restructuring approaches from other crisis countries that are suitable or tailored to
domestic political, institutional, social and economic conditions. The need for “effective”
and “timely” execution of policies and programs cannot be over-emphasized.

Lastly, to better our diagnosis of corporate governance problems and policy
responses, it would be beneficial to consider the potential interrelationships between
finance, economics, management and law for a more holistic and comprehensive (yet also
more complex) analysis and to not assume a priori that “orthodox” principles or
guidelines of corporate governance are unquestionably the best available and can be
universally applied and adopted in developing countries (even if they have proved
successful in developed countries). Improving corporate governance should be viewed as
an evolutionary process that must change in tune with the changing economic, business,
and political environment.

7. Conclusion

The 1997-98 Asian financial crisis – which is systemic in nature – reversed two decades
of unprecedented and amazing economic growth in the eight High-Performing Asian
Economies (HPAEs). A myriad of “internal” and “external” factors, and the cyclical
nature characteristic of all capitalist economies – experienced by each East Asian
economy to varying degrees – caused the crisis and affected each country to differing
magnitudes since each country is characterized by a unique set of economic structures.

Various forms of government assistance and “bailouts” were carried out due to the
adverse systemic nature of the crisis. The numerous arguments for and against bailouts
indicate that each argument and counter-argument has its own merits. The important issue
is deciding whether bailouts are indeed welfare decreasing. By comparing the relevant
comprehensive but eclectic approach – taking into account macroeconomic factors – could prove desirable.

Besides corporate restructuring, the inculcation of good corporate governance and constant improvements upon existing corporate practices – in tune with the changing economic, business, and political environment – where possible, institutional building (supposedly, helps to enhance long-term growth potential by providing the foundation or structure on which society operates), and adherence to good “macroeconomic governance” by government, will improving the likelihood of sustained long-term economic growth.

The corporate restructuring programs in Malaysia, spearheaded by the government – a concerted effort by Danaharta, CDRC and MoF – have been relatively effective in resolving the NPL problem and restructure the corporate landscape – by encouraging and, in some cases, forcing debt and operational restructuring. While the resolution of the NPL problem is imperative for the proper functioning of the financial system, especially the banking sector, the various SPVs must also ensure that in their aim to help corporations deal with their debt problems, the SPVs serve the welfare of society as a whole (including other stakeholders such as creditors, debtors, taxpayers and government), and ensure that the bulk of the restructuring costs be borne by those parties directly responsible for the losses.
Addendum

Assessment of Bank and Corporate Debt Restructuring in Malaysia
With the benefit of hindsight, it is easier to see the severity of the underlying problems surrounding the banking and corporate sector. The objective of this section is to pinpoint the flaws of the corporate restructuring and “bailout” programs. So that proper steps can be taken to redress them to improve upon current restructuring programs and future policies.

There are two levels of analysis in “measuring” or determining the “success” of the corporate restructuring program: (1) were the policy measures (e.g. setting up special purpose vehicles) adopted by the government “appropriate” and justified, given the conditions thought to be facing the banking and corporate sector? and (2) were the corporate restructuring plans “well thought through”, “appropriate” and implemented well to improve the corporations and stakeholder interests?

General Description of the Malaysian Bank and Corporate Restructuring Program
Given the severe impact of the crisis on the banking and real sectors, the government created special purpose vehicles (SPVs) – Pengurusan Danaharta Nasional Bhd (Danaharta) (see Appendix 6 for a general description of Danaharta), Danamodal Nasional Bhd (Danamodal) (see Appendix 7 for a description of Danamodal) and Corporate Debt Restructuring Committee (CDRC) (see Appendix 8 for a description of the CDRC) – to check, reduce and manage the NPLs (Table 18 provides a summary of the NPL situation in Malaysia for the past three years), recapitalize the banking sector, and help restructure corporate debt respectively. The Ministry of Finance, Incorporated (MoF Inc) already existed prior to the 1997-98 financial crisis, helped to take over financially ailing (but according to MoF Inc., are “economically viable”) corporations on behalf of the government, which enabled the government to directly restructure certain corporations.

Given the breadth and depth of the crisis, the government was probably right in creating various types of SPVs (with their respective objectives and functions) to aid in resolving the NPL problems facing the financial sector, as well as the debt and operational restructuring facing the corporations. However, there is dispute as to whether or not the resources of these SPVs were “effectively” and “properly” utilized to
reduce corporate debts to sustainable levels, improve corporate performance and enhance corporate governance, thereby providing the impetus for greater economic recovery and sustainability.

**Evaluation of Government Agencies Involved in Private Sector Restructuring**

The Malaysian government has clearly taken a pro-active stance in trying to resolve the non-performing loan (NPL) problem in the banking system, and to facilitate and/or lead corporate restructuring, especially of large conglomerates and their main constituent corporations. The first objective of this section is to examine and evaluate the rationale for government “assistance” or “bailouts”, and to see whether they were justified since the measures undertaken cannot be assumed *a priori* to be net welfare improving or “right”. The progress and performance of these programs so far is then briefly reviewed.\(^{144}\) One controversial issue the purchase prices of shares and assets for takeover purposes.\(^{145}\)

**Pengurusan Danaharta Nasional Bhd (Danaharta)**

Rather than allow the “normal course” of foreclosure and bankruptcy proceedings\(^{146}\), the government resorted to extending “indirect” support to some corporations, most notably, United Engineers (M) Bhd/Renong Bhd (UEM/Renong), Malaysia Airlines Bhd (MAS), Projek Usahasama Transit Ringan Automatik Sdn Bhd (Putra) and Sistem Transit Aliran Ringan Bhd (STAR). Every time the government buys or takes over bad loans, this saves the corporations from undergoing liquidation and thus facing “market discipline”. Such bailouts may not necessarily be bad under certain circumstances or conditions. But if the government is lenient with errant corporations, directors, managers or their bank counterparts, then this implies poor governance on the part of government. The question then arises: How can the corporate (or banking) sector be properly restructured if some “large” corporations (banks) do not “adequately” internalize or bear the costs and consequences of their actions? To answer this question, we look at four main issues.

Firstly, when we look at the state of the banking sector, the issues that come to mind are (1) why did the banks allow only 15 corporate groups to account for 20 percent of total loans (*freemalaysia.org*, “Bank Bailouts? More Like Buddy Bailouts”, Available from URL: [http://www.freemalaysia.com/economic/bank_bailout.htm](http://www.freemalaysia.com/economic/bank_bailout.htm)) in the first place?
(2) and, did banks, of their own free will, extend credit to non-credit worthy borrowers\textsuperscript{147} or were they "coerced"\textsuperscript{148} to do so?

With regards to the state of the banking sector, Moody’s Investor Service \textit{forecasted} that Malaysia’s NPLs would peak at 30\% of total loans, or RM125 billion, twice the latest official figures of 15\% - based on a three-month classification standard (\textit{freemalaysia}, “Bank Bailouts? More Like Buddy Bailouts”, Available from URL: \url{http://www.freemalaysia.com/economic/bank_bailout.htm}). In July 1998, Standard and Poor estimated that net NPLs would reach 30\% within a year and that recapitalisation costs for the banking system would reach 40\% of GDP. However, the NPL problem had been contained, and according to the National Economic Action Council (NEAC, 2001), even at its peak, net NPLs only reached 14.9\% (3-month classification) in November 1998. In gross terms, NPLs reached 20\% of outstanding loans. According to the NEAC (2001), the cost of recapitalisation of the banking system amounted to RM7.1 billion, or 2.4\% of GDP. Total restructuring costs of the financial sector have not exceeded 7\% of GDP.

