the Bund on the opposite side of the Huangpu river.

In southern China, more Starbucks stores were planned, this time in conjunction with its 50:50 partner, Maxim's, a Hong Kong cake shop company that's 50% owned by Dairy Farm International. By 2005, 111 Starbucks stores had opened across mainland China (including 44 in Beijing and 43 in Shanghai) plus another 34 in Hong Kong and one in Macau.

One hitch for Starbucks in China came when a local entrepreneur registered the Chinese name for Starbucks, Xing Ba Ke, before the authentic Starbucks could. At least two copycat stores under the name of Shanghai Starbucks Coffee House opened. Thus the genuine Starbucks was able only to trade using its name in English unless it bought the rights to the Chinese name.⁴

Starbucks opened in South Korea in May 2000. Its partner in South Korea is the local Shinsege Group and together they planned to open at least 45 stores there in the following five years. But they did far better than that. By 2005, 106 Starbucks stores had opened in South Korea. And in 2002, it opened its first store in Indonesia with local partner PT Mitra Adiperkasa, a part of the Gajah Tunggal Group. By 2005 there were 27 Starbucks stores in Indonesia.

By 2005, few Asian countries had not been touched by Starbucks. India was the most notable exception. But elsewhere Starbucks had 50 outlets in Thailand, 53 in Malaysia, 71 in the Philippines, and 34 in Singapore. Again local partners were used to facilitate the roll-out. The diversified Berjaya Group controlled by local entrepreneur Vincent Tan is its Malaysian partner. And in Singapore, its partner initially was Bonstar, a subsidiary of Bonvests Holdings, the owner of the local Burger King franchise and controlled by local businessman Henry Ngo. But in mid-2004

Bonvests sold the Singapore franchise back to the international chain for around US\$8.5 million. Bonvests said that despite Starbucks' ubiquitous presence in Singapore locally the chain was not profitable.⁵ And that apparently is a common experience. Starbucks insists that its concessionaires (it insists that it doesn't have franchisees) source branded ingredients from the head office in the US even though they might be sourced more cheaply locally.

The head of Starbucks in Thailand was reported to say in mid-2004 that Starbucks in Thailand sells on average 44,000 cups of beverages each day.⁶ With 50 outlets, that's less than 900 a day per outlet. As ubiquitous as Starbucks is becoming in Bangkok too, it is unlikely that the local concession holder is making much or even any profit on sales like that.

Starbucks' chairman Howard Schultz, while on a visit to Taiwan, said that eventually there could be as many as 6000 Starbucks' outlets in Asia.⁷ It's a phenomenal number for a region that traditionally largely drinks tea but then McDonald's had around 3890 restaurants in Japan alone by the end of 2002 and another 540 in China and hamburgers are anything but a traditional Asian dish. But what's perhaps more astonishing is that so many potential concessionaires are willing to line up to carry the Starbucks brand forward when there's little evidence that there's much profit in doing so, at least not for the concession holders.

And the Rest

Starbucks is hardly alone in going into Asia. California-based Gloria Jeans Coffees, with almost 300 outlets worldwide, had begun its long march into Asia too. By 2005 it had 44 stores in East Asia in Japan, South Korea, Malaysia, Thailand, Indonesia, and the Philippines. Agreements signed in 2002 with TT Resources of Malaysia, its master franchisee in the region, required that at least 45 outlets be opened in Malaysia, Singapore, and Brunei by 2007 and another 25 in Thailand.⁸

Another prominent chain in Asia is Coffee Bean & Tea Leaf. Victor Sassoon, a Singaporean of Iraqi Jewish descent, acquired the chain's franchise for Asia (other than Japan) in 1996. He and his US-based brother Sunny Sassoon bought the California-based parent company with an American partner two years later. It gave them the global franchise for Coffee Bean which by 2005 encompassed around 250 stores worldwide including 38 Coffee Bean outlets in Singapore, 41 in Malaysia, 1 in Brunei, 7 in Indonesia, 30 in South Korea, and 4 in the Philippines. Two had opened in Shanghai, one in the Super Brands Mall in Shanghai's Pudong, a massive

US\$450 million shopping complex developed by the Charoen Pokphand Group of Thailand. Additional Coffee Beans are in Israel and the United Arab Emirates. To further underscore the family's Jewish origins, the Sassoons made the entire line of beverages and food at all 60 Coffee Bean outlets in Los Angeles kosher. All beverage products (teas, coffees, powders, and syrups) are made under the supervision of Kosher Supervision of America. And all baked goods are produced under the eye of Rabbi Moshe Benzaquen's Kosher L.A.⁹

Victor Sassoon credits the American singer Paula Abdul with the idea to buy Coffee Bean & Tea Leaf. While he stood in a queue at an outlet in Los Angeles in 1995, who should wave to him from down the line but the singer. (Sassoon had been a rock promoter in Singapore and so is acquainted with many well-known rock artists.) As Sassoon told a journalist in 1999, "We chatted and she said, 'This is the best coffee in the world. You gotta get this company.'"¹⁰ He approached the owners for the franchise for Southeast Asia. Finally they agreed. And when they decided to retire, it was to Sassoon that they offered to sell their company.

Pizza Hut in Singapore announced in 2003 that it would transform its outlets so that they could operate as up-market coffee shops between the hours of 2.30pm and 5.30pm when the restaurants were not busy selling pizzas. It figured that the transformation costs would be minimal but it would be a way of utilizing retail space that is otherwise idle for a large part of the day, and capture its share of the coffee boom.¹¹

Australia's Dome Cafés is another outside entrant. The Perth-based chain has set up in Malaysia, Indonesia, and Singapore via local partners. The Malaysian partner is the Melium Group. Operated by local businesswoman Farah Khasn, Melium also has the Dome franchises for Dubai and the Philippines. In Malaysia, Melium varied the Dome concept from Australia where it is more a coffee shop to be more of a café. And so the Malaysian version has a greater emphasis on quick bistro-style food with an Asian fusion touch, and table service. It did this to avoid competition from Malaysia's increasingly congested coffee shop sector. According to Melium's CEO Richard Curtis, food accounts for 60% of Dome's revenues in Malaysia.

Other outside chains to set up in Asia are San Francisco-based Spinelli Coffee, with 17 outlets in Singapore by 2005, and Delifrance. The latter belongs to Singapore-based Delifrance Asia, a unit of Prudential Asset Management Asia. It sells coffee and bakery goods under license from the French-based Grand Moulins de Paris Group. It had more than 170 outlets by 2005 in Singapore, Thailand, Malaysia, Brunei, Sri Lanka, the Philippines, China, and Hong Kong and had plans for many more.¹²

Coffee-cat

But local brands have appeared too. Singapore is home to the local Burke's Coffee chain, and to Coffee Club, a chain of almost twenty outlets in Singapore with others in Malaysia, China, and Indonesia. It is a subsidiary of a Hong Kong arm of Japan's Sumitomo Corporation, which bought it in early 2003 after its parent company, coffee and spice trader Hiang Kie defaulted on its loans.¹³ Hiang Kie's problems were not due to Coffee Club. That was the only profitable asset that it owned. Also, there's tcc (the coffee connoisseur). Only founded in mid-2003 in Singapore, by 2005 it had 12 branches and plans to expand offshore.

Former Malaysian Prime Minister Mahathir Mohamad was concerned by the number of foreign coffee shops that had opened in Malaysia and so suggested to Syed Mokhtar Albukhary, a local businessman with whom the former prime minister enjoys close relations, that he consider opening a genuinely Malaysian chain. And so Shalala Coffee was created. The first Shalala outlet opened on the North-South Expressway, the highway that runs the length of peninsular Malaysia. Its coffee is priced at less than foreign-owned competitors, herbal tonics are available that can be mixed with the coffee, and local pastries and desserts are available. SMTC Shalala, the owning company, announced at the end of 2004 that it intended to open twenty outlets over the next three years, up from the current six.¹⁴ It intended to concentrate on opening in or near Malaysian universities and along busy highways.

Malaysia also has its locally owned but American flavor San Francisco Coffee. It had 26 outlets mostly in Malaysia by 2005. It is owned by a company called Coffee Partners, which is controlled by Veiven Goon, Zuraidah Binti Atan, and Robert Boxwell.

Thailand has given rise to at least two locally owned coffee chains: Coffee World and Black Canyon. By 2005, Black Canyon had around 100 outlets in Thailand, three in Malaysia, one in Singapore and one in Indonesia. Coffee World had 37 outlets in Thailand and plans to open in India (where it owns the large Pizza Corner chain), Cambodia, China, and Brunei.

Hong Kong has its Pacific Coffee chain. It had 39 outlets in Hong Kong by 2005 and three in Singapore.

Taiwan has two large coffee chains: SPR Coffee and Dante Coffee. Both had established outlets in mainland China by 2004. SPR Coffee, owned by Taiwan-based businessman Lee Chien-li, had opened 87 outlets in China. Dante was moving more cautiously. It had opened just two.¹⁵

The revolution has even swept into Vietnam. Trung Nguyen, a chain

founded by the local entrepreneur Dang Le Nguyen Vu, commenced operations in 1998. Within four years it had around 420 franchised cafés around Vietnam.¹⁶ Two outlets were opened in Singapore in 2003 and there are outlets in Thailand, Cambodia, and Japan.

India perhaps is one of the toughest markets for coffee. Indians drink tea. Many have never tasted coffee. Indeed coffee consumption is around 55 grams of coffee per person per year. (It's even lower in China, around one gram.) It's a tiny amount. Nonetheless, a home-grown up-market coffee chain has appeared in the centers and affluent suburbs of India's bigger cities such as New Delhi and Mumbai. Barista Coffee was founded by Indian entrepreneur Amit Judge.

The key is to sell a lifestyle rather than cups of coffee, particular in a country where tea is the national beverage. And so Barista Coffee outlets, with their bright orange signage, pastel decor, and full-wall, plate-glass fronts, are made for hanging out in. They are venues in which young affluent Indians can socialize, and, while there, drink coffee. It's been the *modus operandi* of new-wave coffee shops across Asia.

So how is Barista doing? The signals are mixed. A café Americano at Barista Coffee costs around 40 rupees (about US\$0.90). But on every other street corner in India, a glass of chai, sugared, spicy, milky tea, costs around 2 rupees (about US\$0.04). But by 2005, 130 Barista branches had opened in India, several in Sri Lanka, and one in Dubai, and this when the first Barista store opened only in 2001, in New Delhi. Later that year, Tata Coffee, a part of India's biggest conglomerate, the Tata Group, paid around US\$5 million for a 34% stake in the company.¹⁷ But then in late 2004, a majority in Barista including the entire Tata stake was acquired by the Sterling Group, controlled by non-resident Indian businessman C. Sivasankaran.¹⁸ At the time, Barista was not intending to open new stores but rather to consolidate existing ones. That seems consistent with anecdotal evidence: Barista outlets in India often have few or no customers, whereas, say, Starbucks outlets in China often are relatively busy.

How do you take it?

What is the most popular way to drink coffee in Asia? In Southeast Asia, at least, it is not a café Americano, a latte or a short macchiato, but ice-blended coffee – mixtures of coffee, ice, chocolate or vanilla and milk blended together and then topped with whipped cream. Between half and three-quarters of all beverages sold in stores like Coffee Bean & Tea Leaf

and San Francisco Coffee in Malaysia and Singapore are not hot coffee but these ice-blended drinks.

The hot, humid climates of Southeast Asia are not conducive for drinking hot coffee. But another factor that hampers coffee consumption is ignorance on the part of local consumers about the various forms that a cup of coffee can take, although this is hardly unique to Asia. Many customers do not understand the difference between a macchiato, an espresso, or an Americano. There have been occasions in Mumbai and Kuala Lumpur when I have ordered an espresso only to watch the curious looks on my fellow customers' faces as I head to a table with the tiny cup that holds it.

In any event, the ice-blended drinks have higher margins. Whereas a cup of coffee at a traditional food stall in, say, Malaysia might cost the equivalent of US\$0.25, an ice-blended coffee at any of the new-wave coffee shops sets customers back the equivalent of US\$2.00–4.00.

But who is drinking all this coffee? University students and young professionals are the main customers. Suddenly, lingering over coffee has become fashionable. Instead of hanging out in shopping centers, for the price of a cup of coffee young people can now hang out in any of the modern coffee shops with bright modern decors, wicker chairs, and ceiling fans. Many of the coffee shops are located at well-chosen vantage points – perfect from which to watch the passing people or be watched. Many also feature outdoor areas, which is revolutionary in itself, given the propensity in Asia for anything deemed modern to be enclosed and chilled with heavy air conditioning.

Ironically, the new breed of coffee shops hark back to the old days of open-sided Hainanese and Fuzhou coffee shops that sold tea, noodles, *char siew pow*, *tow sar pow*, and maybe cups of Nescafé spooned from tins and laden with condensed milk, all served by the owner dressed in white shorts, a blue singlet, and worn flip flops. The irony is that Asia's young and trendy think that they are doing something new. The reality is that they are reverting to the habits of their grandparents. It's only the pricing that's different. And that is what the real revolution has been, not to get people in Asia into coffee shops but to get them to pay so much for the privilege and to make them think that they're getting value for money.

In China, a typical cup of coffee at Starbucks costs around 20 yuan (about US\$2.40), when average monthly income is little more than 1000 yuan. So patrons of Starbucks and its equivalents in China tend to treat a visit not as a quick pit stop to have a burst of caffeine and go, or as a place to get coffee to be taken away, but as a place to sit and spend several hours. This much can be seen when visiting a Starbucks in China: locals come and

make a single cup of coffee last all day if necessary. And so Starbucks outlets in China typically have plenty of seating. Many are in pleasant locations and have windows with views. In the US, Starbucks is selling a drug: a quick caffeine hit. But in Asia it knows that it is selling lifestyle.

Care is put into designing the decor, packaging, flavors, and even background music. And so while US\$3 for an iced beverage is expensive, it is very much cheaper than purchasing a restaurant meal. And so while the venues are up-market, the total spend need not be.

Religion is another factor for the success of new style coffee shops in Asia. Alcohol consumption is forbidden in Islam. And many Muslims do not feel comfortable even being in premises that serve alcohol; indeed some local laws prohibit them from entering such places. So the new-style coffee shops present a modern alternative where Muslims can mix and socialize freely with non-Muslims. This is clearest in Malaysia where Malays and Chinese can be seen readily at Starbucks or Coffee Bean outlets. They may not be at the same tables, but they are at least able to enjoy the same venues.

Finally, whilst all chains have sought to appear "modern" and "Western," they also have introduced variants to appeal to local tastes, in much the same way that McDonald's introduced a teriyaki burger to its Japan stores and Burger King introduced rendang burgers to its stores in Singapore. And so Gloria Jeans Coffee introduced its "Chinatown" Salad, Starbucks its tea Frappuccino and for a while San Francisco Coffee even served lemon grass cake with iced vanilla drinks blended with fresh mango juice. The success of the revolution is clear.

Perhaps it is in Malaysia that the explosion of coffee shops has been most obvious. In 1996, there was hardly a single modern-style coffee shop. Now there are dozens. In several areas of Kuala Lumpur the congestion of coffee shops became extraordinary. Once, while sitting having coffee at the relatively small shopping precinct of Bukit Bintang, I counted no less than seven other American-style coffee shops, most of which were in view, plus two up-market teashops. It's little wonder that Carlsberg in Malaysia has lost market share since around 2000. But not to other brewers. To coffee.

Chapter 16

THE PECULIAR MARKET FOR BIRDS' NESTS

A joke that I've heard several times in Asia goes something like this:

An American lady walks into a Chinese restaurant.

"Would you care for bird's-nest soup?" asks a waiter.

"Bird's-nest soup? What sorts of birds' nests?" asks the lady.

"Real birds' nests, Madam,"

"What? With sticks?"

"No. The soup is made from the nests of a special type of bird. They make their nests using their saliva only. There are no sticks."

"Their saliva! That really is disgusting. I'll have an omelette."

Birds' nests are a multi-million-dollar business in Asia. Certain types of swiftlets common in Southeast Asia produce the nests. They are made from congealed saliva that is produced by two large lobed salivary glands under the birds' tongues. They are translucent, have a plastic-like consistency, and easily fit into the palm of the hand.

Good nests sell for astronomic sums. In 2003, the price at the producer level in north Sumatra, where many of the nests come from, was around US\$1200 a kilogram for top-grade, "white" nests. The price is very much higher at the retail end, in the Chinatowns across Asia. Top-grade nests in Kuala Lumpur's Chinatown were selling for M\$200 (US\$52) per ten grams. That works out to M\$20,000 (US\$5,263) per kilogram. But there are many grades of nests below that. A popular lower end brand in Kuala Lumpur is the "Swallow Brand." A box of five average-to-poor-quality Swallow Brand nests sells for M\$200 (US\$52). These nests are imported from Medan and packaged in Penang.

