CHAPTER 2

ASIAN CRISIS AND ECONOMIC AND SOCAL RESTRUCTURING
— AMERICANIZATION AND SOCIAL GOVERNANCE —

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1. INTRODUCTION

With the opening of the year 2000, rapid rates of economic recovery in Asian countries other than Indonesia are getting increasingly greater attention of the media and the public. In September 1999, IMF-prescribed austerity programs for South Korea and Thailand were brought to an end after having been in effect for two years, and South Korea started paying back its standby credit.

In the case of Thailand, the projected real economic growth rate for 1999, which had originally been somewhere between 1 and 2 percent, was revised upward first to 3 percent, and then, more recently, to 4 percent. In particular, the manufacturing industry, fueled by its favorable export growth, was making a phenomenal recovery. The industry registered a high growth rate of 6 to 7 percent in the first three quarters of 1999 over the same period one year earlier. Foreign capital funds, which had once fled from Asian countries, have begun to flow back into the region since early 1999.

In the face of these facts, it seems important for us to take a fresh look at the Asian currency and economic crisis, or the Asian financial crisis, that erupted in 1997, and ask once again: What indeed was this crisis, and what were its underlying factors? Asking these questions is important, because different perceptions or understandings about the underlying causes of the Asian currency and economic crisis have given rise to different scenarios, which differ from each other in their emphasis and orientation as to how economic and social reconstruction in the post-crisis period should be carried out.

More specifically, three different scenarios have been conceived. One scenario calls for setting about the task of post-crisis reconstruction through improvement of corporate governance, and gives priority to restructuring of the financial system and corporate restructuring; a second one regards the improvement of an affected country's international competitiveness and the rebuilding of its industrial infrastructure as high priority tasks, and thus advocates an approach through an industrial restucturing program; and a third one, with its emphasis on the importance of bringing about social stability and reinforcing social safety nets, proposes to take up the task by way of "reinforcing social governance." Here, we might be able to say tentatively that choosing the first scenario essentially means to pursue the "road to Americanization," that choosing the second scenario is to follow the "road of learning from Japanese experiences," and that choosing the third scenario means that the country concerned opts to map out a plan and travel along its own "road to social reforms."

The purpose of my presentation is to focus attention on the case of Thailand and look into the context in which these scenarios made their appearance and have been discussed, and also to envision the future of Asian countries which have returned to recovery paths.

2. THREE DIFFERENT EXPLANATIONS FOR THE ASIAN CURRENCY AND ECONOMIC CRISIS

It is almost universally acknowledged that the recent Asian currency and economic crisis was triggered both by continued expansion of various countries' current account deficits and by massive inflows of short-term international funds that took place after these countries liberalized their money and capital markets. As for the process by which the crisis spread throughout the Asian region, too, there are a set of understandings that are shared almost universally: one is that in the wake of the monetary tightening policy by Thailand's monetary authority, the country's bubble economic boom collapsed, bringing to the fore the problem of non-performing loans with which financial institutions were saddled, and fueling concern about financial system's instability; another is that the increased concern over the financial situation added to doubts about the health of the Thai currency, to increased assaults by international hedge funds, and to outflows of short-term capital funds, which together triggered the currency crisis in Thailand; and the third understanding is that Thailand's currency crisis rapidly spread throughout the Asian region like a contagious disease transmitted through the channels of trade and international financing that link countries of Asia closely together, while being intensified by chain reactions of international investors (see Table 2-1).

But when it comes to the question of what structural factors underlay the currency and economic crisis, there are, broadly speaking, three conflicting views.

