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POOR CORPORATE GOVERNANCE, UNDISCIPLINED MARKET AND CRONYISM IN THE 1997 ASIAN CRISIS

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Abstract

Corporate governance refers to the rules of the game that enables stakeholders to exercise appropriate oversight of a company to maximize its value and profits. Both financial and corporate governance restructuring is an ongoing reform program in the post Asian crisis-ridden countries. To be fully effective, corporate restructuring must be linked to bank restructuring, which, in turn, must be linked to the settlement of external debt problems to scale down the systemic risks. Fundamental changes within the economy are necessary to create arm's-length relations between the government, corporations, and banks. Many corporations in the crisis-ridden countries are over-indebted and frequently are part of conglomerates or monopolies that are controlled by small groups and have nontransparent accounting and close links to government and financial institutions including commercial banks (Iskander, et al., 1999). This paper examines the impact of corporate restructuring and governance in the aftermath of the 1997 Asian crisis in East Asia. There is an immediate clarion need to re-evaluate the issue of the market cultures and corporate governance in East Asia economies. The quality of governance is a key determinant to rehabilitate the financial institutions of crisis-ridden countries. This paper addresses itself towards answering some of the questions that policy-makers themselves must answer as they strive to undertake comprehensive reform to promote better governance so as to reduce excessive risks taking without causing distress in the financial markets minimizing the chances of a second wave of crisis.

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1. Introduction

For almost a decade (1987-1996), a phenomenal record of economic growth had been posted in the East Asian region. Countries such as South Korea, Hong Kong and Singapore, Malaysia, Thailand, Indonesia and the Philippines all achieved remarkable rates of growth, building high-quality manufacturing industries in a wide range of products, from clothes to computers. The region recorded GDP growth rates ranging from 10 percent in Singapore to 4.5 percent in Philippines (von Leffern and Cheng, 1998). These economies were achieving high growth rates in what was considered a stable economic environment, with relatively low inflation and outward-oriented policy regimes. Since the 1980s, the introduction of export-oriented foreign direct investment in the region stimulated export and import growth. The economic fundamentals were substantially strong as the region enjoyed high saving rates, relatively low inflation, and sound fiscal policy (Kawai, 1998).

However, the growth picture in East Asia has been dismal filled with corruption, cronyism and poor governance. Growth in the region was based on the "borrow and grow now, pay later" philosophy. Part of the 1997 Asian crisis resulted from the desire for rapid growth with heavy foreign borrowings that could not be sustained especially when the borrowed funds were not invested productively. The region consumed above the levels the economy and environment could sustain. Investors were overly optimistic about short-run increases in growth with no well-defined mechanism for ensuring long-run sustainability. This led to large debt crises in Thailand, Indonesia, South Korea and Malaysia.

With years of high growth and increase in wealth also led to widespread in corruption and cronyism. This led to inefficient economic outcomes, impede long-term domestic and foreign investment, and distort sectoral priorities and technology choices (Gray and Kaufmann, 1998). In any society, there should be a set of laws and regulations that serve productive social objectives, such as building codes, environmental controls, and prudential banking sector regulations. During the East Asia boom, corruption and cronyism override laws and regulations for personal self-interest and gains giving rise to over-ambitious tycoons, megalomaniac dictators, and the financiers who foolishly lent them the money (Engardio and Clifford, 1999).

The anecdotal evidence of the 1997 Asian crisis demonstrated that obscure insider lending practices and diminishing discipline in the financial systems and poor corporate governance contributed to the collapse of many banks and corporate firms in Thailand, Malaysia, South Korea and Indonesia. Discipline in the financial system was being sacrificed in the name of quick wealth and prosperity. It is incontrovertible evidence that a financial system without discipline is a financial system without control – an invitation to financial disaster as demonstrated in the 1997 Asian crisis. The lack of financial discipline highlighted certain institutional idiosyncrasies, such as implicit government guarantees given to financial intermediaries encouraging them to engaged in excessive risk taking (Mushkat, 1998). Krugman calls this "pangloss value" that is competition among over-guaranteed and under-regulated banks leads bankers to finance risky projects based on returns in ideal circumstances instead on a project's expected returns (The Economist, 1998). International capital mobility may not always maximize economic efficiency if government would cover serious banks' losses.