One can obtain some answers to these questions by looking at past public policies such as the New Economic Policy (NEP) and the Malaysian privatization policy\textsuperscript{149} (see e.g. Gomez and Jomo, 1999; Gunasegaram, 2001b and \textit{freemalaysia}, “Renong Redux”, Available from: \url{http://www.freemalaysia.com/}). It appears that Danaharta has helped resolve or mop-up NPLs while helping bail out, or rescue politically well-connected individuals.

Was the rationale for the government to “bail out” banks and corporations ostensibly to protect the “national interest” and preserve jobs while “bailing out” “large” corporations or conglomerates justified? Would doing otherwise have led to the collapse of existing Malaysian corporate capacities and capabilities embodied by these enterprises? How did the government rationalize rescuing politically influential major shareholders rather than the corporations themselves?

There are obvious problems in invoking the “national interest” argument when providing “relief” to certain corporations (or more specifically, particular shareholders). The government apparently used certain corporations (e.g., Hottick Investment) to take over private Malaysian interests abroad which had embarrassed the government
leadership, thereby ostensibly serving the “national interest”. What then was achieved by taking over loans at 100 sen to the ringgit as in the case of Hottick?\textsuperscript{150} This full compensation of the banks in this notable, if exceptional case implies that the banks were probably “coerced” by the authorities to lend to Hottick in the first place.\textsuperscript{151} Hottick’s nominal owners – including a lawyer of then Renong supreme Halim Saad – were thus being fully “covered” by the authorities with public money for implementing a politically-motivated corporate acquisition. Such decisions clearly involve resource misallocation, crowding out others and increasing the fiscal burden to the government and ultimately, to taxpayers.

Quck (2000: 2) notes: “If Danaharta had not stepped in to take over the bad loans, the lending banks would be bound by law to pursue Halim to recover the debts as the latter would have been customarily a personal guarantor to these loans. And that would deplete or bankrupt Halim but would not cause the collapse of his conglomerate Renong. So, how would that cause unemployment as alleged by Mahathir?” As such, we can conclude that by buying the loan, Danaharta was effectively saving the major shareholders and guarantors (Halim), not the corporation \textit{per se}.

Third, was the price of the loan determined “fairly” (while Danaharta claims to practice “strict market valuation”)\textsuperscript{152}? Was the loss in value of collateral factored into the acquisition price for acquiring these NPLs?\textsuperscript{153}

It appears that Danaharta is adamant in maintaining discipline when dealing with shareholders and creditors in resolving the bad debts issue. According to Danaharta chairman Datuk Azman Yahya at the Chief Financial Officer (CFO) Summit 2001 on “Corporate Restructuring: The Malaysian Experience”, “If needed, shareholders and creditors would have to take a bigger ‘haircut’ to resolve the companies’ debt problems”. Nonetheless, he noted that in order to mitigate the possibilities of “social dislocation”, Danaharta was reluctant to “trim 100 percent of the fat” during the first round of corporate restructuring. However, he indicated that Danaharta would further “trim fat” in the second stage and, if required, proceed ruthlessly, as evidenced by foreclosure of about a quarter of the NPLs under its management (\textit{The Star}, 9 November 2001).

Danaharta has claimed, in various six-monthly operations reports, from 30 June 1999 onwards, that the discounts on loans have, on average been above 50%. However,
one should be wary of these averages. Some banks – Sime Bank group and Bank Bumiputra Malaysia Bhd (BBMB) – from which the bulk of the loans were purchased in the first half of 1999 – were paid full face value (i.e. exempted from taking “haircuts”) even though their loan collateral (mainly stocks and commercial) had obviously lost much value by the time of acquisition.155

While other financially troubled banks accepted an average discount of 57% on NPLs sold to Danaharta (and others), Sime Bank group and BBMB group unloaded a massive total of RM21.541 billion (RM14.459 billion and RM7.082 billion respectively)156 in bad loans to the government [which indirectly means the taxpayers] at full face value.157 Put differently, the authorities – and thus taxpayers – would not have overpaid by RM12.278 billion if the two banks had to take the same 57% “haircut” that the other institutions had to endure (Danaharta, 1999 and freeMalaysia, “Banking Daiminence: Malaysia’s Great Bank Robbery”, Available from URL: http://www.freemalaysia.com/economic/bank_daiminence.htm).158

Since the government is guaranteeing the bonds issued by Danaharta, this implies that the burden of financial and corporate restructuring will ultimately be borne by the public or taxpayers,160 and not mainly by the “reckless” and/or imprudent financial institutions and corporations responsible for the debacle in the first place, notwithstanding the negative impacts of the adverse external factors or shocks on the business environment and real economy.

The fourth key issue involves the treatment of financial institutions or creditors. Were the same criteria and loan acquisition policies used across the board, or were there exceptions to the “rules”, and if so, why?

Some observers note that Danaharta, Danamodal161 and the CDRC have been rather selective about which bad loans to buy and restructure and on what terms they were acquired. It appears that not all banks and financial institutions were treated “equally”. Of the RM31.4 billion in bad loans acquired by Danaharta, 85% of the total – nearly nine out of every ten ringgit laid out by the agency for bad-loan buy-outs – went to only five institutions, namely Sime Bank, which was relieved of RM12 billion; Bank Bumiputra, RM9.5 billion; MBf Finance, RM4 billion; Oriental Bank, RM1 billion; and Commerce Asset-Holdings’ Bank of Commerce, about RM800 million (freeMalaysia,
"Banking Daim-inance: Malaysia's Great Bank Robbery", Available from URL: http://www.freemalaysia.com/economic/bank_daiminance.htm. There is no clear evidence that these were the only banks in need of such intervention.

As noted earlier, according to Gomez (as quoted by Ng, 2001 in MalaysiaKini) and freeMalaysia ("Bank Bailouts? More Like Buddy Bailouts", Available from URL: http://www.freemalaysia.com/economic/bank_bailout.htm), only 15 corporate groups accounted for 20 percent of Malaysia's entire bank loans at the start of the economic crisis. The three biggest borrowers in ascending order were Vincent Tan (RM7.0 billion), Tajudin Ramli (RM16.5 billion) and Halim Saad (RM30.0 billion) where their combined loans totaled over RM53 billion. Most of these borrowers are friends (and children) of Prime Minister Dr Mahathir Mohamad and then Finance Minister, Daim Zainuddin freeMalaysia, "Bank Bailouts? More Like Buddy Bailouts", Available from URL: http://www.freemalaysia.com/economic/bank_bailout.htm. The potential for abuse in terms of granting government favors, bailouts, etc. are generally higher with some kind of patron-client or business-government relations.