One view asserts that there was nothing seriously wrong about Asian

Table 2-1. Comparison of the Asian Crises

	Thailand	Korea	Indonesia	Malaysia
Economic situation before the crises				
1) Rapid increase of manufactured exports	V	A	V	V
2) Domestic consumption boom	V	A	V	V
3) Foreign direct investment boom	V	A	V	V
4) Development of a bubble economy	V	A	A	V
5) Financial instability and cumulating NPLs	V	V	V	V
6) Bankruptcy of domestic firms	P*	V	N	N
7) Increase of foreign short-term capital	V	V	V	A
8) Increasing current account deficit	V	V	V	A
Economic policies before the crises				
1) Liberalization of foreign financing	V	A	A	A
2) Liberalization of industrial investment	V	A	N	N
3) Privatization of state enterprises	A	–	A	A
4) Financial tightening policies	A	A		A
5) Start of financial institution reforms	N	A	N	N
Economic situation after the crises				
1) Improvement of current account balance	V	V	A	A
2) Public expenditure cut	V	A	N	A
3) Inflation	A	A	V	A
4) Economic depression	V	A	V	N
5) Collapse of the rural economy	good	A	V	A
6) Shortage of goods and increase of social conflict	N	N	V	N
7) Political changes	A	V	V	V
8) Development of nationalism and anti-USA sentiment	nil	V	V	V
9) Social movement in favor of democratization	nil	nil	V	N
IMF conditionalities				
1) Public expenditure cuts, tax increase	V	A	A	_*****
2) Tight financial policy, high interest rates	V	V	?	–
3) Consolidation of NPLs	V1***	A	V	–
4) Financial institution reform	V2***	V2	V	–
5) Adaptation to global standard management and accounting system	N	V1	A	–
6) Privatization of state enterprises	V	A	V	–
7) Abolishment of regulations and subsidies	A	N	V2	–
8) Political and government sector reform	A	A	V1	?
9) Reforms of industrial relations****	P	V	N	–

V: Very strongly applicable, A: Applicable, P: Partially applicable, N: Not applicable, nil: Not accountable, NPLs: Non performing loans.

Notes:

* Thailand ordered suspension of 16 finance companies in June 1997

** In Thailand, transition from Chawalit government to Chuan coalition government occurred without undertaking general election in November 1997. In Korea, Kim Dae Chun won at the presidential election in November 19097. In Indonesia, Suharto was forced to retire by social movement in May 1998. In Malaysia, Mahathir Mohammad ousted Vice Prime Minister Anwwar.

*** V1, V2 mean first and second proority in policy implementation in each country.

**** In Thailand, new labor protection act was introduced in August 1998. In Korea, IMF requested the government to introduced new act on layoff.

***** Malaysia rejected IMF Standby Credit.

Source: Papers presented to the post graduate course of Suehiro at the University of Tokyo countries' real sectors or these countries' macroeconomic fundamentals. Rather, according to this view, the problem should be ascribed to the fact that the liberalized money markets attracted inflows of short-term international capital funds in amounts excessively larger than what each government could control, and this caused to swamp each country with excess liquidity. As such, this view can be called a "liquidity crisis thesis."

A second view argues that the real issue was not Asian countries' macroeconomic fundamentals but their political systems, financial systems, systems of corporate management and labor markets that were institutionally vulnerable. In other words, this view regards the "Asian ways of economic management" and the "out-dated institutions of Asia" as the main factors underlying the recent crisis. The institutional vulnerabilities which this view finds especially problematic were: the political systems of authoritarian and undemocratic nature, the underdeveloped domestic financial markets which were characterized both by immature corporate bond markets and by heavy dependence on commercial banks (or on indirect financing), the opaque nature of financial institutions resulting from their lending policies which give special favor to borrowers with strong connections when making loans, and the pre-modern way in which companies, especially family-run businesses, were managed.

The third view maintains that the real sectors were also responsible for the recent currency and economic crisis. In other words, it argues that factors such as lower growth rate in labor productivity among export-oriented industries, constant increase in incremental capital output ratio or decline in investment efficiency, and the underdeveloped state of supporting industries, resulted in the deterioration of international competitiveness, which in turn brought about continuing increases in imports of capital goods, and for that matter expanding current account deficits. This view also asserts that the liberalization of industrial investments, which was implemented concurrently with the liberalization of the financial sector, gave rise to excessive investments in the heavy and petrochemical industries, which in turn aggravated recessions after the currency crisis broke out.

These three different views, with their different explanations about the causes for the economic crisis, naturally led to different scenarios for "economic countermeasures" to be undertaken after the outbreak of the crisis, and for "economic and social restructuring programs" to be implemented in the medium term.

To be more specific, the first view led to a proposal that flows of short-term international capital funds should be regulated more systematically, and that a region-wide system of cooperation concerning currencies and financing should be established in Asia. In contrast, people subscribing to the second view proposed that institutional reforms, especially reforms of the financial system, should be carried out, and that a framework to enhance "corporate governance" in the region should be improved to comply with global standards. On the other hand, those believing in the third view proposed an industrial policy which would emphasize industrial restructuring and the nurturing of small- and medium-sized firms. The Japanese government has shown keen interest in the idea of establishing an Asian Monetary Fund, which was proposed by the proponents of the first view, and also in industrial restructuring programs for helping boost the country's supply side, which emerged from the third view.