The birds construct the nests on the sides of caves or other surfaces and

so they are half-moon shaped and not round like conventional nests. Red birds' nests are also available from Indonesia and Sarawak. The nests are red because of the seaweed that the birds eat.

Birds nests are not commonly eaten in China. But demand for them is growing, as increasingly wealthy diners search for new status foods. Traditionally, they are more a Cantonese fare. The Cantonese have long believed them to have medicinal properties. They are a "cooling" food to be consumed when the body is feverish and are also believed to help with skin complexion. Rich in protein, the nests taste like chickens' eggs to the extent that they have much taste.

Usually, the nests are boiled into a soup but they are also served as a dessert. A typical Cantonese recipe for savoury birds' nest soup includes the nests, vegetable oil, fresh ginger, chicken, mushrooms, and perhaps quail eggs. The Empress Room at Singapore's Raffles Hotel serves nests as a dessert. They are boiled with rock sugar, ginger, and ground Chinese almonds.

Traditionally, birds' nests are harvested from caves, but such nests are usually heavy with limestone contaminants. Local governments in Malaysia, Indonesia, and Thailand still give concessions to harvest nests from caves, but also from the undersides of bridges and traffic overpasses.

Perhaps the Brazil nut offers an analogy. The nut comes from Brazil and Bolivia. All attempts at cultivation have failed, and so the nuts are collected from wild areas of the Amazon rainforest. The nuts fall to the ground when ripe and natives collect them. Thousands of government concessions have been awarded to allow private individuals to collect the nuts commercially.

Small Nests, Big Profits

The profits involved in collecting birds' nests mean that few places are left unharvested, and everyone is keen to be involved. A Chinese friend and I once were discussing the birds' nests markets while being driven through the streets of Jakarta. He owns several gold shops and trades in birds' nests on the side. Suddenly, the driver, who, as drivers typically do in Jakarta, simply drove and rarely said anything, interjected with an offer to sell birds' nests. Some caves near to the house of a cousin had attracted the swiftlets and he and the cousin planned to harvest them. A few days later, the personal assistant of one of Kuala Lumpur's most prominent business-people was telling me how she and some friends planned to form a syndicate to invest in birds' nest production in north Sumatra.

But the top-quality nests now come not from caves but from houses. Sometimes they are houses built for human habitation but if the birds move in, the human occupants move out, aware that they are now sitting on a gold mine.

Ramshackle houses near Jakarta in which the birds take up residence are transformed overnight into desirable properties. Such houses, previously worth little, suddenly change hands for US\$500,000 or more. One producer outside Jakarta is rumoured to earn US\$50,000 a day from the nests that he harvests from his houses.

Otherwise, purpose-built houses are constructed. I visited one such house at Bekasi, outside Jakarta. I climbed a ladder to reach the second storey and entered through a small window. The room was completely dark. There was a strong, musty smell of bird excrement and feathers, and dozens of small swiftlets flew around the room. The walls dripped with the nests – many thousands of dollars worth. The birds came and went at will. The owner pulled a nest from a wall and handed it to me. It was a top-grade nest and worth about US\$5 in its raw state, he said.

Another advantage of harvesting nests from houses rather than caves is that houses are on private land and so government licensing to harvest the nests is not required. Acquiring a government concession typically is expensive and fraught with bribery and corruption, particularly as most concessions are handled at the local government level.

But it is the area around the Indonesian city Medan that has become the centre of Asia's birds' nest industry and particularly the town of Lubukpakam. Mostly, nests produced in the Medan area reach the outside world first via Chinese traders based in Penang in nearby Malaysia. Typically the Penang buyers speak Hokkien, the same language as most Chinese from Medan and the surrounding districts. This, say the participants, is one of the driving factors of the trade.

Purpose-built houses for the birds exist even in central Medan, a city of some two million people. At no. 3 Jalan Ahmad Yani (Medan's main commercial street), next to the colonial white PT London Sumatra Indonesia building, there are two five-storey buildings that do not house offices like the neighboring buildings but exist solely for habitation by the swiftlets. The buildings do not have conventional windows but small holes and slits that allow the birds access. The birds fly in large flocks over the city center at dusk as they look for insects before returning to these purpose-built buildings for the night.

Prices for the nests are trending down. Supply has grown rapidly due to a massive increase in investment in production as producers build more

houses for the birds to occupy and have become more knowledgeable about how to attract the birds. Demand too is rising, but not as fast.

The Indonesian producers now face more competition from new producers in the Malaysian state of Kedah and elsewhere in Indonesia, and from competition from existing producers in Sarawak and southern Thailand. The sides of the road that stretches along the northern coast of Bali, for example, is now dotted with cement buildings, three to four storeys high, with thin slits to allow swiftlets to fly in and out instead of windows.

No one has yet found a way to keep large numbers of the swiftlets in captivity. The birds determine where they will nest so it is largely a case of building a house near a traditional nesting area and trying to attract them. This can be expensive, given that the birds prefer houses at least as large as conventional human housing. But beyond that there are no feed costs – the birds find their own – and there are no breeding stock costs. Another advantage is that birds' nest are non-perishable so can be stored if market prices are down.

A north Sumatran producer told me that the steps now to start up in business are:

1. Acquire land in an area known to be inhabited by the right type of bird.
2. Have a house or some other similar structure of up to five storeys high constructed for the birds.
3. Attract birds with bird droppings and discarded feathers. The droppings should be spread around on the floors of the darkened rooms so that birds will think that the house is already inhabited by other birds and therefore safe.
4. Play bird noise cassettes in the early mornings and at dusk when the birds are flying around looking for insects. This too will encourage them to come and nest.
5. Have a source of water inside the house for the birds, but there's no need to supply food. The birds find their own (which helps with margins).

Bizarrely, so many would-be producers have merged in north Sumatra that there is now a thriving secondary market in the swiftlets' droppings that are used to attract new colonies of birds. Usually, they are sold in eight-kilogram bags. Typically, these bags sell for around US\$300 each. And so producers can now profit from the birds' nests and their excrement.

Malaysian Chinese have tried to form consortia to invest in bird houses in Indonesia but production largely remains in the hands of local Chinese. Theft is the biggest problem. It's also one of the main impediments to

forming joint ventures. Sumatran nest producers complain that robberies happen, but off-site or overseas (Malaysian) investors might then claim that there was no robbery; that the local partner must have taken the nests. So it seems likely that birds' nest production will remain in the hands of Chinese family firms.

The nature of the industry with its quick profits for little effort attracts the full range of nefarious business practices and characters. One of the more notorious participants was Ari Sigit, a grandson of Indonesia's former President Soeharto. Around 1996, he and his partners engineered the reorganization of Indonesia's Bird Nest Association into a cartel with him placed at its top. Hitherto it had been a grouping of ethnic Chinese birds' nest producers and traders. He then sought government backing to give the association monopoly rights on the export of the nests. Next, he imposed a fee of around US\$70 on each kilogram of nests exported, ostensibly to help with the running costs of the association. In reality, it was simply a private export tax.

Attempts to control exports naturally led to another source of income for Indonesia's customs officials as they were then able to collect bribes to allow nests through on threat of confiscation. Producers with suitcases stuffed full of nests would board flights for Hong Kong after first having "negotiated" with airport customs officials. The sums involved grew to enormous proportions, given that as much as US\$50,000 worth of nests could be packed into one or two suitcases.

In 1997, Indonesia's Ministry of Trade announced that Ari's association had no legal basis to collect the fee and it was canceled. The funds that had been collected had already disappeared.¹

In mid-2003, the Chumphon provincial administration in southern Thailand held a tender for various concessions to harvest birds' nests in the local area. Indicative of the high stakes involved, this local tender was criticized in Thailand's national parliament. One Democrat Party politician complained that a syndicate of companies had been formed to rig bids and that potential bidders were unable to obtain tender documents. Others claimed that they could only obtain them by buying them from local politicians (one prospective bidder said that he had been offered one for almost US\$15,000, when the documents were ostensibly free of charge).² It later transpired that one of the potential bidders was a Bangkok-based firm that was believed to have ties to several Democrat MPs.

More than 100 policemen supervised the bidding to prevent collusion – and yet there were only seven principal bidders. But then the more policemen there are, the more difficult it is to pay them all off and so the more likely that the bidding will be fair. The strategy seemed to have

worked. The amount raised from selling all the concessions was about five times what was expected.³

The stakes are big. Big enough to kill for. In three years, one leading exporter of Thai birds' nests reportedly hired a crackshot who killed 14 birds' nest thieves who had attempted to raid the exporter's concessions. The hired gun was shot dead himself as he left a restaurant in Phattalung, southern Thailand.⁴

It's difficult to say what the future will bring to Asia's birds' nest industry. So many new investors have emerged in the last few years that supply will continue to expand. But then demand will too as the taste for the nests continues to spread in China beyond Guangdong and Hong Kong and as incomes rise. Prices might continue to decline but returns are still enormous. The aggregate size of the industry will continue to multiply and it will remain one that is almost exclusively in the hands of ethnic Chinese, both as producers and consumers.

Chapter 17

WHEELING AND DEALING IN ASIAN DISTRESSED DEBT

With change comes opportunity even if that change involves a meltdown such as the 1997–98 Asian economic crisis. The crisis succeeded in turning the region into the world's biggest market for bad loans and defaulted debt. Since the late 1990s, Asia's governments and banks have sold or resolved more than US\$1,000 billion in distressed assets.¹ Some in Asia might view such a market as the preserve of opportunists and vultures. But it's also essential for mobilizing capital, removing it from failed entrepreneurs and giving it to others to manage, thus helping economies to recover faster than they otherwise would.

Bad loans and defaulted bonds are not traded in any designated exchange. Instead they are traded privately, often via debt brokers. But what has been the cause of Asia's defaulted debt? Property, by and large, is the answer. Many in Asia love property. It's physical; a showy, tangible indicator of strength and success. And it's easy to manage, which is important in a region where good management skills are in short supply. But these attributes don't help to service the loans that are acquired to develop it.

San Gimignano is a walled, medieval village in Tuscany, located between Siena and Florence. Its population today is about 7000. There's little to suggest that it was ever much more than that. The walls that contain it run for little more than a kilometre. An afternoon is all that's needed to visit each of its cobbled streets at least once. But there's plenty of evidence that it once was very wealthy. It was on the medieval overland pilgrim route from northern Europe to Rome and then onto the Holy Land. Pilgrims could find accommodation there and food. All travelers need

money, so apart from inns and cafés, San Gimignano also became a place for financial services. Pilgrims were able to deposit money with religious orders, say, in London, and in San Gimignano draw against their deposits: an early version of the traveler's check.

But then in the twelfth and thirteenth centuries something odd happened. The town's leading families (and there were quite a few) decided to outdo one another by building enormous towers using the red clay bricks that are synonymous with Tuscany. Each family had to have its own tower and each had to be taller than the rest. And so it wasn't long before the skyline of this Tuscan village was dominated by no less than 72 of these towering stacks of bricks, one for each wealthy family, plus the two towers of the commune. None had any purpose whatsoever other than to stand as testaments to each family's success and wealth. The plague of 1348 put paid to the building boom and thereafter the towers were dismantled as people came to their senses, recognized the misallocation of capital for what it was, and decided that the bricks could be put to better use. Today just 13 towers still stand. But that's enough to make San Gimignano worth visiting. The drive up to the town's walls is made interesting by the towers that lord it over the surrounding vineyards. They are symbols of the waste to which family pride and one-upmanship can lead.

And that brings us to Bangkok. Anyone who wants to see what competing families in league with compliant banks and bondholders can do to a city's skyline ought to go to the top of any tall building in central Bangkok and take in the view. Or they could hire a car and drive. And keeping driving. Bangkok sprawls for many kilometers in all directions but the most interesting thing about the sprawl is that the tall office towers don't stop. Their numbers thin but that just makes those that do stand on Bangkok's outskirts look even more absurd. What is the commercial rationale for a 20-storey office tower an hour's drive from central Bangkok that's surrounded by nothing taller than a shophouse? What is the rationale for the dozens of office towers like this that dot Bangkok's outskirts? The lack of rationale is clear now as many of the towers are not finished. Work stopped on them years ago and now they stand like decaying, rusted brooding hulks, the targets of graffiti artists and occupied by vagrants. Every major business family in Bangkok went into property and every family seemed to want to build a tall office tower. Or several. And so Bangkok today is like a modern version of San Gimignano. But which Bangkok family should receive the prize for outdoing practically everyone else, San Gimignano style? Without a doubt, it is the Kanjanapas family.

A Touch of Tuscany in Thailand

Muang Thong Thani is about an hour's drive from central Bangkok. It's a massive residential and office complex on the city's northern fringes that was supposed to be a satellite township for middle-class office workers. The Thai/Chinese Kanjanapas family, which founded the property developer Bangkok Land, spent US\$800 million on the project. At best it's a monument to great ambition. At worst it's a monument to sheer idiocy and to the cargo cult culture that's prevalent among many Asian property developers: build buildings and the people needed to occupy them will materialize as if by magic. Never mind adequate research to see if people actually will want to live in them. The research came too late for the Kanjanapas family. The buildings were already built. It's the golden rule of business: first establish the level of demand and then decide if you can meet it. But in Asia, too often local businesspeople operate as if the largely discredited Say's Law applies: "supply creates its own demand." It doesn't, as the Kanjanapas family and its creditors were to learn.

If I were designing a Grand Tour of the Orient for business executives, Muang Thong Thani would be one of the star sightseeing stops. It is in two parts: residential and office accommodation for middle-class Thais, and the same again for the lower middle class. The two parts of the estate are split by a highway, but each is as breathtaking as the other, for all the wrong reasons. The site itself is unexceptional. It is flat and featureless and prone to flooding in parts.

The lower-middle class section features row upon row of residential accommodation, each 16 floors high. And remember, this is in an area of largely vacant fields. It's rural. Each grey and white block is huge, built around an enclosed central courtyard, and has a large number to identify it (T5, T7, T15 and so on) painted in black letters on large concrete blocks on the roof. The blocks do not look residential but that's what they are. Their appearance is more of cheap office accommodation. There are more than twenty of these towers. Nearby are actual office towers, but not a single one appeared to be occupied on my visit, eight years after they were built. Most of the residential towers appear to have at least some occupants, but not the emerging middle-class office workers that the Kanjanapas family had hoped for. Instead, the towers have become accommodation for low-income families. Several towers remain completely unoccupied and are shuttered. Maintenance has not been kept up. The roads and pavements throughout the complex are stained by oil; weeds grow through the cracks. Walls are water-stained, marked with graffiti and crumbling here and there. Nearby is a large, enclosed low-cost food court. Many of the stalls are

occupied, but there are few customers, at least during the day. The most memorable stall is one that sells soft drinks and juices and is staffed by a small team of excitable transvestites (*katoey*), their deep voices incongruous with their heavily made-up faces. It's a measure of how ubiquitous the *katoey* are in Thai culture, to the point that they even have a bit part in Thailand's biggest property flop.

So that is the first half of the development: 20 towers of 16 storeys each plus ancillary buildings. The more up-market part of the development lies on the other side of the tollway. And it's here that the core lesson on real estate bubbles really begins. No less than 30 residential towers stand there, all along one side of a palm tree-lined avenue. Each of these 30 or more towers is 30 storeys high. They are an astonishing sight. And opposite, on the other side of the avenue, are about 30 six-storey office blocks. Almost every residential tower remains completely unoccupied, most with white-washed windows. Most of the office blocks are similarly empty. Several residential towers remain unfinished. Creepers and vines now cover their lower levels. Windows on some of the ground levels of the finished towers are painted with promises of shops to be opened in December 1995, promises that clearly went unmet. Each of the residential towers has an extravagant name: Riviera, Victoria, Superior, Geneva, although the lettering has fallen from one or two towers. Little but empty fields lie behind each office block and tower. This is purely a strip development; it's no more than a building deep on either side of the road. And at one end of the avenue lies the eight-floor and largely empty Eastin Lakeside Hotel. It is a ghost village of skyscrapers with a ghost hotel – a modern San Gimignano all of its own, except that people actually lived in San Gimignano.

Twenty towers at 16 storeys high, plus more than 30 at 30 storeys and maybe another 50 ancillary buildings, all largely empty and surrounded by featureless fields, and shrouded by smog that drifts from Bangkok. Who paid for all this? Essentially, the stockholders in Bangkok Land and the holders of the company's debt – bondholders and lenders. Each minority stockholder and bondholder in Bangkok Land would do well to make the trip out to the Muang Thong Thani Estate to see what their money has bought. It might help them to remember the virtues of adequate research for next time.