Much criticism has been mainly directed at banks for lending such huge amounts of money to so few corporations and not at the amount of NPLs bought by the government. Would not such concentrated lending – coupled with poor corporate management and external shocks – increase the probability of systemic crises and lead to the problems faced by the banking sector today? As such it comes as no surprise when the government bought over both Bank Bumiputra's and Sime Bank's (both government-owned institutions, with the latter taken over by the Rashid Hussain group after the government NPL buyout) NPLs, considering both banks were holding the bulk of the NPLs (Ng, 2001), courtesy of financially battered corporations such as UEM/Renong and MAS.

Even though Danaharta has the power to force changes in management to promote operational restructuring to increase the probability of NPL recoverability in the form of plain loan restructuring or settlement, these powers were rarely effectively exercised in practice. This therefore casts doubt over the commitment and independence of Danaharta in handling the NPLs objectively, free from political considerations.
By resolving the banks’ NPL problems without demanding either appropriate “haircuts” or stern disciplinary action against mismanagement, the government would reinforce the firms’ and banks’ perceptions that poor management will not be punished – corporations are rescued from foreclosure or liquidation proceedings while banks get to unload their NPLs at overly attractive prices. *Ceteris paribus*, this increases the likelihood of moral hazard problems at both ends – i.e. banks and corporations. As such, the leeway given to creditors is negatively correlated to the government’s the fiscal burden and therefore, to the public.

Given that Danaharta has taken over these loans, the next step is to assess whether it has been able to restructure the NPLs and to dispose of assets (loan collateral) successfully at favorable prices and to redeem the prices paid for bad loans in order to redeem the bonds issued earlier.

One important factor deciding the “success” or “failure” of an AMC is whether it can maximize the value of assets, either by “turning them around”, or by disposing of them judiciously.¹⁶⁵ So far, Danaharta has done a relatively good job by selling half these “assets”, thus meeting its 50 percent asset disposal requirement (see Table 20). Moreover, the average recovery rate of above the 50 percent mark is somewhat commendable. According to Danaharta’s senior general manager (property division) Johan Ariffin, since November 1999, Danaharta has taken 644 properties to the market and sold 83% of them, with an average recovery rate of 95% against valuation (*The Star*, 10 April 2002). This represents good progress in property disposal since, within a span of two years, Danaharta has managed to clear some 83% of the property under its management with an “extremely” high average recovery rate.¹⁶⁶

Another credibility-enhancing aspect has been the intention of Danaharta to wrap up its operations within the (prudent) targeted time frame of seven years, i.e. by 2005 (*The Star*, 5 September 2001).¹⁶⁷ This helps ensure that the resolution of NPLs will be expeditious, reducing the drag on the banking sector, its lending activities and the real economy. “Of the RM48.03bil in total loan rights acquired by Danaharta, a whooping 66.5% was from commercial banks, 11.1% from offshore banks, 7.3% from merchant banks, and 0.1% each from discount houses and insurance companies” [*The Star (Business)*, 5 September 2001: 1]. This gives an idea of the severity of the NPLs problem
the commercial banking sector. So far, as of 31 December 2001, Danaharta has restructured – or approved for restructuring – an impressive 99.9 percent of its total portfolio of NPLs with an average expected recovery rate of 56 percent (Table 20). Besides the high percentage of restructured or managed NPLs, the somewhat high average recovery value has also been impressive.

Corporate Debt Restructuring Committee (CDRC)

The CDRC has played a commendable pro-active part in the resolution of bad debts. The progress of corporate restructuring – among other factors, such as the country’s resilience to the US downturn in 2001, strong balance of payments and external liquidity, and modest external debt burden – has helped improve Malaysia’s currency rating, with international rating agency Fitch Ratings assigning a positive outlook to Malaysia’s long-term foreign and local currency ratings of BBB and A respectively (The Star, April 19, 2002).

Furthermore, the “quicker pace of corporate restructuring has received positive remarks from investment analysts, particularly foreign-based financial groups such as JP Morgan, Credit Suisse First Boston and HSBC” (The Star, 4 February 2002: 3). HSBC Research Head of Fixed Income Research, John Woods commended the progress in corporate restructuring: “We like what we see in Malaysia in terms of corporate restructuring compared with South Korea. We are impressed with the pace. The government makes a positive effort to ensure that corporate governance and transparency are demonstrated in corporate restructuring. It is different now compared with previously” (The Star, 4 February 2002: 3).

Table 21 shows the four major corporate debt restructuring exercises (with some still yet to be resolved) in 2001, which accounted for a sizeable share of the bad debts in the system. Since its inception in 1998 until 31 December 2001, the CDRC has resolved 37 cases with debts amounting to RM34.5 billion. (See Table 22a for the progress summary of debt restructuring as of 31 December 2001). Of the 37 cases, eight cases with debts totalling RM8.845 billion were successfully resolved with an impressive average recovery rate of 95% in the period between August 1 and December 31, 2001 (The Star, 31 January 2002).
With respect to its commitment to dissolve the agency within an appropriate and acceptable timeframe, the CDRC indicated that it would stop accepting new debts by end the of March 2002 and expected to close its (four-year) operations by July 31, 2002 after resolving the remaining cases (*The Star*, 5 February 2002). As shown in Table 22b, between its inception in July 1998 and 31 March 2002, the CDRC had resolved 42 cases, with debts totalling RM37.398 billion and intended to resolve the remaining 9 cases, with a corporate debt of RM17.170 billion, by July 31, 2002.\(^{173}\)

With its commitment to accelerating the pace of progress and to close its operations as soon as possible, the committee made several changes, including setting a specific timeline to ensure effective implementation of restructuring,\(^{174}\) enhanced disclosure and reporting requirements of its debt restructuring (*The Star*, 21 March 2002); and has been given the authority to implement management changes to bring about effective operational restructuring to ensure the viability of the corporation over the long term and to appoint liquidators to resolve non-performing loans (NPLs) (*The Star*, 13 August 2001 and *The Star*, 21 March 2002).\(^{175}\) This should bode well for the corporate and banking sector, and for shareholders in the long run.

The CDRC has estimated that banks only took an average 2% "hair cut" (*The Star*, August 13, 2001) prior to the new guidelines, leading to similar arguments – as in the Danaharta case – of whether shareholders and creditors were “sufficiently” punished for bad lending decisions and management. The impression that the CDRC has been lenient has been offset by the new CDRC chairman Datuk Azman Yahya, who has indicated that the CDRC will force corporations to dispose of non-core assets and that none of the funds thus realized would be used to make new purchases that will not augment the value of the corporation. For instance, MAS and UEM have made efforts to cut excesses caused by over-expansion by opting for divestment of non-core businesses. On the creditors' side, Azman has stressed that banks not complying with the rules (with respect to delays – without valid reasons – in coming out with a restructuring plan and the necessary agreements) will be reported to the central bank (*AsiaWeek*, 7 September 2001).

Nonetheless, one must distinguish between the positive impact of corporate restructuring proposals and implemented proposals on the firm itself, and effects of the restructuring proposals and implemented programs on taxpayers and the government. For
stance, even though the UEM/Renong restructuring proposals have been beneficial for the conglomerate itself (improving the balance sheets, reducing debt and increasing focus on core businesses) and have been well received by most analysts, the generous terms and conditions for the conglomerate adversely affect the taxpayers.