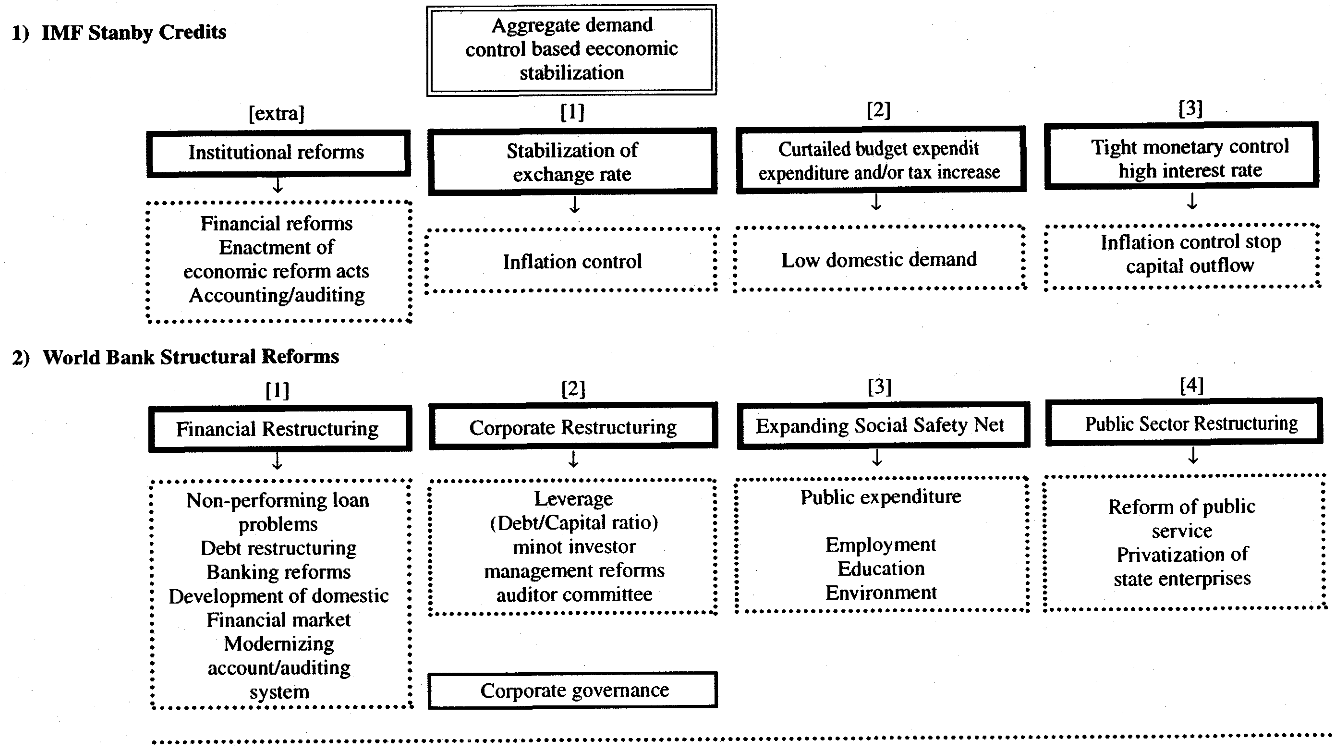
3. ECONOMIC STABILIZATION AND INSTITUTIONAL REFORM PROGRAMS PRESCRIBED BY THE IMF

Figure 2-1 summarizes the developments from August 1997, when the IMF and other parties concerned started to provide their standby credit, until the end of 1998, when the Thai government more or less finished designing the four pillars of its "Economic and Social Restructuring Program."

At first, the IMF closely followed its traditional policy guidelines, and proposed an economic stabilization policy for Thailand, calling for the stabilization of the Thai exchange rate, the implementation of austere fiscal policy measures and the tightening of money supply as its three major planks. The IMF's prescription envisaged that stabilization of the exchange rate and sharp cutbacks on fiscal expenditure would enable the Thai government to avert import inflation, that tax increases (including an increase in the value-added tax from 7 percent to 10 percent, increases in the commodity tax and energy-related taxes, and imposition of extra import surcharges) would enable the government to secure the funding for financial restructuring, and that a high interest-rate policy which would keep the interest rate above the 20 percent mark would have the effect of restraining overheated economic activities and putting a brake on the exodus of short-term capital from Thailand.

