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Lessons from Hynix

IT is a familiar tale. When state-run Korea Development Bank extended support to the world's third-largest memory chips producer and US$1 billion debt-laden Hynix Semiconductor Inc, the South Korean Government was accused of bailing it out.

Malaysia was also accused of the same sin over the Government's RM3.8 billion takeover of United Engineers (M) Bhd. But there is a distinction between a bail-out and a restructuring exercise. As pointed out by Prime Minister Datuk Seri Dr Mahathir Mohamad, the Government is helping to restructure ailing companies, not rescue them or, least of all, any individual.

Mainstream economic thought in the international finance community posits the theory of allowing ailing companies to fail, whereby their closures are seen as necessary market corrections that will resuscitate the economy and capture the Holy Grail of Investor Confidence. However, the "current pain for future gain" measure is a deception. The closure of these conglomerates will cause severe pain in terms of further economic contraction and negative multiplier effects, including unemployment and consequent widespread unrest.

In Hynix, South Korea appears to have discovered the illusion of the pain-for-gain principle, which it had earlier complied with under the IMF-dictate. Now it is seen to be preventing widespread failures of ailing companies. Perhaps it is reconsidering the lessons of its IMF-tutored economic recovery - a recovery that earned it much praise from the West and saw its conglomerates coming under foreign control. Samsung car brand is owned by France's Renault and ten per cent stake of Hyundai belongs to DaimlerChrysler.

Consider Daewoo's woes: Under IMF-tutelage, Korea Development Bank cut off loans, forcing Daewoo to default on short-term debts. It was declared bankrupt, put into receivership and taking into account the impact on its suppliers, job losses was as high as 500,000. But the point is, as in UEM's case, its assets are not valueless. After all, it was the West that proclaimed its Changwon factory as the most efficient in the world with highly productive workers.

Like South Korea, Brazil's and Thailand's pattern of recovery shows that the pain-for-gain principle provides only temporary reprieve and that it is mostly in the interests of the new MNC owners of the local assets (bought at "bargain-basement" prices). In actuality, it laid further ground for greater vulnerability and deeper socio-economic crises.

Be it in South Korea or Malaysia, the truth is that some of the companies reviled as opaque and cronyistic are, in fact, the most significant elements in the countries' industrialisation process. They form the backbone of the growth miracle. Their existence was the result of strategic industrialisation policy. Yes, there was state intervention in the initial growth phase. But don't forget that what is now condemned as finance-industry interlinkage was, in reality, a necessary part of both the high domestic savings and investment rates that fed the growth, expansion and success of these companies.

Yes, mistakes and excesses were made. They must, at all costs, be remedied through greater corporate governance and effective debt restructuring process. But this does not necessarily mean that these companies' assets must be sold for a song or simply be thrown away and allowed to go to waste. Treading the pain-for-gain path is no more than the suicidal march of lemmings to the sea.

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