The East Asia economies suffered from too much government intervention and market rigidities. The tax system is inefficient and inequitable. Governments were too active in many industrial, commercial and financial decisions. The banking systems were largely either state-owned or state controlled institutions (Indonesia, China, Malaysia, Thailand and the Philippines fall into this category) (Delhaise, 1998). Government often dictated and directed the terms of lending of financial institutions, which often ended in poor investments. This allocation of funds by the government resulted in corruption, cronyism, malinvestment and rotten banking system.

It became apparently clear during the 1997 Asian crisis that the governance structure in East Asia economies needed to be improved in many aspects if good performance of corporations were to be sustained and financial distress to be avoided. The governments in the region have to be disciplined in maintaining market integrity and to restore investor's (domestic and foreign) confidence in the region. The aftermath of the 1997 Asian crisis clearly demonstrates heavy losses being sustained by many large corporations. This was heightened by revelations of dishonest or self serving directors in the 64 failed financial institutions in Thailand whom maximize their own interests at the expense of their companies. The accounting rules were lax and that auditors entrusted with the task of checking the bankbooks and procedures were not vigorous and consistent and the list is by no means exhaustive.

This paper examines the impact of corporate restructuring and governance in the aftermath of the 1997 Asian crisis in East Asia. There is an immediate clarion need to re-evaluate the issue of the market cultures and corporate governance in East Asia economies. The quality of governance is a key determinant to rehabilitate the financial institutions of crisis-ridden countries. This paper addresses itself towards answering some of the questions that policy-makers themselves must answer as they strive to undertake comprehensive reform to promote better governance so as to reduce excessive risks taking without causing distress in the financial markets minimizing the chances of a second wave of crisis.

2. What is Corporate Governance?

Corporate governance refers to the rules of the game that enables shareholders to exercise appropriate oversight of a company to maximize its value and profits. It is a set of provisions that enable the shareholders through voting power compel those in operating control of the firm to respect their interests (Scott, 1998). Corporate governance is an indirect mechanism in reducing the agency costs and transaction costs imposed by managers acting in their own interests at the expense of the companies and shareholders. However good governance should not be judged within the shareholders-managers relationship alone? Instead good governance should take into account actions or conduct of the company on other "parties" such as employees, suppliers, customers, auditors, regulators and the community at large (Scott, 1998; Koh, 1999). They are characterized as stakeholders and a good governance system should be judged by how well all interests are protected by the contract.

The characteristics of good governance should include competence, integrity and empowerment, which are inescapable. Corporate directors will be required to demonstrate competency in understanding of the business involved. This requires appropriate education and training commanding international respect (Copp and Letza, 1998). For example, Dresdner Bank in Britain published their directors' qualifications in their annual report as part of good governance practice. Integrity requires corporate directors to practice ethical values in business. This can be achieved through accountability and sanctions against fraudulent and unethical behaviour. Empowerment should free directors from restrictive rules and regulations that could hinder their performances. Empowerment does not guarantee better governance unless the responsible public

agencies are competent. Thus, the regulatory framework must be drawn clearly to punish those who step out of bound (Copp and Letza, 1998).

Good corporate governance integrates three coherent principles of corporate governance namely, process and structure, business prosperity and accountability. This is to ensure transparency in the accounting and auditing standards and practices. Transparency, integrity and accountability in the running of a company reflect good corporate culture and governance. Good corporate governance reflects good management practices, conforming to the needs of stakeholders and the ability to challenge and absorb dynamic changes in the line of commerce such as external macro shocks (Shunglu, 1998). According to Sir Adrian Cadbury 1992 Report:

"The country's economy depends on the drive and efficiency of its companies, (their boards) must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability. This is the essence of any system of good corporate governance" (Tsang, 1999, p. 61).

Both financial and corporate governance restructuring is an ongoing reform program in the post Asia crisis-ridden countries. The harsh economic climate during the 1997 Asian crisis reflects restructuring and changes are needed in the economy and presents challenge to crisis-ridden countries to improve the standards of corporate governance practices so as to sustain economic growth. The quality of governance is a key determinant to rehabilitate the financial institutions of these countries. To be fully effective, corporate restructuring must be linked to bank restructuring, which, in turn, must be linked to the settlement of external debt problems to minimize systemic risks. Fundamental changes within the economy are necessary to create arm's-length relations between the government, corporations, and banks. Many corporations in the crisis-ridden countries are over-indebted and frequently are part of conglomerates or monopolies that are controlled by small groups (like utilities, transportation and food supplies in Indonesia) and practice non-transparent accounting closely links to government and banks. This results in cozy relationship between some politicians and their friends, which are incompatible with competitive market investment decisions.

