Abstract

The 1997 Asian financial crisis reversed over two decades of unprecedented and amazing economic growth in the eight High-Performing Asian Economies (HPAEs) including Malaysia. The interwoven relationship of banks and corporations have created a symbiosis that can be extreme in its effects.

Given the circumstances facing these corporations, it may be imperative and therefore justifiable for some appropriate government intervention to check and reverse problems of insolvency, bankruptcy and declining real output. There are numerous means of assisting financially distressed corporations, some more effective than others, often depending on circumstances. "Success" or "failure" depends on the magnitude of assistance, how the program is implemented, whether it is deemed to be "fair" and the financial structure that emerges after the program.

Contention generally revolves around government led bailouts of seemingly nonviable corporations. Governments that offer financial assistance to financially distressed corporations often put forth the following argument: if certain banks or firms are allowed to go bankrupt, there could possibly be domino effects, adversely affecting the real economy.

Those opposing bailouts generally argue from a "free market" perspective. They perceive government bailouts as impeding the functioning of markets or market signals in the allocation of scarce resources, and posing serious moral hazard problems.

Bailouts are not necessarily detrimental from an economic perspective as commonly assumed. Though bailouts are often associated with cronyism, patron-client relationships, and moral hazard, these do not apply in all circumstances. In themselves,

bailouts, rents and the patron-client relationships are neither "good" nor "bad" for development. To analyse whether bailouts do indeed result in net economic benefits, one must balance these benefits against the costs of bailouts. The nature, conduct and outcome of particular state intervention that determine the net effects.

This paper argues that no one policy measure is necessarily best in all crisis situations. "Orthodox" policies, widely "taken for granted" to be correct, often go unquestioned. By highlighting the various debates regarding various approaches to corporate restructuring, the sequencing of bank restructuring and corporate restructuring, "immediate" policy measures in tackling the crisis and what defines "good" corporate governance, we open up to other possibilities.

This paper also examines the progress of the corporate restructuring program of apparently viable corporations in Malaysia. The case studies presented suggest patron-client relations between the government and the corporations under study. Nevertheless, the argument that the managements of these firms were completely protected and saved from "punishment" may not be entirely true. Certain firms were pro-active in their attempts at solving their private problems, suggesting that they intended take responsibility for their (mis)conduct.

Clearly, deciding which policy or measure to undertake is difficult since so much analysis is inherently counterfactual by nature. Such awareness can ensure more careful analysis, selection and implementation of government measures and programs that are tailor made to the economic, institutional, and political circumstances; granting relief to firms and simultaneously addressing current weaknesses in the banking and corporate sector to promote greater competitiveness and "efficiency".