**Ministry of Finance Incorporated (MoF Inc)**

MoF Inc – through Syarikat Prasarana Negara Berhad (SPNB), Khazanah Nasional Bhd Khazanah), and Syarikat Danasaham Nasional Bhd (Danasaaham) – has taken over (i.e., re-nationalization) financially ailing corporations in the hope of “turning them around” and repositioning them for later return to the market. (Table 23 provides a summary of Malaysia’s various economic development stages over the past decade and going forward.) According to CIMB Securities, it is apparent that the re-nationalization process aimed at assets of strategic importance (*The Star*, 1 October 2001a). Table 24 presents a list of corporations that have recently completed their re-nationalization exercise. The following analysis will revolve around whether the “takeovers” (which constitute “bailouts”) of MAS, Putra, STAR and UEM/Renong were appropriate, justifiable and above board, and whether taxpayers are bearing more costs than necessary to bail them out i.e. have the “bailouts” been conducted in a “fair” and “reasonable” manner?

**Malaysian Airlines Bhd (MAS)**

After buying over the 29.09 percent stake from Naluri Bhd (which is owned by Tan Sri Tajudin Ramli), MoF Inc is now the largest shareholder in MAS. Apart from questioning whether the MAS “bailout” was justifiable in the first place, mounting criticism of the government has been directed at the RM8 per share price paid to acquire assets that was more than double the market value of the stock.

In its defense, the government has argued that MAS is a viable corporation and will recover its value once it is successfully restructured and tied-up with a strategic partner, besides serving and furthering strategic and national interests. The government claims to be optimistic about MAS’s prospects and has expressed the hope that after its “spring-cleaning”, MAS would sell for RM10.00 per share, which would be a 25% premium over its acquisition cost, thereby clearing the government of the charge that the acquisition was a bailout (Ho, 2001). Furthermore, then Finance Minister Daim
On a different note, argues Syed Husin Ali (2001), “The Government or Finance Ministry has always been ever so keen to bail ailing cronies or crony companies. Why are they not equally concerned about the plight of much less fortunate sections of the population? For example, the oil palm small-holders are now facing difficulties because the price of their produce has plunged from over RM300 per ton at the beginning of the economic downturn to merely RM80 per ton now.” Similarly, rubber tappers and rice farmers are also suffering from the effects of the crisis.

There is apparent internal discontent over the RM6.1 billion MAS restructuring proposal involving asset sales to enable the national carrier to retire some of its debt and to secure RM820 million as working capital to “fast track” its recovery back to profitability (The Star, 8 January 2002). (For more details see Box 2.) Injecting cash into MAS by buying assets using SPVs has raised the question of why the government has not considered alternative options to paying RM1.8 billion to Tajudin Ramli for his 29.09% stake in MAS. Lim (2002) has described the MAS bailout as probably the first “double government bailout” in the world of a troubled company as well as of its principal shareholder. Taxpayers are not only bearing the costs of bailing out MAS, but also of bailing-out Tajudin – involving concentrated private – even individual – benefits as well as dispersed socialization of costs.

Finally, the government “rescue” of MAS continues, with MoF Inc now owning 100 percent of MAS after the corporate reorganization proposal of taking MAS private (retaining control of domestic operations) and its listed status being transferred to a newly incorporated company (Newco); with its international and cargo operations separated from its domestic operations (The Star, 29 January 2002). (See Figure 4 for a look at the corporate structure of MAS before and after the proposed reorganization.)

Hence, the government should ensure that assets be transferred at realistic prices; the concession valuation and pricing of the operating lease of NEWCO will be transparent; the cost of the government’s contribution to Newco’s success – in terms of reduced financing charges and so on – should be quantified and reflected in relative valuations; the debt-equity swap arrangement and pricing are “fair”; and the delisted parts of MAS report their results just as openly and as fully (i.e. guaranteeing transparency) as
NEWCO so that the public is able to judge the impact and success or failure of public funds used for MAS's rescue.

The government is effectively assuming responsibility for generating the necessary liquidity to service the RM9.2 billion debt largely attributed to the mismanagement of the previous management. This again involves socialization of both risks and costs to the taxpayers. As such, assessments of the effectiveness of public expenditure must be conducted. To assess the effectiveness of public funds usage, one should look at the profitability of MAS in future on group or consolidated basis.\textsuperscript{189}

United Engineers (M) Bhd/Renong Bhd (UEM/Renong)

It is beyond the scope and capacity of this paper to unravel the complex intricacies of the UEM/Renong saga.\textsuperscript{190} I will instead only look at the CDRC debt-restructuring scheme involving the issuance RM8.4 billion of zero coupon bonds by Projek Lebuhraya Utara-Selatan Bhd (PLUS). (See Box 4 for details.) This followed the default on loans repayments totalling some RM8.4 billion by Renong and UEM (\textit{freeMalaysia}, 1999a) that prompted the CDRC to design a debt restructuring plan to prevent the immediate liquidation of Renong\textsuperscript{191} and UEM (and hence preserve supposedly a viable businesses in distress due to the crisis and hence jobs).

According to the CDRC, the restructuring plan represents a private solution, without any financial support from the Government, and is said to be of immense benefit to the economy, especially the banking sector, and done in the best interests of the creditors and shareholders of Renong and UEM (CDRC, 8 March 1999). According to the CDRC, successful restructuring will ease the NPL burden in banks, thereby improving overall financial health of the system, that should improve confidence in Malaysia.

There is less contention regarding the benefits of the restructuring plan with respect to reducing NPLs in the banking system, seeing that the entire Renong group accounts for 7% of all Malaysia's bank loans (\textit{freeMalaysia}, 1999a). However, some contend that the government is actually providing indirect financial support to Renong, and is, in fact, "bailing out" Halim Saad.\textsuperscript{192}

A rather clear-cut "bailout" of Halim Saad was the cancellation of his private debt and "put option" to buy back the shares he sold to UEM in late 1997 for RM3.2 billion
which came due in February 2001 by UEM (Gunasegaram, 2001a and Lim, 2002). Since UEM is now taken over by the government, the move is thus at the taxpayers’ expense. This move has also not augured well with investors. According to a report by Affin-UOB Research, "Terminating the put option however is a major disappointment for it again raises the issue of corporate governance in Malaysia, which was perceived to have improved of late. This could affect near-term market sentiment." (Jalil, 2000). (For details and analysis, see Gunasegaram, 2001a. See also The Star, 28 June 2001.)

Even though the revised plan removed the state guarantee for the bonds (i.e. sovereign guarantee), a banker involved in the restructuring noted that the government was still lending support indirectly by allowing higher toll-rates for the next two years (up till 2001), writing off state loans and waiving tax payments (Lopez, 1999). Besides, the RM8.4 billion zero-coupon bond issuance could lead to a government “bailout” in the future (Lopez, 1999). At 9.4 percent compound interest rate, only one payment of RM16 billion will made for the zero coupon bonds – a bullet repayment.