Corporations face governance and external financing problems because different stakeholders have different preferences over how a firm's should operate. For example, shareholders want

their wealth to be maximized without regard to debt. Creditors want to be repaid, which implies firms taking on less risky projects than shareholders would expect. Managers on the other hand would like to maximize their benefits to themselves than outside investors (Prowse, 1999). This could sometime results in managers shirking their responsibilities, and engaged in embezzlement and fraud.

In the western world, company directors' obligations go beyond maximizing the shareholders' wealth. They have a social responsibility to employees, creditors, consumers and other stakeholders (Lee, 1996). Legal actions can and have been instigated not only by shareholders but also by employees and creditors. For example, insurance claims against directors has been reported on a rise in the US, England and Australia (Lee, 1996). In Singapore and Canada, it is compulsory for public companies to have audit committees and the New York Stock Exchange requires companies listed to have audit committees too (Lee, 1996). Camdessus, the outgoing IMF chief told a summit of the 10th United Nations Conference on trade and development (Unctad) held in Bangkok last year that for economic growth to be sustainable in the East Asian region requires fundamental changes in the financial and corporate sectors and old styles of governance should be restructured or abandoned (New Straits Times, February 14, 2000).

How would one undertake to measure, in any rigorous way, the effectiveness of corporate governance in the post Asian crisis region? Is there an appropriate framework to promote better corporate governance practices among companies? One response would be for the government of crisis-ridden countries to establish a prudent framework designed to encourage companies to adopt sound business practices. The framework should be set of general principles and rules supported by as small a number of detailed provisions as possible (Longstaff, 1998). This includes transparency and proper disclosure of matters such as related party transaction, and auditors having access to external and internal books. It also requires that a board of directors having effective power to oversee and monitor the management's performances on a continuous basis (Lee, 1996). It must also examine closely their incentives to act and observe their performance in actual practice.

3. Corporate Governance Problems in East Asia Economies

Good governance is one of the fundamental prerequisites for sustainable economic growth in a volatile financial world. When discussing governance, most people think of prominent politicians or other leading figures in authority. The quality of political leadership does play an important role in establishing goals and moral tone of leadership. However, the quality of a country's civil service entrusted with the responsibility in managing the tasks of governance that directly and indirectly affecting the citizen's lives, is in essence far more important for the achievement of economic growth than the leadership of a few prominent political leaders (Evans, Readings, and Rigoli, 1997).

The ingredients of good governance such as transparency and accountability in the structure, which enable firms to weather through crisis times was missing among East Asia corporate firms during the 1997 Asian crisis. In addition, East Asia economies lack the right mechanism and regulatory agencies to handle detailed rule-making and non-legal administrative enforcement such as financial disclosure and proper accounting standards and practices (Prowse, 1999). There is also a shortage of well-qualified accountants and competent auditors (example Thailand and Indonesia), and the professional self-regulatory agency is inherently weak (Alba, Claessens and Djankov, 1998). Regulators lacked the expertise to monitor burgeoning markets while loan officers relied on personal relationship to analyze credit risk, steering funds to the same over-leveraged oligarchs, which resulted in high loan defaults (Engardio and Clifford, 1999). The classification of non-performing loans was weak and inefficient allowing most banks to conceal their weaknesses. For example, the Korean banks who bought Indonesian junk bonds or lent to insolvent chaebol (conglomerates) with implicit government guarantee created a fertile ground in default loans (Delhaise, 1998).

The East Asian governments had pursued an aggressive export-oriented strategy providing incentives such as subsidized loans and tax relief to exporters (The World Bank, 1999). The equity markets were inadequate and not well developed forcing firms to borrow heavily offshore to sustain such an ambitious strategy. The lack of market discipline plus a government safety net against systemic and external shocks led to increased loans to firms with high leverage and low profitability. This demonstrates that corporate and financial sector governance were tolerant in allowing poor performing firms to borrow excessively given their already high degree of

leverage. Foreign institutional investors were also caught in the trap of the East Asian government "too-big-too-fail" policy causing them to overlook or disregard the deficiencies in governance practices in East Asia.

