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Riding out Asia's crisis: Conservative commercial values are the keys to survival for ethnic-Chinese businessman Churat Pasupa . . .

Frugality and family values could help ethnic-Chinese businesses stay afloat in stormy economic waters. This survival instinct is characteristic of millions of ethnic Chinese, not only in Thailand, but also in other parts of Asia. It suggests that most economies in which ethnic-Chinese family businesses are dominant could weather the current economic crisis.

By Michael Vatikiotis and
Prangtip Daorueng in Bangkok



Churat Pasupa ushers his guests into an air-conditioned reception room, out of the stifling midday heat and away from the gloom of the dusty warehouse, located in the heart of Bangkok's old Chinatown. The wood-paneled room is cluttered with porcelain figurines of the three Chinese gods of prosperity, longevity and fertility, placed there to protect Churat's family-owned steel business, Cheung Chai Hah.

In hard times like these, any help the deities can offer will be welcome. But Churat also is putting his faith in the conservative commercial values he inherited from his ethnic-Chinese parents: frugality and family ownership. Keeping his business to a manageable size and all in the

family is the key to survival, he believes; this way he does only what he knows best and at a cost he can afford.

Similarly, his friend Sita Karnkriangkrai keeps his small construction company strictly a family affair. (Thai-Chinese long ago adopted Thai names.) Atis Build Co. operates from a modest townhouse in northern Bangkok, and is completely owned by Sita and his wife. Sita, too, has no time for the extravagant borrowing that inflated the bubble economy. "I spend today's money," he says. "I don't spend tomorrow's money."

Neither Sita nor Churat has borrowed beyond his means, nor diversified from his core business—and they aim to keep it that way. Because of their past and present conservatism, both men perhaps stand a better chance of putting their businesses back on track once the economy recovers. This survival instinct—turning to traditional family values when things go bad—

is characteristic of millions of other ethnic-Chinese businesspeople, not just in Thailand but also in other parts of the region. It suggests more broadly that Thailand, as well as most other

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PHOTO: MICHAEL VAN KORTEN

... and for Sita Karnkriangkrai.

economies enriched by ethnic-Chinese enterprise, may be down, but not out.

"The Chinese family business format was designed to survive intense volatility," says Gordon Redding, a Hong Kong-based expert on ethnic-Chinese business in Asia. He cites strategic flexibility and speedy response to changing conditions as two major strengths of the ethnic-Chinese family business. Combine that with an innate conservatism and prudence, and the stories of Churat and Sita provide a telling lesson for the high-flying businesspeople burned by Asia's economic meltdown and must start anew. That's not to say risk-taking and entrepreneurial flair won't be essential if economies are to recover, but respect for traditional values clearly helps to guard against excess.

Theera Boonyasiriwat has learned that lesson well—his company is one of those that grew too fast and was undone as a result. He was forced by the economic downturn to pull down the shutters on his six-year-old electrical-supply business, Melec Co., at the end of last year. In its heyday, Melec employed about 80 people and had an annual turnover of about 100

million baht (\$2.1 million). The firm recently moved into a new 20-million-baht four-storey building off Bangkok's busy Sukhumvit Road.

Then the baht collapsed, and private construction projects ground to a halt. The government froze payment of about 3 million baht for a building project, and Melec's cash flow slowed to a trickle. Now, the partitions in Melec's modern office divide empty spaces, computer terminals are covered in dusty plastic, and the telephone calls that a solitary loyal secretary answers are mainly from impatient creditors.

"The boom was too much," recalls Theera, who expanded beyond his means and ability. "The construction companies wanted fast and diversified service from the same company." Melec diversified beyond air-conditioning into general electrical and water contracting; the more it expanded, the more people it employed, and the more debts it accumulated. After the baht's devaluation, Theera began downsizing—cutting staff, salaries, and parts of the business. But it was too late.

By contrast, Sita kept his business small and its profits undivided—and has survived. Atis Build's construction projects didn't exceed 100 million baht in value, normally allowing Sita to rake in 3 million-5 million baht in profit each year. "If you go above 200 million baht, you need to bring in partners and new staff, which means the profits are more divided," says Sita. Having no outside shareholders, he claims, is the key to resilience: "I do my own business alone. When I am in trouble I use my personal reputation with the banks to get credit. When I make profit, I'm the one who keeps the money."

