

A year ago, our friend Joe Studwell published *Asian Godfathers*. Very shamefully, we only came around to reading it recently.

The book asks an interesting question: Has wealth been created in Southeast Asia? Or has it simply been harvested by a parasitic class of well-connected businessmen?

Asian Godfathers — by Joe Studwell

With over 500mn people, Southeast Asia accounts for around 10% of the world's population and, demographically speaking, is one of the most vibrant spots in the world. The region is rich in natural, and human, resources. So much so that, until a decade ago, hordes of books were written on Southeast Asia's bright future. In fact, until the Asian Crisis hit, most investors needed to have a view on how the Indonesia economy was doing or where the Malaysian Ringgit was likely to trade.

Today, for most investors, Southeast Asia does not even matter as an afterthought. After all, Southeast Asia does not count a single company out of the world's top 500. But yet, as Joe Studwell remarks in *Asian Godfathers: Money and Power in Hong Kong and Southeast Asia*, South East Asia (including HK) counts 13 of the world's wealthiest 50 individuals! As Joe (a founding partner of our JV company Dragonomics) remarks, this is not a coincidence.

Nor is the term "godfather", instead of the more usual "tycoon" chosen lightly, for Joe sees "the godfathers" as a symptom of Southeast Asia's condition, and an obstacle to its growth. In fact, Joe's book, despite the titillating details of back-room deals, salacious affairs and severe personality disorders (sometimes linked to dumbfounding stinginess) is by and large a very sad story.

It is a story of abundant wealth diverted, often through dubious ways, for the benefits of the very few. It is the story of a Latin America-style wealth distribution, with the masses in poverty and a relative few with phenomenal wealth.

General media repeatedly paints the godfathers as dynamic businessmen, legendary entrepreneurs and paragons of wealth creation, etc. But Joe shows that:

- Real wealth creation should have boosted GDP, but GDP growth in Southeast Asia has been mostly linked to export growth.
- The godfathers are usually not involved in the export sector because, unlike the monopolistic sectors that they control, the export industries tend to be truly competitive.
- Thus, the godfathers have not really contributed to economic development in the region. Instead, weak governance has allowed them to maintain their monopoly holds on the assets that they farm.

Joe also goes to great length to show that there is absolutely nothing new about this state of affairs. In fact, these business arrangements are direct remnants of the systems put in place by the Dutch (in Indonesia) or the British (in Malaysia, HK and Singapore...) but which themselves were a direct follow-through of the customs that pre-dated the Europeans' arrival into Asia. Indeed, the propensity to "farm assets" dates back to the times when Malay sultans and Thai kings would sell concessions to tax farmers who would do their best to get as much out of their appointed region in the smallest period of time as possible.

Joe asserts that until now, the godfathers in front of whom the general media kowtows regularly, have created little, if any, wealth in their areas of operation (Hong Kong, Indonesia, Malaysia, Philippines, Singapore and Thailand). Instead, they have really been parasites, having gained monopoly access to limited resources (raw materials, port facilities, banking licenses...) through deals with political cronies, and maintained their situation through bribery in various forms.

Obviously, Joe pulls no punches in this immensely enjoyable read which should entertain any GaveKal reader wishing to find out more about the dark side of business in Southeast Asia, though Joe's exposé leaves us with one unanswered question: If Asia's tycoons really are little more than parasites or "asset farmers", how long will they be able to maintain their inordinate rents for? After all, in a world where information gets shared at the touch of a button, can a parasite really continue to thrive for generations? And if their power starts to fade, shouldn't this be a positive sign for Southeast Asia's future?