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The legacy of greed and mischief

iewed by Foo Siew Ming

RECENT ECONOMIC growth in Asia rides on banking credit as the prime mover. Without balanced and strong fundamentals any explosion in credit will be followed by an implosion which could destabilish the economy and cause down-to-earth depositors to panic. Unless the political leadership is stable and transparent, turmoil looms on the horizon.

In saying this, author Philippe F Delhaise shows he has had close association with the inside workings, morals and philosophies of Asia's banking and financial system.

Delhaise heads Capital Information Services which is Asia's first regional bank rating agency under Thomson BankWatch. A former banker, he is a qualified engineer and philosopher.

He has made a serious and critical assessment of the Asian crisis, with adequate technical details especially on fundamental controlling mechanisms such as capital ratios established under the Bank of International Settlement (BIS) and bank accounting analysis using the CAMEL (capital, asset quality, management, earnings and liquidity) formula and the recovery indicator (RI).

Many practical and eye opening examples are presented with humour on the extraordinary abilities of bankers cheating and circumventing the controlling mechanisms.

He made similar reference to banks in Europe some 30 years ago when they were infested with cronyism, nepotism, questionable credit decisions and creative accounting.

In his view, Asia's extraordinary development these past few decades generated huge materialistic value which attracted greed and mischief together with incompetence and lack of experience, and these factors have contributed to the weaknesses of Asia's financial markets. These weaknesses created opportunities for governments to go wrong in a string of decisions. It provided opportunities for well-connected persons to obtain unjustifiable credits for speculative projects and ventures. Under pressure, even the most intelligent people make stupid decisions everyday, and nothing, not even being benevolent, educated and well-informed, will prevent it. All these are major factors of Asia's downfall. Delhaise devoted a specific chapter to each of the distressed countries: Thailand, Korea, Indonesia and Malaysia, and explored the weakness in their banking systems, the background leading to the crisis and reactions of the authorities. A single chapter is devoted to a brief exploration of the other Asian countries not usually associated with the original victims: Japan, China, Hong Kong and Taiwan.

The book also explores the major sources of the banking system's weakness in Asia: the moral hazard and the disdain for proper corporate governance. He also gave a brief on the IMF rescue packages and rating agencies, possible cures for and rehabilitation of the banking system, not to mention political profiles of prominent Asian political leaders such as Prime Minister Datuk Seri Dr Mahathir Mohamad and financier George Soros. The Asian crisis is a serious matter, and this book serves to inspire intelligent, industrious Asians with initiative to review the situation seriously at both the micro and macro levels.

Says the author, `The crisis has brought suffering to the masses in several Asian countries. This is no joking matter. But the best way forward is to arm one's mind with a solid sense of humour. Short of that,

there is nothing to do but sit and cry. Asia deserves better than that. Good brains, high education, hard work, beauty and smiles: Asia has it all. Asia offers the best growth story of this century. The century may be over, the growth story is not. This crisis is merely a pause.'

Written within 10 weeks, the book has a wide scope with considerable depth and coverage on current matters of almost life and death. Written with wit, it is a refreshingly good read and a valuable reference for all, be it bankers, entrepreneurs, professionals, businessmen or students.

The author has rightly stated that the Asian crisis did not start in 1997 and did not finish in 1998. It started much earlier in the decade, and it will last for some time more. It will take anytime from one to five years to resume normal growth. Accordingly, this book should be read and kept for reference for some time.

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