Tighter ownership also gives Atis Build greater flexibility to scale down building projects to suit the gloomier times. Smaller projects mean less time spent on construction. "I'm just doing short-term work—a maximum of six months," says Sita. That's not a bad idea when material costs are rising and clients don't always pay up. Sita hasn't seen any money from a 16-million-baht project for which he won a tender from a large Bangkok corporation. In the better days, he might have stopped the project altogether; nowadays even delayed payment helps him to continue to employ his 100 workers.

This approach is typical of Thai-Chinese businesses and makes them very resilient, asserts Vorasakdi Mahatthanobol, an expert on Thai-Chinese society at Bangkok's Chulalongkorn University. He adds, however, that "they will survive for sure, but they won't grow very rich."

Thai-Chinese like Surat and Churat would prefer it that way, perhaps. At the height of Thailand's economic boom, they would have been considered commercial dinosaurs, unwilling to take risks, unwilling to borrow cheap capital from overseas, and unwilling to invite outsiders to invest in their companies.

That kind of prudence ensured that many small Thai-Chinese businesses had enough liquidity when the bad times came. Panya Chattanrassamee, who owns an executive-search company in Bangkok, says fall-back cash reserves will be vital for many small businesses to survive. "Right now it's better to save cash until recovery becomes evident," he says. "Cash reserves can help maintain a business."

Sita agrees. "If I hadn't kept cash in

Return to Traditional Values

What makes the ethnic-Chinese family business tick

Strengths	Weaknesses
CONTROL	
<ul style="list-style-type: none"> • Intensity of managerial commitment • Reliability of managerial commitment • Cost-efficiency by reducing bureaucratic control 	<ul style="list-style-type: none"> • Lack of neutrality and professionalism • Goal displacement possible when control is unclear • Coordination problems due to lack of focus
ADAPTIVENESS	
<ul style="list-style-type: none"> • Strategic flexibility • Speed of response • Personal vision can be operationalized 	<ul style="list-style-type: none"> • Danger of nonrational, opportunistic leaps • Possible diffraction of organization • Lack of creative tension and debate on strategic issues

Source: *The Spirit of Chinese Capitalism* by S. Gordon Redding

REVIEW GRAPHIC/JENNIFER CHING

the bank, I'd be finished by now," he says, adding that he has enough liquidity to survive for at least another year if business is flat. Sita has cash to spare partly because he shunned the extravagant lifestyle of the boom years. His inexpensive attire and small but tidy office attest to a penchant for thrift. The soft-spoken, slightly built businessman recalls how his friends laughed when he bought an Australian-made Holden instead of a Mercedes. For Sita, the purchase was in character: "I bought the car for 1 million baht in cash. At the time a Mercedes cost 3 million baht. When people ask why I did not buy a Mercedes I tell them that I saved 2 million baht in cash."

Beyond excessive materialism, Sita also saw many of his friends fall into debt because, as he sees it, they strayed from the traditional Chinese way of doing business. Looking at Thailand's economy today, Sita believes that too many people were distracted by a foreign business culture. "I never appreciated the MBA culture," he says. "It trains people to cheat—to do business in a way that exploits others all the time, taking shortcuts to profit and inflating their assets."

Even though Sita has managed to keep Atis Build's head above water, other companies' troubles affect business. His brother-in-law's steel-supply company has been badly hit, with its monthly turnover down to 50 million baht from about 400 million baht. To help out, Sita has built a 10-million-baht warehouse for his brother-in-law and asked for no payment. Thai-Chinese business tradition dictates it should be so. His brother-in-law gave Sita his first experience in business at the steel-supply company. "We have to help each other in business," Sita points out. "Because when we make a profit, we get it from them. My business is based on trust."

Trust is a hard principle to live by these days, however. Many of Sita's suppliers have begun to insist on cash payments, even as raising money from banks has become harder, and cement, a vital commodity in the building trade, has become costlier. "You have to pay in advance for materials. People don't believe the money



Paying the price: Theera Boonyasiriwat's business grew too fast and was undone when the economic crisis hit Thailand.

is there in your account," says Sita, who hasn't bounced a cheque in 17 years of doing business.