This policy was a carbon copy of the "economic stabilization" policies which the IMF had implemented in the early 1980s first in Latin American countries and subsequently in Southeast Asian countries, except for one significant change. Unlike in the 1980s, the IMF, in implementing its policy in Thailand, made it clear from the outset that this policy was aimed not only at stabilizing the economy as measured in terms of balance of payments tables, but also at facilitating a series of institutional reforms, including the reform of the country's financial system. In helping out countries with balance of payments difficulties, the IMF had traditionally made it a policy to involve itself in the rescue operation only for a short time of one year or two, and leave the task of

Figure 2-1. Econmic and social restructuring programs in Thailand (1997-99)



3) Thai government initiated program

Ministerial Meeting

Economic Ministerial Meeting

Coordination
National Economic and Social Development Board

	IMF/World Bank	Japan/MITI, JICA	Japan/JBIC, World Bank	Japan/MITI, SMBF
Policy target	Financial Restructuring [1]	Industrial Restructuring [2]	Social Safety Net Plan [3]	SMEs Promotion cross over 1, 2, 3
National Specific Committees	National Committee (CDRAC)	National Committee Sub-committee for Planning Institutes	National Committee Social Investment Fund Office Government Saving Bank	National SEMs Development Committee
Line Ministries	Ministry of Finance Bank of Thailand	Ministry of Industry Industrial Promotion Department Etc.	Ministry of Interior Community Development Department of Ministry of Interior	MOF, MOI, IFCT, SIFC, SIFGC, IFCT
Business Association	Thai Bankers Association	Federation of Thai Industries(FTI) Board of Trade	Oo.Bo.To. Community-based peoples organization	FTI Board of Trade
Objectives	Resolution of non-performing loan problems Institutional reforms	Export competitiveness Upgrading industrial stracture	Relax of crisis impact on society	Support for sumall/venture business
Target	Coporate governance Global standard	Competitive advantage Decentralization Decentralization	Social governance Strong Society	Promotion of sound or active SMEs

Notes: CDRAC : Corporate Debt Restructuring Committee
SIFO : Social Investment Fund Office
SIFC : Small Industry Finance Corporation
IFCT : Industrial Finance Corporation of Thailand

Source: Suehiro, Akira(1999/12/03)

providing policy-oriented support for institutional and structural reforms to the care of structural adjustment loans (SALs) to be provided by the World Bank. However, having had first-hand experiences of implementing economic reform programs in Russia and Eastern European countries toward the end of the 1980s, the IMF intervened in the Asian crisis with a new approach, based on these experiences and trying to implement from the outset both "economic stabilization" and "institutional reforms" as a combined set. As a result, the IMF designed its programs for the Asian countries in such a way that they would cover a longer time-frame of three years, or even four years.

However, the new approach adopted by the IMF brought with it a new problem. In the Asian countries, where hyper-inflation so common in Latin American countries had seldom taken place, and where government deficits had seldom grown to serious proportions, the enforcement of the three-part programs of steep cutbacks on government expenditure, extensive tax increases, and the high interest-rate policy, suppressed consumers' purchasing power and aggravated the ongoing credit crunch, thus throwing the affected countries into serious domestic recessions. These recessions kicked off waves of discharges and production cutbacks, and suppressed domestic demand further, aggravating the economic slowdowns to extents unknown since the worldwide depression of 1929. At the same time, doubts were cast on the effectiveness of the IMF-prescribed countermeasures when the interest rate policies adopted by Thailand, South Korea, and Indonesia, which differed from each other at the outset, invariably proved ineffective in halting the downward swings in their currencies.

Consequently, the IMF stopped implementing its programs for cutbacks on government expenditure in their original forms at an early point in time, and switched to a policy of accepting those expansions in public expenditure which would help increase employment opportunities and help stimulate domestic demand. With regard to the objective of attaining economic stabilization as measured by balance of payments statistics, imports decreased far more rapidly than expected, and made it possible for foreign exchange reserves and current account deficits to improve rapidly, with the result that much apprehended import inflation was virtually averted. This meant that economic stabilization programs aimed at attaining specific macroeconomic targets came to be given a smaller weight than previously in the IMF's menu for economic management, while "institutional reform" programs were given greater importance.