Are PLUS (which is guaranteeing the bond), Renong and UEM able to make the bullet repayment? According to C. Rajandram (chairman of the CDRC up to 30 June 2001), repayment would not be problematic since it is backed by PLUS’s strong cashflows and charged against all their other assets. Rajandram cites Prolink Development Sdn Bhd (Prolink) [the group’s big property development in Johor] and Commerce Asset-Holdings Bhd (CAHB) [Malaysia’s second largest banking group] worth RM4.5 billion and RM2 billion in 2000 respectively. (Tharmaratnam, 2000) Bondholders seem to be securely covered since both Renong and UEM have pledged assets worth more than the current value of Plus bonds issued as collateral for these bonds, and the assets would belong to Plus if both companies do not repay bondholders (The Star, 21 September 2001a) who could then unlock the value of the assets to repay bondholders.

However, according to freeMalaysia (1999a), the value of the assets of the Renong group are worth RM8 billion and that’s before deducting the several more billion in debt remaining at other group affiliates like Putra, Prolink, Time Engineering, Faber. Watch for their bailouts, too.” However, these arguments were made before the government took over UEM and listed its cash cow, PLUS to raise funds to redeem the
bonds before 2006, and Putra was taken over by the government in November 2001 after the government had effectively taken over UEM. As such, perhaps the silver lining of listing PLUS and the sale of 30 percent of its shares is that it stands to generate about RM4 billion in cash, valuing PLUS at RM15 billion. Redeeming RM4 billion of the RM8.4 billion bonds, instead of waiting until 2006, would save on “interest” payments (Tharmaratnam, 2000).197

In October 2001, through Danasaham, a wholly-owned subsidiary of Khazanah, the government took control of UEM and now controls 100% of the equity of UEM (which, in turn, has a 32 percent stake in Renong198) following a successful voluntary takeover offer (The Star, 11 December 2001). With the re-nationalization of UEM, the government is now wholly responsible for restructuring UEM and Renong199. For a look at the various debt-restructuring efforts planned and undertaken by the government, see Box 4.

In December 2001, UEM, now under the government, announced a major corporate and debt restructuring plan to reduce debts of RM30.3 billion by Malaysia’s most indebted conglomerate to RM14 billion by the middle of 2002 (The Star, 2 May 2002). The strategies include selling non-core and non-strategic assets – Putra being one of them, as mentioned above – and listing corporations including PLUS, Time dotCom and Prolink. For a look at the controversial issues surrounding the government’s takeover of Putra, see the subsequent subsection.

There is now concern as to whether the government will carry out asset sales to reduce the debts, and not merely resort to issuing long term government papers, and whether the government will take-over default papers (i.e. bonds that corporations are unable to redeem) which could have been resolved via market solutions (i.e. letting the private bondholders issue a petition to sell assets pledged in case of a default). The latter measures would imply “socialization” of bailout costs to taxpayers if insufficient value is obtained from the assets upon maturity. So far, the government has claimed to be sticking to its plan to dispose of non-core and non-strategic assets to resolve the UEM/Renong group debt. Box 5 reviews the progress so far.
According to the government, the takeover of the LRT system was both necessary and unavoidable. (See Appendix 9 for a brief look at the government’s rationale behind the “bailout” scheme.) In November 2001, Syarikat Prasarana Nasional Bhd (SPNB) purchased the outstanding debts of STAR and Putra totalling about RM5.5 billion (The Star, 4 April 2002). (For details refer to Box 6.) In the second phase of the restructuring scheme, SPNB will complete the takeover of all assets and operations of STAR and Putra by June 2002 (The Star, 4 April 2002). (For details refer to Box 6.) The “bailout” of Putra will help reduce the huge debt of more than RM30 billion amassed by the UEM-Renong group. Some have therefore argued that this represents yet another “bailout” for Halim Saad, its “boss”.

Signs of financial weakness (probably reflecting signs of economic non-viability and/or operational problems) were already apparent in Putra when it defaulted on its RM2 billion loan in 1999. Nonetheless, rather than classify the loan as non-performing, Bank Negara requested creditors – Commerce International Merchant Bankers Bhd (CIMB) and RHB Bank Bhd – to defer labeling the loan as “non-performing” in the hopes of “containing” the bad loans problem (Ong, 2001a). However, such “cover-ups” cannot persist indefinitely, and CIMB finally, served a winding-up petition to Putra.

While some potential benefits of the “takeover” cannot be denied, a major concern is whether the amount spent to save STAR and Putra reflects its intrinsic value. The initial plan involving RM6 billion was met with criticism especially for including additional payments. (Refer to Box 6 for details.) The revised plan for RM5.5 billion seems more reasonable, but apprehensions still abound as it still seems likely to contain such payments.

An additional concern arises because the existing Putra and STAR managements will continue to run the LRT systems. Some wonder whether this will be seen as approving of their performance so far. Some quarters argue that by leasing back the LRT operations to Putra and STAR, the authorities are not addressing the basic issues of attracting more passengers and restructuring the loans by allowing “the existing management to run the show”. An observer explains that there is no guarantee that by
allowing the same management to manage the LRT system, things would be better the second time around. Hence, it would be preferable to hire their personnel rather than leasing back the LRT operations (The Sun, 12 February 2001).

If the existing management is retained, it should be reliably confirmed that Putra and STAR’s problems were not due to their poor management. According to a transport sector analyst, it may seem a moral hazard to let the LRT be operated by the same companies that have suffered losses ever since they started. Nonetheless, he acknowledges that these operators would know the business better than other, but “they should also be made accountable.” (The Sun, 12 February 2001)

By taking over the debts of both Putra and STAR, the government has reduced the amount of NPLs in the banking system and helped speed up a return to “normalcy”. According to analysts, the “haircut” of RM232 million, or 4 percent, — by banks that made loans to Putra and STAR — was small compared with the size of the entire banking system, and that the banks got a good deal when they received government-guaranteed debt in return (The Star, 1 December 2001b). The banks are probably getting off lightly because they were probably encouraged by the government to lend to these LRT companies in the first place, raising serious doubts about the privatization policy and its implications for the likely accumulation of “contingent liabilities” by the government.

Case Studies of Malaysian Corporations Undergoing Corporate (Debt) Restructuring
Following the 1997-98 Asian financial crisis, corporations have been busy preparing and revising corporate restructuring plans in the hope of turning around their loss making corporations, reducing debt, liabilities and leverage, and improving long term prospects. The first step in evaluating the corporate restructuring plans of the corporations, conglomerates or groups under review, is to look at the sequencing and implementation of the restructuring plans.

Furthermore, one must ascertain whether underlying weaknesses existed prior to the crisis, and were either brought to surface or exacerbated by the 1997-98 Asian financial crisis. If so, the claim that weak corporate performance was externally induced by the crisis is less credible, shifting the focus of diagnosis and responsibility elsewhere, e.g. to structural weaknesses and corporate governance issues. By uncovering and identifying other problems and the role of these problems in contributing to the
corporations’ debacle, one can better evaluate whether the corporate restructuring or
turnaround plans (which should encompass both debt and operational aspects) will be
"sufficient" to turn the corporations around and ensure their long term viability.

Malaysian Airlines System Bhd (MAS) (Reference to MAS in this paper is made to the
group's performance)

A Chronology of Corporate Restructuring and Turnaround Plans

One key element of a good corporate restructuring programme and turnaround plan is the
ability to adjust, modify and improve on existing programmes when new information or
changes in the business environment are evident or anticipated. Apart from favorable
market and external conditions, flexibility, timely execution, patience and vision can help
ensure the success of restructuring or turnaround plans. The MAS restructuring and
turnaround plan has taken numerous twists and turns with changes in the business and
political environment, nationally and internationally.

