THE ASIAN FINANCIAL CRISIS: ARE ASIANS PARTNERS TO BE HELPED OR RIVALS TO BE HURT?

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(A shorter version of this article was published in the International Herald Tribune, 15 Jan. 1998.)

As Southeast Asian currencies and stock markets continue to tumble, people in the region are fast losing confidence in the international programmes that are supposed to resolve the financial crisis.

Many officials, analysts and ordinary people in Asia think the economic situation has worsened not despite but rather because of the bailout schemes for Thailand, Indonesia and South Korea.

The International Monetary Fund has come under unprecedentedly fierce criticisms in Asia and in the West. Critics point to the inappropriateness of the IMF's policies, its lack of transparency, the lack of opportunity for professional review of the theoretical basis and practical implications of its policy conditions before or even after they are imposed, the inadequacy and incompetence of its staf f and the way its major shareholders are manipulating its programmes to their own advantage.

The most widespread criticism is that the IMF's macroeconomic policy conditions, especially the raising of interest rates, low-inflation targets despite the currency depreciation, cuts in government s pending, and general economic contraction, are misplaced and harmful.

The standard IMF policies were originally designed for economies (mainly in Africa and Latin America) where high budget deficits and external debts were in the public sector and there was raging inflation. They are counter-productive in the Asian countries, whose problems are centered on the private sector and public sector finances are in balance or surplus.

Together with a condition prohibiting aid to troubled local banks and companies, these contractionary fiscal and monetary policies are further weakening or killing off local private-sector institutions.

Thus they further erode instead of boosting public and investor confidence (what is most needed in Asia). As a result, currencies and share values have plunged further, making the debt situation more explosive, weakening the financial system and bankrupting corporations, and causing the real economy to spin into deflation: a recipe for disaster.

It is evident that the IMF-coordinated programmes are also designed to enable the corporations of the rich countries to gain greater market access to the Asian developing countries, taking advantage of their present weakness.

For several years, the industrial nations have used bilateral pressures (for example, the threat of Super 301 trade sanctions of the United States) or multilateral fora (especially the World Trade

Organisation) in their attempts to get developing countries to allow foreign companies higher equity ownership and greater market access in their economies.

Many Asian countries had justifiably argued that whilst they were committed to liberalisation, this had to be a gradual process as their domestic firms needed more time to become more competitive. Opening up too fast would result in transnational corporations displacing local enterprises and dominating their economies.

Dismissing these arguments, the rich countries are now making use of the IMF programmes to force a rapid or even an immediate opening up of the troubled Asian countries, thus paving the way for probable foreign domination in the financial sector and the economy as a whole.

The IMF has asked the countries to remove or relax restrictions on foreign ownership and participation. It is common knowledge that this was injected in the IMF policy packages under the influence of the US Treasury.

In Thailand, where laws were changed in October to allow foreign majority ownership in Thai financial institutions, foreign banks have been actively arranging to take majority shares in many Thai banks and finance firms.

The American Chamber of Commerce in Bangkok is pressing the government to open up the economy further. Last month it issued a statement calling for additional financial liberalisation, lifting of all restrictions on foreign ownership of assets, greater foreign participation in the services sector and tariff cuts.

As part of its IMF deal in early December, South Korea agreed to raise the limit of foreign ownership in local listed companies from 26 percent to 50 percent (in mid-December 1997) and 55 percent in December 1998. The IMF also pushed Korea to allow foreign banks to establish subsidiaries and brokerage houses by mid-1998 and enable foreign companies to have access to do mestic money-market instruments and the corporate-bond market.

Recently, South Korea was again pressurised to agree to a revised package of deeper liberalisation, including full opening up of its capital markets and allowing for complete foreign ownership of its listed corporations.

Throughout December, the country's currency and stock market faced a continuous slide. With foreign reserves tumbling, the government made desperate attempts to get the IMF, the US and Japan to release more of the US$55 billion loan package, in order to prevent the country having to declare a debt moratorium.

Finally, at Christmas, agreement was reached that $10 billion of the $55 billion package would be released to South Korea in the next few weeks. But this acceleration of the funds release came with a heavy price, as the rich countries were able to extract even greater concessions.

Korea agreed to abolish nearly all restrictions on foreign investments in its financial markets and banking sector. Foreign banks and brokerage houses can establish full operations from March 1998. The bond market will also be fully opened to foreign participation by the end of 1998. It also agreed to allow foreign investors to acquire 55% of listed companies from 30 December 1997 and 100% by the end of 1998.

