Renewed Financial Crisis Threatens Asia

by Mary Burdman

The economies of many nations of East and Southeast Asia, far from having "recovered" from the devastation of 1997-98, are now facing renewed disaster, as the direct aftereffects of the policies dictated by Wall Street and the International Monetary Fund (IMF).

The situation has been worsening rapidly in September and October, as the engineered rise in oil prices takes effect, on top of the artificial "strength" of the U.S. dollar. The enormous financial bubble on Wall Street has been sucking up liquidity not only from Europe and Japan, but the developing sector nations as well. Just one indication of this, is the continuous fall in foreign direct investment (FDI) in Asia since 1997. FDI to Asia overall fell from $21.5 billion in 1997 to $13 billion in 1999.

Stock markets in South Korea, Thailand, Indonesia, Hong Kong, Shanghai, and Tokyo, are down 20-50% over the year, and regional currencies are falling against the U.S. dollar, especially in the Philippines, Indonesia, and Thailand, to levels not seen since the worst depths of the 1997-98 crisis.

At greatest risk right now, is South Korea, the third-largest industrial nation of East Asia, at the very time when the government of President Kim Dae-jung is promoting an "Iron Silk Road" infrastructure-development policy for a united Korean peninsula. The massively indebted South Korean banking system is cutting lending right and left, to the very industrial, construction, and machinery firms so urgently needed in East Asia.

This problem is exacerbated by the situation of Japan, the only advanced industrial economy in the entire region which remains buried under the avalanche of debt that has been suffocating it since the late 1980s. Its banks hold some $1-2 trillion bad loans, plus more than $15 trillion in derivatives, and the insurance sector is now buckling under this debt burden. This is demonstrated by the collapse on Oct. 20 of Kyoei Life, with $42 billion in debt, the biggest bankruptcy in modern Japanese history. This was just days after the collapse, on Oct. 9, of Chiyoda Mutual, with at least $25 billion in debt. Japan's stock markets fell during October to a 20-month low.

More serious are the effects on the real economy. Japanese industrial production was reported down by 3% in the third quarter. Unemployment reached 4.7% in September, up 0.1% from a month earlier—a very high rate for postwar "full-employment" Japan. Then, on Nov. 2, the lower house of the Diet (parliament) passed a government-sponsored bill, to increase the share that retired people must pay for health care to 10%, doubling the costs elderly people must assume.

While China's enormous economy remains relatively stable, the looming collapse of the U.S. market will hit China as hard as it will the rest of the Asian exporters. China had lost its export markets in Southeast Asia in the 1997-98 collapse, and focussed more and more on the U.S. At the same time, China has been presenting a strategy based on pulling in foreign investment to build up its interior regions. Yet, as the *China Economic Times* recently reported, foreign investment into China has continued to fall steadily. In 1999, used investment was only $40.3 billion, down 10.7% from 1998.

Taiwan, the other advanced economy in East Asia, is heavily dependent on oil imports and the export of computer components. It was struck by crisis the first week in October, when Prime Minister Tang Fu resigned, triggering a stock market plunge. Taiwan's stock benchmark has fallen almost 28% since the inauguration of President Chen Shui-bian in May, and Taipei has reportedly been forced to intervene, using up much of its $30 billion National Stabilization Fund. By the end of October, the Taiwan stock market had fallen to a 54-month low.

'Death List' for Korean Firms

Developments in South Korea have been dramatic. The central IMF demand, in return for the bailouts of 1997-98, has been the "reform" of the country's industrial conglomerates, i.e., the de-industrialization of South Korea. Under unrelenting pressure, Seoul decided to speed up, by at least one month, the decision to liquidate a number of industrial companies and banks unable to sustain their debt. Korean exports have been badly affected by the decline in product quality, due to companies' "unbalanced emphasis" of focussing on financial survival rather than industrial excellence, according to a study released on Oct. 26 by the Samsung Economic Research Institute.

Predictions of the growth rate for next year are all sharply down, to a rate of 5%, which is 3.5% less than this year's growth rate. The banking system is still burdened with something approaching $50 billion in bad debts, although some $98 billion in bad debts have already been absorbed by the government. The Bank of Korea released a report on Oct. 31, that Seoul has issued over $40 billion in monetary stabilization bonds since the outbreak of the foreign exchange crisis in 1998. This level of money-pumping is raising concern of an outbreak of inflation in the country.

Now, the banks are now cutting lending to enterprises, and loans of more than one year maturity, are being considered "dangerous" by Korean bankers. On Nov. 3, the government and creditor banks announced that 52 of South Korea's large enterprises are to be liquidated, placed under court receivership, sold off, or merged. These 52 were on a list of 287 large firms which have been struggling with their debts. A few heavily indebted firms, such as Hyundai Engineering & Construction and Ssangyong Cement, which were threatened with the chopping block, have been reprieved and their debts have been rolled over, but, it has been made clear, only temporarily.