The government did try to help the Kanjanapas family. The family had, after all, been an important donor to the New Aspiration Party, the party of then Prime Minister Chavalit Yongchaiyudh. Ridiculously, one prominent brokerage even rated the company's stock a "buy" even though it was on the point of collapse, simply because it was perceived to be "well

connected". Never mind the fundamentals. In 1997, a parliamentary committee dominated by government legislators recommended that the government buy a large tranche of the by then hopelessly indebted estate. The committee argued that it could be used as the site for a temporary parliament building. But its recommendations were met by a public outcry. They made no sense in terms of logistics or possible government savings and so were dropped.² Not even political connections were going to save this white elephant.

Not Worth the Paper ...

And so what happened to Bangkok Land? It became a basket case, a long-term defaulter on its bonds, which traded for as little as 5% of their face value. Of all the Asian commercial paper sold on the defaulted debt market, Bangkok Land's was among the trashiest, although many vie for the honor.

Another prime contender has been the bonds of Asia Pulp & Paper (APP), the Singapore-based, Indonesia pulp and paper producer founded by the Indonesian Chinese Widjaja family. They traded at less than 5% of their face value in 2003. They too were in default, although things picked up after a debt workout was agreed to in 2004. APP had debts of at least US\$13 billion, of which around US\$1 billion could not be accounted for. Investors were looking at returns of more than 1000% if things did work out. If APP did start to service its bonds along the lines promised in its prospectuses, then bondholders who had bought the bonds at huge discounts stood to make enormous windfalls. But there was no chance that APP would keep its promises.

The discounts might be big but buying the defaulted debt of companies like Bangkok Land and APP is not for the faint hearted. Yet again, weak laws and weak enforcement of the laws in much of Asia – the same weaknesses that allow delinquent debtors to retain control of their companies years after they have stopped servicing their debts – are often exploited by controlling families to frustrate even the buyers of their distressed debt quite apart from their initial bondholders. For many, there is no dishonor in defaulting on their debt obligations. Indeed, when laws are weak, it's the smart thing to do. Here's why.

Let's assume that you're an Asian entrepreneur who's keen to raise cash. You set up a company in Thailand, Indonesia, the Philippines, or some other economy that barely has a bankruptcy system to speak of. You have the company issue bonds worth, say, \$100 million. You hire Credit Suisse First Boston, Morgan Stanley, or some other fee-for-service outfit

to do a swish marketing job and roadshow on your behalf. The issue is launched, it's taken up, and the money pours in.

The business does not go as you'd hoped so you declare a unilateral interest moratorium. Bondholders will not be happy, of course. They could attempt to have you wound up but they, like you, know that the bankruptcy system is unpredictable, quite possibly corrupt, and takes years to be worked through. So instead they start to offload their bonds onto the market. The price of the bonds falls. It might even collapse. If it does, then you can buy them back at maybe just 10% of their face value. Then you can cancel them.

But the market for Asian bonds that are in default is an illiquid one. That means that not all the bonds will be offered for sale. Your next option is to put an extraordinary resolution to your bondholders that you will call in the remaining bonds and pay 20% of their face value. The prospectus for the issue allows for an extraordinary resolution to become mandatory if it's agreed to by more than 70% of bondholders. To ensure that you get across the line, you have your friends and relatives buy some of the bonds. And you do a secret side deal with a major bondholder in exchange for favorable treatment. So when it comes to the time for the resolution to be voted on, it's carried. And now you can buy back all your debt at an average of less than 20% of its total face value. It's a great deal. You spend less than \$20 million but get to keep the original \$100 million and you wipe out your debts in the process. The private jet doesn't have to be sold off after all. Instead you can aim for an upgrade.

The market for Asian defaulted debt is a curious one. There's little transparency and the instruments traded are issued by companies that themselves invariably lack transparency. The market is highly unregulated and illiquid. Determining the market price for defaulted Asian debt is difficult. One company that matches buyers with sellers is Hong Kong-based DebtTraders. Bangkok Land bonds, for example, are on its books, and so its customers have the opportunity to buy bonds that are backed by almost a hundred, mostly unoccupied, high-rise towers in what is essentially rural Thailand. Rarely are the results of trades disclosed, so the actual prices paid for distressed bonds are not usually known. Offers to buy and sell are made known but many of these offers go unmet.

But why would anyone want to buy bonds that are in default in an economy where bankruptcy is not a realistic option because local legal processes are so poor? It comes down to information. Investors must make a judgment as to the likelihood that a defaulting company might restructure and be able to repay bondholders amounts that are substantially higher than the market price of the bond when it falls due.

One London-based fund manager who trades in Asian corporate bonds said to me that the lesson that he had learnt from the market was that:

you can't make investment decisions on the basis of financial statements. The statements are not worth the paper they're written on. You have to know the people. And you must do your research. You need people on the ground and you must be prepared to commit a lot of resources.

But surely even the debt of apparently strong Asian companies is risky if they are based in economies where legal structures are poor? That is true. And so Asian bonds tend to be issued with higher coupon yields than debt issued in more regulated and better structured legal environments.

But bondholders are also becoming wiser. They have learnt to insist on better protection and limitations on issuers. The limitations tend to be on subsidiary indebtedness whereby the issuer must agree to limit new debt that subsidiaries can take on; negative pledge provisions whereby the issuer must not pledge any assets if doing so will lessen the security for existing bondholders; and maintenance covenants whereby various covenants and guarantees on gearing ratios and EBITDA to debt service ratios are reviewed, say, quarterly. In the past, limitations like these were either loosely specified or weakly applied.

The Market for Non-performing Loans

A corollary for Asian distressed bonds is Asian distressed loans. The Asian economic crisis generated hundreds of billions of dollars in non-performing loans. Much of this debt was excised from Asia's banks by government debt workout agencies. And in China billions have been carved from the asset sheets of the various state-owned banks in a bid to at least make them appear solvent ahead of WTO-induced banking deregulation in China.

Goldman Sachs, Morgan Stanley, Lehman Brothers, Citigroup, and private equity group Lone Star Funds have been among the big buyers of Asia's bad loans. It has been profitable too. Not because recovery rates are high, but because the prices at which the bad loans have been acquired have been so low. It just goes to show that there's no such thing as a bad asset, just overpriced assets.

Japan has been an important source for bad debt. Billions of dollars in bad loans were hidden away on the books of Japan's major banks. But it was only around 1997 that a lot of the bad debt was made apparent and

then available under pressure from the Japanese government. In the next four years, around US\$600 billion in bad loans were removed from Japan's banks. Foreign investors were deluged with opportunities to buy defaulted debt and distressed assets. Recovery rates were high, thanks to Japan's comparatively robust legal system that made it relatively easy for investors to force assets sales or seize collateral.³

The Indonesian Bank Restructuring Agency (IBRA) was one of South-east Asia's biggest acquirers of bad debt. The sale of IBRA's debt "assets" occurred in the wake of the 1997–98 economic crisis. It was thought that by and large IBRA would be fortunate if it was able to achieve an average of ten cents in the dollar recovery on the debt that it acquired. Indonesian parliamentarians criticized IBRA for this. Many felt that somehow IBRA was letting off delinquent debtors too lightly with such low rates of recovery. But then what choice did IBRA have? Indonesia had no functioning bankruptcy system, and so IBRA was unable to do little more than sell off the loans cheaply. And that played directly into the hands of the delinquent debtors themselves. Many were able to buy back their loans for next to nothing, have the debts canceled, and retain full rights to their assets. They were able to resume business debt free. It was an extraordinary situation. Many used nominees to make the purchases on their behalf and so names that no one had heard of before suddenly emerged in Jakarta "owning" major assets for which they had apparently paid very little.

And so many of the old names were able to get back in charge in Jakarta, names like Anthony Salim of the Salim Group and the Tanoto family of Raja Garuda Mas Group, despite only just a few years ago having been at the helm of billion-dollar bank collapses.

Elsewhere, defaulting companies fold. But not in Asia's emerging markets. Like snakes that wriggle out of their skins, they shed their debts and their creditors, and start anew. As the London fund manager said to me, "in Asia, I've seen companies raise capital even though they've defaulted on their bonds or their loans. That would never happen in America." Italy has one San Gimignano. Asia has many. And they're still being built. Just take a look at Pudong, Shanghai.

China: Bad Debt Bonanza?

But by 2005, much of the big tranches of bad loans in Japan and Southeast Asia had been cut out of the region's banks, packaged up, and sold off. Many large foreign financial institutions had done well from the business. Recovery rates often were low but not as bad as might have been expected.

If a billion dollars in bad loans could be had for US\$60 million, and against these, US\$120 million in asset sales could be realized, then their buyer had achieved a 100% return. So where next could buyers of bad debt turn? The answer is China.

China represents the world's biggest untapped market for non-performing loans – it is sitting on tens of billions of dollars in bad loans. By the end of September 2004, China's four state-owned asset managers had recovered about US\$14.5 billion in cash from bad loans since 1999.⁴ But with total bad loans amounting to as much as US\$400 billion, that was just the tip of the iceberg. And then towards the end of the year, Great Wall Asset Management, one of the four asset managers, started China's biggest yet sale of bad loans, offering to foreign buyers the equivalent of US\$18.1 billion in bad loans. The market for distressed Asian debt was back in swing. But the loans were not the best quality and comprised assets in mostly rural areas; Great Wall deals mostly in the bad debt of the Agricultural Bank of China. Towards the end of 2004, it had achieved a recovery rate of around 10.6% of the value of the face of the loans.⁵ Presumably, the loans it had left were even more delinquent and problematic.

India too is coming on board. By early 2005, it was preparing to invite foreign interest in acquiring bad loans cut from its banking system, although the potential market was estimated to be much smaller than China's, at around US\$22 billion. But some regulatory obstacles remained. Restrictions on foreigners owning real estate such as apartment blocks and factory land meant that foreigners might be able to own bad debt but might have legal problems foreclosing on assets. The Indian government undertook to examine some of the regulatory issues.⁶ In early 2005, it announced that it planned to allow FDI in all real estate projects, including housing, but the fine print remained to be seen.⁷ But the big potential bad debt market remains China, where restrictions on foreign ownership are less and the bad debt problem is substantially worse.

By 2005, China represented a potential distressed debt market of 1997–98 Asian economic crisis proportions. It remains to be seen if foreigners will be allowed similar access to it. If they are to be, then the world's debt specialists are in for a bonanza. Who would have thought that the best way to make money in China might not be from owning and operating car plants or bottling beer but from acquiring and trading in bad debt? But for foreigners, it is the market for bad debt that might yet prove to be the one that is genuinely and significantly profitable among all China's industries and sectors.

Chapter 18

THE SECRETS OF ASIA'S FIVE-STAR HOTELS AND THEIR GUESTS

If I'm not staying with friends, then I usually stay in hotels during my regular travels around Asia. They tend to be the sort of hotels in which business travelers stay, indeed, the sort of hotels in which you as a reader of this book probably stay. I often take the time to chat to the staff. Hotel staff are an excellent source of information on the state of the local economy, which big local business families are intermarrying (the receptions are usually held at large hotels), and about the activities of other hotel guests. Several in Asia have become friends and I have interviewed them intensively about their work. What they have to say provides a fascinating insight into how big hotels in Asia operate, as well as on the differences in the habits of hotel guests in Asia according to the countries from which they come and how those varying habits affect hotels' costs.

How many guests of five-star hotels in Asia, and particularly in South-east Asia, think about the backgrounds of the staff who tidy their rooms or check them in? In the evenings, hotel staff leave the marble and the air conditioning, exchange their pressed uniforms for jeans and a T-shirt, go home probably on a public bus, back to what is probably low-cost housing without air conditioning and maybe without a shower. And so Asia's top hotels bring together hotel staff, many of whom work for comparatively low pay, and guests who typically are wealthy or have expense accounts.

One irony is that the hotel housekeeping staff tend to be remarkably well informed about expensive luxury products such as fragrances, cognacs, and accessories, despite their low salaries. This comes by virtue of all the duty-free purchases to which they are exposed as they tidy rooms. Their knowledge of what's hot and what's not probably rivals the

best data that many consumer research companies can generate. But it is their knowledge of comparative sociocultural knowledge that comes from observing the habits of their internationally sourced room guests that makes them particularly fascinating.

How Guests Differ

A five-star hotel is a unique social laboratory in which to observe close up the differences among people from different cultures as they go about their personal habits in what they assume is the privacy of their hotel room. So what are some of the characteristics observed among the guests of some of Asia's top hotels? By necessity what follows is largely anecdotal but the observations still yield interesting insights.

Cash is still king among most people in Asia. Credit card usage remains comparatively low, possibly because of the insistence of many retailers in Asia to pass on to customers the credit card commission on their purchases. Accordingly, Japanese travelers typically carry large sums of cash with them, in money belts hidden inside their shirts or the fronts of their trousers. (This has become a problem for many non-Japanese Asian tourists abroad. One Chinese friend was attacked in Spain by a group of thieves who insisted on thrusting their hands down the front of his trousers. He thought that he was about to be sexually assaulted. But instead the would-be thieves thought that he was Japanese. They were looking for his low-slung money belt.)

But among Asian travelers it is Indonesian business travelers who have the reputation among hotel staff in Asia for carrying with them the biggest stashes of cash. Inexplicably, many Indonesian hotel guests do not keep their cash in the in-room mini-safe but prefer to stuff it between the mattresses of the bed. Occasionally these stashes are forgotten, much to the delight of cleaning staff. Stories of Indonesians leaving behind tens of thousands of dollars after checking out and then failing to reclaim their cash are legendary among hotel staff in Asia.

Middle Eastern tourists are coming to Asia in increasing numbers. Most come from just three countries: Saudi Arabia, Jordan, and Kuwait. Their peak holiday season is around the middle of the calendar year. Anecdotally, most avoid jet lag by simply keeping their home times. So, they tend to be late risers as guests and they go late to bed. This creates logistics problems for hotel housekeeping staff. Rooms that ordinarily would be cleaned by early afternoon only become available for cleaning around that time. This upsets staffing rosters and affects housekeeping costs.

Middle Eastern hotel guests can affect hotel costs in other ways. Some are unusually untidy compared with other guests, and so hotels might need to take on extra cleaning staff during the Middle Eastern holiday months. Hotel guests from India can cause similar problems perhaps because they're used to having servants at home.

One unusual aspect of Indian guests is that the stick-on/peel-off red dots that married Indian women wear on their foreheads known as *bindi* often are left behind in the room. Sometimes they are found stuck to the mirrors in the bathroom, or inside the room's wardrobe, or on a wall that happened to have been convenient. The job then for housekeeping staff is to locate the *bindi* after their Indian hotel guests have checked out. Another aspect of Indian travelers apparently is their preference for bath oils and so cleaning bath tubs after guests from India have stayed often takes longer than is normal, adding to housekeeping costs.

But it is Middle Eastern visitors who can impose the highest costs. I once knew a housekeeping supervisor who left employment at one hotel because the general manager had started to promote the hotel to Saudi Arabian tourists. Rooms that had been easily cleaned suddenly took much longer to clean and no longer could he cope with the complaints of his housekeeping staff. I observed some of these problems during a stay at one Kuala Lumpur five-star hotel in mid-2004 when many of the other guests were from the Middle East. The scenes around the breakfast buffet were astonishing.

To be fair, most of the Arab diners left their tables in the same condition as anyone else. But enough didn't to seriously undermine the efficient running of the breakfast café. And when they did not, the mess was unbelievable. The condition of the table and the floor beneath one Arab family near to me on one morning defies description. But I'll try because it was not an isolated example.

Three and possibly more bread rolls had been crumpled and crumbed, the pieces had been strewn across the table, anywhere in fact but on the plates. Half-used butter and jam sachets had been dumped on the floor and across the table. Small pieces of half-eaten fruit lay on the floor. A bowl of sugar had been up-ended near the centre of the table. Bits of scrambled egg had been slopped across the table, some of which were now leaking down the side of a table leg. Other pieces of unidentified food scraps which appeared to have been chewed and dribbled or spat out lay across plates, but more typically in piles beside the plates, or at least where the plates should have been. And far too many empty and half-empty glasses of gargled juice stood in this inexplicable layer of filth, dotting the table in a random fashion. This mess was not typical of all the Arab guests. But nor was it unusual.

Two Malay staff members came over to survey the scene. They grimaced as they went about their work of sweeping, wiping, and cleaning. The importance of personal cleanliness is stressed in the Koran. It is cardinal. And Malay Muslims are exemplary on this. They are meticulously clean. I've been to many Malay Muslim houses and have stayed with Malay Muslims. Cleanliness is always paramount. So how is it possible that their fellow Muslims from the Middle East can be responsible for leaving such a trail of utter filth?