Born to a father from Hainan Island who settled in the central Thai province of Suphanburi and built river boats, Sita studied engineering at Khon Kaen University. There he got involved in student politics in the mid-1970s, and like thousands of others protesting against the military regime at the time, Sita fled to the jungle and joined the Communist Party of Thailand. A government amnesty five years later allowed him to return to a normal life. He joined his brother-in-law's firm, but in 1982 started a small construction business with some friends. As now, Thailand was

then heading into recession, but that slump was easier to ride out because the baht's value was fixed. Says Sita: "It was more predictable, more certain."

Like Sita, Churat was at university during the turbulent mid-1970s, but didn't follow his friends into the countryside. "I was tempted, but I liked the city life," he quips. Besides, as the eldest of eight chil-

dren, he had to take over the family business.

The current economic heartache has taught Churat that the way his father did business—in the same tumbledown wooden warehouse where Churat now works—can help him survive. He has adapted to the crisis by shrinking inventory and freezing orders from his suppliers. The ability to scale back, he says, rests on three important pillars: "Staying out of debt, concentrating on one business, and being totally family-owned . . . I don't bring too much theory into my business, I work with my own logic."

However, neither logic nor the Chinese gods arrayed in his meeting room has helped Churat protect his business from losing money in the teeth of the current crisis. Cheung Chai Hah was started by immigrants from Shantou in southern China 40 years ago. In the boom years from the late 1980s till the mid-1990s, the firm boasted an annual turnover of 1 billion baht. Since July last year, sales have plunged 60%.

Churat saw the crisis coming well before it hit. In a response similar to Theera's, he tried to downsize by slashing inventory. But there's a limit to the costs he can trim, because the baht's value has plummeted so quickly and his business needs to import about 40% of its material. Even so, Churat has managed not to lay off any of his 70 employees.

As with so many businesses in Thailand, the major impact of the crisis has been on liquidity. Churat now insists on cash payment from clients whom he doesn't know well. Regulars still get credit, in a continuation of business ties built on trust. Churat says that small clients pay up, while big firms "are more untrustworthy." In another effort at damage control, he is asking banks and suppliers for more time to pay them back. "These days you rely more on banks, but you have to have good business. If you open up a letter of credit, the bank screens it very carefully and they chase after the money much faster," he says.

For Theera Boonyasiriwat, the economic turmoil has provided a particularly harsh lesson. Now that Melec has closed its doors to business, the family is relying on a small printing press started by his father and currently run by Theera's wife. The press makes about 1 million baht in annual profit, enough to run the household, says Theera, whose lined face makes

“ If I hadn't kept cash in the bank, I'd be finished by now ”

—Atis Build Co.'s
Sita Karnkriangkrai

him look older than his 46 years.

The family was saved from further pain only because Melec's debt burden at closure equalled its assets, underlining the importance of keeping cash in reserve instead of the debt favoured during the boom years. All Melec's shareholders have repaid the banks. Theera even managed to set up a small air-conditioner service company to rehire people who had worked for Melec over the last decade. "I don't want the company to completely die. I'll go into hibernation and wait for the boom times to come back," he says optimistically.

Theera admits that the previous generation worked a lot harder than his own. (Theera's Shantou-born father, now 74,

recently opened a new business selling Buddhist artifacts.) "My generation liked to be comfortable," says the dapper, bespectacled Theera. "We cannot compete with my dad's generation." He believes that what will save him ultimately is that, learning from his father, he is rather conservative in his personal finances, if not in business. Theera, who has two teenage sons, says he still has plenty of cash—enough to buy the office building, for instance. Most importantly, he has the traditional family-owned business to fall back on.

So what went wrong? According to Theera, Thailand did too much business Asian-style. Unlike Sita—and to an extent Churat—who believe family ties will help

people survive, Theera is convinced that too much trust in personal ties contributed to the crisis. "We gave people credit by just looking at people's face without substantial facts to support such a decision. At the same time, we borrowed things from the West, like speculation on commodities," he says bitterly. "It's a mixture of bad things from both cultures. We lost our sense of perspective—a sense of what was possible."