4. FOUR POLICIES OF THE WORLD BANK

The World Bank started implementing its "institutional reform" programs in Thailand beginning in mid-1998, in parallel with, or in succession to, the efforts undertaken by the IMF. The countermeasures devised and implemented by the World Bank in response to the recent currency and economic crisis consisted of four main programs (Figure 2-1).

(1) One was the program for restructuring the financial system. Put at the top of the program's agenda was the task of encouraging financial institutions to write off their non-performing loans as promptly as possible, to improve their capital-to-risk ratios so that they would comply with the Bank for International Settlements' banking regulations, and to boost their prudential standards including increase of loss provision. Another objective of the program was to facilitate a switch from the pre-existing system of indirect financing, with its excessive dependence on commercial banks, into a system of direct financing based on the issuance of corporate shares and bonds. The program would facilitate the improvement of the accounting and auditing systems in Thailand so as to make them conform to global standards, and would also facilitate the establishment of a series of laws necessary for carrying out economic reforms, including a bankruptcy law, which would also satisfy global standards.

(2) A second program was aimed at facilitating corporate restructuring. One important objective of the program was to help firms improve their leverage, or their capital-to-liability ratios. It was also aimed at encouraging firms to make their practices of corporate governance more transparent, by their practices of procuring funds mainly through borrowing on the personal connections base, and by paying full respect to the rights of international investors and minority shareholders. As for listed firms, the program would instruct them to appoint outside directors, establish independent auditors' committees, and take other steps necessary for improving their managerial structures.

(3) A third program was aimed at mitigating the impacts of crisis on society and improving social safety nets. In the short term, the program would focus its attention on launching public works projects for alleviating the effects of unemployment and relieving impoverished agrarian communities, while in the medium term it would help maintain government expenditure for environmental protection and general education, so as to ensure that these expenditure items would not be sacrificed by the austere spending policy.

(4) The fourth program was meant to facilitate administrative reforms and privatization of government-owned enterprises. It would call upon the government to take stock of inefficient administrative services, cut back on the prescribed number of public servants, and to privatize a large number of government-owned enterprises.

Of these, the first and second programs were more or less in line with the "institutional reforms" advocated by the IMF, and their main purpose was to introduce Anglo-American practices into the financial and corporate governance systems of Thailand, in the name of enabling them to conform to global standards. In other words, the World Bank's basic strategy envisaged that by enhancing the power of international investors, minority shareholders other than corporate owners, and auditors, it would be able to help create sound financial institutions and sound private firms in Thailand, and thereby help accelerate the process of economic recovery. In this sense, the policies proposed by the IMF and the World Bank were aimed before anything else at "Americanization" of economic management, the end purpose which was defined around the key concept of "corporate governance."

5. FOUR MAJOR COMPONENTS OF THE THAI GOVERNMANT'S ECONOMIC AND SOCIAL RESTRUCTURING PROGRAM

The government of Thailand, for its own part, has established, since August 1998 to date, several basic policies for economic and social reconstruction to deal with the post-crisis situation, and is now putting these policies into effect. Constituting four major components of the government's restructuring policies are: 1) the financial restructuring program; 2) the industrial restructuring program (IRP); 3) the social investment plan (SIP); and 4) the small and medium enterprises (SMEs) promotion program.

The financial restructuring program was mapped out on the basis of the first and second programs proposed by the IMF and the World Bank, and, as a matter of fact, its enforcement was closely supervised by the World Bank and other international organizations (such as ADB and IFC). Under this program, seven out of the 15 locally-owned commercial banks which had been in operation before the crisis have been reorganized and placed under the government's management; and of these seven, three have already been sold to foreign interests. Foreign interests have also acquired a majority of shares in two of the remaining eight banks, so that only three or four of the eight are reputed to be capable of keeping their operations going on their own efforts under the strict BIS banking regulations. As for finance companies, which had numbered 91 before the crisis, 56 have already been liquidated, and of the remaining 35, some have merged with others, so that the total number of these companies still in existence has been reduced to 23, of which 16 are affiliated with foreign interests.