And it doesn't end with the tables in the public dining areas. Hotel room cleaning staff have told me on many occasions that they despair the mid-year Arab holiday season. The rooms occupied by many Middle Eastern families are left in a state of utter chaos. Food scraps are walked into bedroom carpets and bathrooms are left in an indescribable state. Many Middle Eastern guests bring cooking equipment with them and then cook in their rooms, leaving burn and scorch marks on the carpet. Typically, rooms that have been occupied by Middle Eastern guests require twice the time to clean as rooms occupied by other guests. The cooking and smoking mean that the rooms soon develop strong, bad odors. One hotel cleaner told me that sometimes she goes into such guests' bedrooms and just stands there and cries.

An additional complicating factor of the Middle Eastern and Indian holiday periods for Asian hotels is that Indian and Arab tourists tend to shop for shoes in Asia more than any other groups. The practicalities of this for hotels is that shoes tend to come in large cardboard boxes and so during the Arab and Indian holiday season, the amount of garbage removed from guests' rooms in Asia can swell by as much as three times the usual amount, as discarded shopping bags, empty shoe boxes, and wrappings from toys must be thrown away. Once again, it's a seasonal factor of which hotels need to take account.

Even how hotel beds are used for sleeping differs according to the nationality of the guest. Western guests always sleep between the sheets. But Taiwanese guests often choose to sleep between the top sheet and the blanket. Many Indonesian travelers sleep not so much in the bed between the sheets as on it, leaving themselves uncovered and with the room temperature turned up high.

Taiwanese typically travel in groups. Indonesians tend to travel alone or with their families. Taiwan's is a frugal society perhaps borne of its residents' refugee backgrounds. And so Taiwanese travelers rarely take unopened soaps and shampoo packs from the room; their personal frugality seems to extend to how they treat the hotel.

Taiwanese and Japanese guests are very tidy and are a favorite with

housekeeping staff. Little needs to be done to clean up after them. Westerners almost never leave tips for the room cleaning staff but Japanese very often do and almost invariably leave them not on the dressing table but under the pillow of the unmade bed. While Westerners might rarely leave tips, they're generally in the good books of housekeeping staff because they tend to be tidy.

Mainland Chinese still tend to travel on group packages even for business. History is a key attraction when they travel abroad, but history that relates to overseas Chinese. Anecdotally, mainland Chinese are particularly interested to see how Chinese in other countries live. And so travel tends to be to countries that have a significant Chinese population and published itineraries invariably include visits to local Chinatowns. They are price-sensitive travelers and often prefer to eat out in cheap cafés and food stalls rather than dining in expensive hotel restaurants. A significant subsection of the Chinese outward-bound travel market comprises young mainland Chinese women who arrive in other countries, including other Asian countries, often on a student visa, to work as prostitutes. Short-term visitors will stay in a hotel (usually booked for them by a pimp and in their pimp's name) so that it can be used as the venue for their trade. Some might even stay for just one or two weeks, earn cash and then return to China.

And which types of hotel guests from within the region complain the most in Asia? Anecdotally it is guests from India. And one of their most common complaints relates to room temperature. Typically Indian guests prefer the room to be chilled as much as possible, perhaps lower than the lowest settings of many Southeast Asian hotels. And so many such guests complain that their rooms are too warm.

Anecdotally, Australians are among the fussiest about the cleanliness of rooms and hotel facilities. But rarely do they complain in person or during the course of their stay. They prefer to put up with the annoyance during their stay and then fill out a guest suggestion card that is read after they've checked out. And what type of dirtiness upsets hotel guests more than any other? Hair left behind in bathrooms either by the previous guest or even stray hair from cleaning staff.

One attribute that is common among many hotel guests no matter what countries they are from is the tendency to use obvious codes for in-room safes. Hotel staff have said to me that the number of five-star hotel guests who choose code combinations such as 1-2-3-4-5-6 or 1-1-1-1-1-1 or 0-0-0-0-0-0 is incredible. Perhaps guests feel that such codes are so obvious that no one would suspect them of using them. This means of course that many people do use them and so the logic becomes self-defeating.

Dealing with the “other” guests

Many Chinese are superstitious. The presence of ghosts is a particular concern. Here's some advice that some of my Chinese friends have circulated among each other to cope with ghosts in hotels:

Most hotels have or should have at least one room left vacant at all times. No matter how full the hotel is, the room should not be sold to anyone. The room is “reserved” for “special guests” [ghosts]. So if you plan to stay in a hotel, always book in advance. Try to avoid walking in. If the receptionist says that there are no rooms left, do not insist on one and do not offer bribes to be given a room. Otherwise you might be given the “special” room. Sometimes “special guests” might visit other rooms too, so here are some tips on how to protect yourself:

- Before entering your room, always knock first, even if you know the room is vacant.
- After you enter the room, if you feel cold suddenly, then right away leave the room quietly and go to reception to request a change of room. (Most of the time the receptionist will understand what's happening.)
- After you enter the room, immediately switch on all the lights, and open the curtains to let the sunlight in.
- Before you go to bed, arrange your shoes so that one of them is upside down. This is to represent yin and yang to protect you while you're asleep.
- Try to leave at least one light on while you're sleeping, preferably a light in the bathroom.
- If you're staying alone and your room has twin beds, do not sleep with the other bed vacant. Store something heavy like your luggage on the other bed while you sleep.

The Floors are High and the Wife is Far Away

There's another factor that differentiates hotel guests from one another: their sexual habits. Among all business travelers in Asia, the anecdotal

evidence suggests that it is Japanese businessmen who are most likely to utilize the services of local prostitutes. But rarely, if ever, do they allow the prostitute to stay over night. Western business travelers are much less likely to use prostitutes. But they are far more likely to allow the prostitute to stay until morning.

All this leads to another aspect of the job for hotel housekeeping staff: used condoms. Of course these are normally flushed down the toilet. But not always. Anecdotally, Chinese guests who do not dispose of them via the toilet are likely to leave them on the floor beside the bed. Japanese guests with their apparent predilection for neatness are more likely to put them in the drawer of the bedside cabinet. And so housekeeping staff in some Asian hotels are advised to check these drawers on the departure of unaccompanied Japanese male business travelers. Nothing could be more distressing to a guest who reaches inside the bedside drawer for a *Gideons Bible* or *The Thoughts of Buddha* but instead discovers something else left by the previous guest.

Pornographic material is another item that housekeeping staff need to be alert for. Guests who do not want to take it with them might be loath to openly leave it in the wastebasket. Instead, they might choose to hide it in their rooms on departure. A common hiding spot is between the top and bottom mattresses of the bed.

Many hotel staff in Asia have stories to tell about being propositioned for sex by hotel guests. Logically, they are easy targets for such approaches and female housekeeping staff are particularly vulnerable. So too are room service staff but, increasingly, most hotels use only male staff to deliver in-room meals to guests. In Asia, anecdotally it is Western and Middle Eastern hotel guests who are more likely to proposition hotel staff while they are in their rooms. Japanese and other Asian guests, on the other hand, are more accustomed to engaging the services of local prostitutes.

Ripping off the Minibar and Other Cultural Observations

Minibar charges in hotels typically are high. Many guests no doubt feel that such high prices justify their attempts to steal from the in-room minibar. Some go beyond merely consuming and then not declaring. Some resort to subterfuge.

One of the more obvious abuses is to refill miniature bottles of vodka with tap water, brandy miniature bottles with black tea and so on. Bottled beer and white wine are also candidates for being refilled with tap water, their colored glass bottles making detection more difficult. But some

guests are more creative than this. Soft drinks cans are frequently opened with a hole being punctured in their bottoms, their contents drained and then put back in the minibar, right way up and with the ring pull still intact. The alert minibar attendant who is pressed for time knows that the way to check for this is not to pick up each can in each minibar in each room to feel its weight but simply to swing open the minibar door and take a pen and run it across the line-up of soft drink cans. The emptied cans are those that give a hollow-sounding ring.

Cylinders of Pringles' crisps are another favorite target of light-fingered hotel guests. The cylinders are opened carefully, the crisps eaten and then, to restore the cylinder to its unopened weight, some guests stuff them with a hotel-provided washcloth, the net weight of a cylinder of Pringles being approximately that of a washcloth. The protective foil is then folded back over the mouth of the cylinder, and the plastic lid is put back – all in the hope of avoiding being charged. When unsuspecting minibar attendants pick up such Pringles cylinders, they feel heavy and look unopened.

Pistachio nuts are another trap for the hotels. Why? Because they come with hard shells that when placed back in the packet give it a weight that's similar to one that has been unopened. Adept guests can open them, eat the nuts, leave the shells, and then reseal the packet to avoid being charged.

But who actually bothers to rip off the minibar? Japanese and Chinese hotel guests almost never do this. In Asia, the guests who rip off the minibar almost always tend to be Western. Not business travelers but tourists and the flight crews of Western airlines.

What else tends to be stolen from hotel rooms? Towels remain the favorite target of light-fingered guests. Towel theft occurs most when hotels order in new towels. And so some hotels prefer their towels to become noticeably tatty. Not so much because they don't want to replace them but more because they don't want to deal with the significant increase in towel theft when they do.

The desk compendium is another favorite of thieving guests, especially if it is embossed with the hotel's monogram. Wooden coat-hangers are the next most popular item, followed by coat brushes, and shoe horns. Many five-star hotels no longer provide these last two items because the rate of theft is too high.

But hotel thefts not only occur from bedrooms but from the public areas such as the lobby, the lobby washrooms, and the hallways between rooms. Ever wondered why many five-star hotels now use folded linen napkins in their public washrooms for people to dry their hands instead of conventional hand towels? It's not because they look more elegant. The real reason

is because guests and visitors to the hotels' public areas are less likely to steal the napkins.

Room service crockery is another target for thieves. Why do room service trolleys and trays often come with a message instructing guests not to leave empty trays and trolleys outside the room but instead to ring room service to have them collected? Sure, trolleys and trays with dirty plates are unsightly if left in the corridor but they also become prime targets for theft on the part of other guests who might want to help themselves to the monogrammed teapot or the ceramic vase used to hold the single red carnation.

Sometimes, thefts from hotels are more serious. One Singaporean guest at a five-star hotel in Kuala Lumpur once made off with the room's television set. The hotel tracked him down and suggested that the police might be contacted if the television did not reappear. It did. The guest explained that he had merely "borrowed" it. Another hotel guest entirely stripped his hotel room of practically everything that could be lifted or prised off. Even the curtains went. He packed everything that he planned to steal into boxes and to add insult to injury asked the hotel's bellboys to take the boxes downstairs to a waiting taxi. But such instances are rare. Minor pilferage is the real problem for hotels.

Emperors without Clothes

Ordinary business and other travelers are not the only guests to come under the scrutiny of hotel staff. Hotel staff are a font of knowledge on world leaders and senior business figures in a way that most people never think about. They have access to the kinds of people who are generally off limits for almost everyone else. Not only that but they get to know the details of their private habits, the sort of information that most spy agencies would love to have.

When staying in foreign hotels, Sri Lankan President Chandrika Bandaranaike Kumaratunga demands that, for security reasons, no ethnic Indian staff service the floor on which she's staying. Nonetheless, hotel staff with whom I've spoken describe her as polite but strong in private. Former Singapore Prime Minister Lee Kuan Yew insists that his room be kept at 16–19°C. If he is to attend a banquet, strict instructions are given that he is not to be photographed whilst eating. And if he is to give a speech, no flash photography may be used. The Sultan of Brunei always takes an entire floor even if only a few rooms are to be used, to ensure privacy.

I could go on with detail that is more salacious, such as which Asian

head of state wears homebrand underwear, which one hires prostitutes for orgies while his wife sleeps in another room, and which senior Asian politician gives hotel staff money to go out and buy hawker food off the streets rather than eat food provided by the hotel. But that would be unfair. But it remains the case that hotel staff are not simply adept at tidying rooms and preparing meals. They are like the three wise monkeys in reverse: they see everything, they hear everything, and sometimes they speak. A hindrance to heads of state and other hotel guests but a gold mine for researchers and writers of books such as this.

Chapter 19

WHO OWNS PATPONG? THAILAND'S SEX INDUSTRY

In Singapore, prostitution is effectively legal, as the government administers as many as six official designated red light areas in which as many as 400 licensed brothels operate. In Thailand, however, prostitution is illegal. It is one of the great ironies of Asia. Anuch Mokhawes, Thailand's deputy interior permanent secretary, said in respect of Thailand's many massage parlors, "It turns out that some of them provide commercial sex to customers."¹ Well, who would have thought? There are at least 2000 massage parlors in Bangkok alone.

The commercial sex industry is worth billions of dollars to Thailand. It is believed to generate more revenue than drug trafficking, arms trading, contraband trade in diesel fuel or gambling. Tourists account for only a part of the industry's earnings; Thais probably account for more. Brothels exist across Thailand including the many areas where foreigners rarely visit. Surveys of the sexual habits of Thai men routinely find that many or most lose their virginity to a prostitute. So it seems that Thailand's famous prostitution industry is not the creation of visiting foreigners as some in Thailand would have the rest of the world believe. Indeed, the Thai government initially sought to play up the country's image of sexual licentiousness.

Sanuk? It's the Thai way of describing anything that gives you pleasure. In other words, anything you enjoy doing. In other words, whatever turns you on. When you fly to London with Thai International, we'll introduce you to the meaning of *sanuk* with superb food, generous drinks and charming Thai girls who know what service is all about ... Thai International: Get into it.

So read a full-page advertisement for Thailand's 100% government-owned airline, placed in foreign magazines and journals in 1973.² This text appeared below a close-up of a young Thai woman's heavily made-up face with a suggestive gaze. Nothing about her appearance suggested that she was a flight attendant, but then flight attendant or prostitute, it didn't matter. The text in this Thai government-sponsored advertisement suggested that Thai women are submissive and obliging, almost that the country's airlines were being served by flying hostess bars.

In 2003, the Thai government introduced a 10% tax on massage parlors and sex-oriented saunas, because being essentially illegal, they were outside the tax system. And so the government was then in a position of attempting to impose a specific tax on an industry that the kingdom's laws actually outlawed. But defining the new tax without explicit reference to commercial sex services (presumably because they are illegal) meant that many conventional spas and saunas were caught up in the legislation, attracting complaints from their proprietors.³

Patpong, that area of Bangkok that is home to sex clubs and brothels in a concentration greater than perhaps anywhere else, is one of the great brand names of Asia. It's a name that is recognized around the world. But for all the wrong reasons.

Who owns it? Who runs it? And who lets it exist? The answer to the last question was suggested in part one hot afternoon while I sat in a café near Patpong and watched the scene across the street. The premises opposite bore all the hallmarks of a brothel. Young, scantily clad women turning up as if for work and not leaving; no outward sign of the line of business carried out in the clearly commercial premises; and the tell-tale mirrored door at the entrance that allows those inside to see out but not those outside to see in.

On this afternoon, I watched one policeman after another alternately enter and leave the premises opposite. Some still adjusted their flies and gun holsters as they left, their police motorcycles parked in a neat row outside. The protection that this brothel paid seemed to be provided not only in cash but in services. But that is typical.

The Patpongpanich Family

The area now covered by the Patpong nightclub strip once was a banana plantation. It was used as a Japanese military headquarters in the Second World War II. And then in 1946, it was sold to an emigrant from China's Hainan island, who had been awarded the Thai name of Patpongpanich

(also sometimes rendered as Patpongpanit) by the king. Patpongpanich is said to have paid 60,000 baht (then about US\$2,400) for the land. He bought it with the intention of building a house for his brothers and sisters and cut a road through the property to connect Silom Road to Suriwong Road. This road is what is known as Patpong 1 Road today.

Udom Patponsiri, Patpongpanich's eldest son, inherited the land and built shophouses along the road that his father had built. Udom then found tenants for the buildings and so began Patpong as it's known today. Udom, who was born in 1916, had a remarkable life.⁴ He studied at the London School of Economics from 1936 to 1938 after his early education in Thailand. He returned to Thailand in 1940 but was then sent to finish his formal education at the University of Minnesota in the US where he earned a business degree.

Thailand's government supported Japan in World War II and so like many Thai students then in the US, Udom joined the pro-Allied Free Thai movement. He received training from the US army and from the Office of Strategic Services (later to become the CIA) at Fort Benning, Georgia. Included was parachute jump training. In 1943 he went to India for more training and was scheduled to return in Thailand in 1945 as an undercover agent but the war ended before that could happen. (He and 13 other Thais who received parachute training were finally honored by the US with their wings in January 1995, 50 years after qualifying for them.)