Of the condemned companies, 19 firms will be liquidated, including construction and distribution, vehicle producers, and financial enterprises. Another 10 firms will be placed under court receivership, and 20 firms are to be sold off—if buyers can be found.

The Korean banks themselves are undergoing the same "triage" process. Soon, the "black list" of the banks will be released, and those considered unsound will be put under control of a financial holding company, to be set up by February 2001, where they will be restructured and "cleaned up," according to the Ministry of Finance, with public funds.

'Bone-Jarring Pain'

Meanwhile, what Daewoo Motor's new chairman, Lee Jong-dae, called "bone-jarring pain," in an Oct. 31 statement, is being inflicted on those industries which remain.

Daewoo Motor, South Korea's second-largest automaker, will slash 3,500 jobs and reduce overseas production, especially in eastern Europe and India. This belt-tightening is aimed at raising $789 million next year for Daewoo Motor's "self-rescue." Creditors have demanded drastic reforms in exchange for $395 million in additional working capital. Several bids by U.S. firms, including Ford and General Motors, to take over Daewoo have been negotiated, but nothing has been realized. The Daewoo conglomerate was declared bankrupt in August 1999 with $80 billion in debt; Daewoo Motor itself has a debt estimated at $16 billion, against about $12 billion in assets.

Hyundai Engineering & Construction Co., part of the Hyundai Group, and one of the world's biggest civil engineering firms, defaulted on $8 million in debt at the end of October. The firm got a reprieve, but its survival is questionable. In August, Hyundai Engineering promised to cut borrowings by $4.6 billion, in return for a debt rollover, but could not raise sufficient funds to meet the current payments. The restructuring of the Hyundai group, with a debt of $19.6 billion at the end of June, is the centerpiece of South Korea's corporate reform this year.

One indication of the pressure on Korean industry, are the machinations of Hank Greenberg's American International Group. AIG was supposed to buy Hyundai Securities, Hyundai Investment Trust and Securities, and Hyundai Investment Management Co. for $1 billion, but Greenberg postponed a scheduled trip to Seoul at the end of October. AIG is making outrageous demands, including a government guarantee for its investment, to go ahead with the deal, something considered unacceptable by Seoul officals.

In addition, Ssangyong Group, formerly the sixth-largest in South Korea, will almost certainly be dismantled in the near-term. Dong-Ah Construction Industries also faces liquidation, as creditors decided to refuse to lend additional funds. Dong-Ah is one of South Korea's major construction companies, and was digging a huge new canal project in Libya.

Crises in Southeast Asia

The Philippines, Indonesia, and Thailand, all devastated by the 1997-98 crisis, are now teetering on the brink of further disaster.

The Philippines peso continues to fall to record lows against the dollar. Due to support interventions, which proved futile, the Philippines central bank's dollar reserves were, as of Oct. 24, down to $13 billion, from $15.4 billion in August. In October alone, the Bangko Sentral used $200 million to engage in "intermittent intervention" to support the peso. Yet, one of the demands of the IMF, is that the Philippines keep its reserves at $16.4 billion.

The danger of hyperinflation was demonstrated the week before, when Manila could not even sell an issue of 90-day Treasury bills, and instead was forced to issue 42-day and 63-day bonds with interest rates over 16%! General bank lending rates are now between 17.18% and 19.40%.

On Oct. 12, the Philippines central bank raised its overnight borrowing rate by a full 4%—from 11% to 15%—after the peso had fallen to 48.50 against the dollar. Since then, the peso ranged down to over 50 to the dollar, an all-time low. It has fallen over 21% against the dollar this year so far.

Manila is finding it impossible to sustain the pressure of high oil prices. On the same day, Energy Secretary Mario Taiqui announced that he will lift, for three months, a 3% tariff on imported crude oil and petroleum products, to try to keep down domestic fuel price rises, although this will cost the government $9 million in revenue.

Amidst the economic crisis, the government of President Joseph Estrada is being hit with scandals. Opposition forces are mounting pressure to remove him from office, and members of his government are deserting.

In Indonesia, amidst unceasing political crisis, the national currency, the rupiah, continues to fall against the U.S. dollar. The rupiah, which has fallen 35% over the past 12 months, is now at 9,500 to the dollar. Warnings are out that the rupiah could go below 10,000, recalling the depths of the 1997-98 crisis, when it hit 13,000 to the dollar. Indonesia is an oil producer, which has prevented an even worse crisis—for the moment.

Thailand is also hit by a weakening currency, and the Bangkok stock market is sliding. Like Indonesia, Thailand has a very worrisome foreign debt-to-GDP ratio. The baht has fallen to 28-month lows of 43.37 to the dollar.