Prior to the September 11, 2001 terrorist attacks, the initial turnaround plan —
involving financial and strategic aspects — was unveiled on 29 May 2001. The objective
of the plan, according to the new managing director of MAS, Mohamad Nor Yusoff was
to improve MAS’s liquidity; improve its balance sheet; raise additional working capital;
ensure MAS is a profitable national flag carrier by FY2004; and restore MAS’s
competitive position. At that time, Mohamad Nor said MAS expected to get about
RM1.5bil in net income, and return to profitability, earning an expected pre-tax profit of
RM341mil by FY2004 with full and complete implementation of the turnaround plan
(The Star, 30 May 2001). (See Appendix 10 for a review of MAS’s corporate
performance after the 1997-98 Asian financial crisis. Box 7 provides a summary of the
financial and strategic objectives of MAS’s turnaround plan.)

Up till February 2002 MAS has accumulated debt of about RM 9.2 billion (The
Star, 28 February 2002a). Part of the measures or strategies to improve MAS profit
position included reducing costs, setting new targets for achieving higher overall yields,
shortening ground turn-around time, as well as maximizing belly utilization by
optimizing loads and yields for cargo operations. Besides that, it will also review
domestic services, sales and distribution, in-flight services, corporate content and IT,
other subsidiaries and (current) policies and processes. To improve its balance sheet and
financial position, MAS has proposed to dispose off and lease-back aircrafts and to sell
off certain non-strategic assets. Box 2 provides a summary of the various measures before
September 11 as well as additional and modified measures post-September 11.

However, the current predicament facing MAS is by no means solely attributable
to the Asian financial crisis and other external factors, as claimed by the government
(when providing rationale for the “bail-out”). If so, how does one explain the ability of
other airlines such as Singapore Airlines and Thai Airways to weather the storm and
survive pretty well under similar circumstances? (Syed Husin Ali, 2001.)

In fact, weaknesses were already clear under the previous MAS management
headed by Tajudin Ramli. In short, the previous management, under the guidance of
Tajudin, was overly ambitious and over-extended the company, borrowing heavily. But
“high” debt in itself is not bad if there is sufficient and constant flow of income to service
interest payments and repay debt. Unfortunately, inappropriate strategies employed at the
wrong time (e.g. trying to expand and diversify when the industry was arguably fraught
with overcapacity) proved disastrous. For a comparison of the turnaround plan proposed
and implemented, see Table 25.

Referring to Table 25, it appears that similar measures were employed by
Tajudin’s and Mohd Noor’s management team, with the exception that the latter did not
expand fleet size and focused more on improving liquidity for obvious reasons. In their
haste to expand (hence, “overextending themselves with massive debts”) Tajudin and his
management left Mohd Noor and his management team the daunting task of trimming a
huge debt of about RM9.2 billion. To compound matters further, the corporation had
been making four consecutive (financial) years of losses beginning from 1997/98. To top
it off, the new management team has taken on a company whose net debt-to-equity ratio
of 4.7 is more than twice that at the end of 1995 at 1.9 (The Edge, 9 July 2001: 4). This
large debt load, coupled with the fact that the company’s cash flow from operations was
hardly sufficient to service annual interest obligations, call into question the airline’s
ability to repay its debts. Even though MAS can sell some of its aircrafts to generate
some income, this strategy cannot be relied upon indefinitely.
Evaluation of the Corporate Restructuring or Turnaround Plan

So far, (aviation and financial) analysts have responded positively to the proposed measures and feel that the plan is a step in the right direction in the airline’s quest for profitability by 2004. Specifically, according to OSK Research analyst Hilmi Mokhtar, the corporate restructuring proposals announced on 8 January 2002 convinced him that the airline would be profitable by its financial year ending March 2004, the target set by the management though he believed further efforts are required (The Star, 9 January 2002).

Analysts seem to be in agreement that debt reduction (thereby reducing interest payments due) and staff reduction measures are required to ensure that MAS returns to profitability. According to them, MAS’s gearing level will be reduced from 4.5 times to slightly over 2.5 times with the sale and leaseback of aircraft and property, and the sale of MAS’ 70 percent stake in MAS Catering Sdn Bhd. The asset disposal will eliminate maintenance charges and boost cash reserves to enable it to expand its network and operations. Meanwhile, selling MAS Catering would relieve the airline of a loss-making corporation and indirectly reduce staff (The Star, 8 January 2002 and The Star, 9 January 2002). Furthermore, the divestment of non-core assets will further enhance the group’s focus on its core competencies, thereby improving its chances of viability and survival in the highly competitive but oligopolistic industry.

While some analysts view the reinstatement of 12 previously scrapped routes as an indication of the management taking advantage of the post-September 11 fallout in the global aviation industry, others claim that the uneconomic step was due to government interference, which will only undermine MAS’s prospects for viability. Undoubtedly, many analysts are still cautious about MAS and prefer to wait to see how these measures affect its profit and loss account (The Star, 9 January 2002). Market analysts say the latest corporate reorganization proposal involving a NEWCO seem promising but lack crucial details, especially with respect to valuation of MAS’s international cargo and domestic operations (The Star, 29 January 2002). Analysts believe (based on available information) the new arrangement will augur well for the MAS group, minority shareholders and potential investors.
Analysts expect Newco to rake in net profits of RM250 million to RM300 million a year, based on the airline’s recently released third-quarter 2001 results. The Centre for Asia-Pacific Aviation’s outlook report for 2002 says the next three months will be critical in deciding the long-term prospects of airlines. It further added that, “Net revenue drops of 15 to 20 percent [combining traffic and yield decreases] simply cannot be corrected by even the fiercest of conventional cost reductions”. MAS’s third-quarter 2001 revenue fell by 13.8 percent to RM1.9 billion due to a decline in long-haul passenger loads after September 11. Meanwhile, revenue from its cargo division dropped 16.5 percent due to declines in demand for electronic components (Gabriel, 2002). However, MAS believes that if all financial and operational restructuring measures are fully implemented, the group will be able to turn around and register a pre-tax profit of RM341.0 million in financial year 2004 (Table G in Appendix 10).

United Engineers (M) Bhd/Renong Bhd (UEM/Renong) (Reference to UEM/Renong in this paper is made to the group’s performance.)

This subsection focuses on the debt or financial restructuring plan of the UEM/Renong group. The main problem facing the group is deciding how to pare debts to a sustainable level and to allow Renong to return to profitability. The operational restructuring measures of individual subsidiaries or affiliates of UEM and Renong will not be discussed here. For a brief chronology of the group’s debt restructuring plan, see Box 4.