The presence of invisible barriers, such as the close and special relationships between government and private sectors, borrowers and creditors promote excessive risks taking without full accountability. Such relations-based financial practices have been cultivated over the years and have long been accepted as a business norm and culture in the East Asian corporate world. Such practices appear where conglomerates are dominated by a small group of individuals; where there are non-transparent accounting practices; and where there is a 'special' relationship between the corporate and the financial sectors. For example, in 1997 the top 10 families in Indonesia controlled businesses worth more than half the country's market capitalization; in South Korea, the majority of the loans are made to Chaebols (large corporate manufacturing conglomerates) (Iskander et al., 1999). Such interlocking relationship between the corporate firms and banks distort market discipline.

Corporate governance is not a revolutionary concept and is a well-established issue globally. Good corporate governance has a multiplier effect generating benefits not only to individual companies, but also to the country as a whole. Since the 1997 Asian crisis, there has been an outburst for comprehensive corporate restructuring and improved corporate governance in the crisis-ridden countries to enhance economic performances and to keep pace with globalisation of corporate entrepreneurship and the regulatory regimes of other nation's corporate entities.

4. Importance of Market Discipline and Good Governance in the East Asian Economies

Rapid economic growth in a liberalized financial world without market discipline is not sustainable. Strong regulatory and legal infrastructures are needed for the financial system to be robust and withstand any macro shocks and economic distress. In designing an effective safety net for the financial system, the marketplace must be allowed to discipline financial risk-takers by allowing insolvent and troubled financial institutions to fail and by imposing severe penalties on institutions close to failing, thus increasing market discipline in the financial systems (Helfer,

1999). Further more, shareholders should lose their equity in a failed bank. This adds to the level of market discipline by under-mining the "too big too fail" philosophy. Over time, managers of financial institutions will be more cautious and pay more careful attention to risk taking during periods of economic distress, knowing that they may lose *their* jobs and any investments *they* have in their bank if it fails (Helfer, 1999).

Restructuring and improvement in corporate governance is essential in reducing excessive debt and risk taking. This involves a comprehensive and integrated approach linking corporate restructuring to bank restructuring in settling external debt problems (Iskander *et al*., 1999). Fundamental changes within the relationships between the government, corporate firms and banks are required. This should diminish "relation-based" finance practices while restoring confidence in the financial system with an effective new legal, regulatory, accounting, and institutional framework. In turn, this would lead to a competitive corporate and financial system that minimizes excessive risk taking in a disciplined fashion; it would install equitable risk sharing and responsibility among creditors, borrowers, and the government, enhancing market discipline in the financial markets (Iskander, et al., 1999). There should be no artificial advantages existing in the financial markets in any form. Credit should be made on the principle of a borrower's ability to repay and not on some special relationship with the creditor.

Indeed, the efficiency of financial systems must be set within a disciplined legal and regulatory framework. Regional banks often lack adequate internal, market and regulatory discipline to deal with financial distress. A system of effective and reliable laws and regulations is required to stipulate the contractual rights and responsibilities of market participants so as to encourage discipline and prudent behavior in the financial market. Effective bankruptcy laws must be legally enforced to ensure that unviable firms do not continue to absorb credit. The presence of an effective bankruptcy system should help create a disciplined climate for monitoring risks taking between creditors and borrowers in the financial market.

Effective and stable political institutions and beauracrates are increasingly being recognized as a prerequisite in achieving good corporate governance in an economy. This requires monitoring the performance of public agencies and authorities penalizing bureaucratic abuses and inefficiencies (Landell-Mills and Serageldin, 1991). Public authorities have a critical and indispensable role in establishing cost-effective policies governing economic activity. Local

government should remain the primary and core institution in local governance and cannot delegate their responsibilities in public policy making and planning to others. According to a UN consultant at a workshop on Promoting Good Governance, there are nine characteristics to improve governance. These include strategic vision, effectiveness and efficiency, responsiveness, participation in governance, consensus-orientation equity, and rules of law, transparency and accountability (News Strait Times, February 2000). Improvement in local governance will emerge if the above characteristics are adhered to and there is co-operation between private business and civil society organizations.

Market oriented critics also blamed the crisis on moral hazard: the inclination of creditors and borrowers to accept excessive risk because of implicit government guarantees of rescue should their businesses fail (Lachica, 1999). Many of these economies are dominated by conglomerates, non-transparent accounting practices, and close relationships between the corporate and financial sectors (Iskander, et al., 1999). The 1997 Asian crisis also exposed the hazards of corruption and cronyism and business conducted on the basis of "guanxi capitalism" (or connections) led to grotesque misallocation of fund (Engardio and Clifford, 1999). For example, Petroliam Nasional Berhad, or Petronas (a state-owned oil and gas company) has helped buy debt-burdened shipping assets controlled by the Malaysian Prime Minister eldest son and is also preparing to buy the cash strapped national car maker, Proton (Jayasankaran, 1999). The buy back of Malaysian Airline (MAS) over twice the current market price of MAS's shares by the government is another example of politically connected business behaviour (Holland, 2001).