Sex Sells

In the 1950s, Udom concentrated on developing his family's real estate interests, of which the Patpong area was the largest. Patpong's transformation into a nightclub zone occurred quickly. The massive build-up of US armed forces in Vietnam and Thailand in the 1960s saw the demand for evening entertainment grow rapidly in Bangkok. By 1968, a variety of nightclubs had opened along Patpong. These overflowed into Patpong 2 in the early 1970s, a smaller street that runs parallel with Patpong 1. It too is a private street owned by the Patpongpanich family. The bars transformed into the "go-go" bars as they're known today and massage parlors also opened for business. Several clubs opened upstairs bars in the early 1980s, which featured more explicit shows and greater nudity than the go-go bars downstairs. The show bars became very popular and gained worldwide notoriety. Patpong's further development into what it is today came in the late 1980s, when the Patpongpanichs decided to close Patpong 1 Road off each night and rent out small lots of the street to stallholders. And so now,

Patpong 1 Road is home each evening to a massive outdoor market with stalls selling clothing, souvenirs, and pirated VCDs, DVDs and CDs.

Today Patpong is one of Bangkok's most valuable pieces of real estate but it remains underdeveloped. Nearby are tall office towers but Patpong is lined with the shophouses that Udom built in the 1950s.

One of the Patpongpanich family's biggest lessees is the King's Group, owned and managed by another Thai/Chinese businessman and his son. It runs six of the biggest go-go bars in Patpong, a restaurant and the King's Body House massage parlor around the corner on Soi Surawongse Plaza. Indeed almost all the business owners and operators in the Patpong area are ethnic Chinese. Ethnic Thais get their cut via the police who are paid off to look the other way when it comes to the various nefarious activities that occur in the area.

Soi 4, Silom Road, also known as Soi Katoey and sometimes as Patpong 3, runs parallel to Patpong 2. Like Patpong 1 and 2, it is a privately owned road. The family that owns it lives at the end of the Soi. But it is a family that is separate from the Patpong family. Their road has become the centre for gay nightlife in Bangkok and contains several well-known gay-oriented bars and cafés.

Udom died in 1996. On his death, Patpong Co. Ltd, the privately owned company that holds the family's Patpong interests, had seven stockholders, including his daughter Varita Vajrabhaya who now heads up the family's business interests, his two remaining sisters Boonying Patpongpanit and Sontawin Amathayakun, and a nephew Poompong Patpongpanit.⁵

The land department valued the land on which Patpong sits at around US\$100 million at the time of Udom's death, although Bangkok land prices fell significantly soon after.⁶ Today, the family is believed to collect 120 million baht (US\$3 million) a year in rent from its Patpong holdings. It does not own any of the businesses in the area, it simply lets premises to them, many of which are then subleased again. "Our rent is not high," said Udom's daughter Varita. "We are running a family business which has turned into a tourist attraction. We tell our clients to try to project a good image for Thailand."⁷ They certainly project a strong image. But through the haze of cigarette smoke, that's pierced with ping-pong balls and blow-darts, few would agree that it's a good one.

The Davis Group

Another prominent operator in Bangkok's commercial sex sector is Chuwit Kamolvisit, owner of the Davis Group, which owned a chain of six of the

largest, up-market massage parlors in Bangkok: Victoria's Secret, Honolulu, Hi-Class, Emmanuelle, Copacabana, and Barbara, as well as the Davis Hotel, a five-star central Bangkok hotel popular with tourists. For years, Chuwit had paid enormous bribes to the Thai police for protection and to look the other way so that he could run his businesses in peace. But in 2003 it all unraveled. Chuwit was involved in the illegal demolition of Sukhumvit Square, a Bangkok mixed-use site over which there was great confusion as to its legal title. Moonlighting military and police officers were employed to participate in the bulldozing of the site. The incident attracted so much criticism that it was no longer possible for Chuwit to escape the law.

He was charged in relation to the demolition, then for procuring under-age girls to work for him, and then with a host of other charges. Chuwit was outraged. What had all that protection money been for? Not only were the police corrupt, Chuwit charged, but now it seemed they had no honor. His thoughts turned to revenge. At one press conference after another he revealed how he had paid millions of dollars to the police in bribe money, had bought them "whole trays" of Rolex watches, office furniture, computers, and refrigerators to make their police stations more comfortable, paid for their cars to be maintained, given them tickets to boxing matches, golf memberships, meals, wine, and even paid for their home repairs. And of course he'd allowed them to be entertained for free at any of his six massage parlors. ("Have sex, flash your badge and skip the bill" was one headline in the local English-language *Nation* newspaper.) But to what end? Now, he faced criminal charges.

Chuwit's revelations did not stop there. Two police commanders had owned stakes in two of his massage parlors, he said. Three (unnamed) cabinet ministers were frequent visitors to his parlors (not me, piped up the Deputy Interior Minister Pracha Maleenont – he might have visited massage parlors in the past but not any more, he explained). And Chuwit said that he had bought expensive wines in France to entertain police and politicians which he kept in a bonded warehouse in Singapore where the police and politicians could collect it themselves to avoid high Thai import taxes. The total cash bribes that Chuwit claimed he had paid to police so that he could stay in business amounted to around US\$300,000 a month.⁸

Chuwit was held in custody for most of May 2003 before being released on bail. He was not repentant. He came out of jail and announced that while there he'd bribed senior officials at Bangkok Central Prison to the tune of 300,000 baht in exchange for better treatment. The Ministry of Justice announced an inquiry.⁹ The administration of the law was rotten, with corruption at every level in Thailand, and Chuwit was determined to show it.

All Bangkok was titillated by the drama. But Prime Minister Thaksin Shinawatra was outraged. The police at one station should all be demoted to what Thaksin called “lower income stations” meaning districts with fewer bribe-taking opportunities, although the reality was that this would mean that a whole new batch of policemen would therefore be “promoted” to replace them. In defence of the police, the national police chief Sant Sarutanond offered that he was sure that “more than half” of them were honest.¹⁰ He went on to defend an unorthodox raid on Chuwit’s massage parlors in which scores of police officers had sex with the girls employed in them and then confiscated the used condoms as “evidence.”¹¹

Thaksin ordered an inquiry into Chuwit’s claims that he had bribed the police. It was conducted by the police. And so its inevitable conclusion was that no senior police had committed any wrongdoing. Thaksin was even more embarrassed. He ordered another inquiry. Chuwit argued that rather than hypocritically make a fuss about his line of business, the government should instead support massage parlors by allowing them to list on the stock exchange. He pointed to the case of Australia, where a brothel had recently been listed on the Australian stock exchange.

The police countered that if Chuwit was paying as much in bribes as he claimed, he must be earning at least a billion baht a year, and so a tax investigation was launched on his earnings. Chuwit was even more annoyed. All that protection money and once again he was unprotected. And then the tax office itself expressed its annoyance that Chuwit had paid more in bribes to police than he had in tax. Next, the Anti-money Laundering Office froze around one billion baht in Chuwit’s assets and he was charged with running a prostitution business at “one” of his massage parlors. Chuwit claimed that the freeze left him penniless. He did not have enough money even to buy his wife a cake for her 42nd birthday, he complained. It isn’t clear if Chuwit decided to bake one himself. The allegations continued to fly backwards and forwards and the result was that everyone looked dirty. Chuwit then ran an unsuccessful campaign to be elected Bangkok’s governor. He ran on an anti-corruption platform. It would all be so much easier if Thailand simply followed the Singapore model. Prohibition might outlaw prostitution but it doesn’t get rid of it.

Chapter 20

FLOWERHORN FISH, HUANGHUALI, ZI BEADS, AND BOLLYWOOD

Asia is home to crazes and fashions that take off nowhere else. It's important to be acquainted with them if one is to truly know Asia – they are of interest to large segments of the region's population. Huge resources are devoted to these otherwise obscure markets. Here is a selection of a few from fish to food to furniture. And then there are the movies, high on drama, low on character development, to match the region's love of spectacle and ornamentation.

Flowerhorn fish

Malaysian company Xian Leng Holdings' plant and equipment are well protected. There is a security watchtower, closed circuit televisions, a double perimeter fence and at night around 40 guard dogs are let loose around the compound to deter intruders. And what has all of this been installed to protect? Fish. That's right: Fish – ornamental fish.

It's not everywhere that an ornamental fish breeder is listed on the local stock exchange but Xian Leng Holdings is.¹ Not only that but it's highly profitable. Pre-tax profits for the year ended January 31, 2003 were M\$21.5 million (US\$5.7 million) on revenues of M\$49.5 million (US\$13 million). Results for 2004 looked like being either comparable or better.² The company's leading product is the Asian arowana, for which the company is the world's top breeder and exporter. It comprises about 65% of its business. The rest is largely made up of flowerhorn fish and Japanese koi. Export sales comprise around 90% of total sales. The main export

destinations are Japan, Singapore, Hong Kong, and the Philippines. By 2005, the market still had plenty of room for expansion. Demand for all types of aquarium fish exceeded supply at existing prices and Xian Leng intended to increase its farm size from around 60 hectares to more than 160.

Ornamental fish are big business in Asia. Routinely on Amazon.com the bestselling books among the online retailer's customers who are based in Thailand and Malaysia are not books on business but books on how to care for ornamental fish, with titles like *The Interpret Encyclopedia of Koi* and *Guppies Today: A Complete and Up-to-date Guide*.

Xian Leng is part of this phenomenon. It has 96 breeding ponds and a permanent staff of 30 workers. Arowanas are aggressive and prefer their food live and so a sizable cockroach farm has been built to supply live cockroaches.

At the wholesale level, arowana fry fetch US\$50–2500 each, depending on their characteristics. Xian Leng injects passive integrated tags the size of a rice grain into each fish so that they can be scanned for inventory control. The tags also allow the authorities to later identify the farm at which the fish was bred. (It's similar to a program in Thailand to implant the country's 2460 domesticated elephants with microchips so that they can be monitored more effectively.)

But it's the flowerhorn that is the glamour fish of the moment. The craze for the fish started only around 2000, shortly after it was cross-bred from several species. Particularly good flowerhorns sell for as much as US\$20,000. But one was expected to bring more than US\$300,000 at auction in 2003.³ The craze for flowerhorns started when someone decided that they could divine lottery numbers from the black markings along the sides of the fish. And overnight the flowerhorn fish frenzy was underway. The distinctive hump on the fish's back is also said to look like a similar hump on the Chinese god of longevity. The fish are also associated with prosperity because of their red-pink coloring. So suddenly, people believed that the flowerhorn would bring them wealth and luck. The fish are highly territorial but very responsive to humans which adds to their attractiveness.

Huanghuali

The market for Huanghuali furniture, another seemingly obscure collectible in Asia, also has gone through the roof. Huanghuali translates as yellow rosewood. The species is a hardwood that is now extinct in China due to overharvesting. It is valued for its open, yellow grain, particularly

those pieces with marks in the grain that are shaped like tiger stripes. But the pieces that fetch the highest prices are those with a grain that includes marks that look like pairs of “ghostly eyes.” This peculiar manifestation does indeed look like ghostly eyes. They seem almost to waver.

Huanghuali furniture attracts enormous prices. The supply is fixed but demand continues to rise. Unlike the market for rare antique Chinese porcelain which is prone to faking, Old Huanghuali furniture is almost impossible to fake, the primary material now being extinct so there is almost no available wood with which to make new pieces.

Important collections of antique Chinese hardwood furniture that include Huanghuali pieces exist in China, for example in the Shanghai Museum, and elsewhere. The Nelson-Atkins Museum of Art in Kansas City holds one of the world’s best collections. New York’s Metropolitan Museum of Art, the Philadelphia Museum of Art, and London’s Victoria and Albert Museum also have important collections.

Pieces do come up at auction. They sell for extraordinary prices.⁴ Christie’s New York sold several pieces in 1996. An artist’s painting table sold for US\$173,000, a horseshoe-back armchair went for US\$530,500, and even a pair of smallish traveling scholar’s bookcases made US\$200,500. The following year, Christie’s New York sold another Huanghuali painting table for US\$134,500, a small incense stand went for US\$46,000, another horseshoe-back armchair made US\$244,500, and a plain footstool sold for US\$17,250. And then on September 19, 1996 Christie’s sold a seventeenth-century Huanghuali standing screen with marble for US\$1,102,500 – a record price for a piece of Chinese furniture sold at auction. A year later, Christie’s New York auctioned one of the biggest private collections of classical Chinese furniture – the collection of Mr and Mrs Robert Piccus. Huanghuali pieces comprised most of the lots, and around one hundred lots were auctioned for a total of US\$2,371,885. Among the highest prices, was US\$321,500 for a pair of Huanghuali folding stools.⁵ More recently, a late sixteenth-century daybed sold at Christie’s New York in September 2004 for US\$186,700.⁶

Sandalwood

Huanghuali is extinct in China because of overharvesting. Another wood that is in danger of the same fate but in India is sandalwood. India was the world’s biggest producer of sandalwood, which is prized for its strong fragrance and the oil that is distilled from the wood. For centuries sandalwood has been a part of Hindu and Parsi religious rites. Sandalwood logs

were burned along with the body at Hindu cremations. But few can afford this now. Sandalwood powder is also an important ingredient for joss (incense) sticks that are burned in China, among Southeast Asia's Chinese communities, and in Thailand and Indochina. The oil is also important for the perfume industry. Among the scents for which it is an ingredient are Calvin Klein's Obsession, Christian Dior's Poison and Yves Saint Laurent's Opium.

The southern Indian states of Karnataka and Tamil Nadu were home to the country's biggest sandalwood forests. But these were nationalized in the 1960s as was the trade in the wood. But as is usual with public ownership, being owned by everyone means being owned by no one and so the forests have been overharvested and subject to poaching. Nor has there being an adequate reforestation program. Now India's sandalwood forests are almost extinct. One of the more prominent poachers was Koose Muniswamy Veerappan, India's most wanted bandit for more than a decade. He started out illegally killing Indian elephants for their ivory. When they became too rare, he moved onto poaching sandalwood. Along the way he murdered more than a hundred people. His career came to an end when he himself was killed in a police ambush in October 2004.⁷

Sandalwood poaching is not only a problem in India but also in Thailand where poachers and factory owners have been charged with illegally acquiring sandalwood (or *mai hom* as it is known in Thailand). East Timor was also once a producer of sandalwood, but the poaching and pillaging there has left little but stunted heathlands where sandalwood once stood. Most smuggled sandalwood oil is channeled to dealers in the Middle East.

Prices for the wood and its oil have risen fivefold since 1995. Wood from a single tree can now bring as much as US\$2000.⁸ Part of the reason is the length of time taken to maturity. The trees take 25–40 years to reach commercial viability.

The wood's growing scarcity in India has had a devastating effect on the country's hundreds of sandalwood carvers who produce small sculptures in intricate designs from the sweet-smelling wood. Many started as ivory carvers but as ivory grew scarce and subject to international embargoes, they moved to carving sandalwood. Now they are attempting to switch to inferior rosewood.

So the country which is now the leader in sandalwood production, surprisingly, is Australia. Not only that but Australian producers are moving downstream into incense and joss stick production.⁹ Increasingly, they are supplying the ancestor worshippers of Asia with the necessary accoutrements of their customs.

The huge demand for sandalwood for incense was apparent on my opening night visit to the Nan Thien Kwang Chinese Temple in Ampang, Kuala Lumpur, for the Festival of the Nine Emperor Gods. I accompanied a local Chinese friend around the temple complex as he prayed before various deities and offered incense to them. Hundreds of others were there to do the same. It's an important occasion in the Chinese calendar – the nine emperor gods are believed to confer luck, wealth, and long life.

Dozens of stalls are set up outside the temple for the festival period. They sell *ang khoo*, turtles made from dough and painted bright red to symbolize abundance. Many also sell incense sticks, armfuls of them. Devotees do not burn one or two sticks at a time but handfuls. And so the temple inside was hazy with blue smoke from thousands of smoldering sticks. We emerged with sandalwood ash on our clothes and hair.

It's a nine-day festival that's celebrated by Chinese communities across Asia. And that equates to a lot of incense and therefore a lot of sandalwood powder.

Australian sandalwood (*santalum spicatum*) is closely related to the tropical version. It was first exported from Fremantle in Western Australia in the 1840s. The early shipments all went to Asia. By 1848, more than 1000 tonnes of the wood was being exported and it was the young colony's top export earner, accounting for almost half of export earnings. By 1901, Western Australia exported almost 8000 tonnes a year. And by 1920, 14,000 tonnes were cut for export. It was sent to India – three tonnes of Australian sandalwood were added to the funeral pyre of Mahatma Gandhi in 1948 – although China was the principal destination where it was processed into joss sticks. But civil war and then revolution saw China almost disappear as a market.