By June 1999, all of the 11 bills related to economic reforms that had been drafted under strong pressure from the IMF were enacted. Also, preparations for the reforms of the accounting and auditing systems, jointly undertaken by the World Bank and the Institute of Certified Accountants and Auditors of Thailand (ICAAT), are well under way at a fast pace. We should keep in mind, however, that despite these developments, financial institutions are still saddled with staggeringly large non-performing loans. As of September 1999, the amount of bad loans stood at a whopping 2,500 billion baths, when was worth 44 percent of the financial institutions' total outstanding loans, or 60 percent of Thailand's nominal GDP. This means that the question of how to write off these non-performing loans still remains for solution. This is probably most serious of all the economic difficulties confronting Thailand.

Of the four programs pursued by the Thai government, the second program, namely, the industrial restructuring program (IRP), and the fourth one, namely, the small and medium enterprises promotion program, differ most significantly from the basic strategy of the World Bank. Of these two programs, the IRP has been in effect since 1997 with the support from the Japanese Ministry of International Trade and Industry (MITI), the Japan External Trade Organization (JETRO), the Japan Finance Corporation for Small Business, the Japan Bank for International Cooperation (JBIC), and the Japan International Cooperation Agency (JICA). Having been designed on the basis of the perception that reforming Thailand's financial system alone would not ensure its economic rehabilitation, the program is designed to funnel Japanese aid funds including the "Miyazawa Plan" to such activities that will directly help improve the performance of Thailand's real sector; in other words, the program is meant to channel Japanese funds into such activities on the "supply side" that will help boost the country's international competitiveness.

To be more specific, main projects to be undertaken as part of this program and with extensive Japanese cooperation include: a project to establish a *sathaban* or institute, which, as a joint government-private organization, will designate main export industries, such as textile, food processing, automobile parts, and electric and electronic parts, and will map out policies for each of the designated sectors; a project to establish a set of *sathaban*, which will be assigned specific tasks, such as the task of helping improve productivity, the task of encouraging companies to obtain the International Organization for Standardization's ISO 9000-series and ISO 16000-series certifications, and the task of inspecting product quality; a project to boost low-interest loans from government-affiliated financial institutions; and a project to introduce a "shindan" system for checking up the health and efficiency of corporate management.

On the other hand, the SMEs promotion program emerged from a November 1998 meeting in Bangkok between Thai Finance Minister Tarrin Nimmanhaeminda and Japanese Minister of International Trade and

Industry Kaoru Yosano. Main objectives of the program include the establishment of a Law for Promotion of Small and Medium Enterprises, the expansion of loans to SMEs through government-affiliated financial institutions, the improvement of a loan underwriting system, the training of specialists capable of examining, and giving advice about, the health of SMEs, the establishment of an Institute for SME Development modeled after the Japanese SME College, and the establishment of a Venture Capital Fund which will help nurture venture businesses.

