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BANGKOK - Seared into Southeast Asia's collective memory is the iconic image of the 1997-98 Asian financial crisis, where International Monetary Fund (IMF) chief Michel Camdessus towered with crossed arms over a bent-down Indonesian President Suharto as he signed a sovereignty-eroding bailout agreement for his distressed economy.

Now with Wall Street's historic collapse, many in the region eagerly anticipate a reciprocal Kodak moment, with a US investment banker signing over his once-prestigious financial assets to an acquiring Japanese banker, Chinese money manager or perhaps even Singapore's champion of state-led capitalism, Lee Kuan Yew.

If Wall Street has its nationalistic way, they will have to wait. A decade ago, Western-led free marketeers derided Asia's lightly regulated economic and financial models for being riddled with corruption, cronyism and overall mismanagement. The only way out of the financial crisis, they argued, and on what the IMF predicated its bailout packages, was greater foreign participation and management in their economies through asset sales and privatizations.

Governments in the region resisting IMF neo-liberal orthodox prescriptions and market-determined asset fire sales to foreigners were widely derided in the Western press. Many rang the "moral hazard" alarm bell, warning that unpunished profligate borrowers would be prone to return to their risky behavior on the expectation of future government bailouts.

Former Malaysian prime minister Mahathir Mohamad's use of his executive power to consolidate troubled banks and slap currency controls on capital outflows was universally criticized at the time by pro-market commentators, who asserted endlessly that his interventionist approach was merely putting off Malaysia's ultimate moment of financial reckoning.

Thailand's interventionist move in 2001 to establish a state-led rescue facility for non-performing assets held at banks, known as the Thailand Asset Management Company, was likewise derided for being too little, too late, and ultimately a doomed-to-fail interventionist attempt to put off market-led asset price clearing.

And when Asian countries raised the idea of establishing an Asian Monetary Fund, to rival the IMF and stave off future regional financial crises without the perceived pro-Western conditions imposed by IMF-led bailouts, the US balked at the concept and lobbied against it until it was finally scrapped.

Ultimately Southeast Asia emerged stronger from its financial collapse, seen today in its low sovereign and corporate debt profiles, high levels of foreign reserves and reformed and recapitalized banks. That restoration was led mainly through market-driven depreciated currencies, improved terms of trade and eventually renewed capital inflows.

Now many of the same pro-market stalwarts who criticized Asia's half-market, half-interventionist response to the 1997-98 financial crisis are among the strongest proponents of the US government's proposed US$810 billion Wall Street bailout package, which the Senate passed on Wednesday - after $110 billion in tax breaks was tacked on to the initial $700 billion plan to lure votes from both parties. The House of Representatives is scheduled to consider the plan on Friday.

Rather than advocating for a market-price clearing of distressed assets and foreign buyouts of homegrown assets, as they did for Asia, many Western commentators have taken Wall Street's side in its plea for a government bailout of banks and bankers on the grounds that the US is simply to large too fail and without government intervention the entire US - if not global - economy is at risk.

That's obviously debatable, even as Asian government leaders, whose central banks are flush with US dollar-denominated assets, called earlier this week for the US government to intervene. What is clearer is that global investors have finally lost faith in the US's debt-binged financial status quo and that a new, less US-centric era of global capitalism is dawning.

The hard truth America is now so desperately trying to avoid is that US economic, financial and human resources - once considered the cream of the global capitalist crop - are in the new market reality worth a fraction of what they were previously priced. US policymakers deliberating the proposed interventionist bailout would be wise to revisit their economics text books and the historically overlooked but now highly relevant factor-price equalization (FPE) theorem.

Simply put, as the world economy becomes more integrated, free trade and capital flows tend to equalize relative prices and real wages across the world. Astronomically high US asset prices and wage levels have long represented the biggest pricing distortion in the global economy, one that until now has allowed Americans to consume a far greater percentage of the world's resources than their Asian counterparts.

Towards equalization

Much of the differential was theoretically explained by the US's supposedly superior workforce, epitomized by the technologically sophisticated finance industry. Nowhere was that global wage differential more glaringly apparent than on Wall Street. At the dizzying height, a top flight Wall Street investment banking industry analyst could earn well over US$20 million per year for making market calls; their similarly US-educated counterparts at Southeast Asia's largest commercial bank, Bangkok Bank, earn on average less than US$20,000.

