worse. It is therefore best to allow markets to sort themselves out and allocate resources efficiently.

Section 6. examines various views regarding the "appropriate" role and approach of the government in tackling the (systemic) economic crises.

Lastly, in Section 7., I will conclude.

In the addendum, I will look at a few Malaysian firms currently undergoing "restructuring programs" and receiving assistance from the government through various direct and indirect means. Analysis of these corporations will revolve around the suitability and appropriateness of the "restructuring program", and the way in which it has been conducted.

2. Debates Revolving Around the Failure of the Asian Model of Economic Development

Policies under the "Asian model of economic development"[2] that were once praised by some economists as economic models to achieve high growth and accelerate development are now taunted as government failures following the crisis[3]. We should not, however, fall into the trap, as some have, in concluding that the crisis was wholly due to "internal" factors. Contention still revolves around the primary cause or trigger of the crisis. Furthermore, there is no general consensus as to how best to resolve the crisis since there is no general consensus about the primary cause of the crisis.[4]

This highlights the fact that, a "one size fits all" explanation based on a specific issue, may be inappropriate or insufficient to fully understand the complexities of the crisis, due to the interconnectedness of a myriad of factors that make up an economy. Each country is characterized by a unique set of economic structures, i.e. differences in their policy regime, severity of current account deficits, level and type of foreign investment, and strength of their financial sector and corporate governance[5].

Allow me to spend some time on the debates on the root causes of the Asian crisis, focusing on the failure of the "Asian model of economic development". By gaining understanding and insight into these issues, we can better identify (and implement) the appropriate steps/measures and the *extent* of measures needed to address the inadequacies of the "internal structure" of the economy.

Some quarters (advocates of the anti-Asian model view [Kim and Cho, 1999]) argue that the crisis emanates from the "Asian model" itself, which encourages "microeconomic mismanagement". "Microeconomic mismanagement" refers to a lack of good corporate governance (characterized by a lack of transparency of company balance sheets and financial sector accounts, insufficient bank regulation, poor accounting standards, little emphasis on (minority) shareholder interest or value and accountability, lack of profit driven decision making, etc.)[6] and "industrial policy failures". With the lack of incentives to monitor performance and disciplining mechanisms in place[7] (which may have exacerbated the moral hazard problem), lending practices became more relaxed (i.e. not allocating resources to their best use), and over-investment in non-productive sectors became apparent[8] – resulting in asset price inflation and an overvalued stock market.

They argue that the nature of the Asian corporations (involving extensive cross-subsidization of subsidies) and their close, non-arm's length relationship with banks,[9] and similar relationships between banks and governments that resulted in inadequate and incomplete financial information,[10] was responsible for the overreaction of (financial) market participants.[11]

On the contrary, Stiglitz (1998) argues that greater transparency and reliable information does not necessarily guarantee aversion to financial panic and crises.[12] Furthermore, as highlighted by Singh (1999: 25), more reliable and timely information may do no harm, but it will not do much good either, if market participants and other concerned parties fail to read publicly available information or to draw practical conclusions from it.[13]

A pertinent question can be asked at this juncture: why did international banks and investors pour in such vast amounts of money into these East Asian countries (excluding Japan), knowing well that there was a lack of transparency (also, poorer accounting standards and bankruptcy laws) as compared to, say, Scandinavian or some other countries? Following Stiglitz's (1998) argument, it could very well be because they (the investors) were not entirely concerned with these issues[14], since the expected high growth opportunities and profitability were considered/deemed more important. Hence, it is unlikely that a lack of transparency (alone) could have triggered such a huge crisis (that of confidence or finance). Some other factor(s) must be working simultaneously to cause such a huge negative impact on these economies.

Also, this crisis cannot be explained solely on the premise of one factor such as close government-business relations[15].[16] The cronyism[17] argument does not hold water because, the argument cannot justify why, under these "similar" circumstances, the HPAEs were previously able to prosper and experience "miraculous" growth. Why, as suggested by Chang (1998), did cronyism produce catastrophe so suddenly in 1997, and why did it not undermine the region's high growth earlier? Why did foreign investors supposedly conscious of information asymmetries, invest such a huge amount of funds in these Asian countries before the crisis?

One possibility is that there could have been a change in the nature and scope of cronyism before the crisis (Arestis and Glickman, 1999: 28). According to Arestis and Glickman (1999), Malaysia, South Korea, Thailand, Indonesia and the Philippines, all experienced diminishing cronyism.[18] Also, as indicated by Chang (2000), and Radelet and Sachs (1998a), the credit ratings of all these countries were actually improving from the 1990s up until the crisis. Hence, there is little evidence to support the "cronyism" argument.

On a different note, some argue that "state capitalism" – in the form of interventionist state industrial policies – *may* have led to institutional deficiencies, specifically moral hazard, resulting in "microeconomic mismanagement".[19] However, those favoring the "anti-Asian model view" (Kim and Cho, 1999) fail to explain how moral hazard had been "harmonious" with high economic growth for so long (the last two decades) preceding the recent crisis.