But today, the market for sandalwood is growing again. Demand for sandalwood from China is expanding by around 50% a year, as softening Communist prohibitions on religion and ancestor worship mean that incense and joss stick burning are coming back into vogue. Today, Australia exports more than 3000 tonnes of the wood a year. Government regulations on harvesting have capped exports to around this level but they will rise when the growing number of sandalwood plantations being developed in Western Australia, Northern Territory, and Queensland mature. That takes time though. Sandalwood is a parasitic plant. Developing a plantation means that first a host plant must be cultivated on which the sandalwood can then support itself.

One Australian company, Wescorp, exports 200 tonnes of logs and chips each month. That probably accounts for about a third of the world market. But it is also developing other export lines such as joss sticks. It produces

more than 15,000 sticks each day. Powder is also exported to be made into incense in China. Sandalwood and sandalwood products are Wescorp's core business. A tonne of high-grade Australian sandalwood sells for around US\$7000. Each tonne yields a maximum of only 50 liters of oil. But the oil fetches around US\$350 a litre. And so sandalwood is far more valuable as oil. Distilleries have been constructed in Australia. And even after the wood has been through the distillation process, it can still be sold on to China to make low-grade incense sticks.

Rare Food

Chinese are on a par with the French when it comes to the centrality of good food. The French, for example, insist that oysters from Concale in Brittany are far superior to oysters from anywhere else, including just along the coast, when outsiders are unlikely to discern any difference. The Chinese particularly in China have many equivalents.

When Chinese mothers send their daughters and particularly their sons to study in the West, their biggest concern is how their offspring will survive away from traditional food. The truth is that Chinese supermarkets in, say, London's Chinatown are better stocked with a wider variety of Asian food than most in Asia. One of the reasons is because Western Chinese communities typically draw on Chinese from across Asia and so the supermarkets reflect the tastes of Chinese from Malaysia, the Philippines, Thailand, Hong Kong, and China rather than the tastes of Chinese from only one country. Fresh durian, Thai holy basil, snake beans, kaffir lime leaves, betel leaves, bamboo shoots, jackfruit (*nangka*), and Indonesian black rice for *pulut hitam* are all readily available in London. There's no shortage of Chinese restaurants either. One, the Four Seasons restaurant on London's Queensway, almost has cult status among expatriate Chinese for the tenderness of its roast ducks. It is said that this one unassuming restaurant sells an extraordinary 300 roast ducks a day. There's usually a queue to get in and inside, conversation among the customers proceeds in Cantonese, Indonesian, and Thai, but all are ethnically Chinese.

The desire for strange food in China is well known. But other parts of Asia follow suit. One of the most expensive coffees in the world is supposed to be from coffee beans collected in north Sumatra from the droppings of the civet or wild cat. The cats eat the beans and they pass through intact, supposedly imparting a wonderful taste to them. They are collected, ground, and brewed. Coffee obtained in the usual manner fetches around US\$2 a kilo, but civet dropping coffee brings US\$100 a

kilo. "One crappuccino, please." read the headline in Singapore's *Business Times* over the article that alerted readers to this delicacy.¹⁰

The Hong Reng Tang Imperial Herbal Restaurant is famous among Singaporeans. It's located in a hotel behind Raffles Hotel; its proprietor is a local Hainanese Chinese. Inside, at one end, there is a pharmaceutical counter manned by a white-coated doctor from China. He's on stand-by to diagnose the dietary and pharmaceutical needs of the diners. Diners describe to the doctor how they feel, he might take their temperature or their pulse, and on the basis of his diagnosis, dishes from the menu are prescribed. Diners in need of an energy boost are advised to order dishes that will invigorate them. Those with slight fevers are told to order "cooling" foods, and so on.

During the 2003 SARS paranoia, the Imperial Herbal Restaurant prepared a herbal brew designed to boost one's immunity to the disease. But on the occasion of my visit, I opted for something more potent: a glass of deer penis wine with wolfberries. "Good for the eye and blood circulation," said the waiter. He might have added "but bad for hangover and wallet." It was extremely potent and very expensive. No visible evidence of the penis was in my glass. That remained floating in the bottle. To eat I had fried egg white with dried scallop, polygonatum and ladybell root; shredded fish with Chinese yam; and herbal tonic soup with black chicken; and then a menthol jelly, "clears heat, lubricates lungs," said the waiter. Sautéed diced chicken with spicy sauce and walnuts was described as "good for heart and kidneys."

The fascination for the perceived medicinal properties of obscure foods in Asia, however, is undermined somewhat by everyday staples. A curious aspect of cultivated food crops in Asia is the tendency for them to have higher cyanide content than elsewhere. Cassava, a tuber cultivated and eaten by poorer people in Indonesia, Thailand, and Burma has one of the highest levels of natural cyanide compounds of all cultivated foods. Most of the cyanide is given off as hydrogen cyanide gas when the cassava is cooked. But not all of it. Tiny amounts of cyanide might help to protect against malaria and sickle cell anemia, but larger amounts ultimately are fatal.

Lima beans, which originate in Peru, also contain cyanide. The varieties grown on Java and in Burma have 20 to 30 times the amount of cyanide as those varieties cultivated in the US and Europe. Other cultivated crops popular in Asia that have atypically high levels of cyanide are sorghum, bamboo shoots, and sweet potatoes.

Ginkgo nuts are on the menu at the Hong Reng Tang Imperial Herbal Restaurant. The ginkgo tree is an ancient tree that has changed little since

the time of the dinosaurs. It's also known as the maidenhair fern tree on account of the delicate, fern-like shape of the foliage. Gingko nuts in China and Korea are believed to have medicinal properties and also are used in traditional cooking.

More than 40% of the 270,000 roadside trees in metropolitan Seoul are gingko trees. But gingkos are either male or female and it's only the female trees that bear nuts. And so of the 108,000 gingkos along public roads in Seoul, just 13,000 are believed to be female and nut-bearing.¹¹

Picking the nuts is illegal in Seoul. They are the property of the various municipal councils, which like to harvest them, usually for charity. The harvested nuts are either sold or given to homes for the aged. The nuts are believed to be good for relieving coughs and asthma especially among the elderly.

Another big agribusiness subsector in Asia is orchid cultivation. The world market for orchids is estimated to be at least US\$2 billion annually. Singapore has long had a foothold in the industry, exporting its cut Singapore orchids around the world. But now the market leader is Thailand. Almost all the orchids in the leis (garlands) given to tourists as they arrive in Hawaii now come not from Hawaii but Thailand. Hawaii must now contend with raising and selling potted orchids. But even this is under threat. Under a government plan, Taiwan has invested millions in the potted orchid business and now aims to become the world leader in exported potted orchids.¹² It won't be long before mainland China follows.

Pearls, Jade, and Zi Beads

Short-term crazes push up the prices of certain stones when fashion suddenly dictates that they are a necessity. The price of black pearls rocketed in Bangkok after the death of the king's mother in 1995, for example (who, incidentally was half-Chinese.) Strings of them became the fashionable way among wealthy Bangkok women to remain both expensively attired and demonstrate their loyalty to the royal family with their mourning. There was ample time in which to wear them. Her Royal Highness the Princess Mother (as she was known) died on July 18, 1995. Her cremation was almost eight months later on March 10, 1996. The cremation ceremony was spectacular and televised on national television. The extraordinary funeral pyre was 30.5 meters high and was even featured on a postage stamp issued by the Communications Authority of Thailand.

Black pearls, death and royalty have something of a history in Asia. Cixi, the powerful dowager empress of China, after her death in 1908 was

interred with funeral robes that were sewn with 33,560 pearls and 3,660 rubies, sapphires, emeralds and cat's eyes. But it was a black pearl the size of a nugget of coal that was popped into the dead woman's mouth to feed her spirit on its journey to the afterworld.¹³ The lot was stolen by tomb robbers.

But among most Chinese, white and not black is the color that is associated in death and in Penang, the wealthy Straits Chinese women used to reserve jewelry with white pearls set in silver for their periods of mourning. Otherwise they preferred diamonds set in high-carat gold.

China is now the biggest pearl producer in the world. Many come from the Chinese city of Shantou. Its success has been such that there is now an international pearl glut. Prices have plummeted. And the market is likely to deteriorate further. One estimate is that by 2010, China will produce almost 10,000 tonnes of pearls a year.¹⁴ Why China and why freshwater pearls? The abundance of rice paddies is the answer: farmers have been substituting pearl production for rice production. And so no longer are pearls the stuff of luxury and rarity. A trip to the pearl market in Beijing will confirm that, where it's possible to see sculptures of horses, dogs, and goats perhaps as much as 30 centimetres high that are completely covered in freshwater pearls. With bargaining, they can be had for as little as US\$30 a piece.

Jade has long been a stone held to be precious almost uniquely among the Chinese. Emperors collected it and sought it as tribute. A jade necklace once owned by heiress Barbara Hutton and which comprised 27 round jade beads sold for US\$4.3 million at a Christie's auction in Hong Kong in October 1994. It was the highest price ever paid for an item of jade. A month later Sotheby's sold another jade necklace in Hong Kong. This one comprised 99 smaller beads. It sold for US\$1.1 million. Jade necklaces continued to fetch incredible prices. One sold at Christie's in Hong Kong in 1996 for US\$2.29 million, for example.

But then another single strand of 27 jade beads came up for auction at Christie's in Hong Kong in November 1997. It was known as the "Doubly Fortunate" necklace and so it proved for its consignee. It sold for US\$9.44 million, a new world record for an item of jade and a record for anything sold at auction in Asia. On a carat-by-carat basis, it made top-quality jade more expensive than any diamonds or other precious stone. The necklace had been cut from a lump of jade that originally had weighed 50 kilograms. The rock had belonged to one of Burma's most famous rough jade dealers.

But perhaps the most extraordinary recent phenomenon in Asia in the jewelry stakes is the craze over Tibetan Zi beads (also written as tsi, gzi, zee and dZi). The beads come from Tibet but do not originate there. Typi-

cally they are made from black and sometimes brown agate and have white stripes, bands and “eyes.” They became fashionable among wealthy Tibetans who wear them to protect them from ill health. Tibetans believe that the beads either appeared from the side of a remote mountain in Tibet, belonged to the sky gods who dropped them, or were small crawling creatures that became fossilized. In fact, they’re all manufactured. Many are artificially colored. But by whom and when is no longer clear.

The beads are still worn by Tibetans.¹⁵ Few wear more than a single bead. If a bead spontaneously breaks, it is believed to have served its function, having absorbed the negative energy that otherwise might have seen its owner mortally injured. Rarely do Tibetans let others touch their beads and seldom do they part with them even for large sums of cash. If a Tibetan is willing to sell his or her Zi beads, it’s unlikely that the beads are especially auspicious. Sometimes the beads are ground to a powder and swallowed for medical reasons.

The beads are relatively rare and have attracted collectors. But 30 years ago, the top prices were around US\$100. Now they sell for as much as US\$50,000. And that is the price per bead, not per strand. What happened? The story may be apocryphal but it’s said that perhaps a decade ago, a building collapsed in Taiwan. There were many casualties and just one survivor, a man. He was wearing a strand of Zi beads to which his survival was attributed. And so the scramble for Zi beads was ignited. Their prices ballooned: tulips, Tokyo apartments, dot.coms, and now the Zi bead bubble. The craze for Zi beads has spread to other parts of Asia. Businessmen wear them for luck, such as Lim Chong Kim, head of Malaysian timber products company Limahsoon, who wore one on a bracelet on his right wrist at a mid-2004 press conference held in conjunction with his company’s listing on the local stock exchange.¹⁶ Perhaps it worked. The shares listed with a premium.

With the huge prices that the beads attract, they are now one of the most faked articles among all Asian antiques. Mostly, the fakes are produced in Taiwan. From there they even find their way back to Tibet where Tibetans wear them as if they are original. But copies also are produced in India, China, Pakistan, and Nepal from serpentine, glass, bone, horn, resin, and plastic. Glass copies have even been made in Murano, Venice. Itinerant Nepalese gem traders such as those who operate out of Jalan Petaling in Kuala Lumpur’s Chinatown help to pedal the copies across Asia.

Slowly, the Zi bead fad has spread to the West and found a ready audience among those enamoured with “Eastern” chic. The rock star Sting, for example, appeared in *Hello!* magazine photographed entering a London society ball in late December 2004 wearing a single conspicuous Zi bead

hung from a black cord around his neck.¹⁷ Perhaps Zi beads are set to be worn in place of crucifixes among the Hollywood set, breathing more air into the Zi bead bubble.

Bollywood and the Rest

Movies are not unique to Asia but the films around the region typically have unique content and formats. The Indian film industry is the world's second largest after Hollywood in terms of revenue. Hong Kong's film industry is the third largest. But India's is the largest in terms of new releases, around 1000 last year. Around 200 films are made by the film industry that's centered on Mumbai. Others are produced elsewhere in India, most notably in the south, where Tamil language movies are churned out in their hundreds, a comparable industry to Bollywood that has become known as Sollywood. Spectacular and usually inexplicable dance scenes are the standard fare of Indian movies. And so India is also the world's second largest producer of new release recorded music.

Traditionally, Indian films outside India largely have met demand from non-resident Indian communities. Or they have been sold as cheap programming for free-to-air television stations in developing countries that have cultural ties with India, such as Indonesia and the Middle East. But this is changing. Bollywood has become fashionable in the West.

Monsoon Wedding (2001) is Bollywood's biggest commercial success in the West to date. Filmed in New Delhi in just 30 days, it tells five intersecting stories that coincide at a colorful contemporary Punjabi wedding. It cost around US\$1.5 million and, outside India, earned around US\$30 million. And the following year, Andrew Lloyd Webber's *Bombay Dreams*, a musical about a young Indian slum dweller who makes it big in Bollywood, opened in London's West End.

And so the Indian film industry is hot. But it's also a mess. Most Indian films, be they from Bollywood, Sollywood or anywhere else, do not make money. Hundreds are abandoned in production, their backers having run out of cash. There is even a significant secondary market in unfinished productions that are bought up, recut and hopefully revived into something salable.

The industry is highly fragmented. Small independent family-owned production companies dominate. And yet Bollywood stars particularly demand huge fees and make costly whimsical demands, all of which help to push up costs. There are signs though of the entry of potentially bigger players. Both the Tata and the Reliance Groups have announced film industry investments in recent years.

The other surprising aspect of India's film industry is that despite its size, India has one of the lowest numbers of cinemas per capita in the world. China has at least 60,000 screens, five times more than the number in India.¹⁸ Indian cinemas are ramshackle, overcrowded, poorly air conditioned, and are notorious firetraps. High entertainment taxes and low ticket prices deter greater investment in cinemas.

The structure of earnings is problematic too. Hollywood films generate just 30% of their revenues from ticket sales. The rest comes from DVD sales and ancillary media. But for Indian movies the figure is 70%. Pirated VCDs, DVDs, and CDs abound. Legislation for intellectual property protection in India is of a high order but enforcement is poor.

The Indian film industry's other problem is its reputation for organized crime links. There are claims that as much as 60% of Bollywood film financing comes from the underworld. That figure is probably way too high but that's the trouble with black money. If it could be calculated with any precision, it could also be eliminated.

One underworld figure was arrested in 2001 after having allegedly financed 20 films in which he'd forced top stars to sign contracts to appear in them. But the highest profile arrest was that of Bharat Shah in Mumbai in 2001. Shah was India's top film financier and distributor and also one of the country's biggest exporters of cut and polished diamonds. He was arrested for allegedly helping an organized crime syndicate to extort money from well-known Bollywood personalities and in 2003 was jailed for a year.¹⁹

But it is in Hong Kong's film industry that organized criminals have made the biggest inroads.²⁰ Hong Kong's triad gangs are well known for harassing film crews on location, particularly in the New Territories. The Sun Yee On triad has been particularly active. Demands for protection money and payoffs are made to ensure that staff are not harassed and sets are not disturbed. Even the producers of the 1986 Hollywood movie *Shanghai Surprise*, starring Madonna and filmed partly in Hong Kong, reportedly were threatened by triad groups who had to be paid off.

A triad gang fire-bombed the Golden Harvest Film Studio in Hong Kong in 1984. The studios belonged to Golden Harvest Entertainment, a Hong Kong company in which Australia's Village Roadshow built up a 35% stake that it sold in 2000. One of Village Roadshow's reasons for selling out was the "growing and rampant" piracy of VCDs and DVDs in Hong Kong. Much of the piracy is in triad hands.

Jackie Chan, Andy Lau, and Chow Yun Fatt, three of the most famous actors in Hong Kong's film industry, have admitted to paying money to triads in the past. And the house of Andy Lau's personal assistant was fire-bombed in 1993 in what appeared to be a triad-related incident.²¹

The triads themselves have gone into movie making themselves rather than simply trying to extort money from the industry. Now whole movies are believed to come from triad-owned studios. Stories circulate that actors face pressure to take roles they don't want. Similar stories have come out of India.