It's still unclear whether Wall Street's collapse will undermine the credibility and pricing power of other high-end US advisory services, including the top flight management consultants Asian corporations and governments pay extraordinary fees for ever-shifting organizational, managerial and marketing strategy advice from high-priced Westerners who have often never worked in the fields on which they counsel.

One Bangkok-based banking analyst likens the revelations surrounding Wall Street's collapse to the Japanese invasion of Southeast Asia in the 1940s and its consequent demystification of the long-ruling Western colonials the Asian invaders jailed and humiliated. Similarly, Wall Street's dramatic demise raises questions about the supposed superiority of high end US labor.

With the more efficient markets that global trade and financial integration have engendered in recent years, the US's comparatively high real wages and prices will

inevitably decline relative to currently depressed and capital-rich Asian countries, according to the FPE theorem.

Financial services were perhaps the US economy's chief value-added comparative advantage in the global economy and with their demise the US's overall terms of trade will inexorably decline. Regardless of how much good money the US Congress eventually throws after bad to restore confidence, Wall Street's debt-driven meltdown will inevitably lead to a lower US standard of living.

That spiral will intensify if and when Asian and Arab investors opt for suddenly safer investment options closer to home rather than committing their capital to underwrite US government-propped, artificially high-priced US assets. A debt-ridden US can also expect to lose out to cash-rich China and others in the mounting global competition for the scarce natural resources and commodities needed to fuel and feed their domestic economies.

The Asian urge to commit those assets elsewhere will rise as the $810 billion bailout package stokes US inflation, artificially props overvalued US asset prices and further undermines the value of the dollar. Underscoring market perceptions of the bailout's inflationary risks, global gold prices surged around 3% in a single day earlier this week on expectations that the original $700 billion package would pass its first vote.

Market orthodoxy says selling distressed US assets at market clearing prices to cash-rich Asian and Arab investors represents the best hope for a US turnaround. Asia's de-leveraged banks, corporations and governments are indicative of the hard, belt-tightening lessons learned from the 1997-98 financial crisis, including gut-wrenching setbacks to previous gains in poverty alleviation. These are the market lessons the US now clearly wants to avoid.

To be sure, there have been a handful of hopeful examples, including debt-distressed Morgan Stanley's decision last week to sell a 20% stake to Japan's Mitsubishi UFJ Financial Group and the sale by Lehman Brothers of its Asian, European and Middle Eastern divisions to Japanese broker Nomura. Earlier stakes have also been taken in capital-starved Western investment banks by China's and Singapore's sovereign wealth funds.

But the overall trend has been towards market-defying economic nationalism, by keeping distressed financial assets in local hands through mergers with bigger US banks or helpful infusions from the likes of US investor guru Warren Buffet. Congress's bailout package will likely consolidate that nationalistic response, even if it means establishing a less market friendly duopoly of two or three massive banks, led by Citibank and JPMorgan Chase.

Whether the US can actually afford to keep more Asian investors at bay will eventually be seen in the value of the US dollar and performance of the economy. It struck at least one Thai banker as "financial karma" that Lehman was among the first US dominoes to tumble. After the 1997-98 financial crisis, Lehman became notorious for advising on both sides of fire-sale asset actions in Thailand, effectively allowing the investment bank to dictate the prices it paid for financially distressed assets.

Others, reflecting on past Western criticism of Asian crony capitalism, wonder why the US media has not asked harder questions about a potential conflict of interest in former Goldman Sachs investment banker turned US Treasury Secretary Henry Paulson's lead role in devising a bailout package for his former Wall Street associates. They suspect it could be partially explained by much of the US media's reliance on investment banks for their advertising revenues.

With Wall Street's collapse, the global capitalist order has reached a watershed moment, one that will fundamentally affect how the US engages with Asia. US trade policies that previously promoted, above all else, opening markets for US banks and financial institutions in Asia's developing markets will now shift in a new and potentially more protectionist direction.

That the US is opting to bail out its bankers rather than allowing the market forces it championed during the Asian financial crisis to determine the value of its debt-ridden assets represents more than an extreme case of moral hazard. Rather, it undermines global faith in the capitalist model the US once promoted, and from a Southeast Asian perspective, marks the end of what now seems a highly hypocritical US-led era.

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