Moreover, it should be noted that moral hazards are "unintended" side effects of actions – the government being an insurer, lender of last resort, industrial builder and supporter of calculated risky activities (by encouraging and "protecting" infant industries), etc., which are in themselves beneficial and purposeful. Ill-conceived and poorly implemented policies are normally more to blame for failures than the ideas (e.g. using insurance deposits) themselves.[20]

Problems of "abuses" and exploitation and wastage of rents – "privileges", "protection", and assistance become acute when selective interventionist policies are not combined with disciplining mechanisms, performance standards, and commitment in holding back "rents" when lagging performance unrelated to external conditions is detected. As such, industrial policy *per se* is not responsible for the Asian crisis. Rather, poorly devised and/or implemented policies could lead to adverse outcomes.[21]

Besides that, the five East Asian countries (Malaysia, Thailand, Indonesia, Philippines, and South Korea) did not pursue activist industrial policies with the same vigor. [See Jomo and Rock (1998) for details.] More importantly, there was simply little of it around (Chang, 2000: 9). For the Korean case, close observation suggests that pressures to back away from government-led industrial policies may have played a role in the crisis. Plainly put by Chang *et al.* (1998: 739), "it was the demise of industrial policy rather than its perpetuation which drove the Korean economy into crisis". [See Chang (2000) and Chang *et al.* (1998) for further elaboration. See also Kim and Cho (1999: 5-7).]

Many analysts attribute, albeit "unfairly", the Asian crisis *only* to "internal" factors such as "microeconomic mismanagement". Some have a tendency to exaggerate the magnitude of the structural problems without holding external parties partly accountable for "encouraging" excesses to develop, and "reluctance" in helping to modify "bad" corporate practices. Fortunately, people are increasingly aware of the role of "external" factors (imperfect functioning of the international financial system[22]) in the crisis. Hence, the "negative" chain of events cannot be attributed to "internal" corporate governance and moral hazard alone, but on a greater scale, "external" or international "governance failure".

As suggested by Akyüz (1998) and others, I believe that the crisis reflected a global crisis with regional triggers attributed either to excessive borrowing abroad by the private sector, or to excessive lending by international financial markets. This highlights the failure of free capital markets to produce an optimal global allocation of capital.[23] Furthermore, the crisis may be partially attributed to financial liberalization (made up of internal[24] and external[25] financial liberalization)[26], and its consequent undermining of monetary policy maneuverability.[27]

Financial liberalization in itself may have a smaller role in causing the crisis when compared to the pressure exerted by certain quarters on the East Asian developing countries to adopt a "free market" philosophy in trade, finance and investment, and "fully" liberalize their money and capital markets *when they were ill prepared* to do so.[28]

Crisis countries and their governments, by *purely* blaming foreign parties for crises while playing down their responsibilities for and role in "permitting" weaknesses to worsen and the opportunities for those weaknesses to be exploited, are in a dangerous position of *not learning enough* from this experience to have a sense of urgency to rectify the underlying weaknesses and imbalances.[29] Noting these imbalances and structural weaknesses, the Malaysian government proposed bank and corporate restructuring programs to strengthen the banking sector and to induce greater efficiency and productivity of corporations respectively. Besides that, initiatives to improve corporate governance were also undertaken.[30]

However, some quarters have begun to question the "quality" of the implementation of the financial restructuring program, not the appropriateness of a restructuring program *per se*. Some have contended that these "restructuring" exercises are not restructuring exercises in the strict sense, but rather government bailouts that do not reprimand bad management. They further argue that the corporate restructuring program is merely a "cosmetic restructuring program" to pacify market players, since its main focus is still in preserving corporations with close government relations. It is thus my aim to analyse and evaluate the "corporate restructuring" exercises of a few corporations in Malaysia after the 1997 Asian crisis.

Concluding Remarks

One way to reconcile these differences in opinions is to acknowledge the fact that "structural imbalances" within these East Asian economies that were previously tolerated due to high growth rates were apparently less tolerated when market players knew "instinctively" that those growth rates could not be sustained.[31] The attack on the baht[32] may have signaled exit for market participants. It seems that there is some critical point or threshold where a bubble (of any form) would burst, and predicting what precisely triggered it and when it will happen becomes increasingly difficult due to the increasing complexities, changing expectations of investor or consumer confidence, and interconnectedness of the world economy.

It must be highlighted that, as suggested by Kim and Cho (1999), neither the anti-Asian model view (which lays the cause of the crisis on the elements of "crony capitalism" and "moral hazard" contained in the Asian model) nor the pro-Asian model view (which lays its cause on the collapse of the Asian model) paid attention to the cyclical nature of the crisis which characterizes all capitalist economies,[33] even though, each view holds its own merit in explaining their version of the causes of the crisis. (See Kim and Cho, 1999: 10-14 for details.)

3. Consequences of the Asian Crisis for the Malaysian Economy

With the recent developments of the 1997 Asian crisis, some theorists have announced the demise of the Japanese model of economic development that represented a large portion