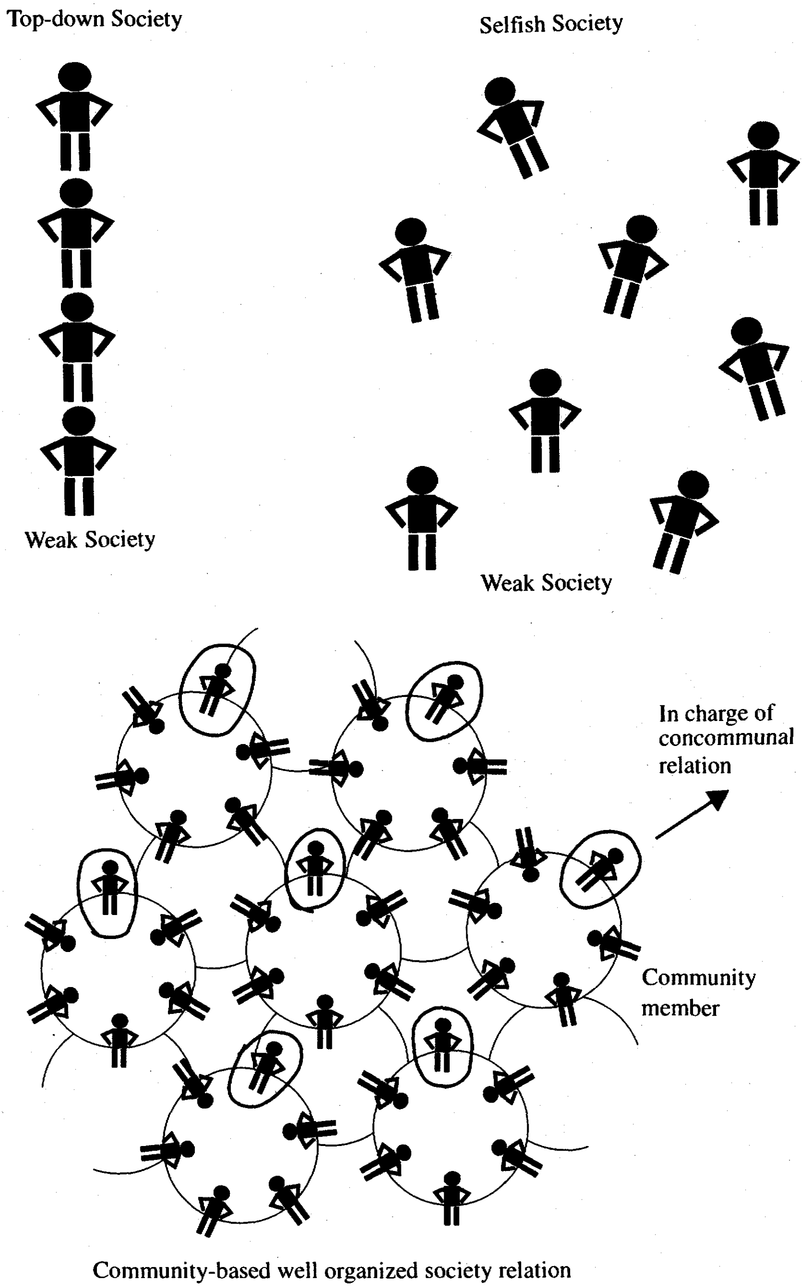
One thing significant about the Japanese government's involvement in these two programs is that the manner of involvement cuts a rather stark contrast to its traditional aid policy. Instead of contenting itself with simply providing "monetary support," Japan has now ventured to become more active in offering Asian countries with "policy-oriented support," and in particular "intellectual support," drawing lessons from its own experiences with industrial policies in the past. This shift in the Japanese government's attitude toward aid has been motivated at least partly by its willingness to compete with the "financial system restructuring program" being carried out under the strong influence of the IMF and the World Bank, and thereby to demonstrate Japan's competence to perform an important role in Asia.

6. THE GROWING CALL FOR A "STRONG SOCIETY"

Standing in contrast to the "financial restructuring program" dictated by international organizations, and to the "industrial restructuring program" and "SMEs promotion program," which are being carried out with extensive cooperation of the Japanese government, is a program designed at Thailand's own initiative, namely, the "Social Investment Plan (SIP)." The plan was originally drawn up with the purpose of making use of the World Bank's loans to support socially-oriented structural adjustment programs. But, as representatives of nongovernmental organizations (NGOs) and Buddhist monks were invited to join the advisory board of the plan's policy planning committee, the plan began to take on a new meaning. Two persons on the board played especially important roles in the formulation of the plan. One was Phaibun Wattanasiritham, president of the Government Savings Bank (GSB). The other was Mo Prawes Wasi, a theoretical leader of the NGO movement, who was enthusiastically advocating the need to build a "strong society."

Phaibun is known for having served as secretary general of the Village Rehabilitation Project, one of the pioneer NGOs in Thailand, and for having proposed the establishment of community-controlled village rehabilitation funds. Prawes is known for his idea of building a self-reliant agricultural economy, which will be sustained at its basis by the ethics

Figure 2-2. Strong Society



and morals of Buddhism, and in which a *chumchon*, or community, will serve as its basic economic, social, and cultural unit. He also aspired to build a network-like society, in which individuals will be neither organized into hierarchically ordered inter-personal relationships, nor will be separated and isolated from each other. He calls such a society a *sangkhom khemkheng*, or strong society, which is strong enough to overcome crises that may fall upon it from outside (Figure 2-2).

Prawes's argument for building the agriculture-based "strong society" became linked up with the King's proposal to the people made after the outbreak of the crisis, that Thailand should aspire to become a self-sufficient economy based mainly on agriculture, or with his argument appraising a "moderate or prudent economy," one that will attach greater importance to distribution than to excessive industrialization. At the same time, Prawes's idea of the "strong society," which highly values community members' direct participation in the decision-making process, was basically in tune with the "principle of decentralization" expressly stated by the new Constitution of 1997.

