

## EXECUTIVE SUMMARY

Many investors until the 1990s used to favour the Asian region and most of the Asian countries were long considered as “economic miracles”. They had generally been following reasonable macro policies and, in addition, had been liberalizing their financial systems as one element of fuller participation in the expanding globalized economy (Cole and Slade, 1998).

However, the Asian currencies became overvalued and volatile, with signs of a “bubble economy”. Asian countries became a target for currency speculators; in particular the Thai Baht was the first to face speculative attacks in May 1997, which then led to speculative pressure against neighbouring countries. The more of a “bubble” an economy is, the more difficult it is for a government to *respond* in the right way (Kotler and Kartajaya, 2000). When governments undertook efforts to defend their exchange rates, the business community and the general public became alarmed. Panic set in and negative *information* about the situation spread quickly (Henderson, 2000).

As noticed, the crisis was not accurately foreseen during that time by anybody, such as international financial organizations, governments, academics, rating agencies. Nowadays, after several years have passed, various studies conclude that the financial collapse would impact on the real economy through two main channels: one was a sharply increased fragility in the banking systems; the other was a debt crisis in corporate sectors similarly exposed to foreign loans. These channels are closely linked with improper liberalization strategies and unregulated banking systems.

Generally speaking, the crisis has given Asia the opportunity to re-launch itself as a “sustainable” economy. The repositioning efforts need to be done at both the country level and the company level. The East Asian Crisis of 1997-1998 has been a major part of the restructuring process. The developments have provided evidence that improving the deficiencies of the domestic banking systems within emerging markets should help to limit the toll of the next financial crisis (Henderson, 2000). This is necessarily the least that East Asian countries should seek to rebuild in their national financial systems. Thus, there was a need to develop an economic and financial response to the situation in order to avoid a reoccurrence of the past events.