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When bigger is better

EVEN before some economies in the region knew what had hit them, their governments had already been told of the need to undertake banking reforms as the only possible way to effect economic recovery. In its prescription for the crisis-hit economies that came to it for assistance, the International Monetary Fund (IMF) demanded banking reforms as a priority pre-condition. In Indonesia, for example, 15 "bad" banks were ordered to halt operations. In Thailand and South Korea, banking reform efforts began in earnest. Banks were told to effect a credit squeeze, denying thousands of companies the funds needed to help them face the economic downturn, crippling trade and increasing unemployment.

In Malaysia, after it was clear that the IMF-inspired credit squeeze was only hurting banks and businesses, the Government reversed some decisions and provided viable companies and qualified individuals with much-needed bank loans. Banks and financial institutions were given targets to increase lending to productive sectors. At the same time, aware of the impact of the crisis on some banks, the authorities established Danaharta and Danamodal to deal with non-performing loans and recapitalisation matters. The entire banking system was told to consolidate by way of mergers and acquisitions, a move that was viewed by many analysts with scepticism. A lot of people thought that the Malaysian Government was out to appease investors and fund managers by buying their confidence in the domestic banking system through the promises of reforms. Yesterday's signing between Commerce-Asset Holdings Bhd (CAHB) and Bank Bumiputra Malaysia Bhd (BBMB) showed the sceptics how serious the authorities have been about consolidating the domestic banking sector - the reform-minded economists would understand this as banking reforms.

Even before the CAHB-BBMB deal, however, Malaysia had been talking about consolidation. Before the July 1997 crisis destroyed decades of hard work in Thailand, Indonesia and South Korea, to name a few of the crisis-hit economies, Prime Minister Datuk Seri Dr Mahathir Mohamad had spoken of the need for companies to merge and become more powerful in order to have a chance of competing with the international giants come globalisation and liberalisation. The crisis may have forced the sector to expedite the process, but it was not the original reason for the consolidation of the banking sector in Malaysia. Malaysia had seen several mergers before the crisis and some of the notable ones include the mergers between RHB Bank with Kwong Yik Bank and RHB Bank with Sime Bank. The CAHB-BBMB merger is important, nevertheless, because it reinforces not only the fact that banking reforms are taking place in Malaysia but, more importantly, the fact that Malaysia is well ahead of many countries in the region, including those under the IMF's tutelage, in undertaking reforms.

What needs to be acknowledged, though, is that a merger like the one between CAHB and BBMB is not going to be a problem for the giants out there. The latest Malaysian banking merger will create a home-grown financial group with some RM80 billion in assets and RM6 billion in shareholders' funds. Compare that with the US\$76.6 billion (US\$1 = RM3.80) merger between Citicorp and Travellers Group of the US. Consider how huge Mitsubishi Bank and the Bank of Tokyo became after they announced their merger in 1996. If Malaysian companies are to survive the competition which involves the likes of Bank of Tokyo-Mitsubishi and Citigroup, they will need more than just domestic reforms.

These small companies and small countries will need global reforms in a number of fundamental areas to be assured of a truly level playing field in the century of globalisation which is the 21st Century. They will need the international community to really get moving on the agreed new international monetary architecture. They will sorely need rules and regulations to govern hedge funds and their short-term, hot money. They will require guidelines which all countries will adhere to come globalisation. Otherwise, efforts by companies like CAHB and BBMB and the efforts of small economies like Malaysia will be to no avail.

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