

Using Cool Heads, Warm Hearts, and a Japanese Sense of History to Design Financial Systems for Developing Countries

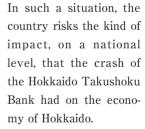
Pluses and minuses of foreign banks in Asia — a sympathetic Asian perspective

The number of researchers involved in the design of finance systems for developing countries has been increasingly rapidly in recent years, in Japan as in other countries. It is, nonetheless, a somewhat obscure area to the average person.

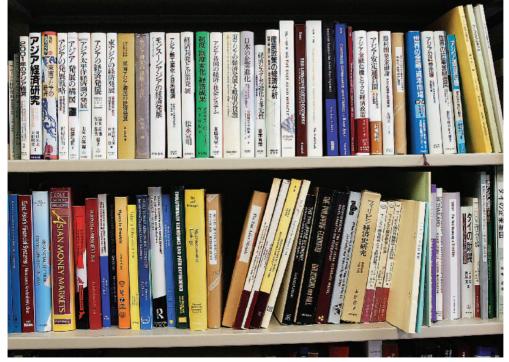
Let's approach it in terms of a specific topic, namely, what happens when foreign banks penetrate the financial markets of developing countries. When a foreign bank takes over a local bank, the clientele changes. Often the bank, acting to maximize profits, will cut off local businesses that were part of its regular clientele until then. From the standpoint of the developing country, this may lead to more sound corporate finances and business efficiency over the short term, but opinion is divided as to whether it is beneficial to economic development over the long term.

In the countries of Central Europe, foreign banks now hold more than 50 per cent of market share. In former socialist countries that had no strong local banks, the benefits of this situation probably outweigh the drawbacks. Spanish banks have been moving into Latin American countries of late, but when one considers the cultural commonalities, this is roughly comparable to a Tokyo bank advancing into an outlying region of Japan, and for that reason may present less of a problem.

In the case of Southeast Asia, however, the cultural climate is completely different from the Americas and Europe.



After the East Asian financial crisis, Western consultants from an international financial organization whom I met at Indonesia's central bank were insisting that



Indonesia had no need for locally based banks. At Thailand's central bank I frequently heard officials respond to the advice of Western consultants with distrust and anger. As a fellow Asian, I could not help but sympathize when they questioned whether the prescription offered by these consultants was really appropriate and whether it was the best thing for their country.

Still, one cannot make rational judgments if one lets emotion gain the upper hand. What is needed is "cool heads and warm hearts" — and the judgment of an industrially advanced Asian country that truly understands development issues from this region's perspective.

Asia has its own style: system supplementation as seen in the financing of ethnic Chinese entrepreneurs

The Japanese have tendency to view things from a historical perspective. We naturally tend to look at the current situation in the historical context of economic development since the Edo Period. The same mindset seems to exist in China and South Korea as well. However, people in developing countries lack this awareness of having developed economically. Moreover, in most of these countries, universities place little emphasis on economic history. Perhaps for this reason there is little historical awareness of the issues. People study financial policy in the United States and try to apply what they have learned, without modification, to their own country, whereas the Japanese would be inclined to apply ideas from the West only after considering their compatibility with our past development.

Having a historical perspective means basing policies on one's own unique culture and past experience.

The financial substructure of Southeast Asia is the system built by ethnic Chinese entrepreneurs. One of its key characteristics is the important role of human networks in the decision-making process. This may not strike people as modern, but it often results in the best decision one could make under the circumstances. One reason Western banks have been relatively inactive in Southeast Asia in the past is doubtless the strong presence of ethnic Chinese financing. In designing finance systems henceforth, we need to take account of the financial culture of the region.

Considering cultural and social elements foreign to Japan along with the economic fundamentals

In my seminar, the first thing I have my students do is get a firm grasp of the fundamentals of finance. At the same time, students must study about Asian countries. Because there are many different countries in East Asia, I put each student in charge of one country. For example, the student in charge of the Philippines will study everything there is to know about that country, from its economy to the arts, crime, and all kinds of social phenomena. Naturally, everyone reads books and articles concerning financial theory as well. I have the students think about such theories in the context of development and the financial culture of Asia, and then consider what kinds of policies are needed.

Financial activity is constrained by certain rules, so it is limited by that country's financial system. Consequently, the first thing one needs to know is the financial system of the country one is studying. That said, there is a limit to the rules a system can impose, and developing countries are generally characterized by immature or inadequate systems. Still, since financing is in fact going on, there must be something there facilitating it. If one doesn't take that into account in one's economic analysis, one is likely to arrive at conclusions that are out of synch with reality.

For example, even at Bangkok Bank, one of the top financial institutions in Southeast Asia, the financial network of the ethnic Chinese business community lurks beneath the banks activities. Likewise, when one considers finance in Malaysia, one must keep in mind that ethnic issues lay at the heart of economic policy. Malaysia's financial system has been built up as a means of defusing the ethnic conflict between people of Chinese descent and those of Malay descent. In terms of financial policy it may seem irrational, but if you look at it in the totality of Malaysia¹s economic policy, it makes a certain amount of sense.

In this way, students consider cultural and social elements that are foreign to Japan, together with the economic fundamentals. Then we propose designs for a financial system from our own perspective, which includes things of which the local people may not be aware. It's pretty interesting stuff! (Transcribed from interview)



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