Evaluation of the Renong Group Corporate Restructuring Plan

The main objective of the UEM/Renong group is to pare its huge debt, thereby reducing interest costs and improving its balance sheet and profitability. (Refer Appendix 11 for a summary of Renong’s earning for financial year 1997, 1998, 1999, 2000, 2001, and a brief review of their corporate performance for 1998 till 2001.) The group has resorted to two main strategies, namely asset disposal and listing subsidiaries with the potential to generate cash for debt repayment and provide working capital. The Renong group expects to turn a profit in fiscal 2003 by selling assets and focusing on its property unit (Prolink Development Sdn Bhd, Prolink), one of the nation’s biggest landowners (The Star, 17 January 2002). For a summary of the Renong group’s performance for quarter 1 ended September 31, 2001, refer to The Sun (27 November 2001a).
One of the immediate objectives of Khazanah – after effectively taking over UEM and hence PLUS – is resolving the RM8.5 billion PLUS bonds (issued to refinance debt) to pare the group’s debts to an acceptable level and to put the firm in a financially healthier position to improve PLUS’ valuation prospects before listing. According to UEM’s Managing Director, Dato’ Dr. Ramli Mohamad, “it makes no sense for UEM to allow the PLUS Bonds to run to full maturity in 2006 if we can afford to reduce debt by repaying them earlier, particularly as UEM and Renong will jointly owe a total of RM16 billion is we allow interest accumulation to run over the full seven-year term...If we are successful in refinancing the PLUS debt, depending on the discount rate, the total equity value of PLUS could be in excess of RM15 billion. The size of the IPO has not yet been determined, but as an example a 25% divestment through listing could yield as much as RM3.75 billion. Since UEM’s total PLUS Bond debt is currently only RM 3 billion there are therefore obvious benefits to be gained in settling the Bonds as early as possible” (“Renong and UEM to Reduce Debt Through Asset Disposal, 13 March 2000). For details, see Box 4.

The listing of PLUS (when it happens) will be popular, as the investing public can now gain direct access to Malaysia’s largest expressway operator, that generates large sums of cash, is low risk and yields steady growth. (See also Gunasegaram, 2002b.) The jewel corporation is the most successful toll concession in Malaysia and in the UEM stable. 215 Yet, growth rates have been modest, as PLUS’ growth has been between 1.5 and 2 times GDP growth of the country (The Star, 2 May 2002).

However, with the relatively slow progress of UEM’s asset divestment exercise (until now, no assets have been sold from the UEM side) – which is part of the group’s debt restructuring programme – the listing of PLUS could well take place after June 2002 instead of the targeted mid-2002, since its huge outstanding debts will definitely affect PLUS’s valuation (See Nuryushida, 2002a). Furthermore, by deferring listing, PLUS may benefit from a pick-up in the stock market with the recovering economy in mid-2002. Up till May 2002, no assets from the UEM stable have been sold.

In 1999, Renong issued Renong SPV Bonds as part of their debt restructuring plan (refinancing strategy), aided by the CDRC. (Refer to Box 4.) However, considering the high interest burden, which has been eating into profits, early redemption of the
Renong SPV Bond – via a structured and systematic disposal of the group’s assets – is considered desirable and is being actively pursued. However, the 2001 slowdown and depressed stock market made this line of action less feasible. The emergence of Danasaham on the scene has sparked new hope and may offer new opportunities for Renong to deal with the huge debt – by disposing its investments in UEM to Danasaham. The Renong group debt of RM9.9 billion as of 30 June 2001 mainly derives from the Renong SPV Bond of RM5.1 billion and Putra’s RM4.1 billion debt (Renong Annual Report 2001).  

Renong has fared relatively better in terms of asset disposal as it has managed to dispose of two large assets, namely Putra and Park May, besides other smaller ones, including its interests in UB Co-Management Sdn Bhd, and all subsidiaries of Renong Solution (M) Sdn Bhd. Refer to Box 5 for additional information.

The renationalization of Putra seemed inevitable since such a mammoth project entails huge investment outlays, and hence, financing (and depreciation) costs, and the nature and purpose of the service would need subsidizing fares. Furthermore, it takes a relatively longer time to recoup Putra’s initial investments. Nevertheless, this move has helped reduce NPLs in the banking system and trimmed Renong group debt, hopefully, hastening its return to profitability. With the takeover (and management of the assets) of Putra by SPNB, the Renong group’s debt of RM10 billion as at June 2001 would be reduced by around RM4.1 billion. Following the partial redemption of the SPV bonds issued by PLUS, and the takeover of SPNB, debt would decline to RM4.5 - RM4.6 billion (The Star, 28 December 2001).

While the disposal of Park May does not involve any cash transactions, the group should still benefit from relinquishing the loss-making Park May to KKMB whose core competency is in the transportation business. KKMB gets a listed vehicle, while Park May increases its chances of enhancing future earnings and cash flow in the long term.

Apart from deciding on how to best settle the RM8.5 billion PLUS bonds, most of the corporations under the Renong umbrella are loss-making and debt-laden, with many having defaulted on their debt repayments. For example, Time Engineering defaulted on its second third and fourth tranches of their US$250 million bond which matured on
December 5, 2001 (The Star, 30 January 2002c). Failure to redeem the remaining US$162 million bonds would result in penalty interest of 2% per annum and give lenders the right to foreclose on loan collateral—the collateral pledged by Time to secure the bonds includes 55% of power producer EPE Power Corp (EPE), 16% of Renong and 15% of cellular network operator Time dotCom—worth about RM1.2 billion (The Star, 20 December 2001b).

Time Engineering and its controlling company UEM are fighting hard to avoid foreclosure of their loan collateral, but their proposals—put forth on December 4, 2001—for an extension were flatly rejected by though not all, most bondholders. This led Khazanah to offer to buy all outstanding bonds of US$162 million (or RM615 million) for 90 percent of their original value (Tan, 4 February 2002). If the bondholders accept this, then Time Engineering will not have to sell its assets in the immediate future. However, Time Engineering intends to seek Khazanah’s “assistance” only if it fails to reach an agreement with bondholders. In January 2002, Time Engineering unveiled a new plan (superseding the one unveiled on December 4, 2001) which involves asset sale in three tranches through on Dec 5, 2002, 2003, and 2004 to redeem the bonds in three years. If the bondholders reject Time Engineering’s new proposal—involving a full payment of the outstanding amount—and choose to accept Khazanah’s offer—to buy over the bonds from them at a “discount”—then, Time Engineering will probably not have to dispose of assets in the near future.

Another heavily indebted corporation is Faber. According to Faber chairman, Datuk Anwar Haji, the group would sell its hotels to repay RM1.8 billion worth of bonds maturing in 2005 (The Star, 12 December 2001). Renong’s listing strategy has been less successful—Time dotCom shares were grossly undersubscribed but had been underwritten by EPF and Kwap.

If UEM and Renong’s core competencies are in construction related operations, both benefit from the government’s pump-priming packages, which reportedly allocated RM28.7 billion, or 80 percent of the total allocation of RM36.1 billion for development expenditure in 2001, and increased the budget for development by 5% to RM33.5 billion in Budget 2002 (The Sun, 14 February 2002).
For the Renong group to turn a profit by 2003 (as projected by Renong), apart from improvements in the consumer demand and economic climate, a confluence of factors including the acceleration of the disposal of non-core assets (which is dependent upon the economic and stock market environment), a realign of focus on core businesses and competencies, improvements in operational processes and management planning and decision making, are necessary.