Consequently, the Social Investment Plan was linked up with an array of social movements and social ideas of similar orientation, including the King's call for building a "moderate or prudent economy," the "decentralization policy" now being carried out by the Ministry of Interior, the "village community rehabilitation movement" undertaken by NGOs, and an argument for "civic society" advocated by activists of the democratization movement, and, because of this linkage, it developed into a broadly based social movement. As such, the SIP represents Thailand's aspiration to follow its own road to "social reforms," as distinct both from the road to Americanization which, as advocated by international organizations, places strong emphasis on the financial sector and international investor interests, and from the industrial restructuring program which, modeled on Japanese experiences, presses for upgrading of industrialization. In other words, all the groups supporting the SIP are united by the shared attitude of putting "social governance" rather than "corporate governance."

7. THE ECONOMIC CRISIS AND SOCIAL GOVERNANCE

There is absolutely no denying that indispensable prerequisites to Thailand's success in overcoming the aftereffects of the recent currency and economic crisis were to solve the problem of bad loans and to regain and further boost its international competitiveness. But it is also true that external pressures alone were not enough to push the economic reforms forward. Active support of the people as well as political and social stability was also indispensable for ensuring smooth progress of the reforms.

In its report entitled *The East Asian Miracle: Economic Growth and*

Public Policy, which was published before the outbreak of the economic crisis, the World Bank had underscored a number of "economic fundamentals necessary for growth." Included among these were macroeconomic stability, containment of inflation, large enough investment in education, removal of price distortions, and development of agriculture. On the other hand, the IMF, shortly after the breakout of the crisis, emphasized "fundamentals for economic stability" instead of fundamentals for growth, and pointed out that important indicators of stability should include stability of a country's exchange rate, maintenance of foreign exchange reserves at a proper level, narrowing of current account deficits, and containment of inflation.

By early 1999, however, the World Bank had changed its mind, and began to lay stress on the importance of "sustainable institutional reforms." The word "sustainable" here was not used in the conventional sense as used in the expression "sustainable economic development," which implies a pattern of economic development which is friendly to, or convivial with, the environment. Rather, the word was used to underline the importance of building "sustainable" institutions or organizations, sustainable in the sense that these would make it possible for economies in Asia to recover from the crisis and continue growing thereafter.

As a matter of fact, the World Bank's adoption of the new buzzword, "sustainable institutional reforms," reflected the Bank's awakening to the bitter reality that even if institutional reforms of foreign origin formulated on the basis of global standards, or policies for improving "corporate governance" in Asia closely emulating the Anglo-American model were pressed forward hastily and high-handedly, these would end without attaining any of their expected results, so long as they could not be put into effect properly, or they failed to win support of the local population. It is from its own experiences in Indonesia that the World Bank learned an important lesson, that is, political stability and social stability are the indispensable prerequisites for stabilizing a country's economy.

At present, the World Bank's attention is riveted on a set of questions: Can there be institutions or organizations that are well suited to Asia, that are viable, and that can sustain growth?; If so, what are they?; and, what should be done to develop the capabilities of the governments and companies, and make them competent enough to carry out institutional reforms and bring these institutions or organizations into existence? The Bank's concern seems to suggest that the propriety of single-mindedly attaching importance to market mechanisms is already being questioned. If so, we might say that success or failure of institutional reforms depends crucially on how these questions are to be answered — the questions which boil down to the question of where we should find both the anchor for social stability, and "social competence" necessary for realizing such stability.

When looked at from a perspective such as this, the idea of building a "strong society" which is much talked about in Thailand, can be regarded as manifesting an effort unique to Thailand, an effort to marshal the morals and ethics of Buddhism and the social networks at work in local communities as a powerful means of preventing its society from falling apart. This approach is nothing new to Thailand, where history has witnessed time after time that reforms, first triggered by external pressures or external shocks, were actually carried out in a very roundabout way. Such an approach is also a product of the Thai people's *panya* (wisdom), who want to prevent such external pressures or external shocks from forcing their society to fall apart, or from engendering antagonism in it. In years ahead, it will become important for us to learn "wisdom" of this sort from Asia, in addition to offering "policy-oriented support."