There are ample evidences that the long-term survival of any financial system in an economy depends on good corporate governance practices that adequately protect outside investors (Prowse, 1999). Countries that enjoy higher and sustainable economic growth are countries, which have good corporate governance and well-established capital markets. For example, the Toronto Stock Exchange Disclosure Requirements (1995) serves as a guideline and benchmark in establishing governance structure which includes flexibility giving corporate boards of directors the opportunity to design the governance system that work best for their corporations. A study on the governance code by Dey (1999) reveals that the Canadian boards of directors and their shareholders have taken a more proactive role in issues pertaining to governance. The Hong Kong Stock Exchange provides board guidelines to public listed companies and they believe that self-regulations by boards of directors is more effective and efficient than the

imposition of excessive and rigid regulations in enhancing good corporate governance practices. In promoting good corporate governance, the Hong Kong Company Registry monitors closely and enforces the disclosure of information timely on directors and companies (Tsang, 1999).

Poor standards of corporate governance can be positively linked to over-valued assets, inappropriate lending, and a host of other imprudent behaviors causing the collapse of the East Asia economies (Longstaff, 1998). In a climate of harsh economic condition how might this problem be addressed? One immediate response would be for the East Asia financial institutions as a whole, to establish a prudential framework via the central bank or monetary authorities designed to encourage banks to practice good governance. The framework should make it a mandatory exercise annually for each bank to report the steps it has taken to conform to proper governance practices. The banks should address the creditworthiness of companies whom they lend and implement a corporate governance-rating scheme. This could be the driving force in determining accessibility to financing for companies and monitoring corporate behaviour.

The corporate governance restructure mechanism will be a mere clanging of cymbals unless it is designed to protect outsiders (shareholders and creditors) against managerial self-denial. As stated elegantly by Milton Friedman, the social responsibility of corporate managers is wealth maximization for its shareholders while respecting the law and local customs (Cragg, 1996). Anything beyond this objective is a misuse of power that potentially could cause the firm to fail and impede their own responsibilities.

The globalisation of trade and the advances in IT and telecommunications have intensified the competitive environment in the life of commerce (Copp and Letza, 1998). Global village is a reality and this means that legislation with strong regulation and high ethical standards will promote good governance behavior among companies. Information is increasingly aggressive and pervasive in a globalised world. Computer technology can revolutionize company decision-making processes, which can lead to greater accountability and flexibility. In the developed nation open governance within knowledge-based companies is now the norm, always desiring for information about other companies activities and more conscious of ethics-related issues (Copp and Letza, 1998). The timely disclosure of information is an important asset in a corporate society – shareholders need to be informed in a timely fashion on matters pertaining to their interests.

Government intervention could also act as a catalyst to promote good governance through education and training, proper disclosure, accountability and sanctions against imprudent practices. It can promote the awareness of good corporate governance practices through exposing dishonest and self-interested directors who enriched themselves at the expense of their companies (Lee, 1996). In Malaysia, the report on corporate governance recommended that prior to a company being listed on an exchange, its directors must attend a mandatory training programme pertaining to board-related issues such as directors' role in strategic planning and implementing positive changes (Cheah, 1999). This is an efficient way to bring on people who are capable and competent to act as directors of listed companies, to increase investors' confidence and contributing to the country's growth. In Thailand, the government will provide training in aspects of corporate bankruptcy and formal corporate reorganizations for judges and receivers, trustees-in-bankruptcy company managers, lawyers, accountants and others to improve corporate governance practices (Dirou, 1998).

5. Approaches to Corporate Restructuring in the East Asian Economies

Promoting good governance practices in East Asia economies is a challenging and long-term process especially the costs to taxpayers in accomplishing this task is to be minimized. In East Asia, the immediate task is to make fundamental cultural and institutional changes to create transparent relations between government, corporations and banks while diminishing "relation-based" financing practices (Iskander et al., 1999). The challenge for policy-makers is fend off pressures from all parties to restore credibility in the financial system and to build a competitive corporate environment to increase investors' confidence. It requires the government to be proactive to eliminate any obstacles to restructuring and to establish better an effective legislative framework to ensure that any company in financial distress either gets reorganized as efficiently as possible, if not, is liquidated as soon as possible. Transparency is crucial for accountability and the government has an immediate task to upgrade accounting and auditing standards consistent with international practices, and revise relevant legislation and regulations to make it mandatory statements of public companies be audited in accordance to international standards (Dirou, 1998; Landell-Mills and Serageldin, 1991).