These new policies pave the way for foreigners to take over Korean companies and financial institutions. As the Korean won is at a low level, and the market value of local institutions are now priced very cheaply due to their debt burden and the collapse of the stock market, foreigners will be able to pick up assets at basement bargain prices.

As a recent Financial Times editorial put it: "The policies being demanded...will accelerate the slide into bankruptcy of the over-indebted Korean private sector. This will make it still easier for foreign investors to buy domestic assets at undervalued prices. Korea Inc. is now going for a song.

Ordinary Koreans are entitled to feel cynical."

In a speech to the Confederation of British Industry in London recently, the former US Trade Representative Mickey Kantor told his audience that the troubles of the "Tiger" economies should be seized as a golden opportunity for the West to reassert its commercial interests.

Such comments heighten the suspicion that the rich countries are using the rescue packages to their own advantage, and at the expense of the Asian countries. No wonder the rescue packages are greeted with resentment and street demonstrations by many Asians who increasingly see them as instruments for a new Western (and Japanese) takeover of some of the region's most dynamic developing economies.

An equally disturbing aspect of the bailout schemes is the way they are turning out, ironically, to be a bailout not of the troubled countries but of the international creditors by these countries.

These international banks made the commercial mistake of pouring gigantic amounts of loans, most ly short-term and mainly to private banks and companies, in Thailand, Indonesia and South Korea.

Now that steep falls in these countries' currencies renders a large part of these loans unrepayable by the private institutions, the foreign creditors are trying to find ways of getting the governments to foot the bill.

The first country where this is being tried is South Korea, where $99 billion of the total $153 billion external debt is owed by Korean banks and another $43 billion by corporations. In exchange for rolling over Korean financial institutions' short-term debts that are falling due, the foreign banks want the Korean government to guarantee or take over the loans of the Korean banks, a large part of which have gone sour.

There was some initial resistance to this, with a Finance Ministry official vowing that the government would never take over private debt. Last week, however, the South Korean Finance Minister Lim Chang-yeul announced the government planned to offer guarantees on the debt as requested by the foreign institutions as a condition to converting the debt.

With their key demand met, the foreign banks meeting in New Yorkare reported to have agreed to roll over the short-term debt for another 90 days, and are moving ahead with plans to convert their private short-term loans (made to South Korean banks) into longer-term government bonds.

This scheme has earned critical comments from even establishment commentators and the international financial media. The foreign banks that made the wrong assessment and committed the mistake of massive lending to private institutions in South Korea are going to repaid probably in full, whilst the burden is shifted to South Korean taxpayers via the government takeover of the mostly sour loans.

In this case, there is a clear use of double standards, for the IMF rescue plans insist on the market principle, that the governments must not provide aid to private financial institutions or companies in trouble.

Developments in Korea show that this no-subsidy principle applies only to local institutions whilst foreign creditors are given the privilege of having the IMF-coordinated aid funds rechannelled to paying them.

This formula is likely to be proposed also for Indonesia and Thailand. Indeed it could be one of the main points that IMF and US officials will put forward during their visit this week to the region.

The "aid" to Asia is looking less and less like a sincere attempt to put the ailing economies back on their feet. It is looking more and more like a design to help the companies of the rich "donor" countries gain instant access to the Asian countries' markets and to take over, at the cheapest rates, their private institutions; as well as to enable the foreign banks to get their money back without losses.

As several perceptive analysts are now pointing out, the way the IMF and the rich countries that drive its agenda are going about tackling the present crisis will result in a backlash of resentment and anger when the ordinary Asians become aware of what the "rescue" is all about.

It is, however, not too late to review and change the terms of the rescue schemes. The programmes should address the crisis of confidence instead of making it worse; allow for counter-recession policies and selective aid to local financial institutions, instead of generating deflation and bankrupt cies; and arrange for an equitable sharing of losses between foreign creditors and local institutions and people, instead of pushing all the burden to taxpayers.

Such a change of heart and policies of course requires a more enlightened approach by the powers that be in the rich countries, who should view Asian nations as partners to be helped in times of trouble, and not as rivals to be stepped on when they have stumbled, or golden opportunities for taking over market share when their assets are grossly undervalued.

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