Additionally, Hong Kong movies that once found an easy market in other Asian countries now face heavy competition from locally made films and Bollywood. Hong Kong movies cannot even be readily shown in mainland China. They are regarded as "foreign" and subject to heavy restrictions. A concession was granted in 2003 that Hong Kong-made movies that are co-productions between mainland China and Hong Kong production houses would be treated by China as if they were mainland made.²² But piracy in China and elsewhere has also taken a heavy toll on the Hong Kong industry. One recent notable success, *House of Flying Daggers* (2004) starring Andy Lau, actually topped the London box office in January 2005 for several weeks, ahead of the two more obvious candidates *Aviator* and *Shrek 2*. But it could not properly be classed as a Hong Kong movie: it was filmed largely in China by Zhang Yimou, a mainland Chinese director.

While the Hong Kong film industry is in the doldrums, South Korea's is booming. Revenues in South Korea for local productions are at record highs and foreign earnings for South Korean films were more in the first six months of 2004 than all of 2003.²³ Critical acclaim has come too. In 2004, director Park Chan Wook's *Old Boy* won the Grand Prix at the 2004 Cannes Film Festival and Kim Ki Duk won best director awards at the Venice and Berlin film festivals. A dark spot might come from the removal of the quota of screens reserved for showing Korean-made movies. By early 2005, the US was lobbying the Korean government for the quota system to be abolished so that American movies would have better access to the South Korean market, and it is likely that South Korea will have to accede to the US' wishes.

In Southeast Asia, there is a burgeoning movie industry too, particularly in Thailand, which has also become a popular place for Hollywood movies to be filmed on location. Oliver Stone's *Alexander the Great* (2004), for example, was filmed partly in Thailand. But Southeast Asia's cost-competitiveness was eroded in the wake of the 2002 bombings on the Indonesian island of Bali – insurance premiums for foreign film crews working in Asia rose several fold.²⁴ The December 2004 Indian Ocean tsunami also did little to help. Phi Phi Island in Thailand's south was particularly hard hit by the tsunami; this being where *The Beach*, starring Leonardo DiCaprio, was filmed in 2000.

Singapore has a small film industry. But Singapore movies tend to pull in audiences at home by breaking taboos and evading censorship strictures. That might be a drawback domestically but it provides little appeal to foreign audiences. Eric Khoo is a prominent film maker in Singapore. But then he can afford to be. His late father was billionaire Khoo Teck Put, who owned almost 15% of the UK's Standard Chartered Bank.

Beliefs and Business

Beliefs and superstitions tend to have a significant impact on business in Asia perhaps more than most places. Overseas Chinese businesspeople are important to many economies in the region so here are some examples that relate particularly to them.

The Chinese Hungry Ghost month when the spirits of the dead visit the earth has important implications for business. It is not an auspicious month for big decisions. Many Chinese tend to prefer to avoid making big ticket purchases like condominiums and other property and so it is a slow month for real estate agents and developers. Typically, launches for new real estate developments are delayed in Singapore, Malaysia, and elsewhere until after this month. New car sales slow and nor is it a good time to hold major art auctions or jewelry sales.

Business at the brothels of Singapore slows right down on days before a big horse race (many Chinese men fear that visiting prostitutes just before placing a bet will bring bad luck), but also it slows during the Hungry Ghost Month. Chinese should be more pious if the spirits of their dead relatives are visiting, so visits to prostitutes are precluded.

Ramadan is another slow time. Muslims are not supposed to engage in sexual relations during the daylight hours of Ramadan and are expected to be more pious anyway during the fasting months. Cheap hotels in Malaysia that can be rented by the hour similarly experience marked declines in their occupancy rates during Ramadan. But even in the evenings business can be slow as most Muslim men are busy with *buka puasa* – breaking their fast, usually with big celebratory dinners with friends, relatives, and business colleagues. Incidentally, the fast-breaking feasts are so large and typically elaborate that counter-intuitively food consumption actually rises significantly in Asia's Islamic countries during the fasting month. Food imports rise and many food importers carry cold storage excess capacity for the rest of the year to cope with extra demand during Ramadan.

There is much concern among many Chinese about evil spirits and

ghosts. Screens are places across entrances and rooms because it is believed that such spirits are unable to turn corners. That is why when you enter many Chinese restaurants even outside Asia the first thing you are confronted with is a screen. And when many Chinese men urinate outside, so concerned are they that they might be urinating on an unmarked grave that they whisper “excuse me” or words to that effect to the spirits that might inhabit the site.

Mirrors are another device to stop evil spirits in their tracks. The spirits are believed to be so ugly that if they see a reflection of themselves they are likely to take fright and disappear. And so the elevator lobbies and the elevators themselves of many Chinese-owned buildings are lined with mirrors to discourage spirits from going upstairs and causing havoc with the business environment. (Women like them too because they can re-apply their lipstick.)

Chinese geomancy or feng shui can be important and nowhere more so than in Hong Kong. Almost no buildings are built without due regard for feng shui considerations. The entire layout of Hong Kong Disneyland for which construction commenced around 2002 was rotated several degrees on the advice of a feng shui expert, for example.²⁵

But feng shui is important in many Chinese communities and not just in Hong Kong. In Thailand, for example, Banthoom Lamsam, the Thai Chinese head of Thai Farmers Bank and an ardent feng shui devotee, had his bank's head office built in the shape of a sword to negate the effects of the Rama IX bridge in front of the site which appears to “cut” horizontally across it. Feng shui principles were used to determine the building's furnishings and layout. Banthoom even changed his hairstyle on the advice of feng shui experts.²⁶

In Kuala Lumpur, MAA, the country's premier private insurer, has taken advantage of feng shui in a reverse way. The company is controlled by businesspeople who are Muslim and Malay and so not concerned by feng shui. The company relocated its corporate headquarters to a tower built over cemetery land and which backs directly on to a large cemetery in central Kuala Lumpur. Former cemetery land sells at a big discount on account of its poor feng shui. This opens the way for attractive deals for those not concerned by such things such as the owners of MAA. But if building over such land is unavoidable, precautions can be taken.

The massive Ngee Ann City shopping and office complex that sits mid-way along Singapore's Orchard Road is built over an old Chinese cemetery. It is 55% owned by a Teochiu clan group, the Ngee Ann Kongsi, which has long owned the land on which the centre is built, hence the cemetery. The architects had had a big job: how to negate the bad feng

shui that comes from building over former cemetery land? On the advice of feng shui experts, Ngee Ann City was built back from the road and designed to have the appearance of a massive Chinese grave. Its façade is surfaced with red-tinged granite. For auspicious reasons, there is a water pond in front in the forecourt. It has large statues either side. And there are tall flagpoles out the front to represent the joss sticks that are burnt before Chinese graves. (Similarly, leaving chopsticks standing in one's dish is very poor form: it converts them from implements for food, thus symbolizing abundance and life, to representations of joss sticks before a grave, thus symbolizing death.)

Each year, at the time of the Hungry Ghost Festival, Ngee Ann City's management sets up a massive Taoist paper kingdom in front of the shopping centre which they then burn to appease the spirits of all the dead who were buried beneath. But how many Western tourists are aware of all this as they step around it to shop at the boutiques inside? How many hungry ghosts lurk in the Gucci boutique or in Cartier?

Death is a serious matter for everyone but perhaps no nation is more superstitious about it than the Chinese. I once made the grievous error of writing in a previous book that a prominent Chinese businessman had recently passed away. He hadn't, it was his brother who had died. Other Chinese pointed out my error with hushed tones and reminders about how superstitious Chinese are. I promised to correct the error in the next edition. But there was no need. Within three months, the said man did in fact die. I suppose I would feel contrite if I was superstitious. But I'm not.

Also so in Singapore, the Overseas Union Bank (OUB) that sits between Raffles Place and Boat Quay stands on the site of the original Robinson's department store that burned down in 1972. Several people were trapped in the lifts during the fire and died. Accordingly, part of the exterior of OUB comprises a waterfall that was put in place on the advice of feng shui experts. The waterfall is supposed to have the effect of dousing the fire. For a time, the OUB tower was the tallest in the world outside the US. It was completed in 1986 but its official opening was delayed until August 8, 1988, or 8-8-88, symbolizing quadruple good luck (the mandarin and Cantonese words for "eight" being homonyms for wealth.)²⁷

Not only do Chinese in Asia believe in spirits and ghosts. The people of East Timor have a belief system that mixes strict Catholicism with animism. Many believe that East Timor's President Xanana Gusmao has the ability to turn himself into a tree which is why he evaded capture by Indonesian forces for so long.

Officials at the June 2003 APEC trade ministers meeting that was held in Thailand's Khon Kaen briefly thought that a large gathering of more

than a thousand local people was an anti-APEC protest. It turned out that it was a ceremony to exorcise *pee paub*, a type of ghost that feeds on raw human entrails and which was suspected of causing the deaths of several locals. The APEC trade meeting made little progress. But the *pee paub* hunt was a success. A three-hour search of the local community yielded a total of 39 ghosts. Nine were *pee paub*, the officiating Buddhist monk explained. The rest were other ghosts and stray spirits.²⁸

Many Buddhist ceremonies were held along the beaches of the southern Thai island of Phuket in early 2005 in the wake of the tsunami. Thousands died and so many ghosts needed to be placated. Tuk tuk drivers reported picking up passengers, often Westerners, who then disappeared mid-journey, leaving only water where they'd been sitting. Ceremonies were held to catch stray souls in paper lanterns and the souls were later released at temples.²⁹

Astrologers in India typically are consulted as to the timing of weddings. Most regard that a single phase of the moon around the Hindu spring festival to be the most auspicious time. And so in New Delhi, for example, many of the year's weddings occur in the space of a fortnight. This drives up the rental for things like marquees and outdoor furniture. And the business consequences of this? It's not a good time to stage an event associated with the launch of a new product or service. Rental for the necessary equipment can be astronomic.

Belief in feng shui and the auspicious arrangement and timing of things is not restricted to Asia or Asians. Italian Australian property tycoon Bruno Grollo is building Eureka Tower in Melbourne, billed as the world's tallest apartment tower. It will be 88 storeys high on completion, an apparent tilt to the Chinese belief that eight is an auspicious number. When Grollo faced tax evasion charges in Melbourne in November 2000, he hired teams of people to sit in the courtroom to direct positive mental energy at him and the jury. A team of people at an ashram in India were also paid to meditate for him to be found not guilty. A feng shui expert advised him how to enter the court room and on the basis of that he refused to use the public entrance and only ever used the room's rear door. Grollo was acquitted of the charges. No doubt that reaffirmed his belief in feng shui and the benefits of meditation. For good measure he did also hire Australia's best corporate criminal defence team to defend him.

Chapter 21

MAKING MONEY AND AVOIDING PREJUDICE: ASIA'S PARSIS

There are probably fewer than 140,000 Parsis worldwide. About 80,000 live in Mumbai, a city of 14 million people. Like the Jews of Europe or the Chinese of Southeast Asia, the Parsis of India and Pakistan are a distinct but exceptionally successful commercial minority. India's biggest conglomerate, its biggest software company, one of its biggest construction groups, one of its biggest textile exporters, and, worldwide, the second biggest name in tea bags, Tetley Tea, are all in Parsi hands. As much as half the real estate in Mumbai has been in Parsi hands, and probably a similar proportion in Karachi. Wander around Mumbai's financial district and you will see that many of the large, older buildings have noticeable Persian-style design features that betray the Persian heritage of their Parsi owners. Importantly, the Parsis have achieved all this without attracting envy and prejudice.

The Parsis come from India but they are not ethnically Indian. They are the descendants of the followers of the Zoroastrian sect whose members fled Muslim persecution in Persia in the eighth century.

By the nineteenth century, Bombay's Parsi families dominated the city's commercial sector. Spinning and dyeing was a Parsi activity. Financing was another. Wealth from these activities was put into property so that by 1855, it was estimated that Parsi families owned about half of the island of Bombay. The largest single Parsi landlord was Dadabhai Pestanji Wadia. He owned about a quarter of the island.¹ Parsi landlords are still prominent in Mumbai. Property developers today that want to move into Mumbai must deal with Parsi landlords more often than not.

Parsis also became very important in the shipping business and the

India-China trade. Family members were sent to Hong Kong and Shanghai to help run the shipping and trade businesses from there, much as overseas Chinese tended to fan out family members to chase business opportunities. Descendants of these outpost Parsi entrepreneurs still live in Hong Kong.

Today, among the Parsi names that are big in business in Mumbai are the Tata (Tata Group), Godrej (Godrej Group), and Wadia (Bombay Dyeing & Manufacturing Company) families. Shapoorji Pallonji & Co is one of India's biggest construction companies and it is owned by Pallonji Shapoorji Mistry, a billionaire Parsi businessman.

Parsis have long dominated the Karachi business community too, particularly in real estate, hotels, shipping, port development, and beverages. The late Parsi businessman Eduljee Dinshaw owned so much land in Karachi that the local government is believed to have placed an informal ban on him acquiring any more. Jamshed Nusserwanjee, a former mayor of Karachi, was a Parsi. Today, the Parsi community in Pakistan numbers fewer than 6000 but it still wields enormous commercial clout.

The Parsi Minwalla family opened the Hotel Metropole in central Karachi in the 1950s. As if to emphasize the family's Parsi/Persian roots, the Shah of Iran opened it in 1951. The hotel remains in the family's hands. Today, the Avari family is perhaps the most visible Parsi business family in Karachi (see below).

The Parsis were especially prominent in business in Hong Kong. Twelve of the 62 founding members of the Hong Kong General Chamber of Commerce were Parsis. Most of the rest were British. (There were no founding Chinese members, local or otherwise. They had their own chamber.) A Parsi developed large parts of Kowloon and another Parsi founded the Star Ferry services. The privately held Ruttonjee Estates is a big commercial property company in Hong Kong. The Parsi Shroff and Ruttonjee families own it. These families still maintain close links with the Parsi community in Mumbai. Stalwart of the Ruttonjee family, Jehangir Ruttonjee, founded Hong Kong's Ruttonjee Hospital. Today, however, there are thought to be just 200 Parsis left in Hong Kong.

The Parsis in Hong Kong traditionally have been involved in money lending. The Parsi linkage with money handling is why the finance column in the Hong Kong-based weekly magazine, the *Far Eastern Economic Review* was called "Shroff;" Shroff being a common Parsi surname. Similarly, offices in Hong Kong that handle small payments such as parking fees in high-rise car parks are called "shroff offices," or simply "shroffs" – a term that has such widespread acceptance in Hong Kong that many Hong Kong residents don't realize that the term is unique to Hong Kong.

In Singapore, Parsee Road is the name of the road that runs between the Monetary Authority of Singapore building and its car park, a further allusion to the historic money-handling role of the Parsis.

A group of Parsis had migrated to Singapore in 1829 and became prominent merchants. (A Parsi burial ground even stood in Singapore at Mount Palmer until it was cleared around 1970.) Navroji Mistri was a well-known Singapore Parsi businessman, after whom Mistri Road is named. He was born in Bombay in 1885 and came to Malaya in 1909, in 1925, he founded the Phoenix Aerated Water Company in Singapore. Part of the wealth that he generated from this went to pay for the 200-bed Mistri Children's Wing at the Singapore General Hospital in 1954.²

Parsis have turned up in prominent finance-related roles on the world stage too. Two examples are Homi Kharas who is the World Bank's chief economist for the East Asia and Pacific region, and Jim Wadia, former worldwide managing partner of the now defunct accounting firm Arthur Andersen.

The Parsi religion, Zoroastrianism, is one of the world's oldest. It teaches the importance of the elements, particularly fire. Zoroastrian pilgrims had, for example, come from Persia from the Middle Ages onwards to erect temples and worship the mysterious fire that shot out of the earth in certain parts of Azerbaijan, fueled by underground wells of natural gas.³

Each Parsi fire temple has a central, sacred flame that is never allowed to go out. (Mumbai has around fifty fire temples.) Traditionally, the bodies of dead Parsis are laid out in so-called "towers of silence" and crows are then allowed to feed on them. Cremation would "pollute" fire and burial would "pollute" the earth. In Mumbai, the principal towers of silence are adjacent to the city's so-called "hanging gardens" that are built over the covered water tanks that hold the city's water supply. The towers are not visible either from the road that passes by or the gardens. There are plenty of crows though.

Although they are well off as a community, the Parsis are dying out. It has been estimated that a thousand Parsis die each year in Mumbai, but only 300–400 are born.⁴ Today, one in five Mumbai Parsis is aged 65 or more. In 1901 the figure was one in fifty. The Parsi Council in Mumbai offers Parsi families who have a third child 1000 rupees a month until the child turns 18 to try to promote greater fertility but to date only about a hundred families have taken up the offer despite the scheme's existence for more than a decade.

