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 the Asian development model. "Heavily" leveraged corporations and banks connected with these corporations were especially hard hit.[34] Consequently, this called for appropriate government action that considers the severity (depth and how widespread) of the crisis, the economic, political and legal environment, and the administrative and financial capacities of the government.

Contrary to the belief that government intervention is counter-productive, it may very well be one of the key factors to promote change and, in this case, stimulate growth through well thought-out policies and measures. What this crisis has brought to the surface is not the reduced role of the state[35], but the need for pre-emptive, adaptive, well thought-through and well-planned policies and actions.

Governments need to understand that their economies are merely part of a greater scheme of things. As such, they need to recognise that flexibility and adaptability are not just applicable to business. They too need to adapt to changes, as reflected in their policies. This awareness, coupled with incremental improvements in institutional arrangements, is imperative for the government's continued survival and contribution in ensuring sustainable economic and social development.

Due to the economic crisis, many East Asian countries are now facing severe social impacts - reversal of the benefits of previously enjoyed economic growth. Figure 1 presents a simplified flow chart of the impact of the crisis. Starting with the depreciation of the Thai baht that triggered a regional "meltdown",[36] the final impact is an increase in the incidence of poverty, lower wages and rising unemployment—undermining domestic consumption as the main force of economic growth. The Malaysian government was equally hit with falling tax revenue on various fronts, resulting in lower budgets and expenditure on social projects, and providing much needed social safety nets.

The Asian financial crisis, which is systemic in nature,[37] led to repercussions in the real economy beyond all expectations, with the Malaysian stock market having contracted and perhaps, most of all, lost its reputation among international investors. [38] As Figure 2 shows, the loss in market wealth has been enormous. Market capitalization progressively fell by more than 50% from July 1997 until May 1998. (For details, see Table 2, 3 and 4.) This has further eroded already fragile investor confidence, fuelling the subsequent downturn in stock market indices and market capitalization. Investors saw tremendous losses in 1997 in terms of US dollar returns, as falling expectations and currency losses combined to create massive negative returns as shown in Table 5.

Unemployment during crises is somewhat unavoidable. As mentioned above, the consequences include substantial retrenchment, decline in new hiring – leading to a sharp rise in unemployment, reduced average incomes and real earnings – increasing the ranks of those with incomes below the poverty level and reducing their ability to obtain their basic needs.[39] This crisis not only affected the lives of millions of people all over the region to varying degrees, but also economic indicators and numbers.

Table 7 shows that the crisis caused the Malaysian economy to contract by 6.7 percent in 1998 from a growth rate of 7.7 percent in the previous year. The unemployment rate rose from 2.4 percent in 1997 to 3.2 percent in 1998. Retrenchments are the consequences of falling sales, shrinking profits, losses, bankruptcies, corporate takeovers, consolidation and so on.[40] As shown in Table 9, the number of retrenched people rose almost fourfold in 1998. As revealed in Table 10, the manufacturing sector was the main sector affected by the crisis, retrenching 45,021 of the total of 83,441 people retrenched.[41]

The above are signs of concern for the government since businesses that go under will contribute to the growing number of non-performing loans (NPLs). This will definitely generate concern among banking and financial institutions. As such, government intervention at this juncture is somewhat unavoidable—as these are tell tale signs of deeper weaknesses.

The above scenarios place a lot of pressure on the government to come up with policies and measures to ease the current economic situation. More urgent, however, is the need to formulate immediate expansionary policies and measures to stop the economy from sinking further into "recession", given such unfavourable and unanticipated circumstances. ,See Table 7 for selected economic indicators, especially in 1998.

However, falling government revenues have put greater constraints on policy initiatives. The Malaysian government, it seems, has experienced shocks to their foreign reserves – limiting monetary policy maneuverability, and government revenue in 1998 (see Table 11) – minimizing capacity for government-led bailouts and/or restructuring programs, and expansionary/stimulus fiscal policies.

4. Establishing Concepts and Defining Parameters

At this juncture, I will define different terms employed here. Corporate governance (which depends on the key distinction between principals and agents) is defined as "the legal and institutional arrangements governing the behaviour of an economic entity, by which owners, creditors, markets and the government compel or induce agents to behave