Sistem Aliran Rigan Sdn Bhd ("STAR") and Projek Usahasama Transit Rigan Automatik Sdn Bhd ("PUTRA")

According to Halcrow's regional director C. Paul Buchanan, who prepared a report on the weaknesses of the public transport system, the lack of integration among the five public transport operators — Putra, STAR, Intrakota, Park Amy and KTM Komuter — has limited traffic volume, leading to a shortfall in passengers and revenue, creating a financial nightmare for both Putra and STAR (and the other three operators) (Asiafeatures, 2000). Even if passenger volume increases, the gain in revenue is often offset by lower fares and the burden of financial and depreciation costs. A transport sector analyst argues that the main problems have been a poor business strategy, an unfavorable fare structure and poor integration between the LRT stations and the feeder bus (The Sun, 12 February 2001).

Moreover, according to Malaysian Centre for Transportation Studies (MaCTRANS) Research and Consultancy co-ordinator Zakaria Ahmad, the main problem with the integrated public transportation system lies in the fact that the authorities themselves — the Entrepreneur Development Ministry (KPUN), the Ministry of Transport (MoT), the Public Works Department and the Economic Planning Unit (EPU) — are not integrated. There are so many authorities - from the KPUN to the MoT, the Public Works Department and the EPU — that impede proper coordination. According to Zakaria, "The two most important ones, the KPUN and MoT, do not work hand in hand. That is why we proposed to the EPU that there should be only one ministry in charge of public transport, a Ministry of Land Transportation. This new ministry would handle the planning, organisation and regulation of public transportation, as well as the issuing of licences to public transport companies. While this creates the problem of having to establish a separate ministry to cover other forms of transport, a single body to
oversee land transport is something all correspondents agreed on. A less radical suggestion made over the last 10 years has been the establishment of a body much like the Land Transport Authority of Singapore.” Intrakota Komposit Sdn Bhd chief executive officer Zainuddin Fathodin, adds that, “If you look at the Singapore model, they initially had 10 bus companies. Now they have one MRT and two bus consortia.” (Damis and Poosparajah, 2002)

Therefore, it is imperative to organize, coordinate and align the various government agencies and departments so that they can, in turn, effectively organize and direct operators to work together to ensure efficient and attractive services which will, in turn, increase the use of public transport. As long as there is a lack of authority integration, the ease and attraction of LRT use will still be limited even if the various transport operators improve their own services230.

Lack of revenue coupled with the burden of making interest payments proved too much for both Putra and STAR as they defaulted on their loan repayments to CIMB and were served with winding-up petitions in 2002.231 (See also “Appointment of liquidators for Projek Usahasama Transit Ringan Automatik Sdn Bhd ("Putra"), a wholly-owned subsidiary of Renong Berhad ("Renong"),” Announcement dated 26 April 2002, available from http://ww.renong.com.my.) As C. Paul Buchanan notes, a revamp of government policies on fares, infrastructure and private car use will only enable the LRT operators to pay a “tiny portion” of outstanding liabilities, and not stop the financial bleeding of LRT operators. The state bailed out these operators, whose commercial debts are backed by the government in line with the concession agreements, by issuing bonds worth RM5.5 billion to take over the loans and, eventually, the assets of both operators.

The rationalization exercise by the government to integrate and improve the operations of the two light rail transit (“LRT”) systems in the Klang Valley is divided into two phases. (See Box 6 for a brief outline for a chronology of corporate restructuring or turnaround plan to rationalize the LRT systems.) With the extension of financial assistance and take-over of the system, Putra and STAR can now focus on improving their operations and earnings. Aware of the poor integration among public transport operators, the government proposed an integration plan to firstly “merge” Putra and

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STAR, and to then improve auxiliary services. Though this may be a slow process, it should bode well for public transportation users in the long run.

**Concluding Remarks**

The government’s efforts to resolve the NPL problem and restructure the corporate landscape – by encouraging and, in some cases, forcing debt and operational restructuring – should help improve corporate governance and performance. Improvements or modifications in corporate governance guidelines may also help, though the record here is rather ambiguous. However, as suggested above, the various SPVs must be able to serve the welfare of society as a whole (including other stakeholders such as creditors, debtors, taxpayers and government). Each party will have to bear some costs, but the bulk of the costs should be borne by those parties directly responsible for the losses.
Endnotes

1 According to Fisher (1998: 7), “Annual GDP growth in the ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) averaged close to 8 percent over the last decade. Moreover, during the 30 years preceding the crisis per capita income levels had increased tenfold in Korea, fivefold in Thailand, and fourfold in Malaysia. Indeed, per capital income levels in Hong Kong and Singapore now exceed those in some Western industrial countries. And until the current crisis, Asia attracted almost half of total capital inflows to developing countries – nearly $100 billion in 1996.”

2 “The Asian model of development” is often characterized by direct government intervention in the economic sphere (with varying degrees across the different countries). Lanyi and Lee (1999) divide “economic governance regimes” into two polar alternatives. Firstly, a regime that depends on a high degree of direct intervention in the economy by the government. Secondly, a regime in which government operates at arm’s length from individual enterprises, setting and enforcing rules and creating a general environment for business rather than directly conducting business itself (Lanyi and Lee, 1999: 4). Following their hypothesis, government intervention at earlier stages of economic development proved to be more favorable than at later stages [ceteris paribus]. As such, the suitability of “economic governance” approach may have to change accordingly, depending on the “stage of economic development”. More often than not, this involves the transition for the former to the latter regime, as markets mature. This may be one of the reasons why state-led industrial policies that where once raved, are now seen as ineffective or even counterproductive. According to Lanyi and Lee (1999: 6),

“at earlier stages of development [where markets may be nonexistent or relatively well-developed], it may be less costly and more efficient for governments to directly substitute for missing markets than to build up market-supporting institutions and wait for markets to arise. As markets develop, however, the optimal market-augmenting policies would change to those that enhance market-supporting institutions, keeping an arm’s length relationship with the private sector. This is so because, as markets develop, there is a rise in the ratio of cost to benefits of pro-active government intervention. Thus, as an economy grows and price systems become more informative and effective, there will be less need for intervention and greater distortions will result from government intervention” (for further analysis, see Lanyi and Lee, 1999).

Here, the contention revolves around the degree of government intervention. Government intervention in itself may not be counterproductive. More on this in Section 2. A more “bank-based financial system” is often characteristic of the Asian model. Possibly, industrial and technological policies are more easily directed and executed with the state owning banks or “directing” credit of private banks (through moral suasion or “coercion”).

3 One needs to distinguish between a financial disruption and a financial crisis. According to Steenbeck (1999: 4) the term “crisis” is used to describe,

“a situation in which the real economy is clearly damaged. In this terminology, for example, the 1987 Dow-Jones stock market collapse was not a crisis, because eventually it didn’t initiate a recession. Within six months after the crash, the US economy was growing again, and in 1988, GNP rose by more than four percent (Feldstein, 1991)”. On the other hand, the 1929 stock market crash did lead to a crisis in the beginning of the 1930s, causing damage to the real economy (i.e. in technical terms, at least two consecutive quarters of negative growth). This is indicated by the “large-scale defaults on contracts by both financial and non-financial units, as well as sharply falling income and prices” (Minsky, 1964).