Theera speaks from experience. Starting blankly at a television screen with running stock prices, he admits to sinking 2 million baht in the stockmarket. "I just try to forget about it now," he says, with a shake of his head. ■

The Chinese Way

The setting is spartan and unambiguously Chinese. A family of four sits around a dinner table, eating boiled rice. Their faces are drawn and hungry. Above the dimly-lit table hangs a dried fish. Looking up from her bowl, the wife asks the husband how the family can possibly save more in these hard times. Suddenly, the fish opens its eyes and begins to speak. "Well, why not try using a more energy-efficient light bulb," it says.

In this recent television advertisement, the Electricity Generating Authority of Thailand uses a traditional Chinese fable to promote energy conservation. The story goes that in order to save money on food, poor Chinese immigrants used to hang dried fish over the table so they could inhale the aroma while they ate a frugal meal of boiled rice. The urge to save "is very much the Chinese way of thinking," explains Vorasakdi Mahatdhanobol, a specialist on Thai-Chinese culture at Bangkok's Chulalongkorn University. He says this thinking epitomizes the enduring values of frugality which the advertising agency calculated would be understood immediately by every Thai viewer.

Dirt-poor and usually borrowing the cost of a passage on the steamers leaving ports like Guangzhou and Xiamen, the Chinese arrived in Thailand and other foreign lands with little more than a pillow and a mat to sleep on. The immigrants faced immense hardship at first, but through thrift and perseverance worked their way to a better life. In Thailand, the presence of Chinese immigrants was noted as early as the 1660s. Significant numbers of Hokkien Chinese also arrived in Thailand in the early to middle 19th century. The final wave accompanied the communist takeover in China in 1949, according to *Overseas Chinese Business Networks in Asia*, an analysis by Australia's Department of Foreign Affairs and Trade.

Many of those immigrants, from peasant farm-



Television lessons on frugality.

ing stock in southern China, are today the pillars of corporate life in their adopted lands. In Thailand, the ethnic Chinese have been instrumental in developing the private sector. *Over-*

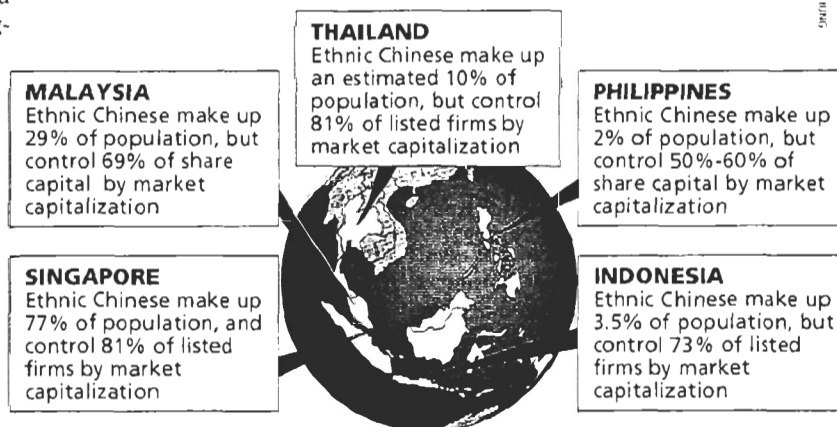
seas Chinese Business Networks in Asia says the Thai-Chinese, which make up about 10% of the population, control an estimated 81% of listed companies by market capitalization.

The Chinese in Thailand have blended more smoothly into the country than have their counterparts in other Asian nations. They suffer from little of the tension and suspicion stalking the ethnic Chinese in Indonesia, for example. This perhaps accounts for the more proactive role that Thailand's Chinese community is playing in tackling the country's worst economic crunch in more than 50 years. They are rediscovering the traditional Chinese value of frugality not just personally, but at the national level. Prominent Thai-Chinese families have spearheaded a campaign to donate gold and foreign currency to the Thai government. The gestures, though, remain largely symbolic, given the scale of Thailand's economic problems.

■ Michael Vatikiotis

Pillars of Corporate Life

Southeast Asia's ethnic-Chinese communities wield an economic clout disproportionate to their numbers



Source: *Overseas Chinese Business Networks in Asia* by the East Asia Analytical Unit, Department of Foreign Affairs and Trade, Australia