In part, the Parsis' dwindling number is due to their affluence. Community members are marrying older if they marry at all and are

having fewer children. But it's also due to strict sanctions against marrying outside the faith. Traditionally, the children of Parsi women who married outside the religion were not considered Parsis but that was extended in March 2003 when a group of high priests issued a resolution that declared that marriages of Parsi Zoroastrian men or women to people of other faiths are invalid under the religion. It also declared the children of such marriages would not be admitted into the Zoroastrian faith. One in three Mumbai Parsis are believed to marry outside the faith.

Parsis have been influential in areas other than business too. Prime Minister Indira Gandhi's husband, Feroze Ghandi, was a Parsi. At the time of writing, Parsis held the positions of finance minister in Sri Lanka (Kersi Choksy) and attorney general in India (Soli Sorabjee).

Freddie Mercury, lead singer of the rock group Queen, was another famous Parsi. His real name was Farookh Bulsara and he was born in Zanzibar to a local Parsi family. "The Seven Seas of Rhye," a song penned by Mercury for Queen, is largely unintelligible unless you know something of Zoroastrianism, which holds that seven seas were created to divide all the land into seven regions or *karshvar* that are matched by seven heavens. World-renowned conductor Zubin Mehta is another Parsi. He was born in Bombay.

Parsis were among the first immigrants from India to make their mark in Britain. In the period 1890 to 1935, three were elected to the House of Commons: they were Dadabhai Naoroji (Liberal Party), Sir Muncherjee Bhownagree (Conservative Party), and Shapurji Saklatvala (Labour and Communist Parties.)

Keki Dadiseth, worldwide president of Unilever's Home and Personal Care Division, is a Parsi. He is now based in London. He had been the chairman of Hindustan Lever in India. Karan Bilimoria, founder of Cobra Beer, the best-known Indian beer produced in the UK, is another UK-based Parsi. Born in Hyderabad in 1961, Bilimoria's beer is now sold in more than 5000 Indian restaurants across the UK and is exported to 30 countries. He was named as UK's "Asian of the Year" in 2002. Cyrus Todiwala is another UK Parsi. He runs the popular Café Spice Namaste restaurant in the City of London and another, The Parsi, in London's Highgate.

Food is one of the Parsis' several distinctive characteristics. It's a fusion of Indian and Persian styles. Mumbai is where it is at its most authentic but few restaurants there actually serve it. The small Jimmy Boy Restaurant near the Bombay Stock Exchange is one that does. There I have enjoyed *Patra ni Macchhi* (fish coated in a coconut and coriander chutney and then steamed in a banana leaf), *Margi na Farcha* (chicken marinated then coated and deep fried), Chicken *Dhansak* (very thick, spicy gravy with chicken), and *Lagan*

nu Custard (baked custard with cardamom and rose water; *lagan* means “wedding” in the Parsi dialect). The last with its cardamom and rose water is particularly Persian. These are also the four dishes mentioned as particularly Parsi dishes in *Family Matters*, the novel about Parsi life in Mumbai by the writer Rohinton Mistry, a Mumbai-born Parsi who now lives in Canada.⁵ Another Mumbai restaurant that has Parsi influence is Leopold’s. It serves pomegranate juice, a particularly Persian and yet Parsi beverage.

Parsis also have a passion for art and antiques. The better antique shops in Mumbai tend to be managed by Parsis. And one of the greatest dealers and collectors of Indian antiques is Nasli Heeramanek, a Parsi based in New York. He donated the bulk of his vast collection to the Los Angeles County Museum of Art. Antiques are a passion that the Parsis have with that other successful commercial diaspora, the Jews.

The Biggest Parsi Names in Business

Tata Group is controlled by the Mumbai-based Tata family. It comprises around 300 companies and approximately 300,000 employees across seven divisions: engineering, materials (such as steel), power, chemicals, communications and IT, services, and consumer products. The group is involved in everything from automotive components to life insurance. Its hotels division has 54 hotels in India and overseas. It bought Tetley Tea worldwide in 2000 for US\$421 million, and in 2004 the truck division of South Korea’s Daewoo for US\$102 million and the steel and related businesses of Singapore’s only steel company NatSteel for US\$297 million.⁶ Annual revenues are more than US\$11 billion.

Tata Consultancy Services (TCS), the group’s crown jewel, is not just India’s but Asia’s largest IT company.⁷ It has 28,000 employees, annual revenues of more than US\$1.5 billion and staff working in more than 30 countries. TCS was floated on the Bombay Stock Exchange in July 2004 with spectacular results. It was India’s biggest ever IPO and even though just 14% of the company was offered to outside shareholders, it raised more than US\$1 billion for Tata Sons, which intend to use the funds for more acquisitions and to buy shares in group members to strengthen the group’s cohesion. The shares rose by almost 27% after their listing, valuing TCS at almost US\$11 billion.

Tata Group was established by Jamshedji Nasarvanji Tata. His father sent him to Shanghai and Hong Kong in the 1860s to help promote foreign trade for his father’s firm. He dealt in cotton, opium, tea, silks, camphor, cinnamon, copper, brass, and gold. In 1869, he returned to

Bombay and established a cotton mill and later a steel mill which became Tata Iron and Steel Company. This company supplied railway tracks to the British administration.

In 1903, Tata opened the Taj Mahal Hotel, supposedly after he had been refused entry to one of the city's European hotels on account of being "a native." The majestic Taj Mahal Hotel, which overlooks the Apollo Bunder and the Gateway of India monument, remains Mumbai's most luxurious hotel.

The group is headed by Ratan Tata. He stepped down as chairman in December 2002 and now serves as group non-executive chairman. Now in his sixties, Ratan never married and, according to Mumbai gossip, isn't likely to. The community's dwindling numbers means that marriage and children are topics of endless fascination among elderly Parsis. Ratan apparently shies away from local Parsi parties and functions because he has long tired of fending off questions about his lack of a wife. He is nonetheless supportive of the international Parsi community particularly in the area of the arts. He is said to have sponsored numerous visits to Mumbai of the conductor Zubin Mehta and is even said to have put Freddie Mercury's mother up at the Taj Mahal Hotel. Bhicoo Manekshaw, the Mumbai-born Parsi food writer, was employed at the Taj Mahal Hotel as a food consultant and expert chef.⁸

Historically, many and perhaps most senior management roles in the group have been filled by Parsis, for example, Xerxes Desai was appointed managing director of the group's Titan Industries and Russi Mody headed Tata Steel until he was replaced by another Parsi, Jamshed Irani. Another, A.H. Tobacchowala headed up Voltas, Tata's white goods subsidiary, and, Darbari Seth headed Tata Chemicals. One further is Freddie Mehta, a director of Tata Sons. But the preference for Parsis is not diminishing with the passing of the old guard. In 2001, another Parsi, Homi Khusrookhan, a former managing director of Glaxo and Burroughs Wellcome India, was appointed managing director of Tata Tea.

Today, Tata Sons functions as the group's holding company. It has stakes of around 26% in most listed Tata companies. And in turn, 11 Parsi charitable trusts established by the Tata family control about 63% of Tata Sons. (Each trust is named after a Tata family member or the family generally.) The Tata family's actual holding in Tata Sons is now around 2%. The largest individual stockholder in Tata Sons with about 18% is another Parsi billionaire businessman, Pallonji Shapoorji Mistry. He is the father-in-law of Ratan Tata's half-brother Noel. And so it turns out that the ultimate owner of Tetley Tea, be it in London, Sydney, or Hong Kong, is a series of Parsi charitable trusts.

Mumbai's Wadia family controls Bombay Dyeing & Manufacturing Company. The family has been in business since the 1700s. Today it is one of India's biggest manufacturers and exporters of textiles. The board of directors is dominated by fellow Parsis. Nuslia Wadia, the current chairman, is the grandson of Mohammad Ali Jinnah, the founder of Pakistan, on account of Jinnah having married the daughter of a wealthy Bombay Parsi industrialist. Nuslia is close to Ratan Tata, the current head of Tata Group. His son Jehangir (or more simply, Jeh) will likely take over management of the group from Nuslia. Jehangir announced plans in 2004 for a low-cost airline based in India.

The massive Mumbai-based Godrej Group is another prominent Parsi-owned enterprise, owned by the Godrej family. A conglomerate built by four generations of this close-knit business family, Godrej today is a household name in India. The Godrej name appears on a diverse range of products that includes locks and safe deposit lockers, soap, cosmetics and toiletries, edible oils, packaged foods, and home appliances.

Shapoorji Pallonji & Co is one of India's biggest construction companies. It is owned by Pallonji Shapoorji Mistry, the single largest individual shareholder in Tata Sons. The company has built several of Tata Group's biggest plants as well as the Reserve Bank of India's 25-storey tower in Mumbai, the Mumbai Oberoi Hotel, the State Bank of India headquarters in Mumbai, the Hotel Taj Intercontinental in Mumbai, the Indira Gandhi Airport in New Delhi and the Palace Complex of the Sultan of Oman. Pallonji Mistry owns large tracts of land in Mumbai. He also owns a stake in Tata Consultancy Services (TCS) through his stake in Tata Sons. Shortly after TCS was listed in 2004, it was calculated that his effective stake in TCS was worth US\$1.7 billion alone.⁹

In Pakistan, the Avari family owns the Avari Plaza commercial complex in central Karachi, next to its Avari Towers Hotel. It controls Spencer & Co. listed on the Karachi Stock Exchange, and has pharmaceutical interests, the Beach Brewery company, and travel agency interests. Other hotels owned by the family are the Ramada Hotel Toronto, the Avari Hotel Dubai, the Avari Hotel Lahore and the Beach Luxury Karachi.

Rich, Yes, but not Targets

The Parsis have not been the targets for violence and prejudice, unlike the Jews and Southeast Asia's Chinese. And yet the Parsis are a community built on excluding others. As mentioned, Parsis are forbidden to marry outside their faith and the children of those who do are not considered

Parsis. Non-Parsis are not permitted to enter Parsi fire temples. They are noticeably distinct on account of their fair skin and European features. And they are notorious for preferring to employ other Parsis as senior managers in their companies, to the exclusion of others.

Attributes like these ought to attract suspicion and antagonism but they haven't. Early on, the Parsis were careful to make concessions to assimilate and ensure that their demeanor was not one of arrogance.

Legend has it that when, in the eighth century, boatloads of the first Parsis to come to India waited offshore for permission to land, the local Hindu ruler sent them a full glass of milk to suggest that there was no room for them. They sent the milk back with a gold ring in it. The implication was that they would enrich the local population without disturbing it. (A less charitable interpretation is that it was a bribe or at least it symbolized what the ruler might earn if he allowed them to stay.)

Another local ruler only permitted Parsis to settle in his area if they agreed that the women would adopt local dress, learn the local Gujarati language and hold their wedding ceremonies only at night to conform with Hindu practice. The Parsis also methodically sought to emphasize in their own religion those customs most similar to Hindu practices and to de-emphasize those that were not.¹⁰ Zoroastrian codes were rewritten to take account of this.

But perhaps the most crucial element of their acceptance among local Hindus and Muslims is their philanthropy, which by any measure is extraordinary. The Zoroastrian injunction that "happiness to him that brings happiness to others" provides a clue. Parsis, wherever they are, are well known as big donors to good works. Hospitals, medical centers, schools, housing colonies, universities, libraries, nursing homes, hospices, and other institutions for the public good have all been established by local Parsi communities. Sensibly, they nearly always carry the (Parsi) name of their principal benefactor. This serves as a constant reminder of the Parsis' generosity. India's first cancer hospital was built and paid for by Parsis, for example. Mumbai is dotted with these institutions, each one a reminder of the Parsis' massive contribution not just to themselves but to the well-being of non-Parsis. And Tata Group, India's biggest conglomerate and managed by Tata family members, is actually owned by a series of Parsi charitable trusts.

Mumbai's highly regarded Prince of Wales Museum (now known as the Chhatrapati Shivaji Maharaj Vastu Sangrahalaya) was founded in 1905, largely from donations from local Parsi businessmen.¹¹ They provided the funds for the building as well as artifacts from their private collections. Sir Ratan Tata bequeathed his art collection to the museum in

1921. Later a part of the collection of his brother Sir Dorab Tata was also given to the museum. One of the museum's most beautiful pieces is an extremely rare late nineteenth-century small ivory sculpture of a Parsi girl in traditional costume.

A retired law professor who is a Hindu said to me in Mumbai: "No one in India would see the Parsis now as anything but Indian." This is the real success of the Parsis: not their riches but their acceptance.

And so the Parsis have managed to achieve something that few commercial minorities have managed anywhere. They have managed to remain a distinct, separate, and prosperous community and yet one that is liked and respected by the general population. Their mixture of humility, some concessions on culture and language, and their good works that extend beyond the confines of their own community have seen them undergo the conversion from aliens to "family." The Parsis provide a lesson for those in business everywhere.

Chapter 22

THE FAR EAST AND OTHER NONSENSE

What's the best way to think about Asia? Not as a discrete mass but as a continuum. It makes little sense for outsiders to view Asia in terms of "them" and "us" in this fluid, dynamic world. As the late Edward Said wrote:

Rather than the manufactured clash of civilizations, we need to concentrate on the slow working together of cultures that overlap, borrow from each other, and live together in far more interesting ways than any abridged or inauthentic mode of understanding can allow.¹

Yes, Asia is different for many non-Asians but it need not be alien. There are signs everywhere of the overlap that Said writes about. Look at Worcestershire sauce, a nineteenth-century English concoction. It was known in the Straits settlements of Singapore, Malacca, and Penang as *ang moh tau yu* (white man's sauce, in Hokkien).² But look at its ingredients: vinegar, sugar, soy sauce, molasses, tamarind, shallots, anchovies, ginger, chillies, cloves, nutmeg, and cardamom. This most English of sauces is decidedly Asian.

The converse is also true: those in Asia should not see those outside as particularly difficult or foreign. Of course cultures, and nationalities even, have tendencies that are specific to them (just as racism nearly always starts with a kernel of truth) but they blur at the margins; the tendencies are approximations. So Chapter 18 on five-star hotels and their guests can only ever be a rough guide to be taken with a pinch of salt – instructive perhaps but not prescriptive. There is no black or white, "us" and "other."

We differ only by degree. Approximations are useful but they are only ever that.

And of course ignorance is not a one-way street. Singaporean newspapers are notorious for overplaying small news reports to portray the US, Europe or Australia as crime ridden, with licentious attitudes to sex (this from a country with a huge government-organized commercial sex industry) and narcotic drugs, and prone to racist attacks against Asians. It helps to make Singaporeans feel happy to be Singaporean and to discourage emigration. Similarly, Chinese have absolutely insisted to me that Western television stations show hard core pornography each night, that Westerners never eat rice (never mind the rice pudding of the English, the paella of the Spanish and the risotto of the Italians or that the US and Australia are two of the biggest rice-growing countries in the world), and that Westerners never drink water because it is too “plain” for their tastes and so they almost invariably drink beer with their meals. And aren’t those who opine that Australians are racist racist themselves? Or that Americans are ignorant are at once showing themselves to be?

But old habits die hard. In this age of globalization, the English and their imitators still insist on calling Asia the *Far East*, usually with emphasis on the word “Far” as if those who live there are somehow unfortunate to be living so “far” from Europe. But how ridiculous, say, for an Australian to have to call the Near North the Far East, or indeed for anyone. In any event, the world isn’t flat. It’s round, in which case if you keep travelling east you’ll eventually end up where you started, so how east is east? And what if China becomes as ascendant as some people say, and becomes the world’s largest economy? Will we then call Europe the Far West, to reflect its place in the new order of things? Will Tibet or India become the Near West? Isn’t it time for modern multinationals to shed the flat earth nomenclature of the past and replace their Far East strategies and their Far East managers with Asia strategies and Asia managers?

Asia has variably been described as exotic, “far,” mysterious or inscrutable. But all these are ways of describing just one condition: a dearth of quality information. They are confessions of ignorance. And more than that. Label Asia as the “mysterious East” and it becomes both an admission and an excuse: an admission of ignorance and an excuse not to do anything about it. Mystery invokes the unknowable, the impenetrable: why try to understand what we cannot even hope to? But there is no mystery. Just research to be done.

Information is the lifeblood of business. It is the single most essential

business input. And it's the one input that should not be economized on. But what counts as business information? The answer is everything, particularly in Asia. For business does not proceed in isolation, particularly in Asia. Businesspeople are more than what they do in their places of employment. And in Asia, where personal connections count for so much, the scope of what constitutes business information is very much wider. Know that and you will be on your way to being streetwise in Asia.



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