Thailand, Malaysia, Korea and Indonesia have all recognised the urgency and have committed to corporate restructuring to improve governance. The extent of the restructuring scheme and progress differ among countries, and are influenced by the share of corporate debt held by domestic banks versus foreign banks, whether domestic banks are viably strong to engage in active restructuring, and the extent of non-performing loans in the country (Iskander et al., 1999).

Under the IMF restructuring bailout programme the Korean government nationalized banks to protect depositors. It also agreed to open up its financial industry to foreign investors to undertake the bank's turnaround (Lee, 2000). For example, in December 1998, the government chose Newbridge Capital of the United States to acquire 51% of KFB, entrusting the managerial control to Horie, an American financier of Japanese descent (Lee, 2000). One Mr. Horie's restructuring scheme is to transform KFB into an efficient and customer-oriented financial institution, instead of lending money to inefficient companies at the government's request and increasing market share through reckless expansion. The objective of Mr. Horie's restructuring scheme is to change KFB bureaucratic image to business-oriented, which has been plagued by cronyism and poor governance. It is hope that Mr. Horie's restructuring scheme would send a strong signal that any government attempt to intervene in lending decisions is unacceptable.

The Korean government has demonstrated that no company us too big to fail. The family controlled and operated Hyundai has been swept away. A reformist government has helped reduced the chaebol's once limitless supply of soft bank loans. It has also sold major stakes in steel, oil-refining aluminum, rolling stock and chemical plants (Clifford and Engardio).

The Malaysia government has taken several steps to promote and implement good corporate governance practices to protect minority interests and to ensure that there is timely disclosure of information to the market. In March 1998, the government and several key industry representatives got together to establish a framework for corporate governance and setting best practices for the industry at large (Yap, 1999). The framework comprises over 70 principal recommendations to raise standards in corporate governance. An Implementation Project Team was established to oversee and enforce the implementation of the recommendations. For example, to prevent abuses by controlling shareholders of publicly listed firms, the Kuala Lumpur Stock Exchange (KLSE) implement changes to Section 176 of the Company Act requiring the consent of creditors before applications can be made to court to seek protection

from creditor claims (Yap, 1999). Work has also begun in forming the Minority shareholder Watchdog group to achieve greater transparency of ownership and disclosure in corporate transactions. The private sector has also taken initiative to form the Malaysian Institute of Corporate Governance to promote awareness of good governance practices. In addition, the Securities Commission (SC) is committed to prosecute companies publicly where corporate activities and behaviors contravene the securities laws or exchange listing requirements. The SC is also proactive in resolving the problems of distressed brokers and has introduced several prudential measures to strengthen the stock broking industry as a whole.

The Thai government on August 1998 announced a comprehensive restructuring scheme on the financial sector and corporate debts. This restructuring scheme focuses on a wide range of immediate measures to resolve Thailand's banking crisis and to promote better governance practices among industry at large. Some of the restructuring scheme includes restructuring and strengthening Thailand core financial institutions, redefining the role of financial players in a modernized Thai financial sector; strengthening market discipline to enhance transparency, developing appropriate legislative and institutional frameworks for corporate bankruptcies and reorganizations, improving the quality and reliability of key financial information provided by public corporations to regulators, shareholders, and the general public, and improving accountability of boards of directors and management of public companies (Dirou, 1998).

The lack of transparency in Thai financial institutions has dramatically undermined the ability of both supervisors and investors to assess in a timely fashion the weaknesses and risks borne by financial institutions, which ultimately caused distress in Thailand's financial industry. The Bank of Thailand and Ministry of Finance under the restructuring scheme are committed to introducing transparency by developing accounting, external auditing and disclosure standards more in line with best international practices. This include reviewing the roles and functions of the Institute of Certified Accountants and Auditors of Thailand (ICAAT) to become an independent self-regulatory professional body consistent with international best practices. ICAAT will issue revised accounting standards for financial statement disclosures, asset classification, marketable securities, and loss recognition as well as new standards for attestation, debt restructuring and impairment of assets.

