

12/12/1998

Nuances of the new power game

Rozi Ali

IT is fashionable to cast crony capitalism as the villain in the East Asian turmoil. But a different chorus is gaining credence.

University of Philippines's Walden Bello and chairman of political party, Akbayan, says the argument is thin since "the practices of crony capitalism were part of economic life in the 30 years East Asian countries led the world in GNP growth".

Since last July, Stamford Centre for Economic and Social Research Co-ordinator Charles Santiago has been advocating the same in his public lectures here and United States: "(During the economic miracle years) IMF and World Bank were in total awe of these economies; international rating agencies gave high ratings and foreign companies continued to invest and made tonnes of money. Some danced with Suharto, whom they labelled as a dictator, for preferential treatments. Crony capitalism was never a deterrent for capitalist profits nor was it a cause for igniting the crisis."

This does not mean everything, including governance, is squeaky-clean. Bello, who was here recently for the Asia-Pacific People's Assembly forum on Financial Deregulation and Privatisation, does not deny corruption may have been an accessory to the collapse but contends: "It is one thing to say corruption has pervaded relations between government and business in East Asia. But it is another thing to say corruption is the principal reason for the downfall of East Asian economies."

Santiago provides an anecdotal evidence: "India and China are not affected but there, corruption and crony capitalism are legendary. They are not engulfed by the contagion effect because they had imposed capital controls on mobility of money - policies contrary to the dictates of financial deregulation of the economy."

Corruption is a sideshow, writes Ashridge Strategic Management Centre's Andrew Campbell in *The Economist* (Nov 28, 1998) in disagreement with the latter's contention that "South Korea's chaebol points to corruption as a problem that still needs to be cleaned up".

Adds Santiago: "Although not a root cause, cronyism and corruption will slow down the recovery process."

What the West sees as the unholy alliance between business and government is not peculiar to Asia. Bello says corruption also exists in government-business relations in Italy and US where it is legalised through mechanisms like "political action committees" that make support of politicians contingent on promises of favourable treatment of corporate interests.

He makes a pertinent point: "Crony capitalism has become so elastic in its connotations, which range from corruption to any kind of government activism in economic policymaking, as to become useless as an explanatory construct."

This elasticity is seen in Malaysia's case where smart partnership, Malaysia Inc, the New Economic Policy, businessmen in trade missions and anything that bears the shadow of Adam Smith's invisible hand of the Government are denounced as crony capitalism.

But people latch onto it without question. Kronisme, nepotisme and qarunisme (greed) are new Malay words in political discourse which, at least, would have kept Dewan Bahasa Pustaka's lexicography department busy. At the last Umno General Assembly, former party Youth head Datuk

Ahmad Zahid Hamidi offended the sensibilities of loyalists when he pointed to crony capitalism as the enemy within - a posture that slid into fuzzy rhetoric when challenged.

In its generic ambiguities, the term crony capitalism has obfuscated the hard issues: the fundamental cause of the crisis is the unregulated flow of global capital brought about by liberalisation of finance and capital.

Many analysts have revised their stand now but the damage has been done.

"Valuable time was lost when... Washington and the IMF insisted that crony capitalism or corrupt relation between the private and public sectors was the main issue and that the solution lay principally in eliminating it and achieving greater transparency," says Bello.

Washington did not lead an effort to stabilise and reflate the region in a manner akin to the way it revived western Europe with the Marshall Plan after World War II. Adds Bello: "...It seized the opportunity to use the IMF to advance its bilateral agenda for the region which is to batter down the tariff and investment barriers to US exports and capital."

Critics say the IMF is "being manipulated by its principal and strongest stockholder, the US, to push trade and investment reforms that would benefit principally US economic interests". Bello points to South Korea where the concessions made in the negotiation of IMF-programme (raising the limit on foreign ownership of corporate stocks to 55 per cent and full liberalisation of the local capital market) have a one-to-one correspondence with Washington's bilateral economic policy toward the country over the last decade.

He quotes Undersecretary of the US Treasury Department Larry Summers who had said: "... The IMF has done more in these past months to liberalise these economies and open their markets to US goods and services than has been achieved in rounds of trade negotiations in the region".

Bello makes a persuasive case against the crony capitalism theory. His suggestions on the democratisation of global capital flows have merit. He sees our selective capital controls measure as necessary, albeit temporary. But he reckons the "Anwar" factor (in reference to former Deputy Prime Minister Datuk Seri Anwar Ibrahim) has done Prime Minister Datuk Seri Dr Mahathir Mohamad a disservice as it denied the controls the international recognition that would have, otherwise, been accorded. The political animal that he is, his answer is typical of the western political prescription for the Third World: "Retire so that the political system can open up".

But like the crony capitalism theory, politicising the controls is a tactical move to obscure the real issues. Crony capitalism is a dogmatic gospel of the West. Mainstream western thinking links the crisis to political decay. In Malaysia's case, it alleges that Dr Mahathir's administration has spun a political choir of dream merchants and Umno is a party in decline due to alleged crony capitalism that militates against the people's interests.

But it strains incredulity for anyone to suggest that since crony capitalism is the root cause of the crisis, the removal of government leaders along with their konco kroni (group of cronies) will lead to economic rebound. Look no further than President B.J. Habibie who, for all his democratic posturings and despite IMF-aid, cannot seem to improve Indonesia's lot.

The belief that the market is perfect and it corrects imperfections has been extended to disciplining politicians and correcting bad governance. Surely, putting a political leadership on a slippery slope and risking chaos in a country is not what free marketism is about. Even if the market does not like so-called nettlesome politicians, they should respect the people's mandate and allow the present government to run the country for

the period given to it.

The crux of the matter: some western powers are reluctant to confront the debilitating effects of international capital mobility since to do so would require them foregoing the financial interests they represent. The tepid response of the G-7 nations to the growing calls for regulated capital flows tells it all. Welcome to the post-Cold War power game - currency politics.

(END)