Cleaning up balance sheets is just one of the many step the Bank of Thailand hopes will bring Thai Banks up to global standards. It must build a pool of professional bankers and loan officers whose lending must be based on borrowers' risk and cash flow rather than personal ties and collateral (Clifford and Corben, 1999). Thus the role of foreign financial expertise and capital is essential. Recently ABN Amro of the Netherlands paid approximately $185 million for a majority stake in Bank of Asia. Thai Danu Bank is half-owned by Singapore's DBS Bank. Standard and Charter has bought 75% of Nakornthon Bank. Singapore United Overseas Bank is close to buying a 75% stake in Radanasin Bank, while HSBC is a front-runner to take over Bank Metropolitan Bank (Ellis, 1999).

The Stock Exchange Thailand and Securities Commission Exchange will conduct a comprehensive review of the duties and appointment process of corporate directors, responsibilities of officers, and shareholders rights of public companies, including listed companies, as well as the contingent liability. The objective is to strengthen the effectiveness and monitoring role of the boards of directors and enhance shareholders rights (Dirou, 1998). The Thai government is also committed to reduce the debt burden of the corporate sector, which has risen sharply during the crisis. The establishment of the Corporate Debt Restructuring Advisory Committee seeks to promote market-based corporate debt restructuring and enacted legal changes to its bankruptcy law to enhance economic growth and promote good governance practices (Dirou, 1998).

In Indonesia, most corporate debt is held by foreign private banks signifying the importance of foreign banks as key players in the restructuring process. Newly elected President Abdurraham Wahid is committed to reforms and rebuilding investors' confidence. The new Indonesian government has adopted a corporate restructuring scheme that consists of a framework to facilitate corporate restructuring, a new bankruptcy system, and a mechanism that enables debtors and creditors to hedge against exchange rate risk (Iskander, et al., 1999). The Jakarta Initiative Task Force was established in 1998 to provide a mechanism for out-of-court settlement between domestic and foreign creditors in a non-discriminatory manner. Necessary and relevant revision was made to the bankruptcy law, together with the Special Commercial Court to ensure that bankruptcy proceedings will be efficient and transparent. The appointment of receivers and administrators overseeing the debtors assets against insider and fraudulent transactions will be appointed from the private sector to protect creditors from losing out (Iskander, et al., 1999).

6. Conclusions

The rise of "global easy money" from 1990 to 1996 has virtually fled from most of the East Asian economies, crippling the government with huge debt and highly devalued currencies (Cheo, 1999). The message seems to be that sound economic policy and money alone is inadequate to support high economic growth. The common symptoms among the crisis-ridden countries were long periods of growth financed with unhedged foreign borrowing and poor risk management (Delhaise, 1998). Domestic liberalization of the financial sector did not keep pace with changes in the gobalised financial world. Disclosure of financial information is below acceptable international levels. What is needed is a clear agenda that is transparent to all, politicians who can be trustworthy and realistic achievable goals and projects. The government should be seen as a stabilizing force, rather than a driving force in the creation of wealth, stability and harmony in the economy (Cheo, 1999).

The global financial market will continue to be volatile; risk will not be completely eliminated; crises will continue to occur. The best each country can do is to improve risk management practices and limit severe economic fluctuation. The challenge for East Asia policy makers is to develop a strong and effective regulatory and supervisory framework for financial institutions with the likelihood of gaining credibility in the international financial markets. This also requires policy measures to restructure the corporate sector and untangle the solvent firms from the insolvent, and to stabilize and rehabilitate viable firms (World Bank, 1999). Banks and market participants should take a more precautionary financial leveraged approach in maximizing their wealth given the inherent global financial risks. There are no quick solutions to the Asian financial market sector deficiencies and rigorous restructuring and reforms must address the deficiencies adequately and quickly.

There is no single approach or golden rule to good corporate governance practices. Countries should be given the flexibility in policy options, restructuring and reform of the financial sector at a sustainable pace. It is important for the East Asia economies to build their own surveillance system to monitor the flow of funds and be disciplined in the financial market. They should learn from the crisis mistakes that borrowing from abroad without hedging against exchange rate risk is committing the country to suicide. There must also be greater collaboration and co-operation across agencies, sectors and borders, which contribute to transparency and

accountability positively. Nothing has fundamentally changed in the global economy to keep a second wave of the crisis from happening again.

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